

# MEITEC CORPORATION

SEMIANNUAL REPORT 2004

Six months ended September 30, 2003

## 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 contribute to society by utilizing the full potential of engineers, an invaluable management resource.

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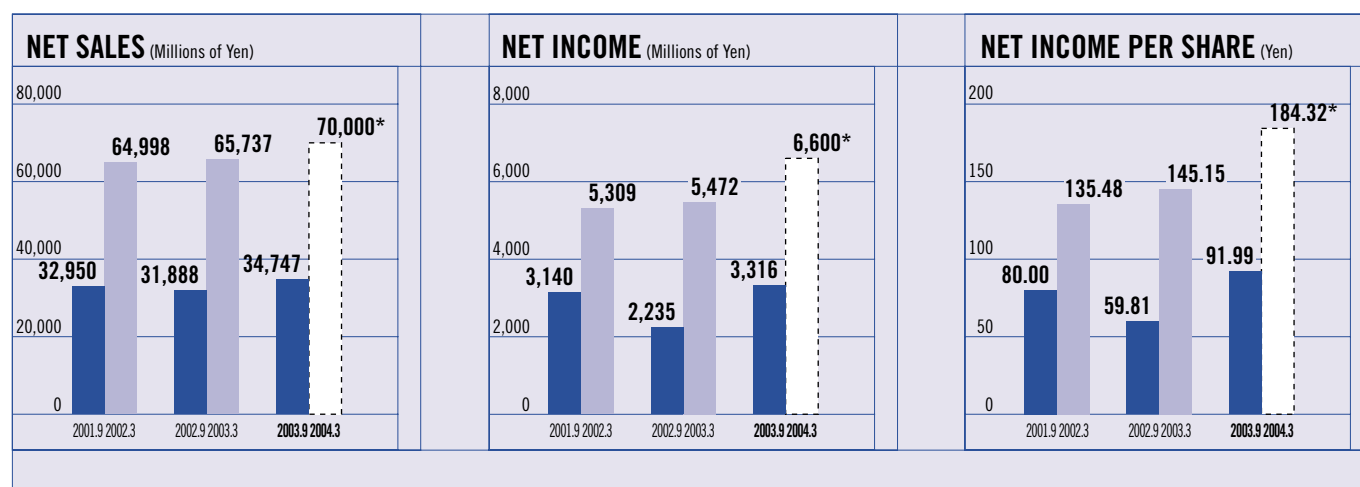
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## CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	Six Months Ended September 30	2002	Year Ended March 31	Six Months Ended September 30
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2003</b>
Net Sales .....	<b>¥34,747</b>	¥31,888	<b>¥65,737</b>	<b>\$313,036</b>
Operating Income .....	<b>5,906</b>	4,179	<b>9,149</b>	<b>53,207</b>
Net Income .....	<b>3,316</b>	2,235	<b>5,472</b>	<b>29,874</b>
Total Assets .....	<b>58,396</b>	61,369	<b>59,831</b>	<b>526,092</b>
Total Shareholders' Equity .....	<b>42,085</b>	43,699	<b>45,437</b>	<b>379,145</b>
	Yen			U.S. Dollars
Per Share of Common Stock:				
Shareholders' Equity .....	<b>¥1,199.32</b>	¥1,185.37	<b>¥1,244.88</b>	<b>\$10.80</b>
Cash Dividend .....	<b>29.00</b>	19.00	<b>47.50</b>	<b>0.26</b>
Net Income (Note 2) .....	<b>91.99</b>	59.81	<b>145.15</b>	<b>0.83</b>

**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, 2003.

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



\*Figures for the period ending March 31, 2004, are forecast.



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, 2003.

Looking at the Japanese economy during the period under review, although signs of improvement could be seen in macroeconomic indicators, a strong recovery of the economy overall has not been reached. For future growth and competitiveness, however, a gradual resumption or expansion of investment in development has been notable from companies that have restructured their business to better utilize their particular strengths.

By swiftly reacting to this positive corporate activity, we were able to maintain the steady rate of orders from the previous term, particularly in the automobile and electronics fields. Orders from the semiconductor design and industrial machinery fields also rose markedly at the beginning of the period. In general, orders from customers remained steady, with increased demand for more sophisticated and specialized services, and the prompt placement of qualified engineers. Requests for cost reductions also intensified.

Taking advantage of this environment, the utilization rate of our engineers during the period under review surpassed our target of 94.9%, rising to 95.7%. Our 271 new graduates had all been placed by the end of September. Consequently, on a non-consolidated basis, we achieved the highest level of sales and operating profit for the six-month period ended September 30, 2003.

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 achieved its first operating profit for the six-month period ended September 30, 2003. Consequently, all Meitec Group companies included in the scope of consolidation, reported an operating profit, excluding Meitec Global Solutions Inc. and Meitec Shanghai, which commenced operations during the period under review.

As a result of these business activities, on a consolidated basis, the Meitec Group's key divisions reported an 8.9% increase in net sales to ¥33,464 million (US\$301,477 thousand) in the EO business, and a 9.4% rise in net sales to ¥1,282 million (US\$11,549 thousand) in the general outsourcing business, compared with the same period of the previous fiscal year.

Consequently, total net sales rose 9.0% to ¥34,747 million (US\$313,036 thousand). At the profit and loss level, operating income increased 41.3% to ¥5,906 million (US\$53,207 thousand), ordinary income increased 41.0% to ¥5,920 million (US\$53,333 thousand), and net income rose 48.4% to ¥3,316 million (US\$29,874 thousand). Return on equity (ROE) was up 2.6 percentage points to 7.6% compared with the same period of the previous fiscal year.

Meitec is pleased to report that in line with its full-year policy, an interim dividend payout ratio has been set at more than 30% of consolidated net income, commencing from the six-month period ended September 30, 2003. Accordingly, the Company has resolved to pay an interim cash dividend of ¥29 (US\$0.26) per share. In addition, Meitec is expecting to raise the fiscal year-end ordinary dividend to ¥29 per share and is considering an additional dividend payment at the end of fiscal 2004 to commemorate its 30th anniversary.

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

November 2003

A handwritten signature in black ink, reading "Kosuke Nishimoto". The signature is written in a cursive, flowing style.

Kosuke Nishimoto  
President, CEO & COO

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

From the fiscal year ended March 31, 2001, the Meitec Group began pursuing a business development strategy aimed at meeting the needs of manufacturing companies for complete outsourcing operations in design and development by integrating the Group's marketing structure.

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

**Engineering Outsourcing Services**

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) in China on October 1, 2003 to handle engineering outsourcing services in China. The new company began operating on October 1, 2003.

**General Outsourcing Services**

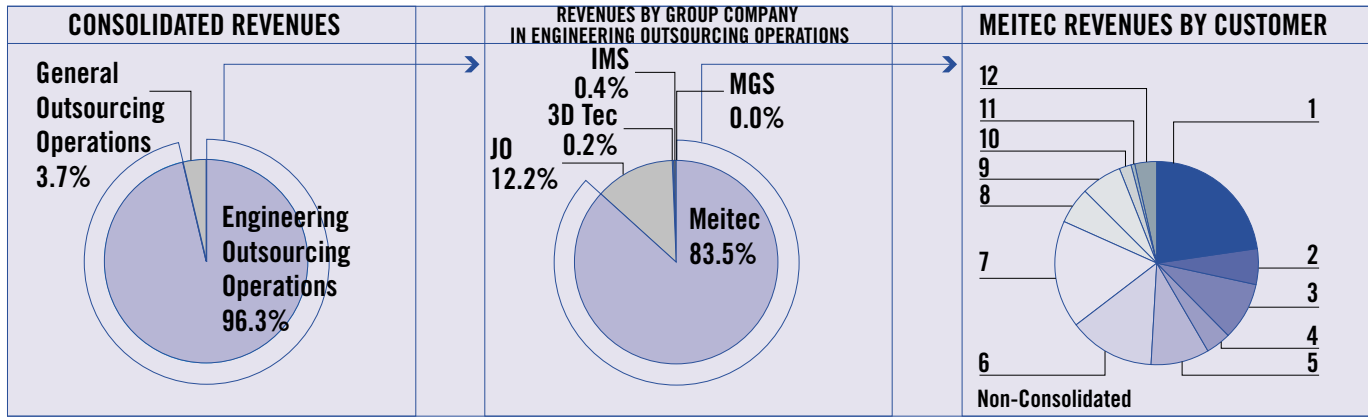
General outsourcing services refer to administrative outsourcing service handled by Japan Cast, and insurance agency and building management outsourcing service handled by MeiService Co., Ltd.

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

MEITEC GROUP							
Engineering Outsourcing						General Outsourcing	
Meitec	Subsidiaries						
	Japan				Overseas	Japan	
	JO	MGS	3DT	IMS	MTC (SH)	JC	MS

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

**OPERATIONAL REVIEW**



**SEMI-ANNUAL CONSOLIDATED BALANCE SHEETS <UNAUDITED>**

SEPTEMBER 30, 2003 AND 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents .....	<b>¥16,197</b>	¥15,899	<b>\$145,919</b>
Short-term investments (Note 3) .....	<b>3,737</b>	3,032	<b>33,667</b>
Notes and accounts receivable:			
Trade notes and accounts .....	<b>10,277</b>	9,817	<b>92,586</b>
Allowance for doubtful accounts .....	<b>(7)</b>	(10)	<b>(63)</b>
Inventories (Note 4) .....	<b>186</b>	246	<b>1,676</b>
Deferred tax assets .....	<b>2,570</b>	1,926	<b>23,153</b>
Prepaid expenses and other .....	<b>609</b>	637	<b>5,486</b>
Total current assets .....	<b>33,569</b>	31,547	<b>302,424</b>
<b>PROPERTY AND EQUIPMENT:</b>			
Land .....	<b>4,184</b>	4,674	<b>37,694</b>
Buildings and structures .....	<b>21,189</b>	21,623	<b>190,892</b>
Machinery and equipment .....	<b>185</b>	185	<b>1,667</b>
Furniture and fixtures .....	<b>4,849</b>	6,173	<b>43,685</b>
Total .....	<b>30,407</b>	32,655	<b>273,938</b>
Accumulated depreciation .....	<b>(12,264)</b>	(11,675)	<b>(110,486)</b>
Net property and equipment .....	<b>18,143</b>	20,980	<b>163,452</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Note 3) .....	<b>1,029</b>	1,896	<b>9,270</b>
Leasehold deposits .....	<b>896</b>	854	<b>8,072</b>
Deferred tax assets .....	<b>2,084</b>	3,016	<b>18,775</b>
Deferred tax asset for land revaluation (Note 2(f)) .....	<b>758</b>	1,460	<b>6,829</b>
Other .....	<b>1,917</b>	1,616	<b>17,270</b>
Total investments and other assets .....	<b>6,684</b>	8,842	<b>60,216</b>
<b>TOTAL .....</b>	<b>¥58,396</b>	¥61,369	<b>\$526,092</b>

See notes to semi-annual consolidated financial statements.



LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
CURRENT LIABILITIES:			
Short-term bank loans (Note 5) .....	—	¥845	—
Current portion of long-term debt (Note 5) .....	¥12	13	\$108
Trade accounts payable .....	6	3	54
Income taxes payable .....	3,207	2,385	28,892
Accrued expenses .....	6,876	6,313	61,946
Other .....	1,681	1,316	15,144
Total current liabilities .....	11,782	10,875	106,144
LONG-TERM LIABILITIES:			
Long-term debt (Note 5) .....	—	43	—
Liability for retirement benefits (Note 6) .....	4,167	6,339	37,541
Other .....	306	357	2,757
Total long-term liabilities .....	4,473	6,739	40,298
MINORITY INTERESTS .....	56	56	505
SHAREHOLDERS' EQUITY (Note 7):			
Common stock:			
Authorized: 146,952 thousand shares in 2003			
147,884 thousand shares in 2002			
Issued:			
37,132 thousand shares in 2003			
38,052 thousand shares in 2002 .....			
	16,821	16,812	151,541
Capital surplus .....	8,660	8,647	78,018
Retained earnings .....	25,701	24,860	231,541
Land revaluation difference .....	(1,137)	(2,015)	(10,243)
Unrealized gain (loss) on available-for-sale securities .....	15	(259)	135
Total .....	50,060	48,045	450,992
Treasury stock— at cost:			
2,041 thousand shares in 2003 and 1,187 thousand shares in 2002 .....			
	(7,975)	(4,346)	(71,847)
Total shareholders' equity .....	42,085	43,699	379,145
TOTAL .....	¥58,396	¥61,369	\$526,092

**SEMI-ANNUAL CONSOLIDATED STATEMENTS OF INCOME <UNAUDITED>**

SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
NET SALES .....	<b>¥ 34,747</b>	¥31,888	<b>\$313,036</b>
COST OF SALES .....	<b>24,490</b>	23,741	<b>220,631</b>
Gross profit .....	<b>10,257</b>	8,147	<b>92,405</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES .....	<b>4,351</b>	3,968	<b>39,198</b>
Operating income .....	<b>5,906</b>	4,179	<b>53,207</b>
OTHER INCOME (EXPENSES):			
Interest and dividend income .....	<b>41</b>	12	<b>369</b>
Interest expense .....	<b>(0)</b>	(5)	<b>(0)</b>
Gain on sales of marketable and investment securities—net .....	<b>4</b>	3	<b>36</b>
Loss on sale and disposal of fixed assets .....	<b>(9)</b>	(7)	<b>(81)</b>
Write-down of investment securities .....	<b>—</b>	(159)	<b>—</b>
Write-down of fixed assets (Note 2 (e)) .....	<b>(79)</b>	—	<b>(712)</b>
Other—net .....	<b>(24)</b>	(11)	<b>(216)</b>
Other (expenses) income—net .....	<b>(67)</b>	(167)	<b>(604)</b>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS .....	<b>5,839</b>	4,012	<b>52,603</b>
INCOME TAXES (Note 9):			
Current .....	<b>3,252</b>	2,407	<b>29,297</b>
Deferred .....	<b>(729)</b>	(629)	<b>(6,568)</b>
Total income taxes .....	<b>2,523</b>	1,778	<b>22,729</b>
MINORITY INTERESTS IN NET INCOME (LOSS) .....	<b>0</b>	(1)	<b>0</b>
NET INCOME .....	<b>¥3,316</b>	¥2,235	<b>\$29,874</b>
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2(l)):			
Basic net income .....	<b>¥91.99</b>	¥59.81	<b>\$0.83</b>
Diluted net income .....	<b>91.91</b>	59.78	<b>0.83</b>
Cash dividends applicable to the six-month period .....	<b>29.00</b>	19.00	<b>0.26</b>

See notes to semi-annual consolidated financial statements.

**SEMI-ANNUAL CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY <UNAUDITED>**

SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2003 AND 2002

	Thousands		Millions of Yen				
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Difference	Unrealized Loss on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2002 .....	37,558	¥16,810	¥8,645	¥23,662	¥(2,021)	¥(289)	¥(1,930)
Net income .....	—	—	—	2,235	—	—	—
Cash dividends, ¥42.5 per share .....	—	—	—	(883)	—	—	—
Bonuses to directors and corporate auditors .....	—	—	—	(90)	—	—	—
Decrease due to newly consolidated subsidiary .....	—	—	—	(58)	—	—	—
Conversion of convertible bonds .....	3	2	2	—	—	—	—
Repurchase of treasury stock .....	(696)	—	—	—	—	—	(2,416)
Reversal of land revaluation difference .....	—	—	—	(6)	6	—	—
Net change in unrealized loss on available-for-sale securities .....	—	—	—	—	—	30	—
<b>BALANCE, SEPTEMBER 30, 2002 .....</b>	<b>36,865</b>	<b>¥16,812</b>	<b>¥8,647</b>	<b>¥24,860</b>	<b>¥(2,015)</b>	<b>¥(259)</b>	<b>¥(4,346)</b>
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	—
<b>BALANCE, SEPTEMBER 30, 2003 .....</b>	<b>35,091</b>	<b>¥16,821</b>	<b>¥8,660</b>	<b>¥25,701</b>	<b>¥(1,137)</b>	<b>¥15</b>	<b>¥(7,975)</b>

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Difference	Unrealized Loss on Available-for-sale Securities	Treasury Stock	
BALANCE, APRIL 1, 2003 .....	\$151,487	\$77,928	\$211,874	\$(10,243)	\$(459)	\$(21,243)	
Net income .....	—	—	29,874	—	—	—	—
Cash dividends, \$0.26 per share .....	—	—	(9,369)	—	—	—	—
Bonuses to directors and corporate auditors .....	—	—	(838)	—	—	—	—
Conversion of convertible bonds .....	54	54	—	—	—	—	—
Repurchase of treasury stock .....	—	—	—	—	—	—	(50,604)
Gain on sales of treasury stock .....	—	36	—	—	—	—	—
Net change in unrealized loss on available-for-sale securities .....	—	—	—	—	594	—	—
<b>BALANCE, SEPTEMBER 30, 2003</b>	<b>\$151,541</b>	<b>\$78,018</b>	<b>\$231,541</b>	<b>\$(10,243)</b>	<b>\$135</b>	<b>\$(71,847)</b>	

See notes to semi-annual consolidated financial statements.

**SEMI-ANNUAL CONSOLIDATED STATEMENTS OF CASH FLOWS <UNAUDITED>**

SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars (Note 1)
			<b>2003</b>
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests .....	<b>¥5,839</b>	¥4,012	<b>\$52,603</b>
Adjustments for:			
Income taxes—paid .....	<b>(1,549)</b>	(1,548)	<b>(13,955)</b>
Depreciation and amortization .....	<b>528</b>	524	<b>4,757</b>
Provision for retirement benefits .....	<b>377</b>	414	<b>3,396</b>
Payment of litigation settlement .....	<b>—</b>	(293)	<b>—</b>
Write-down of fixed assets .....	<b>79</b>	—	<b>712</b>
Changes in assets and liabilities, net of effects:			
Decrease in trade receivables .....	<b>278</b>	537	<b>2,505</b>
Increase in inventories .....	<b>(108)</b>	(91)	<b>(973)</b>
Increase in accrued expenses .....	<b>34</b>	6	<b>306</b>
Decrease in other liabilities .....	<b>(64)</b>	(290)	<b>(577)</b>
Other—net .....	<b>(72)</b>	242	<b>(648)</b>
Total adjustments .....	<b>(497)</b>	(499)	<b>(4,477)</b>
Net cash provided by operating activities .....	<b>5,342</b>	3,513	<b>48,126</b>
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sale of property and equipment .....	<b>6</b>	76	<b>54</b>
Purchases of property and equipment .....	<b>(138)</b>	(82)	<b>(1,243)</b>
Proceeds from sale of short-term investments .....	<b>1,817</b>	3,524	<b>16,369</b>
Purchases of short-term investments .....	<b>(2,755)</b>	(2,804)	<b>(24,819)</b>
Purchases of investment securities .....	<b>(100)</b>	(60)	<b>(901)</b>
Acquisition of other assets .....	<b>(133)</b>	(330)	<b>(1,198)</b>
Other—net .....	<b>560</b>	376	<b>5,045</b>
Net cash provided by (used in) investing activities .....	<b>(743)</b>	700	<b>(6,693)</b>
<b>FINANCING ACTIVITIES:</b>			
Increase in short-term bank loans—net .....	<b>—</b>	47	<b>—</b>
Repayments of long-term debt .....	<b>—</b>	(52)	<b>—</b>
Acquisition of treasury stock .....	<b>(5,657)</b>	(2,417)	<b>(50,964)</b>
Proceeds from sales of treasury stock .....	<b>45</b>	—	<b>405</b>
Dividends paid .....	<b>(1,040)</b>	(883)	<b>(9,369)</b>
Other—net .....	<b>(33)</b>	0	<b>(298)</b>
Net cash used in financing activities .....	<b>(6,685)</b>	(3,305)	<b>(60,226)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	<b>(2,086)</b>	908	<b>(18,793)</b>
<b>CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF PERIOD .....</b>	<b>—</b>	11	<b>—</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD .....</b>	<b>18,283</b>	14,980	<b>164,712</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD .....</b>	<b>¥16,197</b>	¥15,899	<b>\$145,919</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Convertible bonds converted into common stock .....	<b>¥12</b>	¥4	<b>\$108</b>

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 and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The semi-annual consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these 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 2002 semi-annual consolidated financial statements to conform to the classifications used in 2003.

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 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 ¥111 to \$1, the approximate rate of exchange at September 30, 2003. 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, 2003 and 2002 include the accounts of the Company and its seven (five in 2002) subsidiaries (together the "Group").

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over their operations are fully consolidated.

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

**(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, 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 six-month period ended September 30, 2003, the Company recorded a write-down of fixed assets in the amount of ¥79 million (\$712 thousand).

**(f) Land Revaluation**

Under the Law of Land, 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 is 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 and the related deferred tax assets. The details of the one-time revaluation for land remaining as of September 30, 2003 were as follows:

Land before revaluation:	¥6,079 million
Land after revaluation:	¥4,184 million
Land revaluation difference:	¥1,137 million (net of deferred tax assets of ¥758 million)

At September 30, 2003, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥1,291 million (\$11,628 thousand).

**(g) 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.

**(h) 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.

**(i) 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.

**(j) Appropriations of Retained Earnings**

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

**(k) 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.

### (I) 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 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 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, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Short-term investments:			
Time deposits .....	¥1,700	¥2,020	\$ 15,315
Debt securities .....	100	300	904
Other .....	1,937	712	17,448
Total .....	¥3,737	¥3,032	\$ 33,667
Investment securities:			
Equity securities .....	¥759	¥812	\$ 6,839
Debt securities .....	200	509	1,805
Other .....	70	575	626
Total .....	¥1,029	¥1,896	\$ 9,270

Information regarding each category of securities classified as available-for-sale and held-to-maturity at September 30, 2003 and 2002 was as follows:

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
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities .....	\$4,338	\$730	\$(324)	\$4,744
Debt securities .....	1,815	5	(15)	1,805
Other .....	10,404	116	(372)	10,148
Held-to-maturity				
Debt securities .....	906	—	(3)	903

September 30, 2002

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities .....	¥671	—	¥(91)	¥580
Debt securities .....	610	—	(3)	607
Other .....	1,655	¥13	(381)	1,287
Held-to-maturity .....	202	—	—	202

Available-for-sale securities whose fair value was not readily determinable at September 30, 2003 and 2002 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Equity securities .....	<b>¥232</b>	¥232	<b>\$2,096</b>
Debt securities .....	<b>780</b>	—	<b>7,025</b>
Other .....	<b>100</b>	—	<b>901</b>
Total .....	<b>¥1,112</b>	¥232	<b>\$10,022</b>

#### 4. INVENTORIES

Inventories at September 30, 2003 and 2002 consisted mainly of work in process related to engineering outsourcing.

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

Short-term bank loans at September 30, 2002 consisted mainly of loan agreements with banks. The annual interest rates applicable to the short-term bank loans ranged from 0.37% to 0.50% at September 30, 2002.

At September 30, 2003, the Company had loan commitments from 7 banks and 2 insurance companies in an aggregate amount of ¥6,000 million (\$54,054 thousand). There were no loans outstanding under these arrangements at September 30, 2003.

Long-term debt at September 30, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Unsecured 3.2% yen convertible bonds, due on March 31, 2004 .....	<b>¥12</b>	¥29	<b>\$108</b>
Loans from banks, due serially to fiscal year ended March 31, 2003 with interest rates ranging from 1.70% to 2.43% (2002) .....	—	27	—
Total .....	<b>12</b>	56	<b>108</b>
Less current portion .....	<b>(12)</b>	(13)	<b>(108)</b>
Long-term debt, less current portion .....	—	¥43	—

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

	3.2% Yen Convertible Bonds
Issued on .....	March 15, 1995
Initial principal .....	¥8,000 million
Type of issue .....	Public
Maturity .....	March 31, 2004
Term of conversion .....	From April 3, 1995 to March 30, 2004
Conversion price (per share*) at September 30, 2003 .....	¥1,394
Balance of debt securities at September 30, 2003 .....	¥12 million
Accumulated number of shares issued upon conversion through September 30, 2003 .....	5,730,157 shares
Number of additional shares that would be issued upon conversion at September 30, 2003 .....	8,609 shares

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



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

Annual maturities of long-term debt at September 30, 2003 were as follows:

Year Ending September 30	Millions of Yen	Thousands of U.S. Dollars
2004 .....	<b>¥12</b>	<b>\$108</b>
Total .....	<b>¥12</b>	<b>\$108</b>

## 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. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, or certain other causes, the employee is entitled to greater payment than in the case of voluntary termination.

## 7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code to which certain amendments became effective from October 1, 2002.

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 beginning April 1, 2002. 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 six-month period ended September 30, 2003, ¥12 million (\$108 thousand) of the unsecured 3.2% yen convertible bonds due March 31, 2004 were converted into 8,607 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 ¥6 million (\$54 thousand), respectively.

Under the terms of unsecured 3.2% yen convertible bonds, the Company's cash dividend payments (including interim cash dividends) are restricted. The amount available for dividends is calculated on a cumulative basis to an amount not to exceed the accumulated net income earned since March 31, 1995, excluding certain other income and expenses and corporate and inhabitant taxes, plus ¥500 million (\$4,504 thousand). However, under the Code, the maximum amount available for dividends is based on retained earnings as recorded on the Company's books.

During the six-month period ended September 30, 2003, the Company purchased 1,417 thousand shares of its common stock for ¥5,617 million (\$ 50,604 thousand) for the retirement of such capital stock.

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 <sup>*1</sup>	Directors and Key employees	133,000	From June 25, 2005 to June 24, 2013	*1

<sup>\*1</sup> This stock option is not actually granted as of November 7, 2003 and therefore exercise price has not yet been determined.

The stock options outstanding at September 30, 2003 were less than the above granted numbers due to forfeiture of rights.

The balance of treasury stock recorded in shareholders' equity at September 30, 2003 and 2002 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, 2003 and 2002, 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, 2003 and 2002 were ¥2 million (\$20 thousand) and ¥3 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, 2003 and 2002 was as follows:

	Millions of Yen					
	2003			2002		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost .....	<b>¥16</b>	<b>¥4</b>	<b>¥20</b>	¥32	¥4	¥36
Accumulated depreciation .....	<b>12</b>	<b>2</b>	<b>14</b>	23	0	23
Net leased property .....	<b>¥4</b>	<b>¥2</b>	<b>¥6</b>	¥9	¥4	¥13

	Thousands of U.S. Dollars		
	2003		
	Furniture and Fixtures	Other	Total
Acquisition cost .....	<b>\$146</b>	<b>\$39</b>	<b>\$185</b>
Accumulated depreciation .....	<b>114</b>	<b>16</b>	<b>130</b>
Net leased property .....	<b>\$32</b>	<b>\$23</b>	<b>\$55</b>

Obligations under finance leases at September 30, 2003 and 2002:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year .....	<b>¥4</b>	¥7	<b>\$38</b>
Due after one year .....	<b>2</b>	6	<b>16</b>
Total .....	<b>¥6</b>	¥13	<b>\$54</b>

Depreciation expense, which was not reflected in the accompanying semi-annual consolidated statements of income computed by the straight-line method, was ¥2 million (\$20 thousand) and ¥3 million for the six-month periods ended September 30, 2003 and 2002, respectively.

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

SEPTEMBER 30, 2003 AND 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
CURRENT ASSETS:			
Cash and cash equivalents .....	¥15,666	¥15,604	\$141,135
Short-term investments .....	3,737	3,012	33,667
Notes and accounts receivable:			
Trade notes and accounts .....	8,890	8,624	80,089
Allowance for doubtful accounts .....	(2)	(2)	(18)
Inventories .....	183	245	1,649
Deferred tax assets .....	2,195	1,640	19,775
Prepaid expenses and other .....	582	593	5,243
Total current assets .....	31,251	29,716	281,540
PROPERTY AND EQUIPMENT:			
Land .....	4,184	4,674	37,694
Buildings and structures .....	21,159	21,590	190,622
Machinery and equipment .....	185	185	1,667
Furniture and fixtures .....	4,737	6,072	42,676
Total .....	30,265	32,521	272,659
Accumulated depreciation .....	(12,185)	(11,603)	(109,775)
Net property and equipment .....	18,080	20,918	162,884
INVESTMENTS AND OTHER ASSETS:			
Investment securities .....	1,026	1,893	9,243
Investments in subsidiaries .....	1,025	766	9,234
Prepaid pension cost .....	396	—	3,568
Leasehold deposits .....	803	769	7,324
Deferred tax assets .....	1,940	2,925	17,478
Deferred tax asset for land revaluation .....	758	1,460	6,829
Other .....	1,428	1,519	12,863
Total investments and other assets .....	7,376	9,332	66,449
TOTAL .....	¥56,707	¥59,966	\$510,873

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, 2003.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
CURRENT LIABILITIES:			
Short-term bank loans .....	—	¥845	—
Current portion of long-term debt .....	¥12	—	\$108
Income taxes payable .....	2,828	2,105	25,477
Deposits from subsidiaries .....	3,089	2,446	27,829
Accrued expenses .....	5,701	5,356	51,359
Other .....	1,445	1,104	13,018
Total current liabilities .....	13,075	11,856	117,791
LONG-TERM LIABILITIES:			
Long-term debt .....	—	29	—
Liability for retirement benefits .....	3,890	6,103	35,045
Other .....	306	357	2,757
Total long-term liabilities .....	4,196	6,489	37,802
SHAREHOLDERS' EQUITY:			
Common stock:			
Authorized: 146,952 thousand shares in 2003 147,884 thousand shares in 2002			
Issued and outstanding:			
37,132 thousand shares in 2003 38,052 thousand shares in 2002 .....			
	16,821	16,812	151,541
Capital surplus			
Additional paid-in capital .....			
	8,656	8,647	77,982
Other capital surplus .....			
	4	-	36
Retained earnings			
Legal reserve .....			
	4,203	4,203	37,865
Unappropriated .....			
	18,849	18,578	169,811
Land revaluation difference .....			
	(1,137)	(2,015)	(10,243)
Unrealized loss on available-for-sale securities .....			
	15	(258)	135
Total shareholders' equity .....	47,411	45,967	427,127
Treasury stock—at cost:			
2,041 thousand shares in 2003 and 1,187 thousand shares in 2002 .....			
	(7,975)	(4,346)	(71,847)
Total shareholders' equity .....	39,436	41,621	355,280
TOTAL .....	¥56,707	¥59,966	\$510,873

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

SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
NET SALES .....	<b>¥29,005</b>	¥26,902	<b>\$261,307</b>
COST OF SALES .....	<b>20,138</b>	19,816	<b>181,423</b>
Gross profit .....	<b>8,867</b>	7,086	<b>79,884</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES .....	<b>3,654</b>	3,355	<b>32,920</b>
Operating income .....	<b>5,213</b>	3,731	<b>46,964</b>
OTHER INCOME (EXPENSES):			
Interest and dividend income .....	<b>231</b>	190	<b>2,081</b>
Interest expense .....	<b>(1)</b>	(5)	<b>(9)</b>
Loss on sale and disposal of fixed assets .....	<b>(7)</b>	(4)	<b>(62)</b>
Write-down of investment securities .....	<b>—</b>	(159)	<b>—</b>
Write-down of fixed assets .....	<b>(79)</b>	—	<b>(712)</b>
Other — net .....	<b>(7)</b>	2	<b>(63)</b>
Other income (expenses) — net .....	<b>137</b>	24	<b>1,235</b>
INCOME BEFORE INCOME TAXES .....	<b>5,350</b>	3,755	<b>48,199</b>
INCOME TAXES:			
Current .....	<b>2,873</b>	2,129	<b>25,883</b>
Deferred .....	<b>(639)</b>	(534)	<b>(5,758)</b>
Total income taxes .....	<b>2,234</b>	1,595	<b>20,125</b>
NET INCOME .....	<b>¥3,116</b>	¥2,160	<b>\$28,074</b>
PER SHARE OF COMMON STOCK:			
Basic net income .....	<b>¥86.43</b>	¥57.81	<b>\$0.78</b>
Diluted net income .....	<b>86.36</b>	57.79	<b>0.78</b>
Cash dividends applicable to the six-month period .....	<b>29.00</b>	19.00	<b>0.26</b>

**Notes:**

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, 2003.
2. The computation of net income per share is based on the weighted average number of shares of common stock outstanding during the six-months period. The weighted average number of common shares used in the computation of basic net income was 36,050 thousand shares for 2003 and 37,361 thousand shares for 2002.

## CORPORATE DATA

(AS OF SEPTEMBER 30, 2003)

### MEITEC CORPORATION

<b>Corporate Headquarters</b>	8-5-26, Akasaka, Minato-ku, Tokyo 107-0052, Japan Tel.: (03) 5413-2600	
<b>Registered Corporate Headquarters</b>	2-20-1, Kousei Dori, Nishi-ku, Nagoya, Aichi 451-0075, Japan Tel.: (052) 532-1811	
<b>Establishment</b>	July 17, 1974	
<b>Common Stock</b>	Authorized: 146,951,600 shares Issued: 37,131,934 shares	
<b>Shareholders</b>	5,322	
<b>Employees (Consolidated)</b>	7,354	
<b>Lines of Business</b>	Providing engineering services to major Japanese manufacturing companies in the fields of high-technology research and development	
<b>Consolidated Subsidiaries</b>	Japan Outsourcing Inc. Japan Cast Inc. Meitec Global Solutions Inc. Meitec (Shanghai) Three D Tec Inc. Information Management System Co., Ltd. MeiService Co., Ltd.	
<b>Executive Officers, Directors and Auditors</b>	CEO & COO Executive Officers	Kosuke Nishimoto Yoshinori Takamine Toyoki Terao Kanji Fukuda Hideyo Kokubun Toshio Saikusa Hidenori Nagasaka Masakazu Ohashi Noboru Miyake Yukio Ueyama Shigeo Kamezawa Yoshiteru Kido
	President and Representative Director Directors	Kosuke Nishimoto Yoshinori Takamine Toyoki Terao Kanji Fukuda Hideyo Kokubun Toshihiko Murayama Toshio Saikusa Atsuhiko Umeda <sup>1</sup>
	Auditors	Hiroshi Kousaka Masatoshi Saito <sup>2</sup> Kiyoshi Mamizu <sup>2</sup>

*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/>