Hibiya Engineering, Ltd.

ANNUAL REPORT 2010



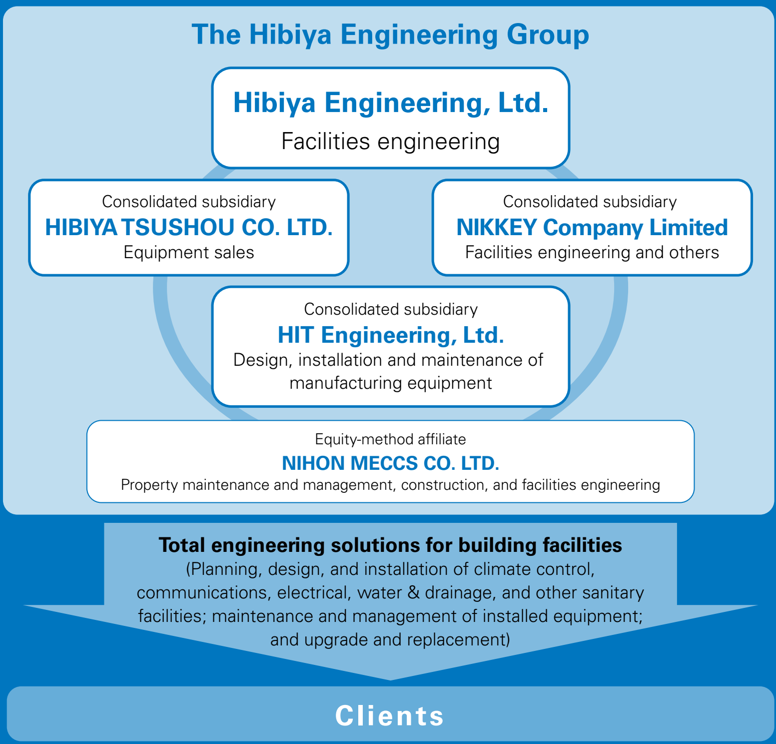


PROFILE

The Hibiya Engineering Group provides a comprehensive range of facilities engineering products and services, through business activities grounded in respect for the environment and the comfort of users.

Our services range from the planning, design and installation of air conditioning, sanitary, electrical and communications facilities, through to their maintenance, management, and eventual upgrading. A particular strength is the ability to meet today's social needs by applying advanced energy-saving technologies to implement sophisticated open-network IT environments and workplaces.

Our role as integrated facilities engineers is to create future possibilities and environments that enhance customer satisfaction. We will continue to contribute to society through innovative technologies and a passion to perform.



As of June 30, 2010

HIT Engineering, Ltd. is not included in the consolidated financial statements for the year ended March 31, 2010 because this company became a consolidated subsidiary on June 30, 2010.

CONTENTS

Projections and Perspectives:

This Annual Report includes projections and descriptions of prospects regarding future plans, strategies and the operating performance of the Company.

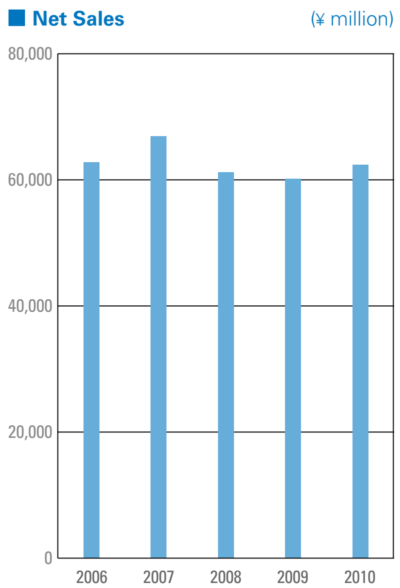
Such descriptions are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and management convictions on the strength of information available to the Company as of March 31, 2010. Such projections of operating performance may vary from management's initial anticipation as result of general economic trends, changes in the business environment, possible revisions to the tax code and to other factors.

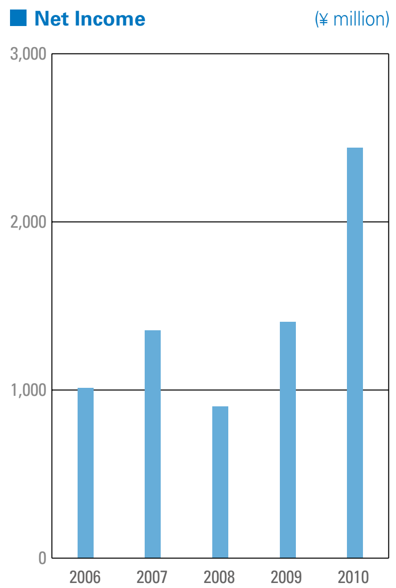
Consolidated Financial Highlights

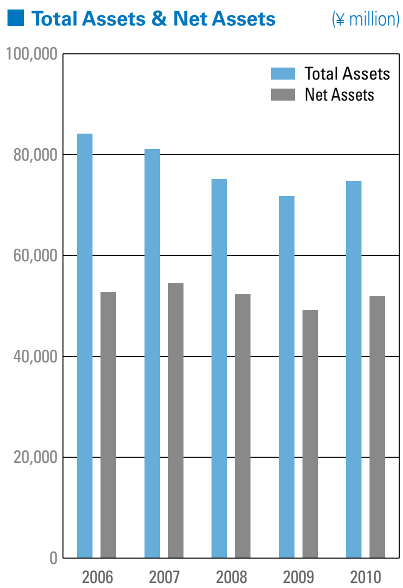
Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31

	2006	2007	2008	2009	**2010**	**2010**
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥62,771	¥66,898	¥61,222	¥60,159	**¥62,379**	**$670,454**
Net Income	1,014	1,356	904	1,407	**2,441**	**26,236**
Total Assets	84,128	81,034	75,086	71,771	**74,632**	**802,150**
Net Assets	52,838	54,465	52,290	49,267	**51,998**	**558,878**
	Yen					U.S. dollars
Per share:						
Net Assets	¥1,452.01	¥1,462.94	¥1,412.46	¥1,435.82	**¥1,544.43**	**$16.60**
Net Income	26.25	37.27	24.86	39.77	**73.56**	**0.79**
Cash Dividends (non-consolidated basis)	25.00	15.00	25.00	18.50	**24.50**	**0.26**

Note: The expression of Japanese yen amounts in U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate of March 31, 2010, which was ¥93.04 to U.S. $1.00.







A Message from the President

Haruki Nomura
President and Representative Director

The Hibiya Engineering Group achieved growth in sales and earnings despite challenging market conditions by focusing sales activities on profitability and making steady progress with new businesses.
~Review of the Fiscal Year Ended March 31, 2010~

First I want to express my appreciation to our shareholders and other investors for your continued support and understanding.

Japan's economy remained lackluster during the past fiscal year. Amid this weakness, there were some signs of a gradual recovery from the impact of the turmoil in global financial markets caused by the Lehman shock in the fall of 2008. The operating environment remained difficult in the Japanese construction industry. Companies are becoming more reluctant to make capital expenditures. In the public sector, Japan's supplementary budget sparked a small recovery in public works expenditures. However, after the transfer of power to the Democratic Party of Japan last fall, these expenditures are once again declining. In fact, a review of public sector projects by the new administration has resulted in the cancelation of some orders that we had received.

Construction investments in Japan totaled about ¥42 trillion in 2009, which is approximately half of the peak of about ¥84 trillion that was reached in 1992.

Even though the construction market is shrinking, the Hibiya Engineering Group was able to increase sales and earnings in the fiscal year that ended in March 2010. This accomplishment was attributable in large part to orders for next-generation networks (NGN) and other projects from NTT and its group companies, which is our largest source of business.

Consolidated orders received decreased 5.2% to ¥49,962 million and net sales increased 3.7% to ¥62,379 million. Operating income was up 8.4% to ¥2,208 million and net income rose 73.5% to ¥2,441 million.

On a non-consolidated basis, orders received decreased 5.1% to ¥47,673 million, net sales increased 7.8% to ¥53,308 million, operating income decreased 2.2% to ¥1,800 million and net income was up 30.1% to ¥1,328 million.

Measures to strengthen sales activities were one reason for the improvement in earnings. We accepted only orders that contributed to raising profitability. We also increased emphasis on upstream sales in order to raise the percentage of orders received directly from customers rather than intermediaries. Earnings also benefited from many initiatives to cut the cost of construction, selling, general and administrative expenses, and other cost categories. In addition, we became the first company in Japan's facilities engineering industry to launch a full-scale environmental services business. This was made possible by our February 2009 capital and business alliance with VEGLIA Laboratories Inc. Environmental operations performed well in the past fiscal year.

Orders received from the NTT Group, which is our largest customer, were generally as planned. This included the continuation of NGN projects from the previous fiscal year and the installation of sophisticated multi-unit air-conditioning systems (MACS) at telephone exchange buildings. Expectations were high for orders for work involving data centers, but many of these projects were postponed because of Japan's weak economy. We expect to see growth in these orders when the economy begins to recover. In newly constructed buildings, we captured orders for work on projects by NTT East Properties and NTT Urban Development.

In the public sector, ordinary bids are no longer evaluated solely on the basis of price. In an increasing number of cases, government agencies are using a comprehensive evaluation system that includes proposals for technologies. We were able to increase our public sector orders from the previous fiscal year as planned, in part due to our focus on submitting competitive proposals for technologies. However, the operating environment remains uncertain because public works projects in Japan will probably decline even more. Orders for U.S. military projects, which we include in public sector orders, also increased in the past fiscal year as we used our experience and accomplishments to capture orders.

In the private sector, there is a persistent oversupply of construction services in Japan as the construction market continues to contract. The result is fierce competition that is bringing down unit prices for new orders. To succeed in this difficult market, we have been conducting sales activities that prioritize earnings over sales. Capturing orders will continue to be extremely difficult because the recovery in Japan's construction market is unlikely to occur anytime soon. We will work even harder at cutting costs as we focus our sales resources on data centers and other market sectors where we are highly competitive.

Increasing earnings in an extremely difficult business climate

We are taking the following three actions to overcome the challenges we currently face. These initiatives do not differ significantly from the basic direction of actions taken thus far because we realized some time ago that this extended period of challenging market conditions was coming.

First, we are further reinforcing sales capabilities in order to increase earnings in established businesses. In the private sector, the volume of newly constructed buildings is declining. But there is steady growth in interest in environmental measures, especially for fighting global warming. Japan fully enacted its amended Energy Conservation Law on April 1, 2010. On the same day, the amended Tokyo Metropolitan Ordinance on Environmental Protection was enacted. These events are creating interest in environmental initiatives, such as more efficient ways to cut CO_2 emissions. Switching buildings to LED illumination is one example. Meeting these needs requires renovation work to replace old and inefficient equipment with new systems. Since these projects involve primarily equipment, orders for this renovation work are frequently placed directly with facilities engineering companies. This is why we are concentrating on this market sector.

In the public sector, we will increase efforts to be competitive as government agencies make more frequent use of comprehensive evaluations when selecting winning bids. For U.S. military projects, we have performed work at only a few bases thus far. To achieve more growth, we have expanded sales activities to cover all U.S. military facilities in Japan.

For NTT and its group companies, our goal is to establish a presence in new markets. To accomplish this, we will focus even more on collaboration with the NTT Group, particularly NTT Facilities.

Second, we are cutting the cost of construction. Since we started our monitoring system in 2009, there has not been a single construction project where sales were significantly below the cost of construction. Furthermore, we created a construction operations framework in which personnel can be moved from one project to another irrespective of branch office affiliations. Using this approach allows us to use our limited workforce to perform construction tasks more efficiently. The result is higher earnings. In addition, we are stepping up activities aimed at the vital task of fostering the development of outstanding subcontractors.

Third, we are cutting selling, general and administrative expenses. The new computer system that we started using exactly one year ago is already producing significant benefits. With this system, we have made our operations even more streamlined and efficient.

Focused on the goal of achieving more growth in the new environmental services business

We were the first company in our industry to launch an environmental services business. In the second half of the past fiscal year, other facilities engineering companies as well as many general contractors in Japan expressed a strong interest in entering this market. I believe the April 2010 full enactment of the amended Energy Conservation Law and Tokyo's amended environmental ordinance were major reasons for these decisions.

To compete and win in this market, we must take advantage of our strengths as the environmental services pioneer in our industry. By using information gained from the projects we have undertaken, we have completed the research needed to identify the key issues in this business sector. Moreover, we already have experience in creating the solutions needed to resolve these issues.

Our February 2009 alliance with VEGLIA Laboratories is producing many benefits in the field of "energy visualization." We can offer a variety of energy conservation diagnostic services along with proposals for ESCO (Energy Service Company) energy-saving projects and other ideas that match the budget of each customer.

Going one more step, we will reinforce our expertise in creating proposals from the standpoint of our customers. This includes consulting services that include advice on formulating budgets and procedures for obtaining subsidies. We are taking many actions to heighten the commitment of everyone at our company to making our environmental services business a success. We held a two-day environmental technology training session last December at the head office for employees involved in creating these proposals. In addition, people from the head office visited branch offices to explain our environmental services activities to branch managers and other management-level personnel. I am very confident that these measures are making our entire organization more aware of opportunities in the environmental services market.

We have revised numerical targets despite steady progress with initiatives based on the current medium-term plan. ~Third Medium-Term Management Plan Progress Report~

Our Third Medium-Term Management Plan has two central elements. First is becoming a streamlined organization that can consistently generate profits in our current business domain: facilities engineering centered on construction. Second is starting activities in business domains that differ from our present operations.

To become a lean and consistently profitable company, we have established a monitoring system, increased the flexibility of personnel assignments and taken many other steps. To cut the cost of construction, we are training new subcontractors and taking other actions. Overall, we have set in motion during the plan's first three years all initiatives that were incorporated in the current medium-term plan. Now we must concentrate on carrying through with these initiatives to produce the greatest possible benefits.

To start new businesses, we are moving forward with measures in line with our original plans. One illustration is the launch of the environmental services business that I have already discussed. Successfully launching a new business requires making steady progress within our organization. But I believe that utilizing external resources is also important, such as by using mergers, acquisitions and alliances. This is why we made Toyama Koei Co., Ltd., which operates mainly in Toyama prefecture, a wholly owned subsidiary on June 30, 2010. Since renamed HIT Engineering, Ltd., this company provides planning, design and maintenance services for the production equipment of companies that make pharmaceutical and food products. This acquisition gives our group access to the distinctive technologies of HIT Engineering. We also expect to capture many synergies by making this company a group member. Our plan is to foster the development of HIT Engineering and to make it an important component of the entire Hibiya Engineering Group.

As I have explained, our medium-term plan initiatives are yielding numerous benefits. However, when we formulated the plan, we could not foresee the severe economic downturn that began with the subprime loan crisis and Lehman shock. To reflect the impact of this recession, we have revised sales and other targets to more realistic levels.

Market conditions are expected to remain challenging, but we will conduct aggressive sales activities that accurately target customers' needs ~Outlook for the Year Ending in March 2011~

Although the global economy is slowly recovering, an upturn in Japan will be critical to our operations because the construction industry is a primarily domestic business. Japan's construction market will probably start recovering at some point. But there are no prospects for significant growth in demand within Japan because of the country's declining population and other factors.

The number of newly constructed buildings is decreasing. In the past, building owners often took down older structures and constructed new ones in their place. Today, the priority is often to continue to use existing buildings in the most effective manner. The result is growth in interest in renovation services. Expectations are high for growth in renovation orders at specialized companies like ours. But this is not a large market because renovation projects are typically smaller than projects at newly constructed buildings. Consequently, I anticipate heated competition as Japan's general contractors enter the building renovation market.

In the fiscal year ending in March 2011, I believe that orders from NTT and its group companies, which are our most important customers, will be almost the same as in the previous fiscal year. In the public sector, market conditions will be challenging as governments reexamine construction and other projects. But we plan to increase public sector orders from the previous fiscal year by increasing measures to adapt to the comprehensive evaluation system for bids. In the private sector, the past fiscal year was a difficult period for our group. In the current fiscal year, our goal is to increase the amount of private-sector orders. We plan to accomplish this by focusing on renovation projects and the environmental services business. We will also aggressively pursue opportunities by moving upstream in our markets. More emphasis will be placed on taking the offensive in selling our services rather than waiting for opportunities. The order backlog at the end of March 2010 was less than one year earlier. I want to cover this decline by capturing orders that can be completed by the end of the fiscal year, mainly orders for renovation projects. Furthermore, we will continue to cut the cost of construction with the

The Third Medium-term Management Plan, April 2007 to March 2011

■ Basic strategy under the Plan

1. Business domain expansion strategy

In existing businesses, we are reinforcing our business model based on building life cycles. We will strive to extend a business model based on our customers' diverse needs in adjacent business areas and to expand business into different categories.

2. Profit-raising strategy for existing businesses

We aim to achieve stable orders received for high profitability projects through the enhanced conversion of the sales method in the sales divisions. In the construction divisions, we intend to improve productivity by raising the efficiency of the safety- and quality-based construction system, and strive to control costs.

3. Growth strategy for new businesses

Toward achieving sales of ¥5 billion by fiscal 2010, the Company intends to utilize external resources to promote measures to accelerate growth in the "Building automation security" and "Environment & energy" fields.

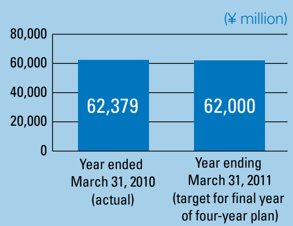
■ Financial targets and major business indices (consolidated)

(Millions of yen)

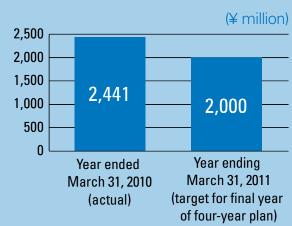
	Year ended March 31, 2010 (actual)	Year ending March 31, 2011 (plan*)	Year ending March 31, 2011 (original target)
Net Sales	¥62,379	¥62,000	¥75,000
Operating Income	2,208	2,000	2,700
Net Income	2,441	2,000	2,200
Operating Profit Margin	3.5%	3.2%	3.6%
Return on Equity	5.0%	4.0%	4.2%

*Forecast for the fiscal year ending March 2011 that was announced on May 14, 2010

Net sales (consolidated)



Net income (consolidated)



goal of generating earnings that are near the level we reported in the past fiscal year.

For the fiscal year ending in March 2011, we forecast consolidated net sales of ¥62 billion, operating income of ¥2 billion and net income of ¥2 billion.

We have a strong commitment to meeting the expectations of our shareholders.

I want Hibiya Engineering to remain a company that is highly appealing to shareholders and other investors.

For the dividend, we have a policy of maintaining a non-consolidated payout ratio of 60% and an annual dividend of at least ¥15 per share. Based on this policy, shareholders received a year-end dividend of ¥17 per share for the past fiscal year. With the interim dividend of ¥7.5, this resulted in a dividend per share of ¥24.5 applicable to the fiscal year that ended in March 2010.

Repurchasing stock is another way that we return earnings to shareholders. In the past fiscal year, there were two repurchases, one each in the first and second halves, that totaled 595,700 shares at a cost of ¥478 million. In the current fiscal year, we plan to repurchase 500,000 shares in the first half at a cost of up to ¥500 million. As of May 2010, we had purchased 60,000 shares at a cost of ¥46 million.

Shinya Kimura, who has been the company's president and representative director since June 2004, has reached the end of his term of office. Following his resignation at the close of the shareholders meeting on June 29, 2010, Mr. Kimura became an adviser and I became the company's new president and representative director.

The fiscal year ending in March 2011 is the fourth and final year of the Third Medium-Term Management Plan. During the past three years, we have seen steady progress with many initiatives that are part of this plan. Examples include improving earnings in established businesses and entering new business domains. We were forced to revise the plan's numerical targets because the recession has made our operating climate much more challenging. But there is no change in our determination to build a sound base for growth of the Hibiya Engineering Group by making established operations more profitable, expanding new businesses and achieving our other objectives.

Haruki Nomura, President and Representative Director, with Shinya Kimura, Advisor (left)

Under the leadership of a new management team, everyone at our group is dedicated to increasing corporate value in order to meet the expectations of shareholders and other investors.

H. Nomura

Haruki Nomura
President and Representative Director

Topics

TOPIC 1 HIT Engineering Joins the Hibiya Engineering Group

Hibiya Engineering purchased all shares of Toyama Koei Co., Ltd. from Toyama Chemical Co., Ltd. on June 30, 2010. On the same day, this new subsidiary was renamed HIT Engineering, Ltd.

For more than 30 years, this company has been engaged in the planning, design, installation and maintenance of production machinery and other equipment for manufacturers of pharmaceuticals, food products and other products in Toyama prefecture. Over the years, the company earned a reputation in the prefecture for its outstanding technological skills. Located about 250km northwest of Tokyo, Toyama prefecture is known as a region with a large number of pharmaceutical manufacturing and sales companies.

By using the technological expertise of HIT Engineering, Hibiya Engineering plans to work with this new group member to expand its operations in order to serve pharmaceutical and food processing companies nationwide. In addition, we plan to use HIT Engineering to further strengthen equipment planning and design capabilities. Another goal is to provide waste water treatment and other environmental services, which is a market sector with excellent growth prospects.

Profile of HIT Engineering

1. Name:	HIT Engineering, Ltd.
2. Head office:	3-18, Hisakata-cho, Toyama-shi, Toyama
3. CEO:	Moriharu Hayashi, President and Representative Director
4. Activities:	Design, installation and maintenance of manufacturing equipment for pharmaceuticals, drug products, food products, environmental equipment and other machinery
5. Capital:	¥20 million (March 31, 2010)

TOPIC 2 Energy Conservation Ideas Support Aggressive Sales Activities

Interest in Japan in conserving energy and cutting CO_2 emissions has never been higher due to the April 2010 enactment of the Revised Energy Conservation Law and other events. Hibiya Engineering views the high volume of needs for environmental services as an outstanding opportunity to expand its environmental business, a sector the company is targeting for growth. To meet these needs, we established an Environmental Solutions Department that has the mission of enlarging solutions-oriented sales activities centered on the environment. The new department uses ideas for conserving energy to perform a broad range of sales activities. In the highly competitive private-sector marketplace, we promote our services by using our proven record of reliability as a provider of services to NTT and its group companies. This record includes the completion of a large volume of projects. We also take advantage of expertise involving technologies and proposals for air conditioning, sanitary, electrical, communications and many other types of facilities. Our objective is to use these strengths to achieve sustained growth of this new business.

Key initiatives to expand solutions-oriented sales activities centered on the environment

Initiative 1

Increase sales to new customers and upstream customers by offering consulting services for compliance with Japan's Energy Conservation Law

- Offer consulting services and assistance in submitting legally required documents for compliance with the Energy Conservation Law, Tokyo Metropolitan Ordinance on Environmental Protection and other laws and regulations.
- Increase sales to current and new customers subject to environmental laws and regulations by reexamining needs of current customers and working with partners such as VEGLIA Laboratories and property management companies.

*Conduct highly focused short-term sales activities to capitalize on opportunities for capturing new customers resulting from the enactment of new environmental laws and regulations in the current fiscal year (ending in March 2011).

Initiative 2

Capture orders for renovation projects to conserve energy

- **Business facilities** Consulting services and proposals concerning the use of subsidies, leases and other financing methods, emission allowances, and other schemes for energy-efficient facilities
- **Public service facilities** Submit bids for participation in many ESCO (Energy Service Company) projects, which involve providing energy management services to an energy user and using the resulting energy savings to cover the cost of the projects.
- **Industrial facilities** Perform sales activities using proposals focused on our lineup of energy conservation services

Initiative 3

Conduct nationwide solution-centered sales activities focused on the environment

- Use a company-wide information sharing framework to provide energy-conservation methods to customers in all areas of Japan.
- Hold seminar to upgrade environmental technologies
  Seminar is for sales personnel and engineers nationwide (seminar was held in December 2009)
- Establish ties with business partners (leasing and other financial companies, property management companies and other companies)

Examples of orders received in fiscal year ended March 2010

- Energy conservation assistance for theme park in Osaka
- Energy conservation assistance for major data center operator
- Other consulting services

Review of Operations (Consolidated Basis)

Operations by segment

Construction

Sales in the construction segment increased 7.7% from the previous fiscal year to ¥53,668 million. Segment operating income decreased 3.1% to ¥1,812 million.

Air conditioning systems orders decreased 9.6% to ¥25,052 million and sales increased 8.2% to ¥29,012 million. Plumbing and sanitation orders increased 6.7% to ¥10,966 million and sales decreased 2.9% to ¥11,031 million. Electrical equipment orders decreased 5.4% to ¥12,007 million and sales increased 16.7% to ¥13,624 million.

Equipment

Sales in the equipment segment decreased 18.4% to ¥6,775 million and operating income increased 10.3% to ¥307 million.

Other (manufacture and sale of construction-use equipment)

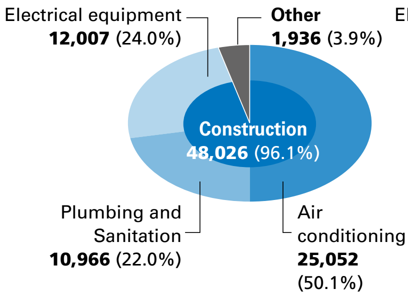
Sales in the other segment decreased 3.5% to ¥1,936 million. Operating income was ¥42 million compared with an operating loss of ¥35 million in the previous fiscal year.

Orders, order backlog, and sales by business segment, year ended March 31, 2010

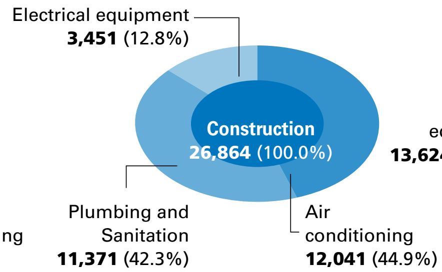
(¥ million)

The facilities sales and maintenance segment shows an order balance of zero, since the Hibiya Engineering group does not manufacture equipment on a made-to-order basis. Similarly, the other operations segment has an order balance of zero.

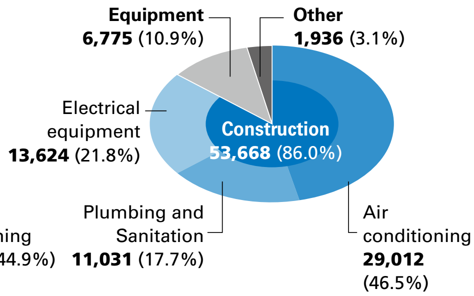
Orders received



Order backlog



Sales



Sales and operating income by segment, year ended March 31, 2010

(¥ million)

	Construction	Equipment	Other	Total	Eliminations or corporate	Consolidated
Sales						
1) Sales to customers	¥53,668	¥6,775	¥1,936	¥62,379	¥ —	¥62,379
2) Internal sales and transfers	—	3,873	289	4,162	(4,162)	—
Total	53,668	10,648	2,225	66,541	(4,162)	62,379
Reference: Year ended March 31, 2009 Sales	*49,849*	*11,964*	*2,374*	*64,187*	*(4,028)*	*60,159*
Operating expenses	51,856	10,341	2,183	64,380	(4,209)	60,171
Reference: Year ended March 31, 2009 Operating expenses	*47,979*	*11,686*	*2,409*	*62,074*	*(3,952)*	*58,122*
Operating income	1,812	307	42	2,161	47	2,208
Reference: Year ended March 31, 2009 Operating income (operating loss)	*1,870*	*278*	*(35)*	*2,113*	*(76)*	*2,037*

Corporate Governance

The Company has adopted the corporate auditor system, and three of the four corporate auditors as of June 29, 2010 were external auditors. The Company has also appointed two independent external directors, who take part in deliberations on important management matters at meetings of the Board of Directors and who serve to reinforce oversight of directors in the execution of their duties.

The Internal Audit Office was established with the express purpose of reinforcing the internal operational audit function. The Office has four staff who audit the operations of business divisions in respect of precision and efficiency, and in accordance with the audit plan for the business year. Audit results are reported to the Management Council and the Board of Corporate Auditors. The Internal Audit Office also evaluates the effectiveness of internal controls, a requirement under the Financial Products and Exchange Act. Audits by the corporate auditors are conducted in an appropriate manner, based on the audit plan, including the attendance of the auditors at important corporate meetings, such at meetings of the Board of Directors, and the examination of important documents for approval. The Company's corporate auditors work in collaboration with the Internal Audit Office and exchange opinions with the Independent Auditors and corporate auditors of the subsidiaries, as necessary, to carry out effective auditing. The Company has entered into an agreement with KPMG AZSA & Co. to entrust audits of the Company's accounts to this auditing firm.

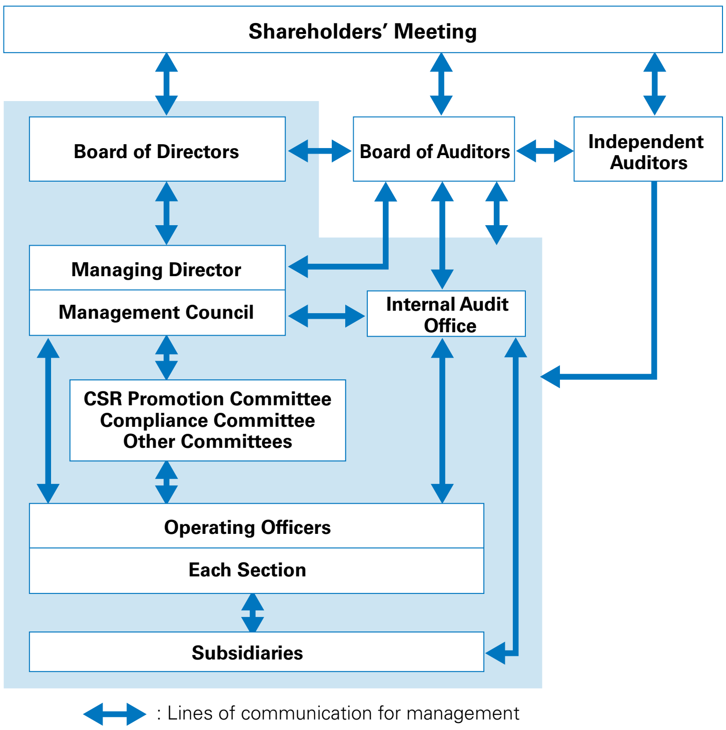
The Board of Directors meets once a month, in principle, to discuss, resolve and report on important management matters. The number of directors has been set at a maximum of 11, and their term of office is fixed at one year under the Company's articles of incorporation, for the express purpose of strengthening and revitalizing the functions of the Board of Directors in respect of improving corporate governance. To reinforce oversight of the directors in the performance of their duties, the Company has implemented an operating officer system.

Meetings of the Management Council are held twice per month with the attendance of the corporate auditors. The Management Council strives to conduct swifter, more appropriate decision-making on important matters related to the performance of business operations, the determination of business strategies and reviews of business operating systems.

Compliance

Under the concept of "a corporation should be a good citizen of society," the Company endeavors to achieve thorough compliance in its CSR-based business operations and to be a sound, highly transparent company by ensuring that all its executives and employees act with a high sense of ethics, in compliance with laws and regulations, the articles of incorporation and the Action Guidelines.

The Company established the Compliance Committee, with the President as the chairperson, as the controlling body for the company-wide compliance-promotion system. Its activities include the formulation of basic compliance policy and action programs, holding training sessions for all employees, deciding on important matters, and operation of the Hibiya Hot Line, an internal whistle-blowing system.



Management's Discussion and Analysis

Overview

In the fiscal year that ended in March 2010, Japan's economy staged a small recovery following the impact of global turmoil in financial markets. However, the economy was generally weak as low corporate earnings and high unemployment held down capital expenditures and consumer spending.

In the construction industry, the operating environment was challenging. The market continued to shrink even though there was a minor recovery in public works expenditures funded by Japan's supplementary budget. Furthermore, companies cut back on capital expenditures because of the lackluster economy.

Orders and Sales

In response, the Hibiya Engineering Group took many actions to increase earnings at established businesses. Group companies increased the efficiency of construction operations, strengthened technological capabilities and managed costs more tightly. There were also measures aimed at preserving and improving safety and quality. Another goal is growth in new businesses such as operations in the environment and energy fields. Despite these actions, orders received decreased 5.2% to ¥49,962 million. But net sales increased 3.7% to ¥62,379 million.

Operating income

Operating income increased 8.4% to ¥2,208 million because of the growth in sales and other factors.

Net income

Income taxes increased from ¥921 million to ¥1,137 million. Net income was up 73.5% to ¥2,441 million. Net income per share increased from ¥39.77 before and after dilution in the previous fiscal year to ¥73.56 before dilution and ¥73.49 after dilution.

Balance sheet and Cash flow

Balance sheet

Assets

Total assets increased ¥2,861 million from one year earlier to ¥74,632 million as current assets increased ¥6 million to ¥38,817 million and noncurrent assets increased ¥2,855 million to ¥35,815 million. In current assets, there were decreases of ¥2,453 million in costs on uncompleted construction contracts and other and ¥1,051 million in short-term investment securities and increases of ¥1,192 million in cash and deposits and ¥3,265 million in notes receivable, accounts receivable from completed construction contracts and other. Noncurrent assets increased mainly because of a ¥3,270 million increase in investment securities that was attributable primarily to growth in unrealized gains.

Liabilities

Total liabilities increased ¥130 million to ¥22,634 million. Liabilities increased mainly because the increase in the provision for loss on construction contracts more than offset decreases of ¥154 million in notes payable, accounts payable for construction contracts and other and ¥568 million in advances received on uncompleted construction contracts.

Return on equity

The return on equity increased from 2.8% in the previous fiscal year to 5.0%.

Cash flows

Net cash provided by operating activities decreased ¥630 million to ¥1,620 million. Cash was used mainly by an increase in notes and accounts receivable-trade and a decrease in advances received on uncompleted construction contracts. Cash was provided by income before income taxes and minority interests of ¥3,610 million, a decrease in inventories and other items.

Net cash provided by investing activities was ¥687 million, an increase of ¥1,253 million from one year earlier. This improvement was mainly the result of proceeds from redemptions of securities and investment securities that exceeded payments for reinvestments and the purchase of noncurrent assets.

Net cash used in financing activities was ¥1,115 million, ¥1,943 million less than cash used one year earlier. The primary uses of cash were purchases of treasury stock and cash dividends paid.

These cash flows resulted in a net increase of ¥1,192 million in cash and cash equivalents to ¥12,150 million as of March 31, 2010.

Segment information

The core construction segment accounted for 86.0% of consolidated sales. Segment sales increased 7.7% to ¥53,668 million and operating income decreased 3.1% to ¥1,812 million.

In the equipment segment, sales decreased 18.4% to ¥6,775 million and operating income increased 10.3% to ¥307 million.

In the other segment, sales decreased 3.5% to ¥1,936 million and operating income was ¥42 million compared with an operating loss of ¥35 million in the previous fiscal year.

Business risks

The following section is a list of items contained in the discussion of results of operations and financial condition in the Annual Report that may have a significant effect on the decisions of investors. These items are based on the judgments of the Hibiya Engineering Group as of March 31, 2010.

1. Risk of dependence on a specific customer

The Group's sales are heavily dependent on Nippon Telegraph and Telephone Corporation (NTT) and its affiliates ("NTT Group"). Should the NTT Group significantly reduce its investments in construction for any reason, the Group's operating performance and financial position may be adversely affected.

2. Risk related to business partners

The operating environment in the Japanese construction market is extremely difficult because of continuing restrictions on construction expenditures, particularly with regard to public works projects. Due to this situation, there is intense competition for orders and price competition. In this environment, if the creditworthiness of any business partner worsens, the Group's operating performance and financial position may be affected by bad debt associated with trade receivables.

3. Risk related to prices of materials

If there is an increase in prices of equipment and materials used by the Group due to a shortage of raw materials such as iron and copper and/or market fluctuations, the Group's operating performance and financial position may be affected.

4. Risk related to unprofitable work

If a project undertaken by the Group becomes unprofitable because of additional construction costs or other items caused by factors that were unforeseen before the project was started, the provision for an allowance for losses on construction contracts may become necessary and the Group's operating performance and financial position may be affected.

5. Risk involving safety

The Group conducts a large volume of renovation work at buildings owned by the NTT Group. If an accident resulting in injury or property damage occurs during a renovation and causes a serious failure at NTT's advanced public communications network, the Group may be obligated to make a large, lump-sum compensation payment and the Group's operating performance and financial position may be affected.

6. Risk involving retirement benefit systems

The Company and one of its consolidated subsidiaries participate in the employee pension fund of the Tokyo Air-Conditioning and Plumbing Contractors Association. An affiliate accounted for by the equity method participates in the Tokyo Metropolis Construction Industry Employees' Pension Fund. If a decline in the financial condition of either of these funds results in a revision in benefits, depending on the nature of the revision, the Group's operating performance and financial position may be affected by an increase in retirement benefit expenses.

7. Risk involving securities

The Group may have to write down the value of stock that it holds because of stock market movements, changes in the performance of individual companies and other factors. In addition, the Group may not be able to receive dividends from this stock as initially expected.

For bonds, the Group may be unable to receive interest or principal payments due to a default by an issuer. In addition, for bonds where interest is linked to foreign exchange rates, market interest rates and other market-based indicators, the Group may be unable to receive the interest that was expected when the bond was purchased or at the beginning of the fiscal period due to changes in market conditions.

8. Risk related to recovering deferred tax assets

Deferred tax assets in the consolidated financial statements of the Group are recorded as a result of the scheduling of the expected year for the future resolution of temporary subtraction differences.

If the operating performance of the Company and/or its consolidated subsidiaries worsens, deferred tax assets would have to be reduced on the basis of judgments concerning the ability to recover deferred tax assets, and the Group's operating performance and financial position may be affected.

9. Seasonal variations in operating performance

For ordinary business operations, a larger percentage of construction work is completed in the second half than in the first half of each fiscal year. This produces a significant difference between first half and second half sales, which results in a seasonal variation in operating performance for these two six-month periods.

Consolidated Balance Sheets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Assets			
Current assets:			
Cash and cash equivalents	**¥12,150**	¥10,958	**$130,589**
Notes receivable, accounts receivable from completed construction contracts and other	**23,941**	20,676	**257,319**
Short-term investment securities *(Note 3)*	**551**	1,602	**5,922**
Costs on uncompleted construction contracts and other	**1,213**	3,666	**13,037**
Deferred tax assets *(Note 6)*	**752**	826	**8,083**
Other	**246**	1,135	**2,645**
Allowance for doubtful accounts	**(36)**	(52)	**(387)**
Total current assets	**38,817**	38,811	**417,208**
Non-current assets:			
Property, plant and equipment:			
Buildings and structures	**1,397**	1,403	**15,015**
Land	**156**	175	**1,677**
Lease assets	**23**	13	**247**
Other	**851**	838	**9,147**
Total	**2,427**	2,429	**26,086**
Accumulated depreciation	**(1,768)**	(1,717)	**(19,003)**
Total property, plant and equipment	**659**	712	**7,083**
Intangible assets:			
Lease assets	**7**	11	**75**
Other	**601**	594	**6,460**
Total intangible assets	**608**	605	**6,535**
Investments and other assets:			
Investment securities *(Note 3)*	**26,625**	23,355	**286,167**
Long-term loans receivable	**35**	37	**376**
Insurance funds	**2,944**	2,843	**31,642**
Investments in silent partnership	**2,924**	3,000	**31,427**
Deferred tax assets *(Note 6)*	**369**	1,098	**3,966**
Other	**1,803**	1,551	**19,380**
Allowance for doubtful accounts	**(152)**	(241)	**(1,634)**
Total investments and other assets	**34,548**	31,643	**371,324**
Total non-current assets	**35,815**	32,960	**384,942**
Total assets	**¥74,632**	¥71,771	**$802,150**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Liabilities			
Current liabilities:			
Notes payable, accounts payable for construction contracts and other	**¥16,996**	¥17,150	**$182,674**
Short-term loans payable *(Note 5)*	**780**	780	**8,383**
Lease obligations	**8**	6	**86**
Income taxes payable *(Note 6)*	**1,060**	1,032	**11,393**
Advances received on uncompleted construction contracts	**704**	1,272	**7,567**
Provision for bonuses	**1,042**	1,132	**11,199**
Provision for warranties for completed construction	**38**	35	**408**
Provision for loss on construction contracts	**351**	72	**3,773**
Other	**945**	372	**10,158**
Total current liabilities	**21,924**	21,851	**235,641**
Non-current liabilities:			
Lease obligations	**19**	19	**204**
Deferred tax liabilities *(Note 6)*	**78**	25	**838**
Provision for retirement benefits *(Note 8)*	**439**	472	**4,718**
Provision for directors' retirement benefits	**39**	125	**419**
Other	**135**	12	**1,452**
Total non-current liabilities	**710**	653	**7,631**
Net Assets			
Shareholders' equity *(Note 10)*:			
Capital stock: Authorized – 96,500,000 shares in 2010 and 2009 Issued – 34,000,309 shares in 2010 and 2009	**5,753**	5,753	**61,834**
Capital surplus	**5,932**	5,932	**63,757**
Retained earnings	**38,023**	36,202	**408,674**
Treasury stock: 1,241 thousand shares in 2010 and 601 thousand shares in 2009	**(854)**	(368)	**(9,179)**
Total shareholders' equity	**48,854**	47,519	**525,086**
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	**1,739**	436	**18,691**
Total valuation and translation adjustments	**1,739**	436	**18,691**
Subscription rights to shares	**40**	—	**430**
Minority interests	**1,365**	1,312	**14,671**
Total net assets	**51,998**	49,267	**558,878**
Total liabilities and net assets	**¥74,632**	¥71,771	**$802,150**

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Net sales *(Note 13)*	**¥62,379**	¥60,159	**$670,454**
Cost of sales	**53,384**	51,854	**573,775**
Gross profit	**8,995**	8,305	**96,679**
Selling, general and administrative expenses *(Note 7)*	**6,787**	6,268	**72,947**
Operating income	**2,208**	2,037	**23,732**
Non-operating income (expenses):			
Interest and dividend income	**270**	438	**2,902**
Interest expenses	**(16)**	(15)	**(172)**
Equity in earnings of affiliates	**1,058**	381	**11,371**
Loss on valuation of investment securities	**(94)**	(751)	**(1,010)**
Other, net	**184**	304	**1,978**
Total non-operating income (expenses)	**1,402**	357	**15,069**
Income before income taxes	**3,610**	2,394	**38,801**
Income taxes *(Note 6)*:			
Income taxes-current	**1,091**	1,273	**11,726**
Income taxes-deferred	**46**	(352)	**495**
Total income taxes	**1,137**	921	**12,221**
Minority interests in income	**32**	66	**344**
Net income	**¥ 2,441**	¥ 1,407	**$ 26,236**

	Yen		U.S. dollars (Note 1)
Per share of common stock:	**2010**	2009	**2010**
Net assets per share	**¥1,544.43**	¥1,435.82	**$16.60**
Net income per share *(Note 12)*:			
Basic	**73.56**	39.77	**0.79**
Diluted	**73.49**	39.77	**0.79**
Cash dividend *(Note 15)*	**24.50**	18.50	**0.26**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Number of shares of common stock	Capital stock (Note 10)	Legal capital surplus (Note 10)	Retained earnings (Note 10)	Treasury stock	Valuation difference on available-for-sale securities	Subscription rights to shares	Minority interests	Total net assets
	(shares)	Millions of yen							
Balance at March 31, 2008	37,000,309	¥5,753	¥5,932	¥38,076	¥(602)	¥1,842	¥—	¥1,289	¥52,290
Net income	—	—	—	1,407	—	—	—	—	1,407
Dividends from surplus	—	—	—	(902)	—	—	—	—	(902)
Purchase of treasury stock	—	—	—	—	(2,184)	—	—	—	(2,184)
Disposal of treasury stock	—	—	0	—	39	—	—	—	39
Retirement of treasury stock	(3,000,000)	—	(0)	(2,379)	2,379	—	—	—	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—	(1,406)	—	23	(1,383)
Balance at March 31, 2009	34,000,309	¥5,753	¥5,932	¥36,202	¥(368)	¥ 436	¥—	¥1,312	¥49,267
Net income	—	—	—	2,441	—	—	—	—	2,441
Dividends from surplus	—	—	—	(620)	—	—	—	—	(620)
Purchase of treasury stock	—	—	—	—	(486)	—	—	—	(486)
Disposal of treasury stock	—	—	—	(0)	0	—	—	—	0
Net changes of items other than shareholders' equity	—	—	—	—	—	1,303	40	53	1,396
Balance at March 31, 2010	**34,000,309**	**¥5,753**	**¥5,932**	**¥38,023**	**¥(854)**	**¥1,739**	**¥40**	**¥1,365**	**¥51,998**

	Capital stock (Note 10)	Legal capital surplus (Note 10)	Retained earnings (Note 10)	Treasury stock	Valuation difference on available-for-sale securities	Subscription rights to shares	Minority interests	Total net assets
	Thousands of U.S. dollars (Note 1)							
Balance at March 31, 2009	$61,834	$63,757	$389,101	$(3,955)	$ 4,686	$ —	$14,101	$529,524
Net income	—	—	26,236	—	—	—	—	26,236
Dividends from surplus	—	—	(6,663)	—	—	—	—	(6,663)
Purchase of treasury stock	—	—	—	(5,224)	—	—	—	(5,224)
Disposal of treasury stock	—	—	(0)	0	—	—	—	0
Net changes of items other than shareholders' equity	—	—	—	—	14,005	430	570	15,005
Balance at March 31, 2010	**$61,834**	**$63,757**	**$408,674**	**$(9,179)**	**$18,691**	**$430**	**$14,671**	**$558,878**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Net cash provided by (used in) operating activities			
Income before income taxes	**¥ 3,610**	¥ 2,394	**$ 38,801**
Depreciation and amortization	**270**	151	**2,902**
Impairment loss	**35**	—	**376**
Increase (decrease) in allowance for doubtful accounts	**(105)**	150	**(1,129)**
Increase (decrease) in provision for retirement benefits	**(33)**	11	**(355)**
Increase (decrease) in provision for directors' retirement benefits	**(86)**	6	**(924)**
Increase (decrease) in provision for bonuses	**(90)**	511	**(967)**
Increase (decrease) in provision for warranties for completed construction	**3**	(4)	**32**
Increase (decrease) in provision for loss on construction contracts	**278**	57	**2,988**
Interest and dividends income	**(270)**	(438)	**(2,902)**
Interest expenses	**16**	15	**172**
Loss (gain) on valuation of investment securities	**94**	751	**1,010**
Equity in (earnings) losses of affiliates	**(1,058)**	(381)	**(11,371)**
Decrease (increase) in notes and accounts receivable-trade	**(3,266)**	2,382	**(35,103)**
Decrease (increase) in costs on uncompleted construction contracts	**2,453**	(1,215)	**26,365**
Increase (decrease) in notes and accounts payable-trade	**(154)**	(1,374)	**(1,655)**
Increase (decrease) in advances received on uncompleted construction contracts	**(568)**	279	**(6,105)**
Decrease (increase) in consumption taxes receivable (payable)	**190**	(248)	**2,042**
Other, net	**1,070**	(396)	**11,500**
Subtotal	**2,389**	2,651	**25,677**
Interest and dividends income received	**284**	468	**3,053**
Interest expenses paid	**(16)**	(15)	**(172)**
Income taxes paid	**(1,037)**	(854)	**(11,146)**
Net cash provided by (used in) operating activities	**1,620**	2,250	**17,412**
Net cash provided by (used in) investing activities			
Payments into time deposits	**(500)**	—	**(5,374)**
Proceeds from withdrawal of time deposits	**500**	—	**5,374**
Purchase of short-term investment securities	**(500)**	—	**(5,374)**
Proceeds from sales of short-term investment securities	**18**	321	**193**
Proceeds from redemption of securities	**2,100**	—	**22,571**
Purchase of property, plant and equipment	**(100)**	(136)	**(1,075)**
Purchase of intangible assets	**(155)**	(493)	**(1,666)**
Purchase of investment securities	**(1,732)**	(53)	**(18,616)**
Proceeds from sales of investment securities	**54**	8	**580**
Proceeds from redemption of investment securities	**800**	500	**8,598**
Purchase of insurance funds	**(191)**	(202)	**(2,053)**
Proceeds from maturity of insurance funds	**261**	340	**2,805**
Payments for investments in silent partnership	**—**	(3,000)	**—**
Proceeds from withdrawal of investments in silent partnership	**76**	2,190	**817**
Other, net	**56**	(41)	**604**
Net cash provided by (used in) investing activities	**687**	(566)	**7,384**
Net cash provided by (used in) financing activities			
Purchase of treasury stock	**(483)**	(2,185)	**(5,191)**
Proceeds from disposal of treasury stock	**0**	39	**0**
Cash dividends paid	**(620)**	(902)	**(6,664)**
Cash dividends paid to minority shareholders	**(6)**	(6)	**(64)**
Other, net	**(6)**	(4)	**(65)**
Net cash provided by (used in) financing activities	**(1,115)**	(3,058)	**(11,984)**
Net increase (decrease) in cash and cash equivalents	**1,192**	(1,374)	**12,812**
Cash and cash equivalents at beginning of period	**10,958**	12,332	**117,777**
Cash and cash equivalents at end of period	**¥12,150**	¥10,958	**$130,589**

See accompanying 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 Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

In addition, certain reclassifications have been made in the 2009 financial statements to conform to the classification used in 2010.

2. Summary of significant accounting policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries,"Hibiya Tsushou Co., Ltd." and "NIKKEY Company Limited". All significant inter-company balances and transactions are eliminated in consolidation.

Investments in two affiliates are accounted for by the equity method. Investments in the other affiliates, whose income or losses are not significant for the Company's equity, are carried at cost. Negative goodwill which is recognized in applying the equity method is amortized over a period of 3 years on a straight-line basis. Amortization of negative goodwill which is recognized in applying the equity method is ¥332 million ($3,568 thousand) for the year ended March 31, 2010. The balance of negative goodwill which is recognized in applying the equity method amounts to ¥664 million ($7,137 thousand) at March 31, 2010.

(2) Securities

The Company and its consolidated subsidiaries (the "Companies") assessed the intent of holding each security and classified those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

No trading securities and held-to-maturity debt securities have been owned by the Companies. Equity securities issued by subsidiaries have been eliminated upon consolidation. Equity securities issued by affiliated companies which are not accounted for using the equity method are stated at average cost. Available-for-sale securities with fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Available-for-sale securities with no available fair value are stated at cost determined by the moving-average method. Realized gain or loss on sale of such securities is computed using the average cost.

(3) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collections. It consists of the estimated uncollectible amount with respect to certain identified doubtful accounts and an amount calculated by using the rate of actual collection losses in the past with respect to the remaining receivables.

(4) Provision for bonuses

Provision for bonuses is stated at the estimated amount of the bonuses to be paid to employees based on their services provided for the fiscal year.

(5) Provision for warranties for completed construction

Provision for warranties for completed contracts is provided for estimated compensation costs for claims on completed contracts at an amount calculated based on past experience with adjustments for future forecast.

(6) Provision for loss on construction contracts

Provision for loss on construction contracts is provided in amounts sufficient to cover probable losses on construction. The provision amount is estimated by taking into account the expected loss from uncompleted construction contracts at year-end whose amount can be estimated.

(7) Construction contracts

Prior to the year ended March 31, 2010, the Companies adopted the percentage of completion method for the long-term construction contracts whose contract amount is ¥100 million or more, construction schedule is more than 12 months and percentage of completion is 30% or more. All other construction contracts were accounted for using the completed-contract method.

Effective from the year ended March 31, 2010, the Companies adopted the "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan Statement ("ASBJ") No.15 issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18 issued on December 27, 2007).

Accordingly, when the outcome of individual contracts can be estimated reliably, the Companies apply the percentage of completion method to work commencing during the year ended March 31, 2010, otherwise the completed contract method is applied. The percentages of completion are measured by the ratio of the costs incurred to the estimated total costs for each contract.

This adoption increased net sales by ¥2,699 million ($29,009 thousand) and operating income and income before income taxes by ¥313 million ($3,364 thousand).

(8) Cost on uncompleted construction contracts

Costs on uncompleted contraction contracts are stated at cost using the specific identification cost method. Inventories for the consolidated subsidiaries are stated at cost using the specific identification method, (amounts shown on Balance Sheets are lower than book value due to decline in profitability).

Effective from the year ended March 31, 2009, the Companies adopted the new accounting standard, "Accounting Standard for Measurement of Inventories," (ASBJ Statement No. 9 issued on July 5, 2006). This change had only a minor impact on the consolidated statement of income for 2009.

(9) Property, plant and equipment, Intangible assets, and depreciation

Depreciation of property, plant and equipment (not including lease assets) is computed using the declining-balance method at rates based on their useful lives prescribed in the Japanese tax regulations.

Lease assets are depreciated using the straight-line method over the period of the lease, with zero residual value.

Effective April 1, 2008, the Companies adopted ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" and ASBJ Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions" for finance leases commenced after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

The adoption of the new accounting standards had only a minor impact on the consolidated statement of income for 2009.

(10) Provision for retirement benefits

The Companies provide provision for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the year-end. Actuarial gains and losses are recognized in income or expense using the straight-line method over the average of the estimated remaining service lives of 10 years commencing from the year in which they arise.

Effective from the fiscal year ended March 31, 2010, the Companies adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No.19 issued on July 31, 2008).

The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no material impact on the consolidated financial statements for the year ended March 31, 2010.

At the Board of the Company's Directors held on June 26, 2009, it was resolved to discontinue the retirement benefits plan for corporate officers (excluding those serving concurrently as directors) and to introduce stock-based compensation in the form of stock options.

(11) Provision for directors' retirement benefits

Provision for directors' and corporate auditors' retirement benefits is provided at an amount required to be paid in accordance with the internal rules had all the Company's consolidated subsidiaries' directors and corporate auditors retired as of the balance sheet date.

At the Shareholders meeting held on June 26, 2009, it was resolved to discontinue the retirement benefits plan for directors and corporate auditors, pay out accrued benefits to the directors and corporate auditors serving at that time, and grant stock-based compensation in the form of stock options to directors (excluding outside directors).

As a result, in the fiscal year ended March 31, 2010, the amount of directors', corporate auditors' and corporate officers' retirement benefits was transferred from Provision for retirement benefits and Provision for directors' retirement benefits to Other in Non-current liabilities.

(12) Cash flow statement and cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities within three months from the time of purchase and with insignificant risk of change in value are considered to be cash and cash equivalents.

(13) Income taxes

The Companies compute the provision for income taxes based on the pretax income included in the consolidated statement of income and recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

(14) Amounts per share

Net income per share is calculated by dividing net income available to common shares by the weighted average number of common shares outstanding during the year.

Cash dividends per share presented in the Consolidated Statements of Income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(15) Derivatives

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses. At March 31, 2010 and 2009, the Companies did not hold derivative financial instruments.

3. Securities

(1) At March 31, 2010 and 2009, book values, acquisition costs and fair values of available-for-sale securities with available fair values were as follows:

(a) Available-for-sale securities

	Millions of yen		
	2010		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	**¥3,209**	**¥5,715**	**¥2,506**
Debt securities			
Government bonds	—	—	—
Corporate bonds	**500**	**500**	**0**
Other bonds	**2,846**	**3,377**	**531**
Other	**102**	**117**	**15**
Total	**¥6,657**	**¥9,709**	**¥3,052**
Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	**¥1,362**	**¥1,238**	**¥ (124)**
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other bonds	**1,061**	**1,052**	**(9)**
Other	**216**	**186**	**(30)**
Total	**¥2,639**	**¥2,476**	**¥ (163)**

	Millions of yen		
	2009		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	¥1,273	¥2,087	¥ 814
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other bonds	4,242	4,737	495
Other	51	51	0
Total	¥5,566	¥6,875	¥1,309
Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	¥3,289	¥2,923	¥ (366)
Debt securities			
Government bonds	—	—	—
Corporate bonds	300	296	(4)
Other bonds	801	717	(84)
Other	329	272	(57)
Total	¥4,719	¥4,208	¥ (511)

	Thousands of U.S. dollars		
	2010		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	**$34,490**	**$ 61,425**	**$26,935**
Debt securities			
Government bonds	—	—	—
Corporate bonds	**5,374**	**5,374**	**0**
Other bonds	**30,589**	**36,296**	**5,707**
Other	**1,097**	**1,258**	**161**
Total	**$71,550**	**$104,353**	**$32,803**
Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	**$14,639**	**$ 13,306**	**$(1,333)**
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other bonds	**11,404**	**11,307**	**(97)**
Other	**2,321**	**1,999**	**(322)**
Total	**$28,364**	**$ 26,612**	**$(1,752)**

(2) At March 31, 2010 and 2009, book values of available-for-sale securities with no available fair values were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Unlisted equity securities	**¥1,524**	¥1,330	**$16,380**
Commercial paper	—	—	—
Other	—	50	—
Total	**¥1,524**	¥1,380	**$16,380**

(3) At March 31, 2009, maturities of available-for-sale securities with maturity were as follows:

	Millions of yen				
	2009				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Debt securities:					
Government bonds	¥ —	¥ —	¥—	¥ —	¥ —
Corporate bonds	296	—	—	—	296
Other bonds	1,306	3,389	—	809	5,504
Other	—	13	26	283	322
Total	¥1,602	¥3,402	¥26	¥1,092	¥6,122

(4) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2009 and 2010, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Proceeds from sales			
Equity securities	**¥24**	¥ 8	**$258**
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	317	—
Other	**48**	4	**516**
Total	**¥72**	¥329	**$774**
Gross realized gains			
Equity securities	**¥ 1**	¥ 6	**$ 11**
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	34	—
Other	**5**	—	**53**
Total	**¥ 6**	¥ 40	**$ 64**
Gross realized gains			
Equity securities	**¥ 2**	¥ —	**$ 21**
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other	**2**	2	**22**
Total	**¥ 4**	¥ 2	**$ 43**

(5) Securities with impairment losses

Impairment losses of ¥94 million ($1,010 thousand) were recognized for available-for–sale securities during the year ended March 31, 2010.

For available-for–sale securities with available fair values, impairment losses were recognized if the fair market value declined more than 30% below the acquisition cost. For available-for–sale securities with no available fair values, impairment losses were recognized if the net assets per share declined more than 50% below the acquisition cost per share.

(6) Investments in unconsolidated subsidiaries and affiliates

The amount of Investments in unconsolidated subsidiaries and affiliates is ¥13,467 million ($144,744 thousand) at March 31, 2010.

4. Financial instruments

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008). The adoption of the new accounting standards had only a minor impact on the consolidated statement of income for 2010. Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows:

(1) Policy for financial instruments

Cash surplus from cash and cash equivalents after deduction of operating funds, business investments and policy investments is invested.

The Companies have no intention to use derivatives for dealing or speculative purposes.

The consolidated subsidiaries have entered into overdraft contract for efficient procurement of working capital.

(2) Financial product content and risks

Notes receivable, accounts receivable from completed construction contracts and other are exposed to customer credit risk.

The Companies have short-term investment securities, investment securities and other investments for mainly policy investment in the business. These investments are exposed to the issuer's credit risk and to the risk of fluctuations in the interest rate, foreign currency exchange rate and market price.

Bank loans of consolidated subsidiaries borrow are exposed to the risk that that the interest rate may rise in future.

(3) Risk management for financial instruments

Credit risk management

The Company manages credit risk by business administrative regulations regarding trade receivables. When the Company starts having dealings with a customer, the Company analyzes the customer's credit information and when an order is accepted, the deal is approved by the order discussion committee as occasion deems. The condition of each customer is constantly monitored to reduce risk of customer's default. The consolidated subsidiary conducts similar management.

As the Companies invest only in higher bond rated securities, the Companies believe that the credit risk related to securities is insignificant.

Market risks management

The investment in securities is performed in accordance with the investment management policy on the basis of safety. The companies manage risk by reporting the market price and transaction results on a monthly basis, and reporting the condition of the risk and the result of investing to a business meeting on a quarterly basis. In consideration of relationships with suppliers, the Companies continually review investments other than bonds with maturities.

Supplemental information on the fair value of financial instruments

The Companies calculate the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to changes in the underlying assumptions.

(4) Fair values of financial instruments

At March 31, 2010, book values, acquisition costs and fair values were as follows: Fair values that are difficult to determine are not included in the following table. (See Note 2 for additional information.).

	Millions of yen		
	2010		
	Book value	Fair value	Difference
(1)Cash and cash equivalents	**¥12,150**	**¥12,150**	**¥—**
(2)Notes receivable, accounts receivable from completed construction contracts and other	**23,941**	**23,941**	**—**
(3)Short-term investment securities and investment securities	**12,185**	**12,185**	**—**
(4) Long-term deposits	**800**	**818**	**18**
Total	**¥49,076**	**¥49,094**	**¥18**
(1) Notes payable, accounts payable for construction contracts and other	**¥16,996**	**¥16,996**	**¥—**
(2) Short-term loans payable	**780**	**780**	**—**
Total	**¥17,776**	**¥17,776**	**¥—**

	Thousands of U.S. dollars		
	2010		
	Book value	Fair value	Difference
(1)Cash and cash equivalents	**$130,589**	**$130,589**	**$ —**
(2)Notes receivable, accounts receivable from completed construction contracts and other	**257,320**	**257,320**	**—**
(3)Short-term investment securities and investment securities	**130,965**	**130,965**	**—**
(4) Long-term deposits	**8,598**	**8,792**	**194**
Total	**$527,472**	**$527,666**	**$194**
(1) Notes payable, accounts payable for construction contracts and other	**$182,674**	**$182,674**	**$ —**
(2) Short-term loans payable	**8,383**	**8,383**	**—**
Total	**$191,057**	**$191,057**	**$ —**

Note 1: Method for calculating the fair value of financial instruments, short-term investments in securities

Assets:

(1) Cash and cash equivalents and (2) Notes receivable, accounts receivable from completed construction contracts and other

Book value is used for fair value for these short-term items because these amounts are essentially the same.

(3) Short-term investment securities and investment securities

Market prices on exchanges are used for the fair value of equity securities. Prices quoted by financial institutions are used for the fair value of bonds.

(4) Long-term deposits

The fair values of Long-term deposits are estimated by discounted cash flow analysis, using rates currently available for similar types of deposits with similar terms and remaining maturities.

Liabilities:

(1) Notes payable, accounts payable for construction contracts and other and (2) Short-term loans payable

Book value is used for fair value for these short-term items because these amounts are essentially the same.

Note 2: Fair values that are difficult to determine were as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Classification	Book value	Book value
Unlisted equity securities	**¥14,991**	**$161,124**
Investments in silent partnership	**2,924**	**31,427**

These items are not included in "(3) Short-term investments in securities and investments in securities" because their fair values are difficult to determine.

Note 3: Redemption schedule of receivables and maturities of securities with maturity were as follows:

	Millions of yen			
	2010			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and cash equivalents	**¥12,150**	**¥ —**	**¥ —**	**¥—**
Notes receivable, accounts receivable from completed construction contracts and other	**23,941**	**—**	**—**	**—**
Short-term investment securities and investment securities				
Securities with maturity:				
(1) Government bonds	**—**	**—**	**—**	**—**
(2) Corporate bonds	**—**	**500**	**—**	**—**
(3) Other bonds	**551**	**3,577**	**300**	**—**
Investments in silent partnership	**—**	**2,924**	**—**	**—**
Long-term deposits	**—**	**800**	**—**	**—**
Total	**¥36,642**	**¥7,801**	**¥300**	**¥—**

	Thousands of U.S. dollars			
	2010			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and cash equivalents	**$130,589**	$ —	$ —	$—
Notes receivable, accounts receivable from completed construction contracts and other	**257,320**	—	—	—
Short-term investment securities and investment securities				
Securities with maturity:				
(1) Government bonds	—	—	—	—
(2) Corporate bonds	—	**5,374**	—	—
(3) Other bonds	**5,922**	**38,446**	**3,224**	—
Investments in silent partnership	—	**31,428**	—	—
Long-term deposits	—	**8,597**	—	—
Total	**$393,831**	**$83,845**	**$3,224**	$—

5. Short-term loans payable

Short-term loans payable from banks, at March 31, 2010 and 2009, were represented by overdraft and short-term notes, bearing weighted average interest rates of 1.513% and 1.538% for the years ended March 31, 2010 and 2009, respectively.

The Companies had no long-term debt at March 31, 2010 and 2009.

For efficient procurement of working capital, the consolidated subsidiaries have entered into overdraft contracts with 4 financial institutions in the aggregate amount of ¥1,680 million ($18,057 thousand) as of March 31, 2010 and 2009. The unused facilities maintained by the consolidated subsidiaries as of March 31, 2010 and 2009, amounted to ¥1,050 million ($11,285 thousand).

6. Income taxes

Taxes on income consist of corporation, enterprise and inhabitants taxes. The aggregate statutory tax rate on income before income taxes was approximately 40.7 % for the years ended March 31, 2010 and 2009.

The actual effective tax rate in the accompanying statements of income differed from the statutory tax rate primarily as a result of expenses not deductible for tax purposes.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2010 and 2009.

	2010	2009
Statutory tax rate	**40.7 %**	40.7%
Non-deductible expenses	**1.9**	3.3
Non-taxable dividend income	**(0.8)**	(1.4)
Per capita inhabitant tax	**1.3**	2.0
Valuation allowance	**1.6**	(1.4)
Equity in earnings of affiliates	**(11.9)**	(6.5)
Other	**(1.3)**	1.8
Effective tax rate	**31.5 %**	38.5%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Loss on devaluation of securities	**¥ 570**	¥ 540	**$ 6,126**
Enterprise taxes payable	**102**	110	**1,096**
Provision for bonuses	**426**	462	**4,579**
Provision for retirement benefits	**1,020**	978	**10,963**
Loss from devaluation of guaranty deposits	**29**	30	**312**
Valuation difference on available-for-sale securities	**55**	208	**591**
Other	**481**	521	**5,170**
Valuation allowance	**(389)**	(330)	**(4,181)**
Total deferred tax assets	**2,294**	2,519	**24,656**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(1,184)**	(528)	**(12,726)**
Other	**(67)**	(92)	**(720)**
Total deferred tax liabilities	**(1,251)**	(620)	**(13,446)**
Net deferred tax assets (liabilities)	**¥1,043**	¥1,899	**$11,210**

7. Selling, general and administrative expenses

Major components of selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Employees' salaries and allowances	**¥2,437**	¥2,029	**$26,193**
Provision for bonuses	**463**	398	**4,976**
Retirement benefit expenses	**222**	278	**2,386**
Provision for directors' retirement benefits	**17**	33	**183**
Provision of allowance for doubtful accounts	**4**	160	**43**
Depreciation	**243**	102	**2,612**
Rents	**920**	907	**9,888**

The aggregate amounts of research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2010 and 2009, were ¥121 million ($1,301 thousand) and ¥186 million, respectively.

8. Provision for retirement benefits

The Company has established defined benefit plans: the Employees' Pension Funds Program, Tax qualified pension plan and lump-sum retirement plan. The consolidated subsidiaries established corporate pension plan and lump-sum retirement plan. A certain consolidated subsidiaries participate in the Employees' Pension Funds Program.

Provision for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥(4,967)**	¥(4,844)	**$(53,385)**
Fair value of plan assets	**4,136**	4,017	**44,454**
Unrecognized actuarial differences	**392**	355	**4,213**
Provision for retirement benefits	**¥ (439)**	¥ (472)	**$ (4,718)**

The consolidated subsidiaries adopt the simplified method of calculating the projected benefits obligation.

Included in the consolidated statements of income for the years ended March 31, 2010 and 2009, are employees' severance and retirement benefit expenses consisting of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Retirement benefit expenses	**¥500**	¥633	**$5,374**
Service costs – benefits earned during the year	**270**	412	**2,902**
Interest cost on projected benefit obligation	**65**	109	**699**
Amortization of actuarial differences	**57**	48	**613**
Expected return on plan assets	**(47)**	(83)	**(505)**
Contribution to the Employees' Pension Funds Program	**155**	147	**1,666**

Service cost includes pension expenses of the consolidated subsidiaries calculated by the simplified method.

The discount rates on benefits obligation used by the Companies are 1.5% for the years ended March 31, 2010 and 2009. The rates of expected return on plan assets by tax qualified pension plan used by the Companies are 1.0% and 1.58% for the years ended March 31, 2010 and 2009, respectively. The rate of expected return on plan assets by retirement benefit trust used by the Companies are 1.5% and 2.5% for the years ended March 31, 2010 and 2009, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized as income or expense in equal amounts over 10 years commencing from the year in which they arise.

The Company and a certain consolidated subsidiary participate in several contributory funded multi-employer pension plans. The required contributions to them are recognized as a net pension cost for the year. Of these pension plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Funded status of the entire plan			
Fair value of plan assets	**¥33,848**	¥40,442	**$ 363,800**
Benefit obligations	**43,447**	42,177	**466,971**
Deficit (*1)	**(¥ 9,599)**	(¥ 1,735)	**($103,171)**
Ratio of total salaries of the Companies to total funds of the plan as March 31, 2009(*2)			**12.5%**

The net balance above deficit (*1) is mainly due to the prior service liabilities of ¥364 million for 2008, under-funding in the current fiscal year of ¥8,227 million ($88,424 thousand) and ¥2,591 million for 2009 and 2008, respectively, and general reserves of ¥1,219 million for 2008. The prior service liabilities are being amortized over 5 years and 2 months. The above proportion (*2) does not conform to the actual charge ratio applied to the Companies.

9. Leases

As discussed in Note 2 (9), finance leases commenced prior to April 1, 2008, which do not transfer ownership of leased assets to lessees are accounted for as operating leases.

Assumed amounts of acquisition cost and accumulated depreciation at March 31, 2010 and 2009, are as follows:

	Millions of yen		
		2010	
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	**¥17**	**¥15**	**¥ 2**
Equipment	**76**	**53**	**23**
Total	**¥93**	**¥68**	**¥25**

	Thousands of U.S. dollars		
	2010		
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	**$ 183**	**$161**	**$ 22**
Equipment	**817**	**570**	**247**
Total	**$1,000**	**$731**	**$269**

	Millions of yen		
	2009		
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	¥ 16	¥11	¥ 5
Equipment	108	65	43
Total	¥124	¥76	¥48

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements and the related pro forma depreciation expense and interest expense for the years ended March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Lease payments	**¥26**	¥32	**$279**
Depreciation expense	**23**	28	**247**
Interest expense	**3**	4	**32**

Pro forma depreciation expense is computed by the straight-line method over the respective lease terms assuming a nil residual value.

Future minimum lease payments subsequent to March 31, 2010 and 2009, for finance leases currently accounted for as operating lease are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥17**	¥24	**$183**
Due after one year	**10**	27	**107**
Total	**¥27**	¥51	**$290**

10. Net assets

Under the Japanese Companies Act, the entire amount of payment for new shares is required to be designated as capital stock, although, generally, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Even when the total amount of additional paid-in-capital and legal earnings reserve is less than 25% of common stock, additional paid-in-capital and legal earnings reserve may be available for dividends if there is a sufficient distributable surplus. Both of those appropriations require a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese Companies Act.

At the annual shareholders' meeting held on June 29, 2010, the shareholders resolved cash dividends amounting to ¥560 million ($6,019 thousand) as described in Note 15. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010. Such appropriations will be recognized in the period when they are resolved.

11. Stock option plan

1. Stock option expense that was accounted for as Selling, general and administrative expenses on the consolidated statement of income for the year ended March 31, 2010, amounted to ¥40 million ($430 thousand).

2. Outline of stock option

(1) Stock option plan approved by the shareholders meeting on June 26, 2009

Persons granted	9 directors of the Company 13 corporate officers of the Company
Number of options granted	58,500 common shares
Date of grant	October 1, 2009
Exercise condition	No provisions
Intended service period	No provisions
Exercise period	October 2, 2009 – October 1, 2039 *

* Within 10 days from the day following the day that a subscription holder loses its position as a director or corporate officer of the Company.

(2) Scale and changes in stock options

The following describes scale and changes in stock options that existed during the fiscal year ended March 31, 2010.

a) Number of stock option

Approved day	June 26, 2009
Fiscal year ended March 31, 2010	
Before Vested	(Share)
March 31, 2009 – Outstanding	—
Granted	58,500
Canceled	—
Vested	58,500
March 31, 2010 – Outstanding	—
Vested	
March 31, 2009– Outstanding	—
Vested	58,500
Exercised	—
Canceled	—
March 31, 2010 – Outstanding	58,500

b) Price information

Approved day	June 26, 2009
Exercise price	¥1 per share ($0.01 per share)
Average exercise price	—
Fair value at grant date	¥686 ($7.37)

(3) Valuation method for estimating per share fair value of stock options

a) Valuation method used Black-Scholes option-pricing model

b) Principal parameters and estimation method

Expected volatility of the underlying stock (*1)	29.7%
Remaining expected life of the option (*2)	8 Years
Expected dividends on stock (*3)	¥18.5 ($0.20) per share
Risk-free interest rate during the expected option term (*4)	1.02%

(*1) Calculated based on the actual stock prices during the eight years from September 24, 2001, to September 21, 2009.

(*2) The average expected life of the option was estimated the average period from valuation dates to each director's and corporate officer's expected retirement date.

(*3) Based on the dividend records from the 12 months preceding the date (intermediate dividend and year-end dividend for the year ended March 2009).

(*4) Japanese government bond yield corresponding to the average expected life.

3.Summarized information on the stock options outstanding as of March 31, 2009, is as follows:
(1) Stock option plan approved by the shareholders meeting on June 27, 2003

	June 27, 2003	Total
Number of shares for options granted	700,000 share	700,000 share
Number of shares for options outstanding	0 share	0 share
Exercise price	¥796	
Option term	July 1, 2005 – June 30, 2008	

The stock options activity is as follows;

Approved day	June 27, 2003
For the year ended March 31, 2008	
Non-Vested	(Share)
March 31, 2008 – Outstanding	—
Granted	—
Canceled	—
Vested	—
March 31, 2009 – Outstanding	—
Vested	
March 31, 2008– Outstanding	302,000
Vested	—
Exercised	44,000
Canceled	258,000
March 31, 2009 – Outstanding	—
Exercise price	¥796
Average stock price at exercise	¥858

12. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010, was as follow.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net Income	Weighted average shares	EPS	EPS
For the year ended March 31, 2010				
Basic EPS				
Net income available to common shareholders	**¥2,440**	**33,185**	**¥73.56**	**$0.79**
Effect of dilutive securities				
Stock acquisition rights		**29**		
Diluted EPS				
Net income for computation	**¥2,440**	**33,214**	**¥73.49**	**$0.79**

13. Segment information

The Companies are mainly engaged in the construction business and sale and production of equipment.

Summaries of net sales, operating income and assets by industry segment for the years ended March 31, 2010 and 2009, were as follows:

2010	Millions of yen					
	Construction	Equipment	Other	Total	Eliminations or Corporate	Consolidated
Net sales:						
Outside customers	**¥53,668**	**¥ 6,775**	**¥1,936**	**¥62,379**	**¥ —**	**¥62,379**
Inter-segment	—	**3,873**	**289**	**4,162**	**(4,162)**	—
Total	**53,668**	**10,648**	**2,225**	**66,541**	**(4,162)**	**62,379**
Operating expenses	**51,856**	**10,341**	**2,183**	**64,380**	**(4,209)**	**60,171**
Operating income	**¥ 1,812**	**¥ 307**	**¥ 42**	**¥ 2,161**	**¥ 47**	**¥ 2,208**
Assets and others:						
Assets	**¥31,567**	**¥ 6,846**	**¥2,239**	**¥40,652**	**¥33,980**	**¥74,632**
Depreciation	**257**	**2**	**13**	**272**	—	**272**
Capital Expenditures	**257**	**4**	**4**	**265**	—	**265**

2009	Millions of yen					
	Construction	Equipment	Other	Total	Eliminations or Corporate	Consolidated
Net sales:						
Outside customers	¥49,849	¥ 8,305	¥2,005	¥60,159	¥ —	¥60,159
Inter-segment	—	3,659	369	4,028	(4,028)	—
Total	49,849	11,964	2,374	64,187	(4,028)	60,159
Operating expenses	47,979	11,686	2,409	62,074	(3,952)	58,122
Operating income	¥ 1,870	¥ 278	¥ (35)	¥ 2,113	¥ (76)	¥ 2,037
Assets and others:						
Assets	¥31,566	¥ 7,005	¥2,265	¥40,836	¥30,935	¥71,771
Depreciation	125	1	26	152	—	152
Capital Expenditures	668	1	14	683	—	683

2010	Thousands of U.S. dollars					
	Construction	Equipment	Other	Total	Eliminations or Corporate	Consolidated
Net sales:						
Outside customers	**$576,827**	**$ 72,818**	**$20,809**	**$670,454**	**$ —**	**$670,454**
Inter-segment	—	**41,627**	**3,106**	**44,733**	**(44,733)**	—
Total	**576,827**	**114,445**	**23,915**	**715,187**	**(44,733)**	**670,454**
Operating expenses	**557,352**	**111,145**	**23,463**	**691,960**	**(45,238)**	**646,722**
Operating income	**$ 19,475**	**$ 3,300**	**$ 452**	**$ 23,227**	**$ 505**	**$ 23,732**
Assets and others:						
Assets	**$339,284**	**$ 73,581**	**$24,065**	**$436,930**	**$365,220**	**$802,150**
Depreciation	**2,762**	**21**	**140**	**2,923**	—	**2,923**
Capital Expenditures	**2,762**	**43**	**43**	**2,848**	—	**2,848**

Common assets included in "Eliminations or Corporate" column under "Assets" amounted to ¥35,490 million ($381,449 thousand) and ¥32,701 million as of March 31, 2010 and 2009, respectively. The significant assets included in the amount were surplus operating funds (cash and short-term investment securities) and long-term investment fund (investment securities) of the Company.

Depreciation and capital expenditure includes long-term prepaid expenses and amortization of them.

As discussed in Note 2(7), the Companies adopted the "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan Statement ("ASBJ") No.15 issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18 issued on December 27, 2007). Accordingly, when the outcome of individual contracts can be estimated reliably, the Companies apply the percentage of completion method to work commencing during the year ended March 31, 2010, otherwise the completed contract method is applied. The percentages of completion are measured by the ratio of the costs incurred to the estimated total costs for each contract. This adoption increased net sales by ¥2,699 million ($29,009 thousand) and operating income and income before income taxes by ¥313 million ($3,364 thousand).

None of segment information by geographic segments or overseas sales is shown as the Companies have no foreign operations or oversea sales.

14. Related party transaction and balances

Nihon Meccs Co., Ltd.'s summarized financial information as of and for the year ended March 31, 2010 and 2009.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Total current assets	**¥28,619**	¥27,187	**$307,599**
Total non-current assets	**14,457**	14,910	**155,385**
Total current liabilities	**9,868**	10,323	**106,062**
Total non-current liabilities	**2,982**	2,855	**32,051**
Total net Assets	**30,226**	28,919	**324,871**
Net sales	**54,820**	52,260	**589,209**
Income before income taxes	**2,111**	1,866	**22,689**
Net income	**1,217**	985	**13,080**

15. Subsequent event

(1) Cash dividends

The following appropriation of retained earnings at March 31, 2010, was approved at the annual shareholders meeting of the Company held on June 29, 2010.

	Millions of yen	Thousands of U.S. dollars
Cash dividends – ¥17.0 ($0.18) per share	**¥560**	**$6,019**

(2) Toyama Koei Co., Ltd. acquisition

On April 28, 2010, the Company resolved at its board of directors meeting that the Company will acquire 100% of shares in Toyama Koei Co., Ltd. from Tomika Corporation (Headquarters: Toyama-shi, Toyama).

The summary is as follows:

a) Purpose of the acquisition

To enlarge business domain for a national medicine manufacture business and food manufacture business based in Toyama Prefecture and strengthen plan design duties and plan advances in the environmental field, for example in the liquid waste treatment business.

b) Overview of Toyama Koei Co., Ltd.

Name of company	Toyama Koei Co., Ltd.
Headquarters	3-18, Hisakata-cho, Toyama-shi, Toyama
Representative	Morio Togano
Major business	Design, execution, maintenance and management of medicine manufacture, drug plant, food manufacture and environmental facilities.
Capital stock	¥20 million ($215 thousand)

c) Number of shares acquired is summarized as follows:

The number of shares owned before the acquisition	0 shares (ownership percentage: 0%)
The number of shares acquired	4,000 shares
The number of shares owned after the acquisition	4,000 shares (ownership percentage: 100%)

d) Schedule of acquisition

April 28, 2010: resolution of the Board of directors meeting

June 30, 2010: date of acquisition

(3) Granting of stock options (stock-based compensation in the form of stock options)

At a meeting on June 29, 2010, the Board of directors of the Company passed a resolution for stipulating subscription conditions and providing for the directors (excluding outside directors) and corporate officers to underwrite stock options issued under the provisions of Articles 236, 238 and 239 of the Japanese Companies Act,.

Independent Auditors' Report

To the Board of Directors of Hibiya Engineering, Ltd.:

We have audited the accompanying consolidated balance sheets of Hibiya Engeineering, Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hibiya Engineering, Ltd. and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 2.(7) to the consolidated financial statements, effective from the year ended March 31, 2010, Hibiya Engeineering, Ltd. and consolidated subsidiaries adopted the “Accounting Standard for Construction Contracts” and the “Guidance on Accounting Standard for Construction Contracts” .

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 29, 2010

KPMG AZSA & Co.

Corporate Data

Investor Information

As of March 31, 2010

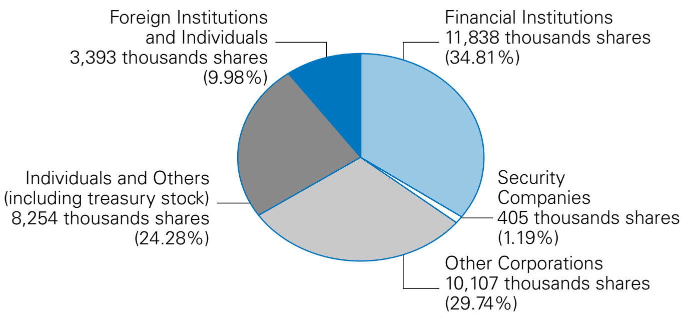
Total number of shares authorized	96,500,000 shares
Total number of shares issued	34,000,309 shares
Number of shareholders	3,137

Major Shareholders

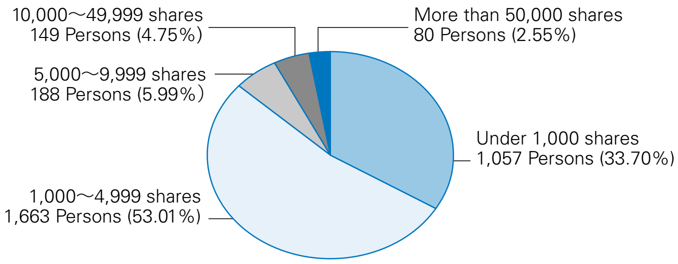
	Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1	Japan Trustee Services Bank, Ltd. (Trust account)	2,267	6.88
2	NTT Urban Development Co.	1,371	4.16
3	Hibiya Engineering Customer Stock Ownership Plan	1,225	3.72
4	The Master Trust Bank of Japan, Ltd. (Trust account)	1,132	3.44
5	The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	2.73
6	Sumitomo Mitsui Banking Corporation	853	2.59
7	The Japan Telecommunications Welfare Associations	838	2.55
8	The Dai-ichi Mutual Life Insurance Company	818	2.48
9	Resona Bank, Limited	786	2.39
10	CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	645	1.96

Notes
1) The list of major shareholders does not include 1,051,127 shares of treasury stock held by the Company.
2) The 1,051,127 shares of treasury stock held by the Company are not included in the calculation of the percentages of shares issued.
3) Blandes Investment Partners L.P. submitted a large shareholding report on October 8, 2009. However, the list of major shareholders does not include this shareholder because the nominees of these shares and other items could not be confirmed as of March 31, 2010.
Large shareholder: Blandes Investment Partners L.P.
Shares held: 1,701 thousand (5.0% of all shares issued)
4) The Dai-ichi Life Mutual Insurance Company was renamed The Dai-ichi Life Insurance Co., Ltd. on April 1, 2010.

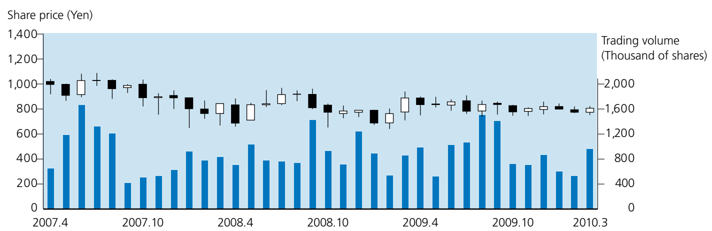
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

As of June 29, 2010

President and Representative Director	Haruki Nomura
Vice President and Representative Director	Shigeru Toyoda
Director	Morio Fukuki
Director	Yasuo Shinoda
Director	Yasuji Uemura
Director	Hideo Noro
Director	Kenji Saitou
Director	Tetsuya Kamachi
Director	Toshikazu Chinzei
Director	Kensho Kusumi
Standing Corporate Auditor	Ken Yasuda
Auditor	Makoto Satou
Auditor	Nobutoshi Kozuka
Auditor	Masahiro Ikeda

Notes
1) Toshikazu Chinzei and Kensho Kusumi are external directors under the terms of the Corporate Law Article 2 Section 15.
2) Ken Yasuda, Makoto Satou and Nobutoshi Kozuka are external auditors under the terms of the Corporate Law Article 2 Section 16.
3) The Company has notified the Tokyo Stock Exchange that Toshikazu Chinzei and Kensho Kasumi are external directors and Ken Yasuda and Nobutoshi Kozuka are external corporate auditors.

Offices

As of March 31, 2010

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Sumitomo Fudosan Mita Twin Building East, 4-2-8, Shibaura, Minato-ku, Tokyo

Tokyo Main Office
3-4-1, Shibaura, Minato-ku, Tokyo

Branches
Yokohama, Osaka, Shikoku, Nagoya, Hokuriku, Tohoku, Hiroshima, Kyushu, Sapporo

Offices
Kita-Kanto, Nagano, Niigata, Chiba, Ibaraki, Tama, Kobe, Shizuoka, Akita, Okayama, Kumamoto, Okinawa, Kagoshima, Hakodate

Research Facilities
Noda in Chiba Prefecture

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