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■ New businesses expected to broaden the company's profit base

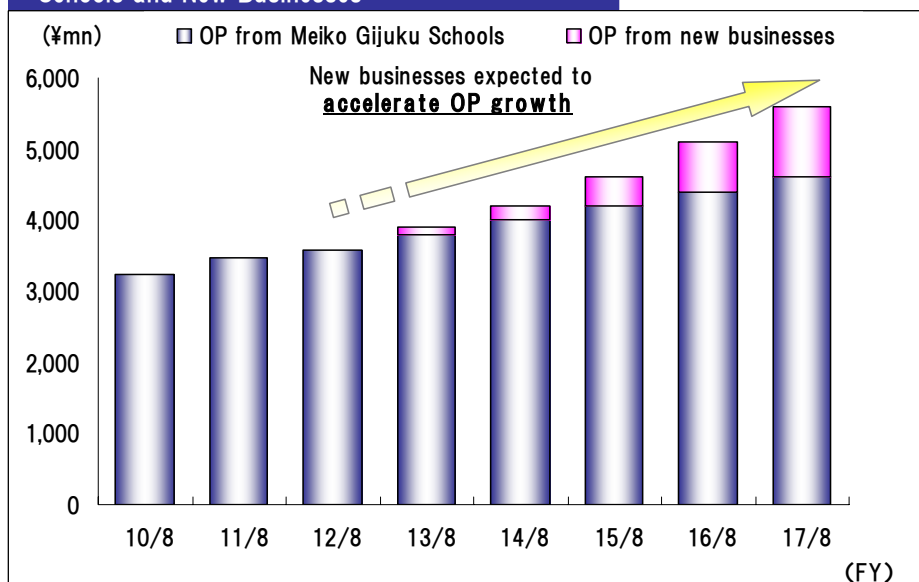
On April 12, 2012, Meiko Network Japan announced its results for September 2011 – February 2012, the first half of the fiscal year ending in August 2012 (H1 FY8/12). Sales grew by 1.8% year-on-year (YOY) to ¥7,186 million, but recurring profit declined by 4.3% YOY to ¥2,002 million. The profit decline reflected an increase in costs stemming from the relocation and renewal of classrooms to improve the learning environment of the company's students and difficulty for directly operated Meiko Gijuku schools in recruiting students for the winter semester. However, the company continued to increase the number of its classrooms by 90-100 per year, and the number of its students continued to rise. This was the first YOY decline in profit ever experienced by the company on a half-year basis, prompting management to rationalize operations to increase the number of students and sales per student from H2 FY8/12 and thereby to regain sales and profit growth eventually.

In H2 FY8/12, Meiko Network Japan plans to start franchise chains of its new Waseda Academy Kobetsu (Tutorial) Schools and Meiko Soccer Schools. It will also prepare to start franchise chains of two other new businesses, Meiko Kids and Mirai Kids Club (Future Kids Club). Management expects these new businesses to accelerate the company's growth and broaden its profit base.

■ Points

- Company to continue to open 100 new classrooms per year, its main growth measure
- Solid balance sheet allows the company great discretion in use of funds
- Further growth to be achieved by establishing more educational franchise chains

Projected OP Growth from Meiko Gijuku Schools and New Businesses



■ Summary of H1 FY8/12 Results

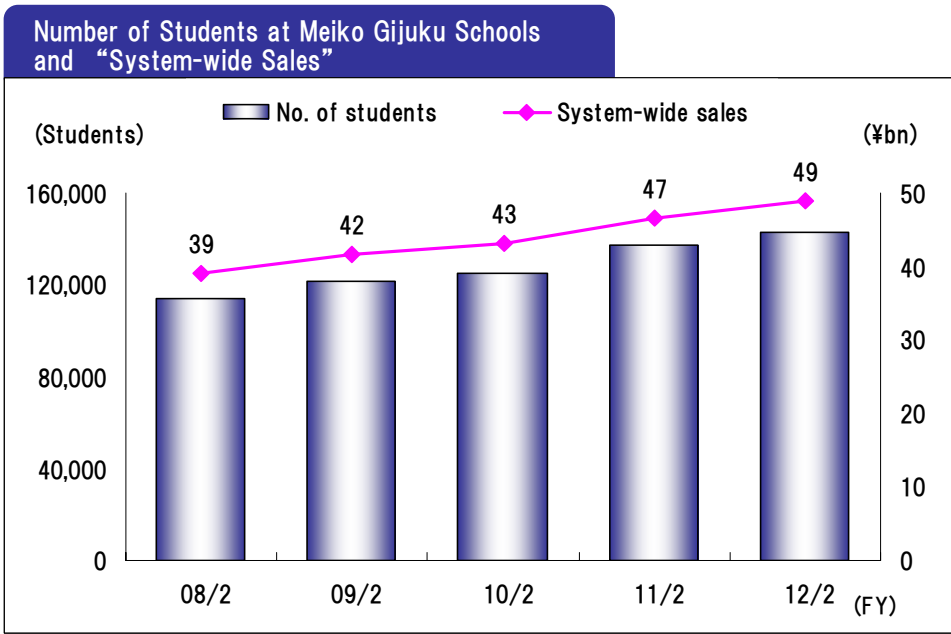
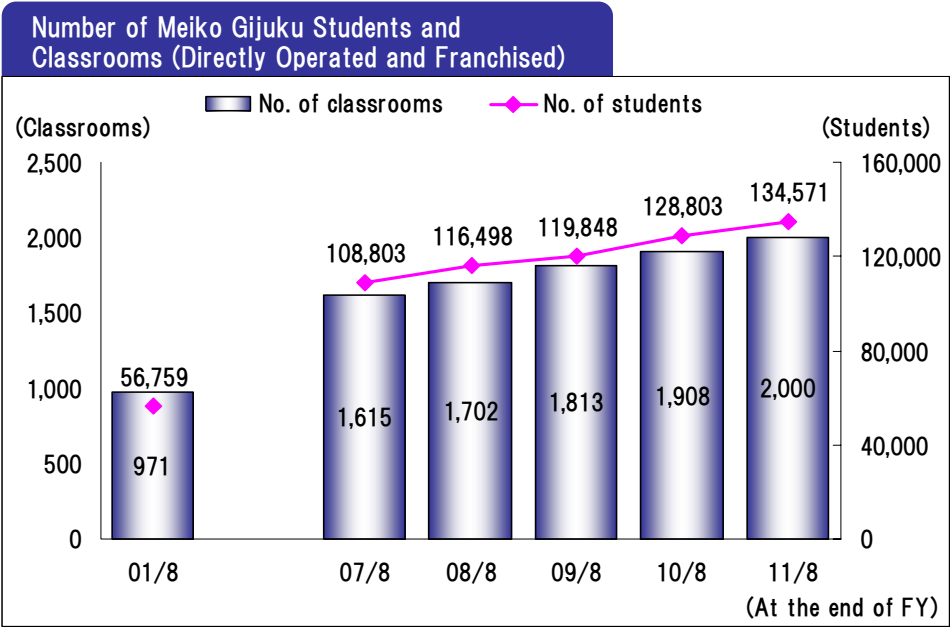
Company to continue to open 100 new classrooms per year, it main growth measure

On April 12, 2012, Meiko Network Japan announced its results in the first half of the fiscal year ending at the end of August 2012, i.e. in H1 FY8/12. Sales grew by 1.8% year-on-year (YOY) to ¥7,186 million, but operating profit fell 4.3% YOY, to ¥1,918 million, recurring profit declined by 4.3% YOY to ¥2,002 million, and net profit dropped 2.8% YOY to ¥1,122 million. These were the first YOY profit declines ever sustained by the company on a half-year basis. Compared to the company's original forecasts for H1 FYH8/12, sales were ¥179 million smaller, operating profit was ¥174 million smaller, recurring profit was ¥91 million short, and net profit was ¥55 million short.

Sales fell short of the initial forecast for two main temporary reasons: 1) in the directly operated Meiko Gijuku schools, sales per student decreased YOY, and 2) in the franchised Meiko Gijuku schools, royalty fees received per classroom declined YOY. Profits fell short of the initial forecasts for two main, temporary reasons: 1) sales were smaller than projected, and 2) to improve the learning environment for students, the company relocated and renovated its classrooms, causing rental costs to rise by ¥20 million YOY, personnel costs to rise by ¥125 million YOY, and advertising and sales promotion costs to rise by ¥59 million YOY.

Management considers the classroom number to be a major measure of company growth. At the end of February 2012, the company or its franchisees operated 2,050 classrooms, which was about 100 more than it operated a year earlier, a growth rate it has been maintaining for some time. The number of students at company schools also continued to rise, by 3.8% YOY to 142,502 at the end of February 2012. The company intends to increase the number of its franchised schools by 90-100 per year to steadily expand its Meiko Gijuku school business over the medium term.

Summary of H1 FY8/12
Results



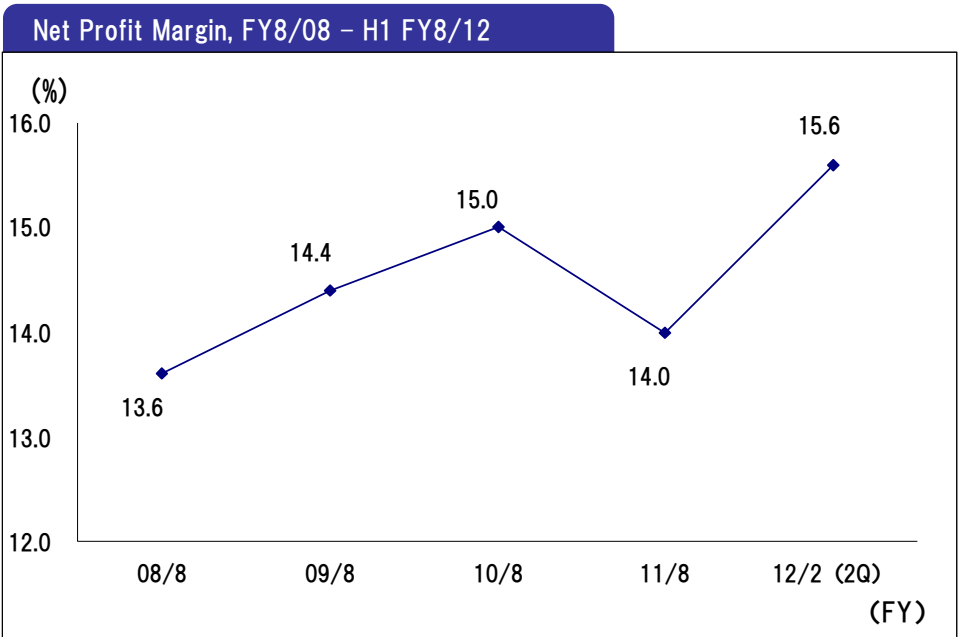
Note: “System-wide sales” include entrance fees, tuition, and costs of materials and tests at directly operated schools plus entrance fees and tuition at franchised schools, but exclude costs of materials and tests at franchised schools. The excluded costs amount to about ¥3bn per year.



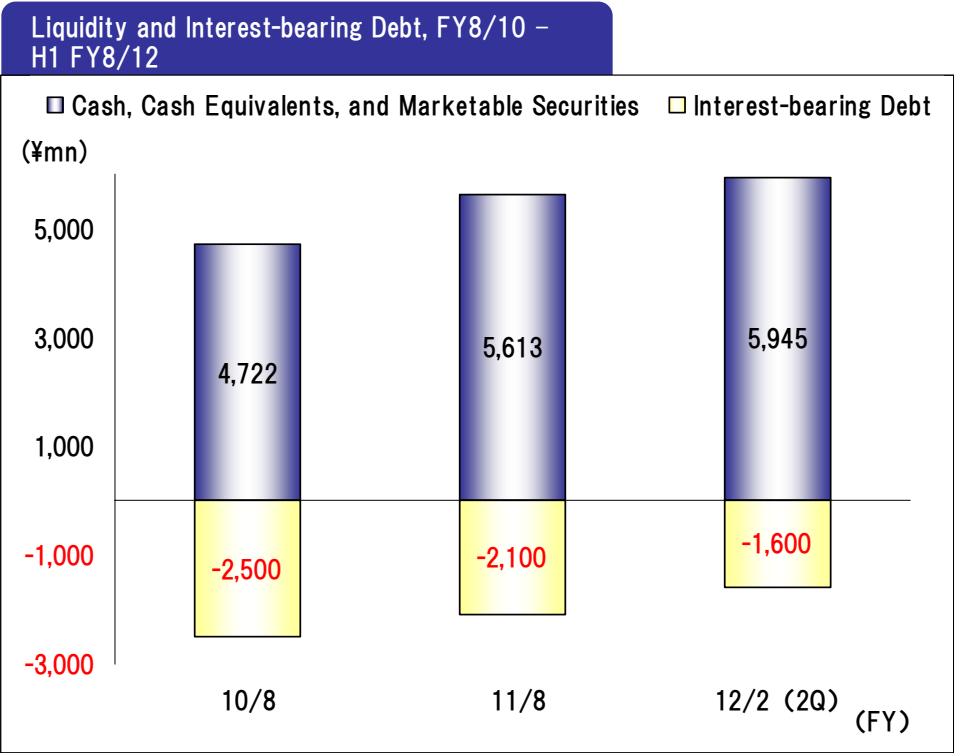
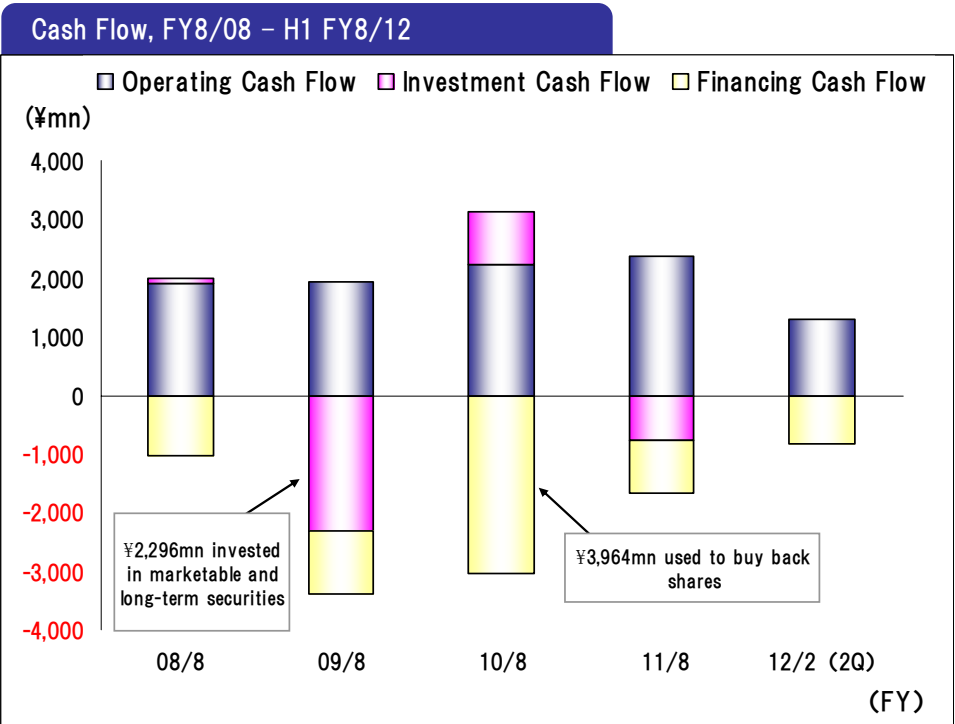
■Financial Condition

Solid balance sheet allows the company great discretion in use of funds

Mieko Network Japan maintains a strong balance sheet because its business model of developing franchise chains requires little capital investment and provides a steady flow of cash. Over the past few years, the company has maintained a net profit margin of 14-15% and an operating cash flow of about ¥ 2 billion per year, while its investment cash flow has been limited mainly to dividend payments and share buybacks. Thus, its cash, cash equivalents and marketable securities have grown steadily. At the same time, its interest-bearing debt has declined steadily. Thus, its current ratio exceeded 300% at the end of H1 FY8/12. The company can freely decide how to use its ample cash. It may acquire other companies or increase its dividend payments or buy back shares.



Financial Condition



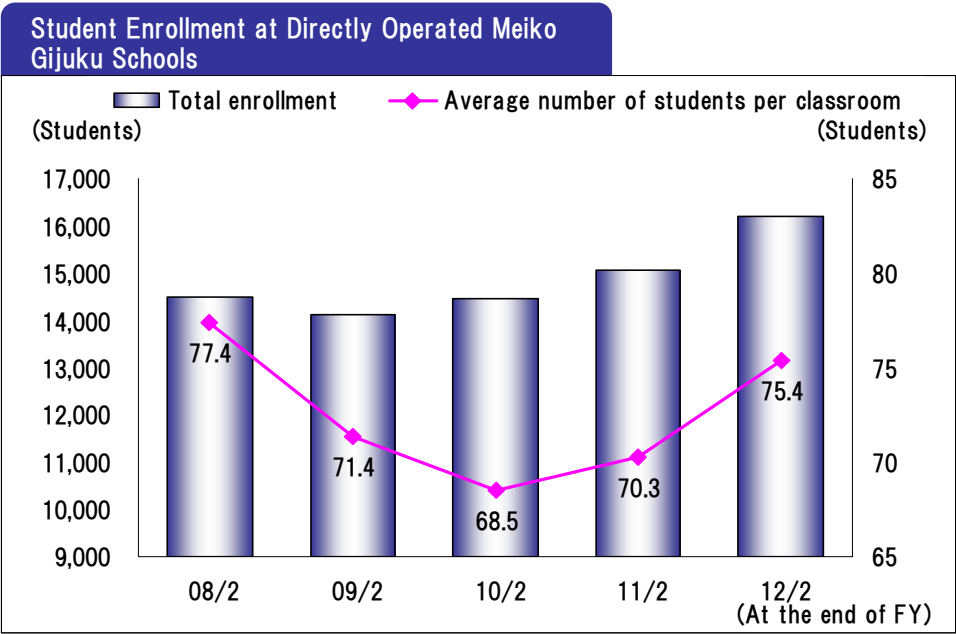
■ Business performance by division

An increase in the number of students supported sales growth

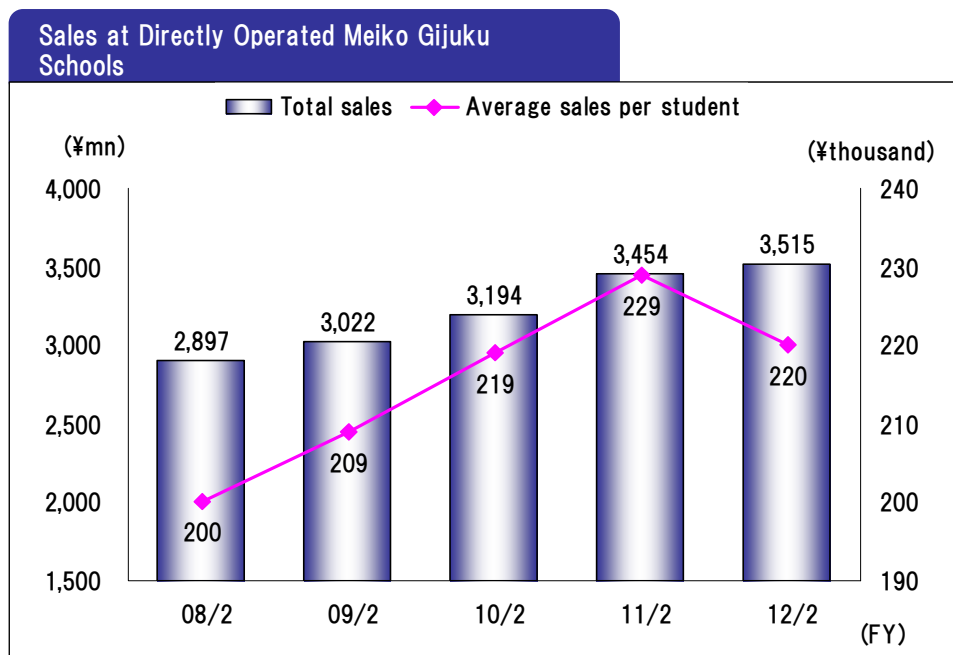
(1) Directly operated Meiko Gijuku schools

In the business of directly operating Meiko Gijuku schools, sales increased by 1.8% YOY to ¥3,515 million, but operating profit declined by 14.6% YOY to ¥794 million. The number of students enrolled in directly operated Meiko Gijuku schools increased YOY notably, as shown in the graph below, but sales per student declined YOY. Furthermore, costs increased as the division relocated, renovated, and better equipped classrooms in order to improve the learning environment. The combination of the decline in sales per student and the increase in costs led to a deterioration of profitability. However, these cost increases should support an increase in student numbers in the future.

Sales per student declined because the directly operated Meiko Gijuku schools started recruiting students for their winter semester programs later than usual. Hereafter, management plans to allow sufficient time for recruiting.



■ Business performance
by division



Sales growth was modest because the average royalty fee earned per classroom declined

(2)Meiko Gijuku school franchises

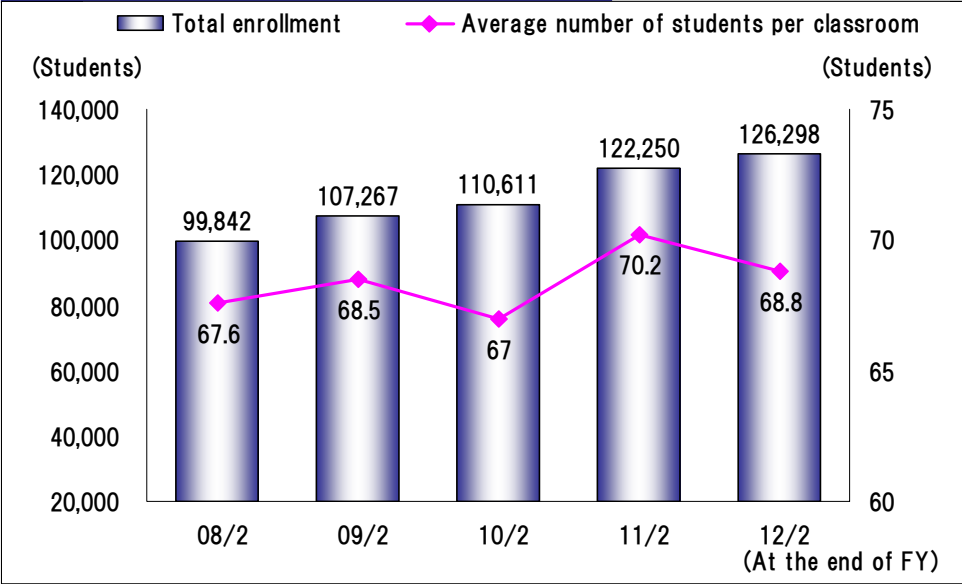
In the business of franchised Meiko Gijuku schools, sales grew by 1.2% YOY to ¥3,281 million, and operating profit increased by 3.0% YOY to ¥1,745 million. The number of classrooms in franchised Meiko Gijuku schools rose by 5.3% YOY to 1,835, and the number of students at these schools increased by 3.3% YOY to 126,298 students. However, the average number of students per classroom declined slightly YOY, causing a slight YOY drop in royalty payments per classroom. Thus, overall sales grew only modestly and were ¥23 million below the company's original target.

The average number of students per classroom declined slightly YOY for two reasons: 1) the Great East Japan Earthquake and accompanying tsunami of March 11, 2011 prevented effective recruiting in spring 2011 in the areas affected, and 2) the company introduced a new management information system and franchise owners had to spend time learning to operate the new system, so they had less time to recruit students.

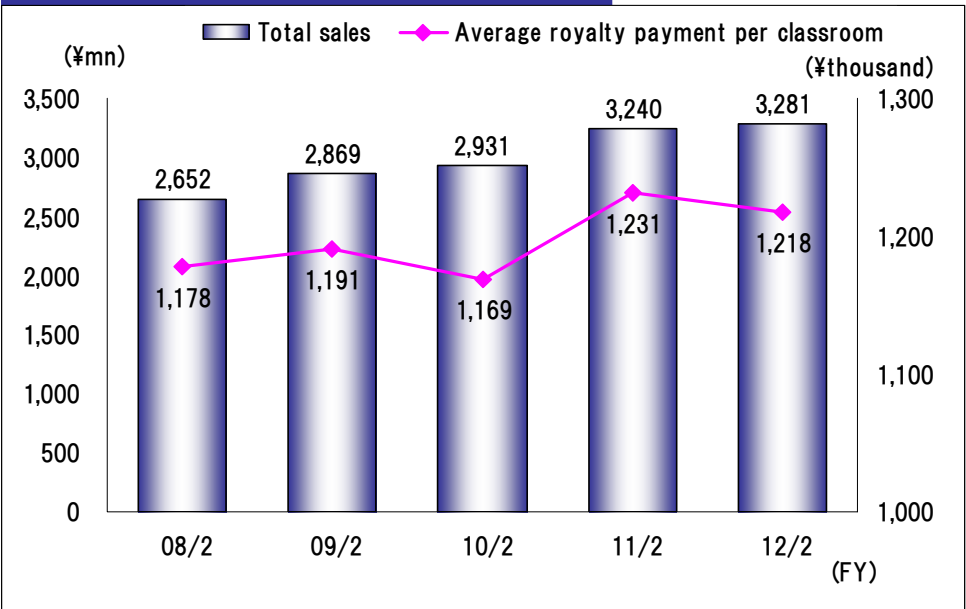
Another factor contributing to weak sales and the decline in the average royalty payment per classroom was a delay in sales of educational materials from February, the final month of H1 FY8/12, to March, the first month of H2 FY8/12.

■ Business performance
by division

Student Enrollment at Franchised Meiko Gijuku
Schools



Sales at Franchised Meiko Gijuku Schools



The company plans to start franchise chains of two new businesses, Meiko Soccer Schools and Waseda Academy Kobetsu Schools, in H2 FY8/12

(3)Supplemental education

This division operates the Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute), which prepares students for entry into medical school. Because of the impact of the Great East Japan Earthquake and tsunami, the number of students enrolled at this residential institute from rural areas of Japan declined to 122 at the end of February 2012, from 126 a year earlier. This decline in enrollment contributed to a 12.4% YOY fall in division sales to ¥272 million and an operating loss of ¥5 million, reversing an operating profit of ¥2 million in H1 FY8/11.

(4)Other businesses

Other businesses are new businesses, such as Meiko Soccer Schools, the Waseda Academy Kobetsu Schools, Meiko Kids, and Mirai Kids Club (Future Kids Club). Meiko Network Japan first operates these new businesses directly to develop a viable business model, then launches the businesses as franchise chains. In H1 FY8/12, these businesses provided sales of ¥116 million (up 135.6% YOY) and suffered an operating loss of ¥58 million, smaller than the ¥80 million operating loss suffered in H1 FY8/11. The company plans to start franchising its Meiko Soccer Schools and Waseda Academy Kobetsu Schools in H2 FY8/12.

■ Company Forecasts for FY8/12

New businesses should contribute enough profit in H2 FY8/12 for the company to achieve its original profit forecasts for FY8/12

For FY8/12, the company maintained its original forecasts: sales of ¥14,823 million (up 8.1% YOY), operating profit of ¥3,576 million (up 6.3% YOY), recurring profit of ¥3,576 million (up 2.9% YOY), and net profit of ¥2,030 million (up 5.6% YOY). These forecasts appear challenging, given that the company undershot its forecasts for H1 FY8/12. However, the company is recruiting new students aggressively this spring, and it expects sales and profit contributions from new businesses in H2 FY8/12. Furthermore, management is motivated by the unprecedented profit declines in H1 FY8/12 to rationalize operations and improve profitability, aiming to restore profit growth as soon as possible.

■ Trends in New Businesses

Meiko Soccer School franchise chain to start soon

Meiko Network Japan develops new businesses to supplement the sales and profits of its main business, Meiko Gijuku schools. In H2 FY8/12, Meiko Network Japan plans to start franchise chains of its new Waseda Academy Kobetsu School (tutorial school) and Meiko Soccer School. It will also prepare to start franchise chains of two other new businesses, Meiko Kids and Mirai Kids Club (Future Kids Club).

(1)Meiko Soccer School

Meiko Soccer School build and improve basic soccer skills, and to do so, they do not conduct soccer games. They teach students from the ages of five to fifteen, and classes are divided by age group. Classes are conducted one to three times per week for 50-90 minutes each. Instructors are former professional players on Japan' s national soccer team and licensed coaches certified by the Fédération Internationale de Football Association (FIFA). Some students aim to perfect their skills enough to enter the lower level of J League. As of the end of February 2012, the company directly operated four Meiko Soccer Schools with a total enrollment of 655 students, 21 more than had been enrolled at the end of February 2011.

In H1 FY8/12, sales generated by the Meiko Soccer Schools increased by 5% YOY to ¥48.6 million, and operating profit from these schools jumped by 72% YOY to ¥5 million. In March, the company opened two more directly operated soccer schools, bringing the total to six, five in Saitama Prefecture, north of Tokyo, and one in Chiba Prefecture, east of Tokyo. Also in March, the company opened its first franchised soccer school, in Shinagawa, Tokyo. This school is owned and coached by former Japan national football team player, Nobutoshi Kaneda.

In 2011, Japan' s women' s soccer team won the World Cup, and a growing number of Japanese men are playing soccer professionally in Europe. Thus, the popularity of soccer is growing including women in Japan. Meiko Network Japan plans to capitalize on this popularity by increasing the number of franchised soccer schools, mainly in Greater Tokyo.

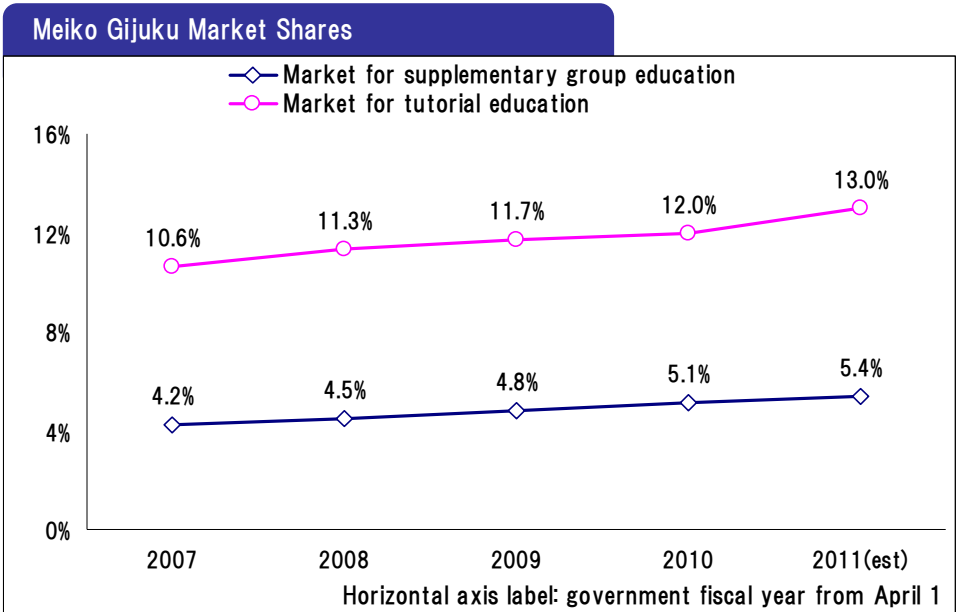
Joint business with Waseda Academy allows the company to enter a new niche of private education

(2)Waseda Academy Kobetsu Schools

In 2011, Meiko Network Japan started operating tutorial schools in cooperation with Waseda Academy. Meiko Network Japan now operates two such schools, both in Saitama Prefecture, and Waseda Academy operates two schools, both in Tokyo. In H1 FY8/12, the two schools operated by Meiko Network Japan generated sales of ¥61.8 million.

This business combines the high-level materials and instruction knowhow of Waseda Academy with the personalized instruction and franchise operation knowhow of Meiko Network Japan and enables Meiko Network Japan to enter the market niche of individual tutorial private educational services for accomplished students seeking entry to prestigious schools and universities. It has taken off rapidly, and in March 2012, Meiko Network Japan convened a meeting with the owners of its Meiko Gijuku school franchises to explain the attractions of Waseda Academy Kobetsu Schools. This meeting was attended by 72 franchise owners, many of whom expressed a desire to start operating a Waseda Academy Kobetsu School. Thus, Meiko Network Japan plans to expedite the opening of new franchised Waseda Academy Kobetsu Schools.

The only significant provider of tutorial instruction in Japan is Riso Kyoiku (4714), so Meiko Network Japan sees an opportunity for growth in this market. However, the key to success in this market is a record of placing students in prestigious schools and universities. To attract students, the company plans to hire top-rate teachers, especially graduates of Waseda Academy.



Source: Yano Reserch



(3)Meiko Kids

In April 2011, Meiko Network Japan opened its first Meiko Kids facility in Shakujii Koen, Nerima Ward, Tokyo. This facility offers three services for elementary school children, i.e, children in grades one through six. It is a safe place for children to be after school, and it provides cultural enrichment activities and educational instruction. At the end of February 2012, 52 students attended this facility, which is intended to accommodate 100 students. The facility is still being operated on a trial basis, but there appears to be significant potential demand for such facilities as the number of Japanese working couples is increasing.

(4)Mirai Kids Club (Future Kids Club)

Meiko Network Japan recently launched a new business called Mirai Kids Club (Future Kids Club), which consists of two other businesses operated by Meiko Network Japan, Abrakadoodle Art Studios (*1), started in 2011, and Meiko ALC English Language Studios (*2), started in April 2012. Mirai Kids Club (Future Kids Club) aim to develop independent, spiritually enriched children by imbuing in them five traits through art and English language skills. The five traits targeted by these clubs are creativity, the courage to demonstrate one's abilities, the ability to communicate effectively, consideration for others, and self-confidence. Meiko Network Japan intends to open more Mirai Kids Club (Future Kids Club) in facilities such as shopping centers to complement its Meiko Gijuku schools.

English language education has been offered at Japanese public middle schools and high schools for decades and it is now being incorporated in elementary school curricula. Thus, Meiko Network Japan expects private English language instruction for children to become more important. If its directly operated Mirai Kids Club (Future Kids Club) prove to be commercially viable, it intends to develop a franchise chain of these clubs.

(*1) Abrakadoodle Art Studios is a US company that provides an art education program which is highly evaluated in the US. This program instills creativity and self-expression in children by encouraging them to draw pictures and present the pictures to other people. The program is geared to children from the age of 20 months through sixth grade. Meiko Network Japan has obtained the master franchise right for this program in Japan and has been operating such a program on an experimental basis in Shakujii Koen, Nerima Ward, Tokyo since 2011. In April 2012, it opened its first two commercial studios, one in the Shinjuku, Tokyo, the other in Yokohama City, south of Greater Tokyo.

(*2) Meiko ALC English Language Studios teach English to children between the ages of two and roughly eleven (sixth grade students). They are a joint business between Meiko Network Japan and ALC Press Inc. (2496), which produces materials for language education. The teachers at these studios are Japanese who hold the J-Shine qualification for teaching English to elementary school students and native speakers of English. In addition to teaching the abilities to comprehend, speak, read and write English, the studios try to instill the abilities to think critically and to communicate effectively. In April 2012, the first such studio was opened in a shopping center in Yokohama City under the name of Future Kids Club.

■ Planned business development

Further growth to be achieved by establishing more educational franchise chains

As summarized above, Meiko Network Japan intends to pursue growth by applying its knowledge of operating franchise chains to expand horizontally into educational businesses. It has ventured into new businesses only over the past year or two, but some of its new businesses already show enough commercial potential to be expanded through franchise chains. The company anticipates continued profit growth from its Meiko Gijuku schools and it expects its new businesses to accelerate group growth and enlarge its profit base.

Mr. Toru Hashimoto, the mayor of Osaka City, has proposed allowing public school students to repeat a year in the public school system. If this proposal were adopted, Meiko Network Japan would stand to benefit because its Meiko Gijuku schools are highly appraised by students and their parents or guardians.

In 2011, IID Inc., a Japanese market research company, conducted its first survey of customer satisfaction with providers of private education and presented awards based on the results of this survey. The Meiko Gijuku schools received the top prize, the IID Award 2011, for providing private education to elementary school students. The top prize was the result of awards for several components, including caring for students, easy to understand instruction, student satisfaction, and cost. The Meiko Gijuku schools had already achieved large shares in the markets for private education, and the receipt of awards such as the IID Award further enhances the brand, facilitating the enrollment of more students and an increase in market shares.

Performance (¥ mn) by Business

Sales	FY10/8	FY 11/8	FY12/8e	YOY	H1FY8/11	H1FY8/12	YOY
Meiko Gijuku directly operated schools	6,288	6,575	6,875	4.6%	3,455	3,515	1.7%
Meiko Gijuku franchised schools	5,846	6,403	6,750	5.4%	3,241	3,281	1.2%
Supplemental education	634	594	850	43.1%	312	272	-12.7%
Other businesses	87	144	349	142.5%	49	116	135.6%
Total sales	12,886	13,716	14,823	8.1%	7,056	7,186	1.8%
Operating profit	FY10/8	FY 11/8	FY12/8e	YOY	H1FY8/11	H1FY8/12	YOY
Meiko Gijuku directly operated schools	1,128	1,315	-	-	931	795	-14.6%
Meiko Gijuku franchised schools	3,056	3,256	-	-	1,694	1,745	3.0%
Supplemental education	41	8	-	-	3	-6	-
Other businesses	7	-174	-	-	-80	-58	-
Company-wide operating costs	-1,123	-1,042	-	-	-544	-558	-
Total operating profit	3,108	3,363	3,577	6.3%	2,004	1,918	-4.3%

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