MEITEC
THE ENGINEERING OUTSOURCING® COMPANY

MEITEC CORPORATION

ANNUAL REPORT 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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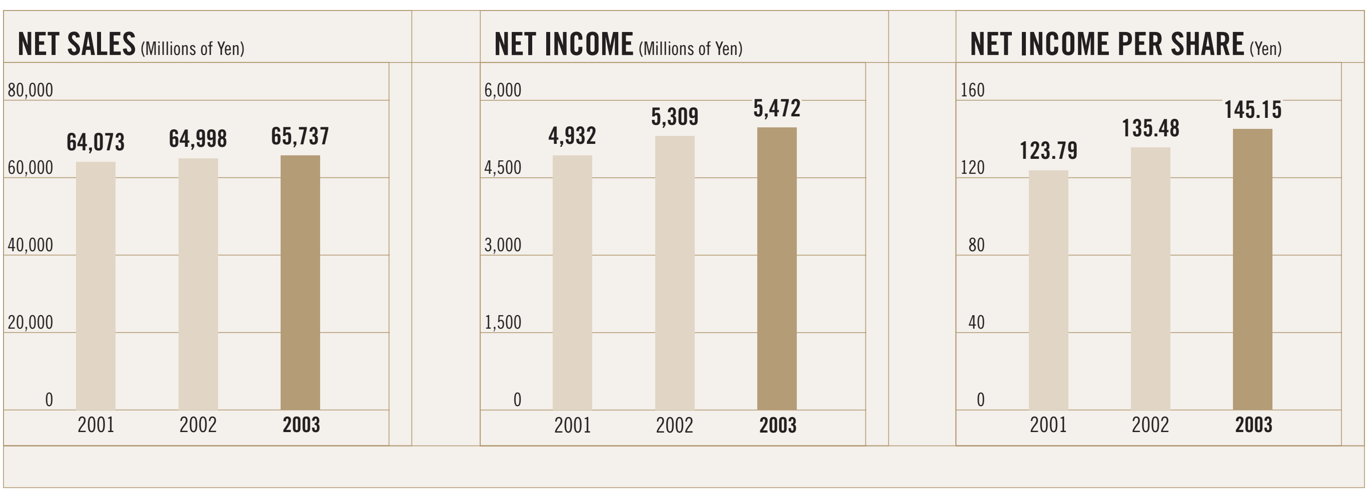
CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended March 31	2003 (Millions of Yen)	2002 (Millions of Yen)	2001 (Millions of Yen)	2003 (Thousands of U.S. Dollars (Note 1))
Net Sales	**¥65,737**	¥64,998	¥64,073	**$547,808**
Operating Income	**9,149**	10,193	11,299	**76,242**
Net Income	**5,472**	5,309	4,932	**45,600**
Total Assets	**59,831**	61,927	69,778	**498,592**
Total Shareholders' Equity	**45,437**	44,877	49,764	**378,642**
	Yen			U.S. Dollars
Per Share of Common Stock:				
Shareholders' Equity	**¥1,244.88**	¥1,194.86	¥1,249.98	**$10.37**
Cash Dividend	**47.50**	42.50	38.00	**0.40**
Net Income (Note 2)	**145.15**	135.48	123.79	**1.21**
	%			
Return on Average Equity	**12.1**	11.2	10.2	

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120 to $1, the approximate exchange rate prevailing as of March 31, 2003.

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, 2003.

Despite some signs that the manufacturing industry had bottomed out, Japan's overall economic environment remained stagnant throughout fiscal 2003. In Meitec's principal market, manufacturing companies continued to adjust inventories and streamline personnel as part of restructuring programs. As a result, aggregate capital investment by the manufacturing industry fell noticeably year on year, with little indication of significant turnaround.

Some companies that commenced internal structural reforms more than a year ago have taken the first small steps toward renewed R&D investment to promote future business expansion and enhance market competitiveness. Acting swiftly to grasp every opportunity, Meitec was successful in securing orders, particularly from the automobile-related and electronics-related sectors. Overall, however, activity remained depressed with an increasing polarization among individual companies with regard to their investment capabilities. No sign of recovery was seen in the semiconductor manufacturing equipment sector during the term. However, orders in the semiconductor design sector were healthy, despite a decline in orders from some customers. In general, orders from customers remained with increased demand for more sophisticated and specialized services, and the prompt placement of qualified engineers.

Against this backdrop, the Company introduced its Best Matching System (BMS), an IT system that matches engineers to orders received, focusing on the matching function and increasing precision. With these efforts, Meitec was quick to address the needs of its corporate customers and secure orders in line with R&D investment trends. As a result, the Company's utilization ratio improved from 85.4% as of April 1, 2002, to 97.1% as of the fiscal 2003 year-end. As of the interim period ended September 30, 2002, the percentage of new graduates assigned to various projects was 45%. As of March 31, 2003, this figure was 88% and in line with forecasts. The utilization ratio for the full fiscal year was 91.6%, reflecting the fall during the interim period, which is yet to be fully recovered. Despite a full-year utilization ratio of 91.6%, Meitec's operating income margin, after adopting changes in accounting standards applicable to social insurance premiums, was 14.5% for fiscal 2003, or slightly more than 15% before adopting accounting standard changes. This was due to the Company's sustained efforts to improve management efficiency, reduce selling and administrative expenses, and the effects from a performance-based compensation system introduced in fiscal 2000. In fiscal 2002, 11% of individual employee remuneration was linked to movements in the Company's operating income.

In fiscal 2001, Meitec introduced a Group collaboration system, positioning consolidated subsidiary Japan Outsourcing to address, in part, the increasing pressure from customers to reduce costs. Despite severe market conditions, consolidated subsidiary Japan Outsourcing recorded increased revenues and earnings in fiscal 2002, as the Group synergy benefits and the effects of cross-selling took hold. Japan Cast also posted year-on-year increases in revenues and earnings due to cutbacks in selling and administrative costs and the efforts of management through collaboration with other Group companies. 3D Tec recorded a nominal operating loss for fiscal 2003. This subsidiary, however, generated an operating income for the first quarter of fiscal 2003, and has established a platform for positive earnings during the second half.

As a result of these business activities, on a consolidated basis, the Meitec Group's key divisions reported a 1.1% increase in net sales to 63,335 million yen (US$527,792 thousand) in the EO business, and a 1.9% rise in net sales to 2,402 million yen (US$20,017 thousand) in the general outsourcing business, compared with the previous fiscal year.

Consequently, total net sales rose 1.1% to 65,737 million yen (US$547,808 thousand). At the profit and loss level, operating income decreased 10.2% to 9,149 million yen (US$76,242 thousand), ordinary income decreased 11.1% to 9,179 million yen (US$76,492 thousand), and net income rose 3.1% to 5,472 million yen (US$45,600 thousand). Return on equity (ROE) was up 0.9 percentage points to 12.1% year on year.

In the current fiscal year, Meitec plans to raise the full-year operating ratio over 95% and promote the Meitec brand through coordinated Group efforts. Accordingly, the Company forecasts an increase of 5.0% in consolidated net sales to 69,000 million yen (US$575,000 thousand), operating income of 11,700 million yen (US$97,500 thousand), ordinary income of 11,700 million yen (US$97,500 thousand), and net income of 6,300 million yen (US$52,500 thousand), an increase of 27.9%, 27.5%, and 15.1% respectively.

Based on its basic policy of providing more than 30% of consolidated net income as dividends, Meitec has determined dividends of 47.5 yen (US$0.40) per share, which include interim dividends of 19 yen (US$0.16) per share.

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

June 2003

Kosuke Nishimoto
President, CEO & COO

The core business of the Meitec Group, comprising Meitec and its six 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), 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).

Meitec Global Solutions Inc. was established in March 2003. The new company will oversee design and development engineering, and all EO business related to the import and export of computer software. It began trading on April 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

<table>
<tr><th colspan="7">MEITEC GROUP</th></tr>
<tr><td colspan="5">Engineering Outsourcing</td><td colspan="2">General Outsourcing</td></tr>
<tr><td rowspan="2">Meitec</td><td colspan="4">Subsidiaries</td><td colspan="2"></td></tr>
<tr><td>JO</td><td>MGS</td><td>3DT</td><td>IMS</td><td>JC</td><td>MS</td></tr>
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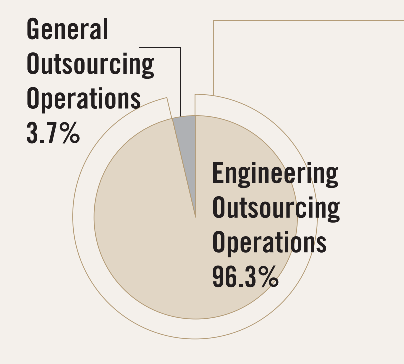
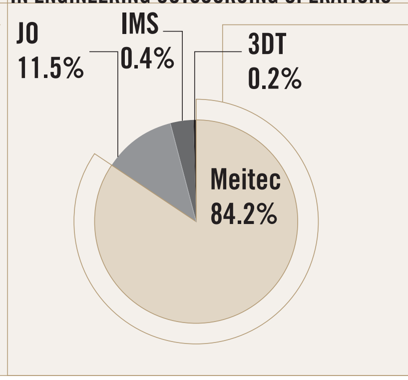
JO = Japan Outsourcing; MGS = Meitec Global Solutions; 3DT = 3D Tec; JC = Japan Cast; MS = MeiService

OPERATIONAL REVIEW

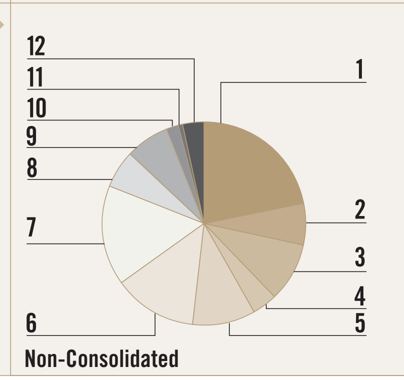
CONSOLIDATED REVENUES



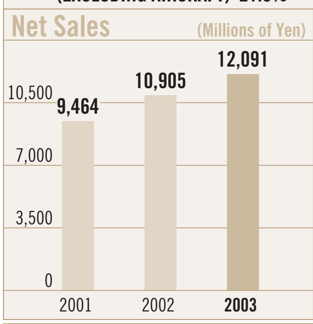
REVENUES BY GROUP COMPANY IN ENGINEERING OUTSOURCING OPERATIONS



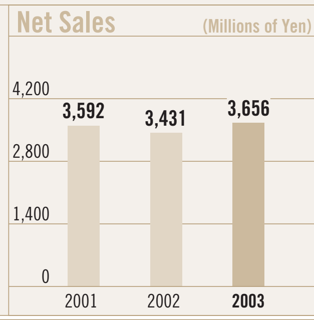
MEITEC REVENUES BY CUSTOMER



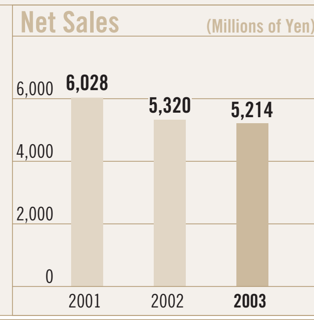
1 AUTOMOBILE/TRANSPORTATION EQUIPMENT (EXCLUDING AIRCRAFT) 21.8%



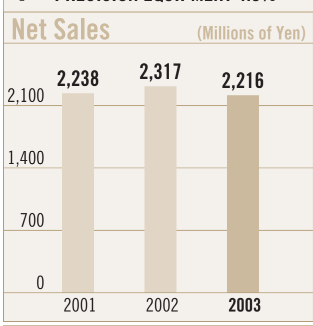
2 AIRCRAFT/ROCKETRY 6.6%



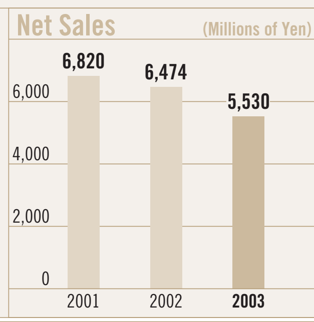
3 INDUSTRIAL MACHINERY/MACHINERY, EQUIPMENT AND SYSTEMS 9.4%



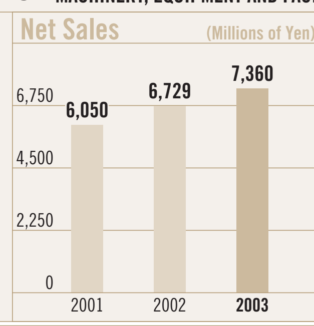
4 PRECISION EQUIPMENT 4.0%



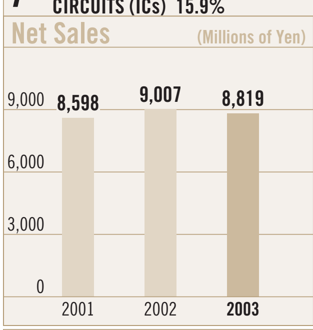
5 IT RELATED HARDWARE AND DEVICES 10.0%



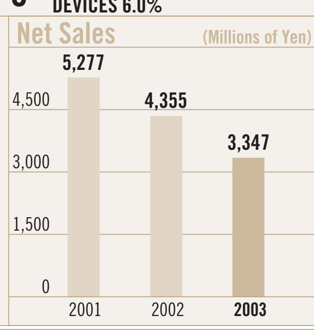
6 ELECTRIC AND ELECTRONIC/ELECTRIC MACHINERY, EQUIPMENT AND FACILITIES 13.3%



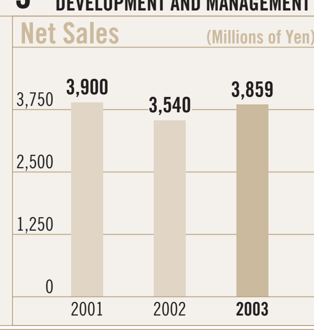
7 SEMICONDUCTORS AND INTEGRATED CIRCUITS (ICs) 15.9%



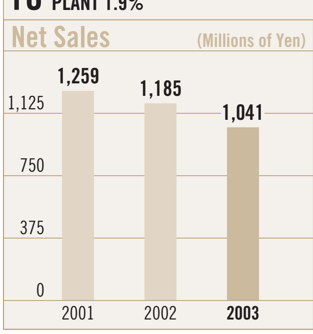
8 SEMICONDUCTOR EQUIPMENT AND DEVICES 6.0%



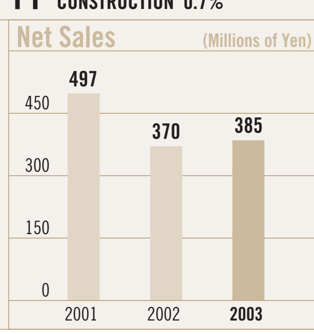
9 INFORMATION PROCESSING/SOFTWARE DEVELOPMENT AND MANAGEMENT 7.0%



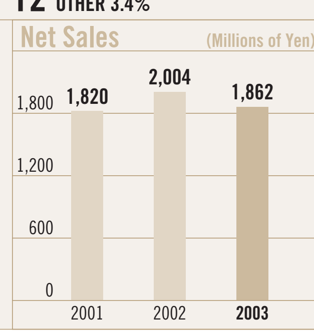
10 PLANT 1.9%



11 CONSTRUCTION 0.7%



12 OTHER 3.4%



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 to the fields peripheral to the manufacturing industries, beginning in fiscal 2004, ending March 31, 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, and directors' bonuses will be fixed at 2% of consolidated net income beginning in fiscal 2004.

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

Internal reserves serve not only to strengthen the Company's financial position, but also fund investments in training facilities, information systems and improvement of 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.

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., Three D Tec Inc., Information Management System Co., Ltd., and MeiService Co., Ltd.) 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.

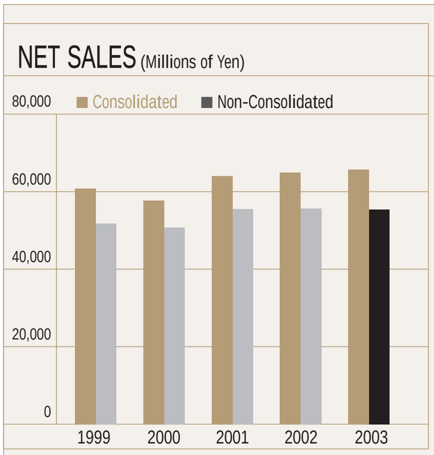
Beginning in fiscal 2004, we will implement the Global Vision 21 consolidated management plan. The chief goal set forth in this plan is our development into a ¥100 billion group within five years, through the expansion of Group businesses on the strength of Meitec's name recognition. One specific measure of the plan will be the expansion of Japan Outsourcing and Japan Cast into Meitec's core field through cooperation with the Company. In addition, to foster new operations in the fields of global business and the outplacement business, in March 2003 we established a new subsidiary, Meitec Global Solutions Inc. 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 this fiscal year.

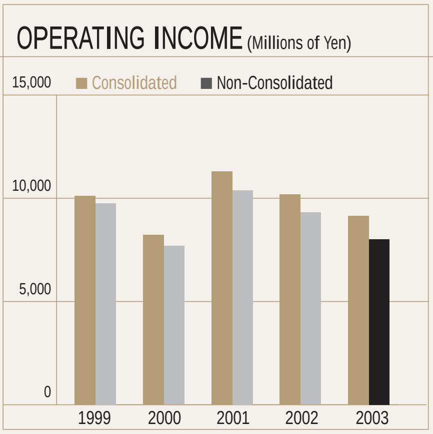
The cost reductions achieved will enhance our cost competitiveness in the market for low-end engineering work, allowing us to increase our share of the domestic market. In the outplacement business, Meitec will undertake to find new employment for the mismatched engineering personnel of the Meitec Group's client companies, employing the Group's marketing network. 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 relations division and an auxiliary engineering division for the industrial world.

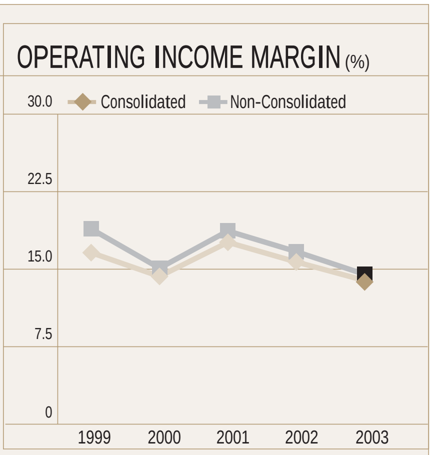
Management Goals

In the interests of shareholders, Meitec pursues a management policy of increasing its earnings and improving its capital efficiency. Accordingly, the Company has set a firm goal of keeping ROE above 10%. Meitec's Global Vision 21 consolidated management plan, which will be implemented in fiscal 2004, will establish an ROE goal of 15%.

Performance and Ratios







Net Sales (Millions of Yen)

Consolidated

1999	2000	2001	2002	**2003**
¥60,801	¥57,734	¥64,073	¥64,998	**¥65,737**

Non-Consolidated

1999	2000	2001	2002	**2003**
¥51,784	¥50,773	¥55,543	¥55,638	**¥55,379**

Operating Income (Millions of Yen)

Consolidated

1999	2000	2001	2002	**2003**
¥10,118	¥8,242	¥11,299	¥10,193	**¥9,149**

Non-Consolidated

1999	2000	2001	2002	**2003**
¥9,755	¥7,689	¥10,389	¥9,311	**¥8,027**

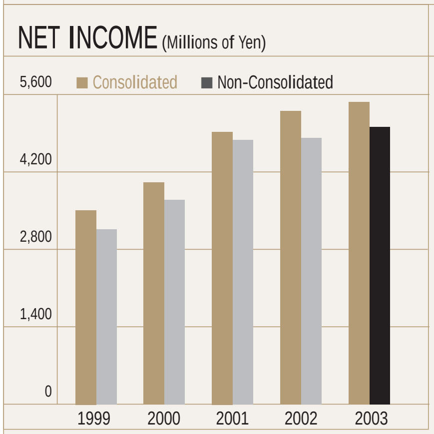
Operating Income Margin (%)

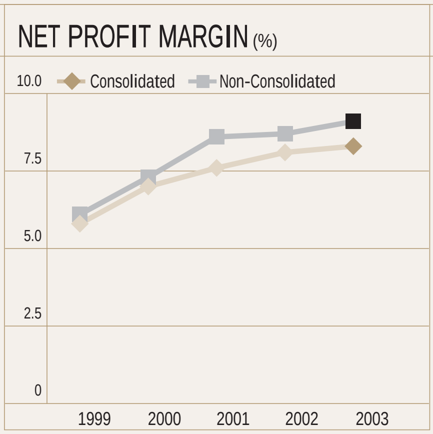
Consolidated

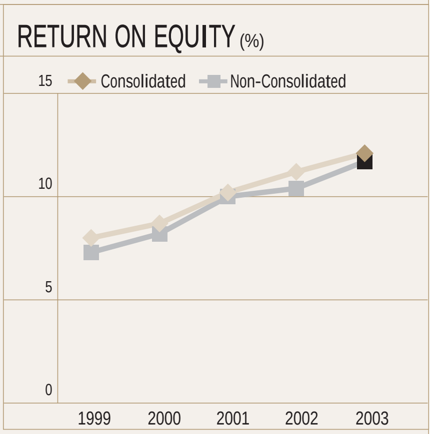
1999	2000	2001	2002	**2003**
16.6	14.3	17.6	15.7	**13.9**

Non-Consolidated

1999	2000	2001	2002	**2003**
18.9	15.1	18.7	16.7	**14.5**







Net Income (Millions of Yen)

Consolidated

1999	2000	2001	2002	**2003**
¥3,513	¥4,016	¥4,932	¥5,309	**¥5,472**

Non-Consolidated

1999	2000	2001	2002	**2003**
¥3,164	¥3,701	¥4,781	¥4,822	**¥5,018**

Net Profit Margin (%)

Consolidated

1999	2000	2001	2002	**2003**
5.8	7.0	7.6	8.1	**8.3**

Non-Consolidated

1999	2000	2001	2002	**2003**
6.1	7.3	8.6	8.7	**9.1**

Return on Equity (%)

Consolidated

1999	2000	2001	2002	**2003**
8.0	8.7	10.2	11.2	**12.1**

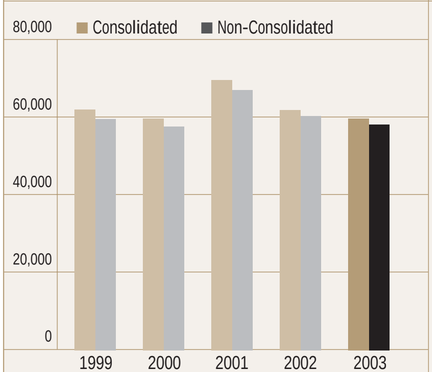
Non-Consolidated

1999	2000	2001	2002	**2003**
7.3	8.2	10.0	10.4	**11.7**

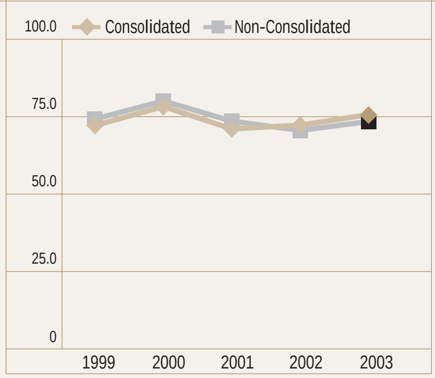
Capital Safety

Capital Efficiency

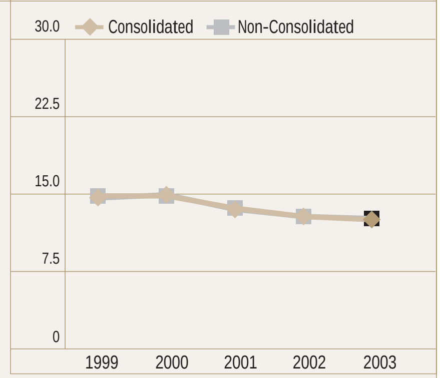
TOTAL ASSETS (Millions of Yen)



RATIO OF SHAREHOLDERS' EQUITY TO TOTAL ASSETS (%)



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



Total Assets (Millions of Yen)

Consolidated

1999	2000	2001	2002	**2003**
¥62,138	¥59,820	¥69,778	¥61,927	**¥59,831**

Non-Consolidated

1999	2000	2001	2002	**2003**
¥59,635	¥57,672	¥67,133	¥60,443	**¥58,297**

Ratio of Shareholders' Equity to Total Assets (%)

Consolidated

1999	2000	2001	2002	**2003**
72.4	78.5	71.3	72.5	**75.9**

Non-Consolidated

1999	2000	2001	2002	**2003**
74.5	80.3	73.8	70.8	**73.7**

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

Consolidated

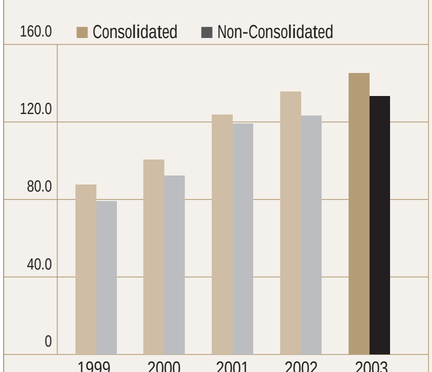
1999	2000	2001	2002	**2003**
14.9	14.9	13.7	12.9	**12.6**

Non-Consolidated

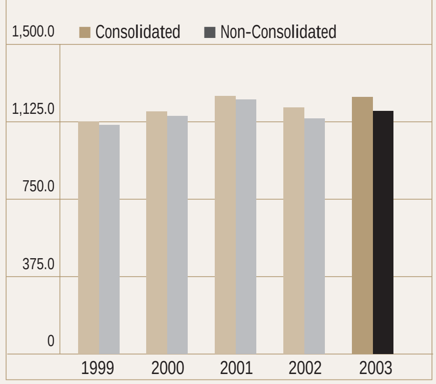
1999	2000	2001	2002	**2003**
14.7	15.0	13.6	12.9	**12.7**

Per Share Indicators

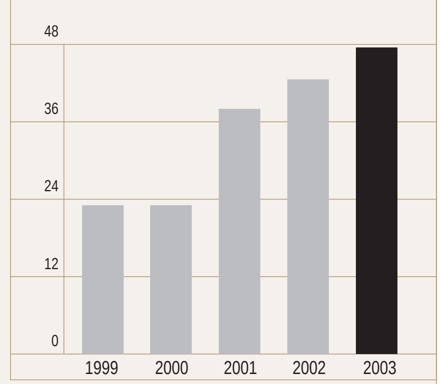
NET INCOME PER SHARE (Yen)



EQUITY PER SHARE (Yen)



CASH DIVIDENDS PER SHARE (Yen)



Net Income per Share (Yen)

Consolidated

1999	2000	2001	2002	**2003**
¥87.7	¥100.6	¥123.8	¥135.5	**¥145.2**

Non-Consolidated

1999	2000	2001	2002	**2003**
¥79.0	¥92.2	¥119.0	¥123.1	**¥133.2**

Equity per Share (Yen)

Consolidated

1999	2000	2001	2002	**2003**
¥1,124.9	¥1,175.5	¥1,250.0	¥1,194.9	**¥1,244.9**

Non-Consolidated

1999	2000	2001	2002	**2003**
¥1,108.1	¥1,153.2	¥1,233.4	¥1,139.8	**¥1,177.6**

Cash Dividends per Share (Yen)

Non-Consolidated

1999	2000	2001	2002	**2003**
¥23.0	¥23.0	¥38.0	¥42.5	**¥47.5**

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2003**	2002	**2003**
CURRENT ASSETS:			
Cash and cash equivalents	**¥18,283**	¥14,980	**$152,358**
Short-term investments (Note 3)	**2,705**	3,526	**22,542**
Notes and accounts receivable:			
Trade notes and accounts	**10,555**	10,319	**87,958**
Allowance for doubtful accounts	**(10)**	(26)	**(83)**
Inventories (Note 4)	**78**	152	**650**
Deferred tax assets (Note 9)	**2,031**	1,456	**16,925**
Prepaid expenses and other	**630**	810	**5,250**
Total current assets	**34,272**	31,217	**285,600**
PROPERTY AND EQUIPMENT:			
Land	**4,184**	4,759	**34,867**
Buildings and structures	**21,175**	21,616	**176,458**
Machinery and equipment	**185**	185	**1,542**
Furniture and fixtures	**4,896**	6,120	**40,800**
Total	**30,440**	32,680	**253,667**
Accumulated depreciation	**(11,876)**	(11,252)	**(98,967)**
Net property and equipment	**18,564**	21,428	**154,700**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**1,133**	2,158	**9,442**
Investments in an unconsolidated subsidiary	**—**	86	**—**
Leasehold deposits	**875**	841	**7,292**
Deferred tax assets (Note 9)	**1,940**	2,867	**16,167**
Deferred tax asset for land revaluation (Note 2(f))	**758**	1,464	**6,317**
Other	**2,289**	1,866	**19,074**
Total investments and other assets	**6,995**	9,282	**58,292**
TOTAL	**¥59,831**	¥61,927	**$498,592**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	—	¥798	—
Current portion of long-term debt (Note 5)	¥24	46	$200
Accounts payable	17	5	142
Income taxes payable	1,504	1,523	12,533
Accrued expenses	6,845	6,286	57,042
Other	1,677	1,717	13,975
Total current liabilities	10,067	10,375	83,892
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	—	33	—
Liability for retirement benefits (Note 6)	3,937	5,912	32,808
Other	334	673	2,783
Total long-term liabilities	4,271	6,618	35,591
MINORITY INTERESTS	56	57	467
SHAREHOLDERS' EQUITY (Note 7):			
Common stock,			
Authorized:			
146,952 thousand shares in 2003			
147,884 thousand shares in 2002			
Issued:			
37,123 thousand shares in 2003			
38,049 thousand shares in 2002	16,815	16,810	140,125
Capital surplus	8,650	8,645	72,084
Retained earnings	23,518	23,662	195,983
Land revaluation difference	(1,137)	(2,021)	(9,475)
Unrealized loss on available-for-sale securities	(51)	(289)	(425)
Total	47,795	46,807	398,292
Treasury stock—at cost			
624 thousand shares in 2003 and 491 thousand shares in 2002	(2,358)	(1,930)	(19,650)
Total shareholders' equity	45,437	44,877	378,642
TOTAL	¥59,831	¥61,927	$498,592

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
NET SALES	**¥65,737**	¥64,998	**$547,808**
COST OF SALES	**48,292**	46,412	**402,433**
Gross profit	**17,445**	18,586	**145,375**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**8,296**	8,393	**69,133**
Operating income	**9,149**	10,193	**76,242**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**40**	30	**333**
Interest expense	**(6)**	(12)	**(50)**
Loss on sales of marketable and investment securities—net	**(484)**	(469)	**(4,033)**
Loss on sales and disposals of fixed assets—net	**(711)**	(195)	**(5,925)**
Write-down of investment securities	**(228)**	(36)	**(1,900)**
Write-down of fixed assets (Note 2(e))	**(1,262)**	—	**(10,517)**
Gain on exemption from future pension obligation of the governmental program (Note 6)	**3,409**	—	**28,408**
Reversal of liability for retirement benefits for directors and corporate auditors	**—**	102	**—**
Other—net	**(25)**	7	**(208)**
Other income (expenses)—net	**733**	(573)	**6,108**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**9,882**	9,620	**82,350**
INCOME TAXES (Note 9):			
Current	**3,557**	4,504	**29,641**
Deferred	**854**	(178)	**7,117**
Total income taxes	**4,411**	4,326	**36,758**
MINORITY INTERESTS IN NET LOSS OF SUBSIDIARY	**1**	15	**8**
NET INCOME	**¥5,472**	¥5,309	**$45,600**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2(p) and 11):			
Basic net income	**¥145.15**	¥135.48	**$1.21**
Diluted net income	**144.93**	135.41	**1.21**
Cash dividends applicable to the year	**47.50**	42.50	**0.40**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED MARCH 31, 2003 AND 2002

	Thousands	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Difference	Unrealized Loss on Available-for-sale Securities	Treasury Stock at Cost
BALANCE, APRIL 1, 2001	40,165	¥16,810	¥16,645	¥20,196	¥ (2,249)	¥(271)	¥(1,367)
Net income	—	—	—	5,309	—	—	—
Cash dividends, ¥39 per share	—	—	—	(1,522)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(93)	—	—	—
Acquisition of treasury stock for retirement	(2,116)	—	(8,000)	—	—	—	—
Net increase in treasury stock (138 thousand shares)	—	—	—	—	—	—	(563)
Reversal of land revaluation difference	—	—	—	(228)	228	—	—
Net change in unrealized loss on available-for-sale securities	—	—	—	—	—	(18)	—
BALANCE, MARCH 31, 2002	38,049	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	—	—	—	—
Retirement of treasury stock	(932)	—	—	(2,963)	—	—	—
Net increase in treasury stock (133 thousand shares)	—	—	—	—	—	—	(428)
Effect of tax rate reduction	—	—	—	—	(38)	(0)	—
Reversal of land revaluation difference	—	—	—	(922)	922	—	—
Net change in unrealized loss on available-for-sale securities	—	—	—	—	—	(238)	—
BALANCE, MARCH 31, 2003	**37,123**	**¥16,815**	**¥8,650**	**¥23,518**	**¥ (1,137)**	**¥ (51)**	**¥(2,358)**

	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 at Cost
BALANCE, MARCH 31, 2002	$140,083	$72,042	$197,183	$(16,842)	$2,408	$(16,083)
Net income	—	—	45,600	—	—	—
Cash dividends, $0.35 per share	—	—	(13,192)	—	—	—
Bonuses to directors and corporate auditors	—	—	(750)	—	—	—
Decrease due to newly consolidated subsidiary	—	—	(483)	—	—	—
Conversion of convertible bonds	42	42	—	—	—	—
Retirement of treasury stock	—	—	(24,692)	—	—	—
Net increase in treasury stock (133 thousand shares)	—	—	—	—		(3,567)
Effect of tax rate reduction	—	—	—	(316)	(0)	—
Reversal of land revaluation difference	—	—	(7,683)	7,683	—	—
Net change in unrealized loss on available-for-sale securities	—	—	—	—	1,983	—
BALANCE, MARCH 31, 2003	**$140,125**	**$72,084**	**$195,983**	**$(9,475)**	**$(425)**	**$(19,650)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥9,882**	¥9,620	**$82,350**
Adjustments for:			
Income taxes—paid	**(3,578)**	(7,197)	**(29,817)**
Depreciation and amortization	**1,050**	1,155	**8,750**
Loss on sales of marketable and investment securities—net	**484**	469	**4,033**
Loss on sales and disposals of fixed assets—net	**710**	188	**5,917**
Write-down of investment securities	**228**	36	**1,900**
Write-down of fixed assets	**1,262**	—	**10,517**
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	**(201)**	1,074	**(1,675)**
Increase in accrued expenses	**538**	0	**4,483**
Increase (decrease) in consumption taxes payable	**114**	(235)	**950**
(Decrease) increase in liability for retirement benefits	**(2,530)**	900	**(21,083)**
Increase in allowance for loss on sales of real estate	**—**	20	**—**
Decrease in allowance for pending litigation	**—**	(170)	**—**
Other—net	**(200)**	(203)	**(1,667)**
Total adjustments	**(2,123)**	(3,963)	**(17,692)**
Net cash provided by operating activities	**7,759**	5,657	**64,658**
INVESTING ACTIVITIES:			
Purchase of short-term investments	**(4,590)**	(5,478)	**(38,250)**
Proceeds from sales of short-term investments	**5,636**	3,558	**46,967**
Acquisition of investment securities	**(161)**	(741)	**(1,341)**
Proceeds from sales of investment securities	**685**	426	**5,708**
Acquisition of property and equipment	**(152)**	(104)	**(1,267)**
Proceeds from sales of property and equipment	**277**	504	**2,308**
Acquisition of subsidiary stock	**—**	(86)	**—**
Acquisition of other investments and assets	**(715)**	(643)	**(5,958)**
Proceeds from sales of other investment and assets	**414**	268	**3,450**
Net cash used in investing activities	**1,394**	(2,296)	**11,617**
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	**(798)**	(112)	**(6,650)**
Repayments of long-term debt	**(79)**	(247)	**(659)**
Acquisition of treasury stock	**(3,391)**	(574)	**(28,258)**
Dividends paid	**(1,584)**	(1,522)	**(13,200)**
Acquisition of treasury stock for retirement	**—**	(8,000)	**—**
Other—net	**(9)**	12	**(75)**
Net cash used in financing activities	**(5,861)**	(10,443)	**(48,842)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**—**	(18)	**—**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,292**	(7,100)	**27,433**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR	**11**	—	**92**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**14,980**	22,080	**124,833**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥18,283**	¥14,980	**$152,358**
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Conversion of convertible bonds into common stock	**¥10**	—	**$84**

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. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in 2002 financial statements to conform to the classifications used in 2003.

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 ¥120 to $1, the approximate rate of exchange at March 31, 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 consolidated financial statements at March 31, 2003 include the accounts of the Company and its six (four 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 operations are to be fully consolidated. One subsidiary accounted for by the cost method in 2002 is consolidated for the year ended March 31, 2003. The consolidated financial statements for the year ended March 31, 2002 are not retroactively adjusted. The change of retained earnings arising from the additional subsidiary is recognized as “decrease due to newly consolidated subsidiary” in the consolidated statements of shareholders’ equity for the year ended March 31, 2003.

All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Cash Equivalents

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

(c) Inventories

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

(d) Marketable and Investment Securities

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 as a separate component of shareholders’ equity. The cost of securities sold is determined based on the moving-average method.

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 sales of certain assets are determined, the Company evaluates the recoverability of the assets to be sold 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 write-down of fixed assets in the amount of ¥1,262 million ($10,517 thousand).

(f) 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 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 March 31, 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 March 31, 2003, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥899 million ($7,492 thousand).

(g) Other Assets

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

(h) Accrued expenses

During the year ended March 31, 2002, the Group charged social security expenses on bonuses to consolidated income when paid. At March 31, 2003 the Group started to accrue social security expenses on accrued bonuses due to increased social security rates on bonuses effective April 1, 2003 and increased materiality of those expenses. The effect of this change on the consolidated statement of income for the year ended March 31, 2003 is to decrease income before income taxes and minority interests by ¥606 million ($5,050 thousand).

(i) Retirement and Pension Plans

The Company and consolidated 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.

Prior to July 1, 2001, retirement benefits for directors and corporate auditors were recorded to state the liability at the amount that would be paid if all directors and corporate auditors retired at each balance sheet date.

Effective July 1, 2001, based on the amendment of the Articles of Incorporation, the Group ceased recognition of the retirement benefits for directors and corporate auditors. As a result, a reversal of the liability for retirement benefits for directors and corporate auditors of ¥102 million was recognized as other income in the consolidated statement of income for the year ended March 31, 2002.

(j) Leases

Certain leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed 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.

(k) Allowance for Pending Litigation

Prior to June 5, 2002, an allowance for pending litigation was provided based on the details of the juridical decisions or other aspects of the claim. The former director of the Company had filed a claim against the Company for payment of remuneration. On June 5, 2002, the Company agreed with the former director on an out-of-court settlement to pay ¥320 million. As a result, allowance for pending litigation of ¥293 million at March 31, 2002 was reversed and the remaining ¥27 million ($225 thousand) was recognized as other expense in the consolidated statement of income for the year ended March 31, 2003.

(l) Allowance for Loss on Sales of Real Estate

An allowance was provided to cover losses that the Group expects to incur on future sales of real estate. The amount of the allowance for loss on sales of real estate included in other current liabilities was ¥20 million at March 31, 2002.

(m) 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.

(n) Appropriations of Retained Earnings

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

(o) 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 statement of income to the extent that they are not hedged by forward exchange contracts.

(p) Per Share Information

Effective April 1, 2002, the Group adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, 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 and options 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. Basic net income and diluted net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard.

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

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Short-term investments:			
Time deposits	**¥1,011**	¥3,079	**$8,425**
Debt securities	**480**	145	**4,000**
Other	**1,214**	302	**10,117**
Total	**¥2,705**	¥3,526	**$22,542**
Investment securities:			
Equity securities	**¥676**	¥790	**$5,634**
Debt securities	**303**	696	**2,525**
Other	**154**	672	**1,283**
Total	**¥1,133**	¥2,158	**$9,442**

Information regarding each category of the securities with fair market values classified as available-for-sale and held-to-maturity at March 31, 2003 and 2002 is as follows:

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**

March 31, 2002	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥655	¥29	¥(96)	¥588
Debt securities	615	—	(21)	594
Other	1,401	1	(428)	974
Held-to-maturity:				
Debt securities	247	0	(2)	245

March 31, 2003	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$4,116**	**$ 67**	**$(483)**	**$3,700**
Debt securities	**1,684**	**0**	**(0)**	**1,684**
Other	**11,700**	**125**	**(425)**	**11,400**
Held-to-maturity:				
Debt securities	**1,675**	**—**	**(8)**	**1,667**

Available-for-sale securities whose fair value is not readily determinable at March 31, 2003 and 2002 were as follows:

Carrying amount	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Equity securities	**¥232**	¥202	**$1,933**
Debt securities	**380**	—	**3,167**
Total	**¥612**	¥202	**$5,100**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥2,231 million ($18,592 thousand) and ¥873 million, respectively. Gross realized gains and losses on these sales, were ¥3 million ($25 thousand) and ¥487 million ($4,058 thousand), respectively for the year ended March 31, 2003 and ¥19 million and ¥470 million, respectively for the year ended March 31, 2002.

Contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2003 and 2002 were as follows:

	Millions of Yen			
	2003		2002	
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due in one year or less	**¥99**	**¥581**	¥402	¥45
Due after one year through five years	**1,116**	**—**	789	202
Due after five years through ten years	**201**	**—**	32	—
Due after ten years	**—**	**—**	345	—
Total	**¥1,416**	**¥581**	¥1,568	¥247

March 31, 2003	Thousands of U.S. Dollars	
	Available-for-Sale	Held-to-Maturity
Due in one year or less	**$825**	**$4,842**
Due after one year through five years	**9,300**	**—**
Due after five years through ten years	**1,675**	**—**
Total	**$11,800**	**$4,842**

4. INVENTORIES

Inventories at March 31, 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 March 31, 2002 consisted mainly of loan agreements with banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.39% to 0.50% at March 31, 2002.

At March 31, 2003, the Company had loan commitments from 7 banks and 2 insurance companies in an aggregate amount of ¥6,000 million ($50,000 thousand). There were no loans outstanding under these arrangements at March 31, 2003.

Long-term debt at March 31, 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 fiscal year ending March 31, 2004	**¥24**	¥33	**$ 200**
Loans from banks and other financial institutions, due serially to fiscal year ended March 31, 2003 with interest rates ranging from 1.66% to 1.68% (2002)	**—**	46	**—**
Total	**24**	79	**200**
Less current portion	**(24)**	(46)	**(200)**
Long-term debt, less current portion	**¥—**	¥33	**$—**

During the year ended March 31, 2003, the unsecured 3.2% yen bonds were converted into 6,454 shares of the Company's common stock.

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

	3.2% Yen Convertible Bonds
Issued on	March 15, 1995
Initial principal	¥8,000 million
Maturity	March 31, 2004
Term of conversion	From April 3, 1995 to March 30, 2004
Conversion price (per share*) at March 31, 2003	¥1,394
Balance of debt at March 31, 2003	¥24 million
Accumulated number of shares issued upon conversion through March 31, 2003	5,721,550 shares
Number of additional shares that would be issued upon conversion at March 31, 2003	17,216 shares

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

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

Annual maturities of long-term debt at March 31, 2003, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	**¥24**	**$200**
Total	**¥24**	**$200**

6. RETIREMENT AND PENSION PLANS

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.

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Projected benefit obligation	**¥9,309**	¥18,797	**$77,575**
Fair value of plan assets	**(3,567)**	(8,551)	**(29,725)**
Unrecognized actuarial loss	**(2,377)**	(4,334)	**(19,808)**
Unrecognized prior service cost	**30**	—	**250**
Net liability	**3,395**	5,912	**18,292**
Prepaid pension cost	**542**	—	**4,516**
Liability for retirement benefits	**¥3,937**	¥5,912	**$32,808**

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 by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on January 1, 2003. As a result of this exemption, the Company recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥3,409 million ($28,408 thousand) in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003. Estimated plan assets to be returned to the government at March 31, 2003 were ¥4,971 million ($41,425 thousand).

The components of net periodic retirement benefit costs for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Service cost	**¥ 1,311**	¥1,431	**$ 10,925**
Interest cost	**359**	435	**2,992**
Expected return on plan assets	**(293)**	(392)	**(2,442)**
Recognized actuarial loss	**534**	504	**4,450**
Amortization of prior service cost	**(180)**	—	**(1,500)**
Net periodic retirement benefit costs	**1,731**	1,978	**14,425**
Gain on exemption from future pension obligation of the governmental program	**(3,409)**	—	**(28,408)**
Total	**¥(1,678)**	¥1,978	**$(13,983)**

Assumptions used for the years ended March 31, 2003 and 2002 were set forth as follows:

	2003	2002
Discount rate	**2.0%**	2.5%
Expected rate of return on plan assets	**4.0%**	5.0%
Amortization period of prior service cost	**10 years**	—
Recognition period of actuarial gain/loss	**10 years**	10 years

Prior to July 1, 2001, retirement benefits for directors and corporate auditors were paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the “Code”). The Group recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. Effective July 1, 2001, based on the amendment of the Articles of Incorporation, the Group ceased recognition of the retirement benefits for directors and corporate auditors. As a result, the liability for retirement benefits for directors and corporate auditors was reversed for the year ended March 31, 2002. (See Note 2(i)).

7. SHAREHOLDERS’ EQUITY

Japanese companies are subject to the Code to which certain amendments became effective from 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 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.

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 ($4,167 thousand). Under these terms, retained earnings allowed to be distributed as dividends at March 31, 2003, would be ¥29,844 million ($248,700 thousand). The amount of retained earnings available for dividends under the Code was ¥13,312 million ($110,933 thousand) as of March 31, 2003, based on the amount recorded in the 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, 2002, the Company purchased 2,116 thousand shares of its common stock for ¥8,000 million for the retirement of such capital stock, subsequent to resolution by the Board of Directors. The Company retired this treasury stock by decreasing additional paid-in capital by ¥8,000 million and the number of shares authorized and issued by 2,116 thousand shares.

During the year ended March 31, 2003, the Company retired its treasury stock by decreasing retained earnings by ¥2,963 million ($24,692 thousand) and the number of shares authorized and issued by 932 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 PLANS

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

The stock options outstanding at March 31, 2003 were less than the above granted numbers due to forfeiture of rights.

The balance of treasury stock recorded in the shareholders' equity section at March 31, 2003 includes treasury stock purchased for the purpose of granting stock options.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2003 and 2002.

On March 31, 2003, a local tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 42% to 40%, effective for the years beginning April 1, 2004. The effect of this change was to increase income taxes deferred in the consolidated statements of income for the year ended March 31, 2003 by ¥69 million ($575 thousand) and to debit land revaluation difference by ¥38 million ($316 thousand).

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Deferred tax assets:			
Accrued bonuses	**¥1,609**	¥1,253	**$13,408**
Accrued social security on accrued bonuses	**254**	—	**2,117**
Retirement benefits	**1,347**	2,143	**11,225**
Enterprise taxes payable	**135**	126	**1,125**
Write-down of fixed assets	**530**	—	**4,416**
Write-down of investment securities	**92**	—	**767**
Loss on revaluation of memberships	**57**	58	**475**
Allowance for pending litigation	**—**	123	**—**
Other	**132**	414	**1,100**
Unrealized loss on available-for-sale securities	**41**	217	**342**
Total	**¥4,197**	¥4,334	**$34,975**

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥4**	¥6	**$33**
Prepaid pension cost	**217**	—	**1,808**
Deferred gain on sales of property and equipment	**5**	5	**42**
Total	**¥226**	¥11	**$1,883**
Net deferred tax assets	**¥3,971**	¥4,323	**$33,092**

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, 2003 and 2002 is as follows:

	2003	2002
Normal effective statutory tax rate	**42.0%**	42.0%
Expenses not deductible for income tax purposes	**0.3**	0.2
Revenues not recognized for income tax purposes	**(0.4)**	(0.0)
Per capita tax	**1.3**	1.3
Effect of tax rate reduction	**0.7**	—
Other - net	**0.7**	1.4
Actual effective tax rate	**44.6%**	44.9%

10. LEASES

The Group leases certain furniture and fixtures and other assets.

Total rental expenses for the years ended March 31, 2003 and 2002 were ¥7 million ($58 thousand) and ¥20 million, respectively.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis at March 31, 2003 and 2002 is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			**2003**		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	**¥32**	**¥4**	**¥36**	¥80	¥13	¥93	**$267**	**$33**	**$300**
Accumulated depreciation	**26**	**1**	**27**	67	11	78	**217**	**8**	**225**
Net leased property	**¥6**	**¥3**	**¥9**	¥13	¥2	¥15	**$50**	**$25**	**$75**

Obligations under finance leases at March 31, 2003 and 2002 were:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due within one year	**¥5**	¥9	**$42**
Due after one year	**4**	6	**33**
Total	**¥9**	¥15	**$75**

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

Depreciation expense, which was not reflected in the accompanying consolidated statements of income computed by the straight-line method, was ¥7 million ($58 thousand) and ¥20 million for the years ended March 31, 2003 and 2002, respectively.

11. RECONCILIATION OF THE DIFFERENCES BETWEEN BASIC AND DILUTED NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2003 and 2002 is as follows:

	Millions of Yen	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2003:				
Basic EPS				
Net income available to common shareholders	**¥5,380**	**37,064**	**¥145.15**	**$1.21**
Effect of Dilutive Securities				
Stock option	**—**	**35**		
Convertible bonds	**0**	**24**		
Diluted EPS				
Net income for computation	**¥5,380**	**37,123**	**¥144.93**	**$1.21**

For the year ended March 31, 2002:			
Basic EPS			
Net income available to common shareholders	¥5,218	38,518	¥135.48
Effect of Dilutive Securities			
Convertible bonds	1	24	
Diluted EPS			
Net income for computation	¥5,219	38,542	¥135.41

12. SUBSEQUENT EVENTS

The following matters were approved at the Company's shareholders meeting held on June 24, 2003:

(a) Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥28.5 ($0.24) per share	**¥1,040**	**$8,667**
Bonuses to directors and corporate auditors	**83**	**692**

(b) Stock Option Plan

This plan provides for issuing stock warrants to directors and key employees of the Company and its subsidiaries. The warrants entitle the holders to purchase up to 133,000 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, 2005 to June 24, 2013.

(c) Purchase of Treasury Stock

The Company is authorized to repurchase up to 4,800 thousand shares of the Company's common stock (aggregate amount of ¥7,532 million) for the purpose of preparation for the Company's stock option plan and retirement of shares until the next shareholders meeting.

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 consolidated subsidiaries as of March 31, 2003 and 2002, 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, procedures and practices generally accepted and applied 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 consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

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, 2003

SUPPLEMENTAL NON-CONSOLIDATED BALANCE SHEETS

MARCH 31, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	**2003**	2002	**2003**
CURRENT ASSETS:			
Cash and cash equivalents	**¥17,743**	¥14,546	**$147,858**
Short-term investments	**2,694**	3,447	**22,450**
Notes and accounts receivable:			
Trade notes and accounts	**9,285**	9,205	**77,375**
Subsidiaries	**40**	14	**333**
Allowance for doubtful accounts	**(2)**	(19)	**(16)**
Inventories	**74**	152	**617**
Deferred tax assets	**1,732**	1,259	**14,433**
Prepaid expenses and other	**585**	746	**4,875**
Total current assets	**32,151**	29,350	**267,925**
PROPERTY AND EQUIPMENT:			
Land	**4,184**	4,759	**34,867**
Buildings and structures	**21,141**	21,584	**176,175**
Machinery and equipment	**185**	185	**1,542**
Furniture and fixtures	**4,784**	6,027	**39,866**
Total	**30,294**	32,555	**252,450**
Accumulated depreciation	**(11,800)**	(11,190)	**(98,333)**
Net property and equipment	**18,494**	21,365	**154,117**
INVESTMENTS AND OTHER ASSETS:			
Investment securities	**1,131**	2,155	**9,425**
Investments in subsidiaries	**966**	766	**8,050**
Prepaid pension cost	**542**	—	**4,516**
Leasehold deposits	**784**	764	**6,533**
Deferred tax assets	**1,809**	2,790	**15,075**
Deferred tax asset for land revaluation	**758**	1,464	**6,317**
Other	**1,662**	1,789	**13,850**
Total investments and other assets	**7,652**	9,728	**63,766**
TOTAL	**¥58,297**	¥60,443	**$485,808**

Note: The translation of Japanese yen amounts into U.S. dollar amounts have been made at the rate of ¥120 to $1, the approximate rate of exchange at March 31, 2003.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	2002	Thousands of U.S. Dollars 2003
CURRENT LIABILITIES:			
Short-term bank loans	—	¥798	—
Current portion of long-term debt	¥24	—	$200
Notes and accounts payable:			
Subsidiaries	52	36	433
Income taxes payable	1,035	1,448	8,625
Deposits from subsidiaries	3,083	2,076	25,692
Accrued expenses	5,789	5,384	48,242
Other	1,321	1,480	11,008
Total current liabilities	11,304	11,222	94,200
LONG-TERM LIABILITIES:			
Long-term debt	—	33	—
Liability for retirement benefits	3,680	5,707	30,667
Other	334	673	2,783
Total long-term liabilities	4,014	6,413	33,450
SHAREHOLDERS' EQUITY:			
Common stock,			
Authorized:			
146,952 thousand shares in 2003			
147,884 thousand shares in 2002			
Issued:			
37,123 thousand shares in 2003			
38,049 thousand shares in 2002	16,815	16,810	140,125
Capital surplus			
Additional paid-in capital	8,650	8,645	72,084
Retained earnings:			
Legal reserve	4,203	4,203	35,025
Unappropriated	16,856	17,390	140,466
Land revaluation difference	(1,137)	(2,021)	(9,475)
Unrealized loss on available-for-sale securities	(50)	(289)	(417)
Treasury stock—at cost			
624 thousand shares in 2003 and 491 thousand shares in 2002	(2,358)	(1,930)	(19,650)
Total shareholders' equity	42,979	42,808	358,158
TOTAL	¥58,297	¥60,443	$485,808

SUPPLEMENTAL NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
NET SALES	**¥55,379**	¥55,638	**$461,492**
COST OF SALES	**40,332**	39,176	**336,100**
Gross profit	**15,047**	16,462	**125,392**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**7,020**	7,151	**58,500**
Operating income	**8,027**	9,311	**66,892**
OTHER INCOME (EXPENSES):			
Interest and dividends	**219**	114	**1,825**
Interest expense	**(6)**	(11)	**(50)**
Loss on sales of marketable and investment securities—net	**(487)**	(469)	**(4,058)**
Loss on sales and disposals of fixed assets—net	**(706)**	(183)	**(5,883)**
Write-down of investment securities	**(228)**	(33)	**(1,900)**
Write-down of fixed assets	**(1,262)**	—	**(10,517)**
Gain on exemption from future pension obligation of the governmental program	**3,409**	—	**28,408**
Reversal of liability for retirement benefits for directors and corporate auditors	**—**	93	**—**
Other—net	**(10)**	(84)	**(83)**
Other income (expenses)—net	**929**	(573)	**7,742**
INCOME BEFORE INCOME TAXES	**8,956**	8,738	**74,634**
INCOME TAXES			
Current	**2,936**	4,201	**24,467**
Deferred	**1,002**	(285)	**8,350**
Total income taxes	**3,938**	3,916	**32,817**
NET INCOME	**¥5,018**	¥4,822	**$41,817**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Basic net income	**¥133.16**	¥123.05	**$1.11**
Diluted net income	**132.96**	122.99	**1.11**
Cash dividends applicable to the year	**47.50**	42.50	**0.40**

Notes: 1. The translation of Japanese yen amounts into U.S. dollar amounts have been made at the rate of ¥120 to $1, the approximate rate of exchange at March 31, 2003.

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 37,064 thousand shares for 2003 and 38,518 thousand shares for 2002.

CORPORATE DATA

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: 146,951,600 shares Issued: 37,123,327 shares
Shareholders	5,986
Employees (consolidated)	7,115
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.

(March 31, 2003)

Executive Officers, Directors and Auditors

CEO & COO	Kosuke Nishimoto
Executive Officers	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	Kosuke Nishimoto
Directors	Yoshinori Takamine Toyoki Terao Kanji Fukuda Hideyo Kokubun Toshihiko Murayama Toshio Saikusa Atsuhiko Umeda[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, 2003)

WEB SITE INFORMATION

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

MAIN CONTENTS

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

Meitec now offers a new 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/

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