

Hibiya Engineering, Ltd.
ANNUAL REPORT 2006



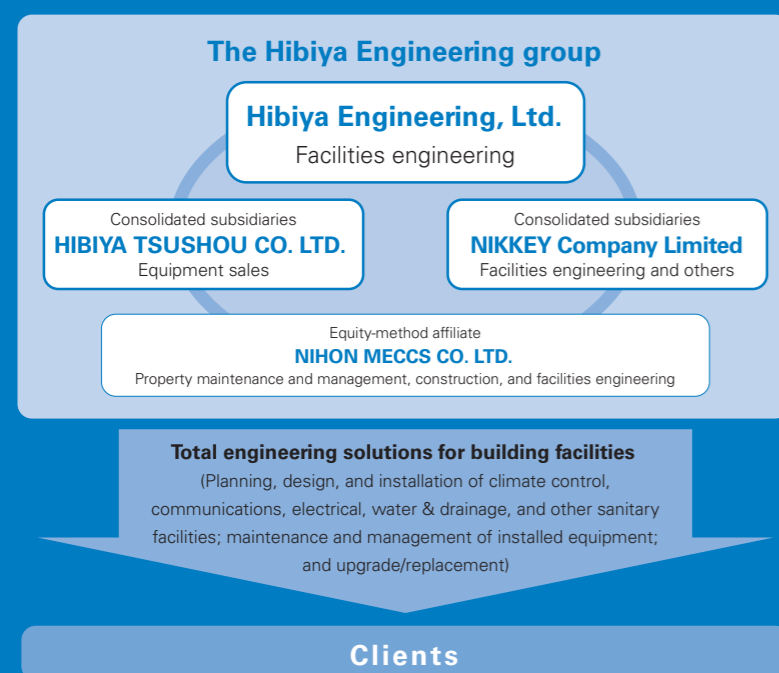
PROFILE

The Hibiya Engineering group has grown to provide a comprehensive range of facilities engineering products and services, based on respect for the environment and the comfort of users.

Our services range from the planning, design, and installation of climate control, sanitary, electrical, and communications facilities, to their maintenance, management, and eventual upgrading. A particular strength is the ability to meet the social needs of the

time by applying advanced energy-saving technologies to implement a number of sophisticated open-network IT environments and workplaces.

We believe 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.



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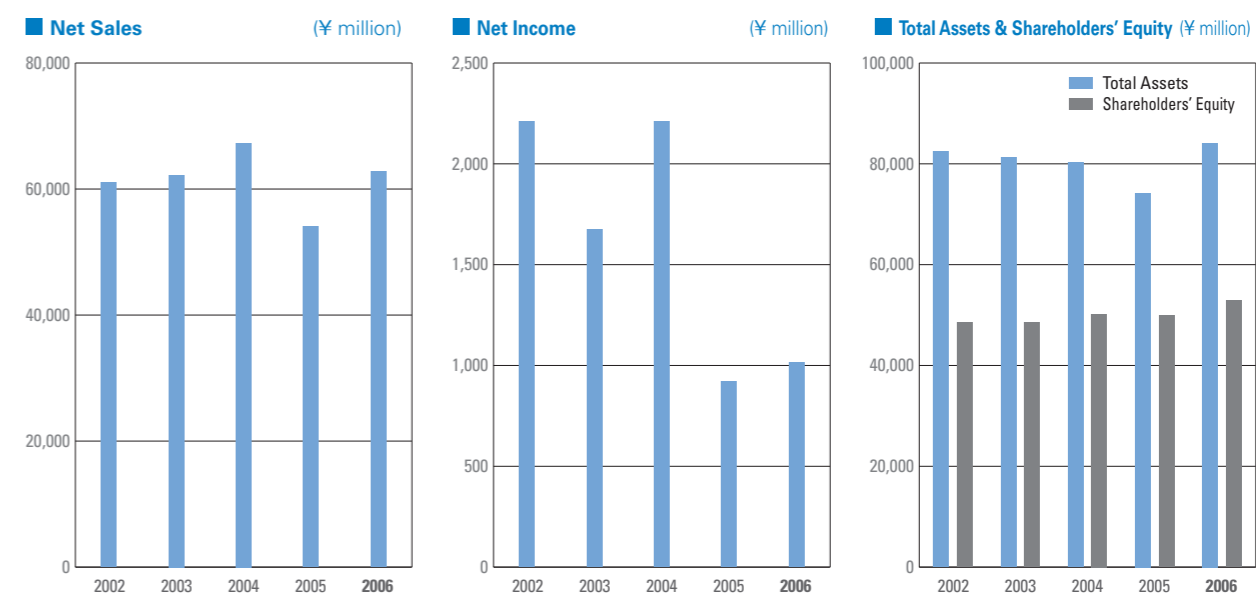
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Consolidated Financial Highlights

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

	2002	2003	2004	2005	2006	2006
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥61,047	¥62,232	¥67,317	¥54,065	¥62,771	\$534,358
Net Income	2,209	1,675	2,211	922	1,014	8,632
Total Assets	82,493	81,204	80,311	74,212	84,128	716,166
Shareholders' Equity	48,590	48,521	50,222	49,888	52,838	449,800
	Yen					U.S. dollars
Per share:						
Shareholders' Equity	¥1,215.59	¥1,266.83	¥1,362.08	¥1,388.28	¥1,452.01	\$12.36
Net Income	55.25	40.78	57.24	24.55	26.25	0.22
Cash Dividends (non-consolidated basis)	15.00	15.00	15.00	15.00	25.00	0.21

Note: 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, 2006, which was ¥117.47 to U.S. \$1.00.



A Message from the President



Shinya Kimura
President and Representative Director

I would like to take this opportunity to express my earnest appreciation to the shareholders and investors for your constant special consideration.

The Company welcomed its fortieth anniversary in March 2006 and I am grateful to the shareholders as well as our predecessors for their many efforts that have made this possible. I would also like to express my sincere gratitude to NTT and its group units.

We have realized a solid recovery in both sales and profits as the result of positive business development due in part to the activation of the private sector market.

~ Review of year ended March 31, 2006 ~

Two years are about to elapse since I first took over as company president and, in the midst of efforts to deal with important business issues, I feel that the environment encompassing the industry and especially our company is becoming more clearly visible. I have expressed in the past my feeling that the market is changing at a speed faster than imagined and that also applies to the present.

In other words, the industry overall is in an extremely tough environment and, within that context, it is a business

field in which, for example, it is not readily possible to boost the profit rate and each company will continue devising ingenious ways to realize a profit. Moreover, prompted by the Kyoto Protocol, which went into effect in February 2005, and the Energy Conservation Law enacted in April 2006, the industry is in a business field that will be even more in the spotlight than it is at present in such areas as global environmental problems and CO₂ emissions.

Meanwhile, signs of recovery in orders received emerged in the market environment during the term under review including somewhat less stringent constraints on public works investments and brisk capital investments in the private sector market.

Within this market environment, the Group's total volume of orders received on a consolidated basis for the term under review amounted to ¥54,593 million (up 9.1% year-on-year), consolidated net sales ¥62,771 million (up 16.1%), consolidated operating income ¥732 million, and consolidated net income of the term ¥1,014 million (up 10.0%).

On a non-consolidated basis, the volume of orders received amounted to ¥51,794 million (up 8.7% year-on-year), net sales ¥52,177 million (up 15.2%), operating income ¥334 million, and net income of the term ¥540 million (up 45.9%).

Thus, considerable recovery has become evident in both consolidated and non-consolidated results compared to the previous term.

The primary factors in this recovery can be considered the success of exhaustive group-wide efforts to promote a customer orientation as well as the reinforcement of competitive strength for orders through sales activities based on energy conservation or renovation proposals and measures aiming for expanded orders especially in the private sector market, which we have long been pursuing, as well as a sharp rise in both orders received and sales volume in that market due in part to dynamic activity in the market itself. Though they are non-consolidated figures, the volume of orders gained in the private sector increased by 23.4% compared to the previous year while sales increased by 32.0%.

Furthermore, project management initiatives including more exhaustive efforts to promote an effective construction infrastructure made it possible to reduce construction costs more than ever, leading thereby to the realization of expanded profits.

Implementation of organizational reform, one of the most important issues in the HIBIYA21 2006 medium-term plan, was conducted.

We were in the second year of the HIBIYA21 2006 medium-term plan during the term under review and

organizational reform, which is advocated as one of the most important issues in the plan, was implemented on July 1, 2005.

A thoroughgoing customer orientation was first of all promoted in sales and construction and, in order to implement integrated activities from proposal and order receipt to after-sales follow-up, we reorganized the Urban Facilities Division, which provides customer services for private and public sector clients, and the NTT Division, which deals with NTT and affiliated units, each of which was transformed into an organization consisting of a sales sector and construction sector. This structure made it possible for us to respond to customer needs more precisely than ever.

Moreover, the Sales Planning Division and Development Sales Division had previously been combined in the Sales Division; however, we established a new Development Sales Promotion Division in order to be able to more effectively identify needs and provide advice and services with the aim of acquiring project orders through direct contracts with end-users and final clients with a higher profit rate especially within the private sector market.

One important measure in organizational reforms was the establishment of the new Engineering Division. Development, technology improvement and other functions, which previously had all been independent, were integrated that would make it possible to demonstrate and upgrade the comprehensive technological capabilities of the company while also seeking to reinforce competitive strength for orders through technological proposals. Besides the Technology Planning Department, Renovation Department, Environment and Energy Department and IT Engineering Department, the division also has a Design and Estimate Department, what could truly be described as the integration of the technological brains of the company. It has been assigned two missions, namely, the promotion of improvements in services and technology in existing operation areas and pioneering efforts in adjacent business areas.

Besides competitive strength based on price in the current market environment, importance is also placed on technological proposals that meet needs more precisely and other proposal sales activities. We intend to implant a stronger awareness of these missions in these organizations and ensure that they contribute to future business development.

In addition to the effects of the renewal of awareness the year before last, the outcome of this reform is definitely emerging as the result of efforts aiming to expand orders in the private sector market given the general view that market expansion of NTT and its group units as well as the

public sector can no longer be expected.

We will actively pursue an expansion of the market and provide high quality as a leader in the facilities and equipment engineering industry.

I think that basically our team of outstanding human resources is the most important strength that we have in the Group for the development of business. In addition, it will also be important for the Company to receive more orders for work outside of the NTT group, especially in the private sector market. The enterprising spirit of all of the employees including myself that enables us to think and act without being shackled by stereotype concepts in the development of these new frontiers of demand can also be considered one of our strengths. I firmly believe that, for the reform of the industry itself, it is necessary to promote business operations based on new and unique concepts.

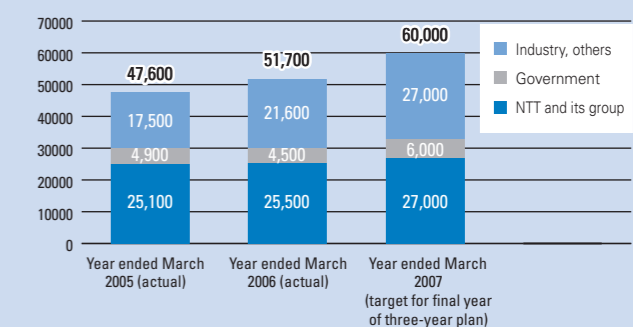
In addition, though there is a tendency to give priority to profitability in business management, we intend to maintain the high quality that we have persistently sought for the past forty years since the founding of the company centered in the Safety and Quality Maintenance Promotion Office. We will firmly maintain this approach even in the face of intense competition in private sector markets and will seek to incorporate that as a distinctive feature of the company and also a strong point.

Without forgetting the feelings that we have always had of placing high value on the customer, the Group will actively advance into new business areas as challenges and will make every effort to acquire orders from new customers as well.

The in-house structure for CSR activities was reinforced and a renewal of awareness of the employees was promoted during the term under review.

Though we have thus far dealt appropriately with the various measures for CSR (corporate social responsibility) at the company as the need arose, the CSR Promotion

■ Sales (non-consolidated) by market (millions of yen)



Office was newly established at the headquarters on October 1, 2005, as the unit in charge of planning and coordinating CSR activities on a company-wide basis. The priority will now be placed on quality, safety, the environment, technology and compliance with the aim of becoming a company that appeals more strongly to stakeholders.

The HIBIYA Vision was formulated as a part of these CSR activities and also as a management reform. In a word, it expresses the basic concept of "instilling buildings with life through light, water, air and information as a facilities and equipment engineering business and creating an environment that is safe and comfortable for the customer and for society." In addition, as the guidelines for action of the HIBIYA Vision, we envision the goal of "talking together to promote change and taking action to promote growth." I think that, in order to introduce innovation, it is always important to have a feeling of openness internally in the company that enables each individual employee to think in terms of this concept with a constant awareness of what the company should do and how is though go about doing it, express their opinions in actual words and talk about issues together. The company's development depends on having a sense of crisis that is shared by both the employees and executives, who are the company's constituents, while fostering solidarity. Within that context, I think that it is the task of the company's president to take the initiative in pursuing reform.

The Company has compiled a specific action plan for the future by coherently integrating the concepts of CSR and the HIBIYA Vision and undertaking repeated serious discussions for the purpose of positioning them as the Company's CSR activities. In order to ensure that these

CSR activities take root as dynamic activities, I intend to take steps to assure that the goal can be shared within the company and further promote the enhancement of the awareness of each individual employee.

This was a grand project on a company-wide scale created over a year-long period through the unified efforts of the executives and employees consisting of a reaffirmation of the company's responsibilities to society and its mission at this juncture marked by the company's fortieth anniversary, an action plan for achieving that, the approach sought for the company as the essential goal and the company philosophy in the form of a mission, action plan and image five years into the future. Though it took considerable time since it was thoroughly discussed with the participation of all employees, we did achieve a sense of solidarity among the employees and all of us working together were able to give thought to the issue of comprehending the nature of the company's DNA. I think that, through the HIBIYA Vision, we were able to establish the explicit image of the company that we are pursuing prompted by this fortieth anniversary. I inherited the HIBIYA21 2006 medium-term business plan from the former president and am currently engaged in implementing the various measures and I position the HIBIYA Vision and CSR activities as the entity that will bring this to life.

In regard to compliance, the most critical issue faced by the construction industry is the problem of bid-rigging collusion. We will in principle unify our awareness of this issue internally in order to comply more specifically with laws and ordinances with a sense of respect in our work with government agencies.

We are aiming for business expansion in the fields of the environment, energy and security as a business strategy for the next generation.

We have met various challenges during the term under review with the aim of expanding our business into new fields as a business strategy for the next generation.

One of them, for example, is the field of "physical security." In the past, we jointly developed the security authentication system known as Wakenet at the request of NTT Facilities, Inc., and produced by subsidiary Nikkei Co., Ltd. We have also succeeded in receiving orders for security systems for Tokyo municipal government buildings through our own unique basic technology.

There is also a need for the further development of the Hibiya brand and investments for that purpose must be made. We have actually experienced numerous challenges in construction work for government agencies including PFIs and ESCOs, though problems remained in terms of business profitability. I think, however, that, once we achieve further growth in our security system business, that will also help accelerate our advance into these areas.

Meanwhile, it is hoped that the amended Energy Conservation Law of April 1, 2006, will serve as a factor leading to a considerable boost in sales for the industry. For example, BEMSs (Building Energy Management Systems) are a tool for optimizing the management of energy used in buildings and we are also making earnest efforts to acquire orders for ESCOs and other buildings using that technology.

We are aiming for an expansion in orders including new fields such as this and will continue to actively implement organizational reforms as the need emerges.

The business climate, though persistently tough, continues to move toward recovery and the Group is promoting improvements in competitive strength and profitability including proactive development in new business fields.

~ Outlook ~

As the outlook for the future, though there are still some uncertainties such as the surging cost of oil, the business climate overall is on a track toward recovery. While continued moves toward an increase in private sector capital investment are evident in the construction industry, price competition is intensifying even though the constraints on public works investment have moderated to a degree and tough times will likely persist in the business environment.

Within this environment, the Group is promoting a further expansion in orders through the proactive

development of new business operations and by other means together with an improvement in competitive strength and profit-earning capacity.

Total consolidated construction orders in the upcoming term ending March 2007 are expected to amount to ¥62,500 million, consolidated sales volume ¥69,000 million, consolidated operating profit ¥1,500 million and consolidated net profit for the term ¥1,600 million. In addition, we are also planning to post ¥60,000 million in total non-consolidated orders, ¥59,000 million in sales, ¥1,300 million in operating profit and ¥1,100 million in net profit for the term.

The applicable scope of the percentage-of-completion method for long-term projects will be somewhat expanded when posting sales volume beginning in the upcoming term. An upswing in profits through private sector construction is anticipated and we expect to be able to achieve those amounts. Even so, we do not expect any growth in profits from government projects even if there is a boost in sales volume. Though orders received and sales volume are the same as the planned amounts in HIBIYA 2006, we will likely see advancing changes in the makeup of the portfolio reflecting the relative importance of NTT and group units, public sector and private sector.

Dividends for the term under review will include a memorial dividend of ¥10 to commemorate the Company's fortieth anniversary in March 2006 and, combined with the usual dividend of ¥15, we have decided to offer a total dividend of ¥25 per share (interim dividend of ¥7.5 and term-end dividend of ¥17.5).

While basically continuing sound business management, the Company will also continue to challenge new business areas. The markets in which we are developing operations are not expected to expand significantly in the future and, in order to us to generate profit appropriately as a corporation, we expect to cautiously though boldly push forward with challenges in new business areas with all of the employees working hand in hand.

I would like to express my sincere gratitude to all of our shareholders and investors for your anticipation of further growth and for your constant support of Hibiya Engineering Ltd. at this juncture on our fortieth anniversary.



Shinya Kimura
President and Representative Director

Medium-Term Plan "HIBIYA21 2006"

Objectives

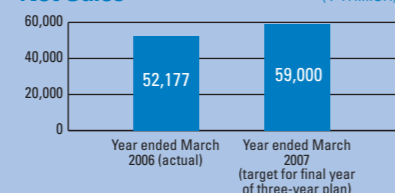
- To achieve an early recovery in earnings, based on an enhanced ability to deliver proposal-based marketing solutions and cost reductions
- To build a platform for further growth, through effective utilization of technologies and capital, and the development of new markets
- To transform our approach to business and our corporate culture, through the adoption of new personnel systems and organizational reform

Major Figures (on non-consolidated basis)

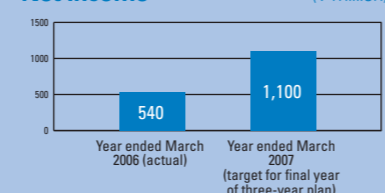
(¥ million)

	Year ended March 2006 (actual)	Year ended March 2007 (target for final year of three-year plan)
Orders Received	¥51,794	¥60,000
Net Sales	52,177	59,000
Operating Income	334	1,300
Net Income	540	1,100
Gross profit margin	8.7%	9.7%
Return on Shareholders' Equity	1.4%	2.8%
Net Sales per Employee	70	81

Net Sales (¥ million)



Net Income (¥ million)



Operations by segment

Construction

The value of completed construction work during the year increased 15.3%, to ¥52,506 million. Segment profitability moved from an operating loss of ¥106 million in the previous term to operating income of ¥388 million.

Ventilation orders totaled ¥24,766, an increase of 2.1% over the previous year, and the value of completed works increased 12.1%, to ¥26,588 million. Orders for plumbing and sanitary technology increased 29.5%, to ¥14,982 million, and the value of completed works increased 26.9%, to ¥11,800 million. Electrical equipment orders increased 2.4%, to ¥12,387 million, while the value of completed works increased 12.8%, to ¥14,117 million.

Equipment

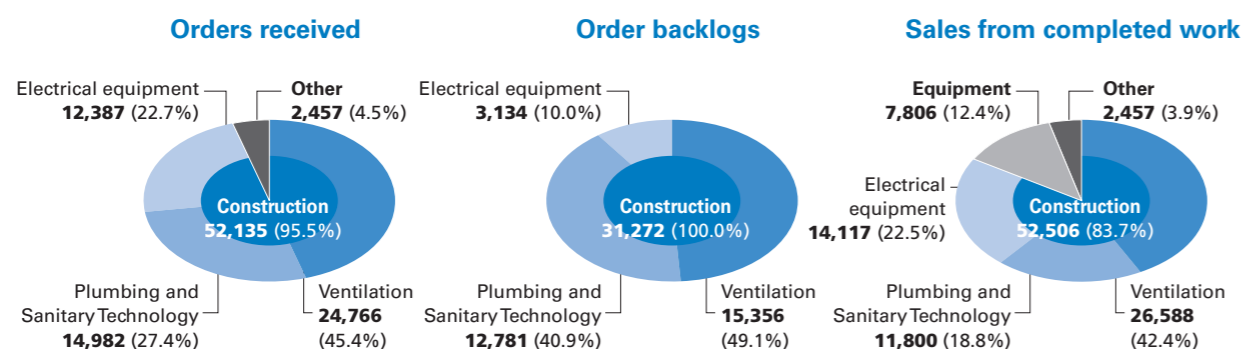
Sales in the equipment segment totaled ¥7,806 million, an increase of 22.1% over the previous year. Operating income increased 469.2%, to ¥148 million.

Other (manufacture and sale of construction-use equipment)

Sales in the other segment increased 15.4%, to ¥2,457 million. Operating income was ¥152 million, an increase of 230.4%.

Orders, order balance, and completed work by business, year ended March 31, 2006 (¥ 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.



Sales and operating income by segment, year ended March 31, 2006 (¥ million)

	Construction	Equipment	Other	Total	Eliminations or corporate	Consolidated
Sales						
1) Sales to customers	¥52,506	¥7,806	¥2,457	¥62,771	¥ -	¥62,771
2) Internal sales and transfers	-	4,580	490	5,071	(5,071)	-
Total	52,506	12,387	2,948	67,842	(5,071)	62,771
<i>Reference: Year ended March 31, 2005 Sales</i>	45,539	8,988	2,625	57,153	(3,088)	54,065
Operating expenses						
<i>Reference: Year ended March 31, 2005 Operating expenses</i>	45,646	8,961	2,579	57,187	(3,111)	54,075
Operating income						
<i>Reference: Year ended March 31, 2005 Operating income / loss</i>	388	148	152	689	41	731
	(106)	26	46	(33)	23	(10)

Consolidated earnings of Hibiya Engineering, Ltd. (the Company) advanced substantially during the year to March 31, 2006. Sales increased 16.1% over the previous year, ordinary income 50.2%, and net income 10.0%.

The increase in consolidated net sales, from ¥54,065 million in the previous year to ¥62,771 million, resulted principally from a 9.1% rise in the value of orders (to ¥54,593 million) and an expanded order book of uncompleted orders at the end of the previous fiscal year. The rise in new orders won resulted from a more competitive marketing presence, as the Company targeted proposal-driven orders for energy-saving projects and refurbishments. Non-consolidated sales to the NTT group stood at ¥25,555 million, generally in line with the previous year's figure but 36% lower than four years previously. Non-consolidated sales to the government segment fell 7.9% during the past year and 41% compared with the peak of three years ago. Offsetting this was a 23.6% rise in sales to the private sector over the previous year. We noted in last year's report that adapting to changes in market demand is a key challenge for the Company. The performance in the year under review shows some success in adapting, with private-sector sales now accounting for 41.9% of the total, compared with 25.8% in the year to March 2002.

Expenses

The Company successfully reversed the ¥10 million operating loss of the year to March 31, 2005. We reported operating income of ¥731 million, due to the increase in sales and a consequent rise in gross profit on completed work. The gross margin improved from 9.9% to 10.1%, and we were able to restrict the rise in selling, general, and administrative expenses to 5.0%.

Ordinary income increased 50.2%, to ¥1,716 million. This was principally due to the rise in operating income. Equity-method income continued to decline, from ¥513 million to ¥313 million, which reduced overall net non-operating income.

Net income increased 10.0%. The rise was smaller than at the ordinary income line because of a substantial increase in income taxes, from ¥377 million to ¥652 million. Net income per share advanced from ¥24.55 (non-diluted) and ¥24.48 (diluted) to ¥26.25 (non-diluted) and ¥26.08 (diluted).

Balance sheet

Assets

Total consolidated assets increased by ¥9,916 million during the year. This was a function principally of a

¥6,490 million increase in current assets, which in turn resulted largely from a ¥4,350 million increase in notes and accounts receivable and a ¥1,363 million rise in the cost of uncompleted contracts.

Liabilities

Consolidated current liabilities increased by ¥5,654 million during the year, principally through a rise in notes and accounts payable (¥3,550 million) and advances received on uncompleted contracts (¥1,156 million). The company's long-term liabilities rose to ¥1,280 million on the recognition of deferred tax liabilities. This lengthened the payback period (interest-bearing debt divided by cash flow from operations) from essentially zero to 1.5 years.

Equity

Consolidated group equity increased by ¥2,950 million, as a result of larger appraisal gains on securities (up ¥2,205 million). The Company retired 1,655 thousand shares during the year. The consolidated shareholders' equity ratio declined from 67.2% to 62.8%.

Asset efficiency

The result of this performance was to raise the return on equity (net income as a proportion of shareholders' equity) from 1.8% to 2.0%. This was below our target of 2.8% at the end of March 2006.

Cash flow

Operations represented a net ¥526 million cash inflow. The improvement from the ¥1,791 million use of cash in the previous year resulted from the increase in pre-tax net income, the rise in advances received on uncompleted contracts, and reduced cash payments of income tax. The increase in notes and accounts payable was generally offset by the reduction in notes and accounts receivable.

Investment activities represented a ¥1,658 million use of cash, compared to a ¥73 million use of cash the previous year. This was due to increased purchases of investment securities and reduced proceeds from their sale.

Financing activities represented a ¥425 million use of cash, compared to a ¥1,399 million use of cash the previous year. This resulted principally from reduced payments for the purchase of treasury stock and increased proceeds from their sale.

Cash and equivalents at the end of the year under review declined ¥1,556 million, from ¥15,056 million to ¥13,499 million.

Consolidated Balance Sheets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	¥13,499	¥15,056	\$114,914
Marketable securities (Note 4)	3,326	1,296	28,314
Notes and accounts receivable-trade	22,257	17,907	189,470
Allowance for doubtful accounts	(75)	(117)	(638)
Cost of uncompleted contracts	5,604	4,241	47,706
Deferred tax assets (Note 7)	434	329	3,695
Other	866	709	7,371
Total current assets	45,911	39,421	390,832
Property, plant and equipment, at cost:			
Land	200	203	1,702
Buildings and structures	1,307	1,298	11,126
Other	713	676	6,070
Total	2,220	2,177	18,898
Accumulated depreciation	(1,580)	(1,584)	(13,450)
Total property, plant and equipment, net	640	593	5,448
Investments and other assets:			
Investment securities (Note 4)	20,018	16,871	170,409
Investments in affiliates (Note 4)	11,421	11,108	97,225
Long-term loans receivable	41	33	349
Long-term insurance premium	2,629	2,484	22,380
Investments in silent partnership	1,500	1,500	12,769
Deferred tax assets (Note 7)	26	223	221
Other	2,034	2,084	17,316
Allowance for doubtful accounts	(92)	(105)	(783)
Total investments and other assets	37,577	34,198	319,886
Total assets	¥84,128	¥74,212	\$716,166

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Liabilities and shareholders' equity			
Current liabilities:			
Notes and accounts payable-trade	¥20,299	¥16,749	\$172,802
Short-term borrowings (Note 6)	780	940	6,640
Income taxes payable (Note 7)	834	67	7,100
Advance received on uncompleted contracts	2,865	1,709	24,389
Accrued bonuses	708	482	6,027
Allowance for warranty for construction damages	50	38	426
Allowance for losses on construction contracts	106	84	902
Other	346	265	2,945
Total current liabilities	25,988	20,334	221,231
Long-term liabilities:			
Deferred tax liabilities	1,280	65	10,896
Allowance for retirement benefits for employees (Note 11)	2,737	2,750	23,300
Allowance for retirement benefits for directors and corporate auditors	163	129	1,388
Consolidated adjustment account	—	44	—
Total long-term liabilities	4,180	2,988	35,584
Minority interests	1,122	1,002	9,551
Contingent liabilities (Note 12)	—	—	—
Shareholders' equity (Note 13):			
Common stock:	5,753	5,753	48,974
Authorized – 98,500,000 shares in 2006 and 2005			
Issued – 38,000,309 shares in 2006 and 2005			
Additional paid-in capital	5,932	5,932	50,498
Retained earnings	38,134	37,690	324,627
Net unrealized holding gains on securities	4,221	2,016	35,933
Treasury stock, at cost:	(1,202)	(1,503)	(10,232)
1,655 thousand shares in 2006 and			
2,083 thousand shares in 2005			
Total shareholders' equity	52,838	49,888	449,800
Total liabilities and shareholders' equity	¥84,128	¥74,212	\$716,166

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 14)	¥62,771	¥54,065	\$534,358
Cost of sales	56,414	48,716	480,242
Gross profit	6,357	5,349	54,116
Selling, general and administrative expenses (Note 8)	5,625	5,359	47,885
Operating income (loss)	732	(10)	6,231
Other income (expenses):			
Interest and dividend income	450	409	3,831
Interest expense	(14)	(21)	(119)
Gain on sales of marketable securities	17	58	145
Amortization of negative goodwill	44	44	375
Equity in earnings of affiliates	313	513	2,665
Loss on the office relocation	(7)	—	(60)
Gain on reversal of allowance for doubtful accounts	19	—	162
Gain on sales of investment securities	6	214	51
Gain on reversal of prior year's accounts payable-trade	38	—	323
Gain on sales of property, plant and equipment	—	5	—
Bad debt loss	—	(34)	—
Loss on devaluation of investment securities	(14)	—	(119)
Loss on devaluation of telephone rights	—	(16)	—
Loss on sales of land	—	(12)	—
Loss on impairment of fixed assets (Note 9)	(3)	—	(26)
Other, net	182	150	1,549
	1,031	1,310	8,777
Income before income taxes and minority interests	1,763	1,300	15,008
Income taxes (Note 7):			
Current	875	53	7,448
Deferred	(223)	324	(1,898)
	652	377	5,550
Minority interests	97	1	826
Net income	¥ 1,014	¥ 922	\$ 8,632

	Yen		U.S. dollars (Note 1)
	2006	2005	2006
Per share of common stock:			
Net assets per share	¥1,452.01	¥1,388.28	\$12.36
Net income per share:			
Basic	26.25	24.55	0.22
Diluted	26.08	24.48	0.22

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2006 and 2005

	Number of shares of common stock (shares)	Common stock (Note 13)	Additional paid-in capital (Note 13)	Retained earnings (Notes 13 and 15)	Net unrealized holding gain on securities	Treasury stock
Balance at March 31, 2004	40,000,309	¥5,753	¥5,932	¥38,925	¥1,860	¥(2,248)
Net income	—	—	—	922	—	—
Cash dividends paid	—	—	—	(554)	—	—
Bonuses to directors and corporate auditors	—	—	—	(43)	—	—
Loss on disposal of treasury stock	—	—	—	(14)	—	—
Retirement of treasury stock	(2,000,000)	—	—	(1,546)	—	—
Net changes in unrealized holding gain on securities	—	—	—	—	156	—
Net changes in treasury stock	—	—	—	—	—	745
Balance at March 31, 2005	38,000,309	¥5,753	¥5,932	¥37,690	¥2,016	¥(1,503)
Net income	—	—	—	1,014	—	—
Cash dividends paid	—	—	—	(543)	—	—
Bonuses to directors and corporate auditors	—	—	—	(7)	—	—
Loss on disposal of treasury stock	—	—	—	(20)	—	—
Net changes in unrealized holding gain on securities	—	—	—	—	2,205	—
Net changes in treasury stock	—	—	—	—	—	301
Balance at March 31, 2006	38,000,309	¥5,753	¥5,932	¥38,134	¥4,221	¥(1,202)

	Common stock (Note 13)	Additional paid-in capital (Note 13)	Retained earnings (Notes 13 and 15)	Net unrealized holding gain on securities	Treasury stock
Balance at March 31, 2005	\$48,974	\$50,498	\$320,848	\$17,162	\$(12,795)
Net income	—	—	8,632	—	—
Cash dividends paid	—	—	(4,623)	—	—
Bonuses to directors and corporate auditors	—	—	(60)	—	—
Loss on disposal of treasury stock	—	—	(170)	—	—
Net changes in unrealized holding gain on securities	—	—	—	18,771	—
Net changes in treasury stock	—	—	—	—	2,563
Balance at March 31, 2006	\$48,974	\$50,498	\$324,627	\$35,933	\$(10,232)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 1,763	¥ 1,300	\$ 15,008
Depreciation and amortization	114	105	970
Loss on impairment of fixed assets	3	—	26
Amortization of negative goodwill	(44)	(44)	(375)
Increase (decrease) in allowance for doubtful accounts	(55)	9	(468)
Increase (decrease) in allowance for retirement benefits for employees	(13)	1	(111)
Increase (decrease) in allowance for retirement benefits for directors and corporate auditors	34	(141)	289
Increase (decrease) in accrued bonuses	225	(409)	1,915
Increase in allowance for warranty for construction damages	12	2	102
Increase in allowance for losses on construction contracts	22	84	187
Interest and dividend income	(450)	(409)	(3,831)
Interest expense	14	21	119
Gain on sales of marketable securities	(17)	(58)	(145)
Gain on sales of investment securities	(6)	(214)	(51)
Loss on devaluation of investment securities	14	—	119
Gain on reversal of prior year's accounts payable-trade	(38)	—	(322)
Loss on sales of land	—	12	—
Bad debt loss	—	34	—
Loss from devaluation of telephone rights	—	16	—
Equity in earnings of affiliates	(313)	(513)	(2,664)
Decrease (increase) in notes and accounts receivable-trade	(4,350)	3,009	(37,031)
Decrease (increase) in inventories	(1,363)	608	(11,603)
Increase (decrease) in notes and accounts payable	3,588	(3,674)	30,544
Increase (decrease) in advance received on uncompleted contracts	1,156	(74)	9,841
Consumption taxes	(35)	(171)	(298)
Other	(75)	(404)	(638)
Subtotal	186	(910)	1,583
Interest and dividend received	465	399	3,959
Interest paid	(14)	(21)	(119)
Income taxes paid	(111)	(1,259)	(945)
Net cash provided by (used in) operating activities	526	(1,791)	4,478
Cash flows from investing activities			
Payments for purchase of marketable securities	(200)	(600)	(1,703)
Proceeds from sales of marketable securities	75	218	638
Proceeds upon maturity of bonds	2,939	2,880	25,019
Payments for purchase of property, plant and equipment	(123)	(36)	(1,047)
Proceeds from sales of property, plant and equipment	—	14	—
Payments for purchase of intangible assets	(40)	(13)	(341)
Proceeds from sales of land	—	22	—
Payments for purchase of investment securities	(4,282)	(3,070)	(36,452)
Proceeds from sales of investment securities	56	496	477
Payments for insurance contribution	(205)	(302)	(1,745)
Proceeds from reversal of insurance contribution	101	289	860
Other	21	29	180
Net cash used in investing activities	(1,658)	(73)	(14,114)
Cash flows from financing activities			
Decrease in short-term borrowings	(160)	(20)	(1,362)
Payments for purchase of treasury stock	(148)	(928)	(1,260)
Proceeds from sales of treasury stock	432	109	3,678
Cash dividends paid	(543)	(554)	(4,623)
Cash dividends paid to minority shareholders	(6)	(6)	(51)
Net cash used in financing activities	(425)	(1,399)	(3,618)
Net decrease in cash and cash equivalents	(1,557)	(3,263)	(13,254)
Cash and cash equivalents at beginning of year	15,056	18,319	128,168
Cash and cash equivalents at end of year (Note 3)	¥13,499	¥15,056	\$114,914

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 Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) 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 Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, 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, 2006, which was ¥117.47 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.

2. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, "Hibiya Tsushou Co., Ltd." and "NIKKEY Company Limited", in the year ended March 2006 and 2005. All significant inter-company balances and transactions are eliminated in consolidation. Consolidated adjustment account is amortized over a period of 3 years on a straight-line basis.

Investments in affiliates are accounted for by the equity method, except for the investments in affiliates whose income or losses are not significant for the company's equity, are carried at cost.

The excess of cost over underlying net assets at fair value at the date of acquisition is amortized over a period of 3 years on a straight-line basis.

(b) Marketable securities and investment 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 shareholders' equity. Realized gain on sale such securities is computed using the average cost.

(c) 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 using the rate of actual collection losses in the past with respect to the remaining receivables.

(d) Allowance for warranty for construction damages

Allowance for warranty for construction damages is provided at the amount calculated based on the estimated compensation to the completed construction for which the company and its consolidated subsidiaries are responsible.

(e) Allowance for losses on construction contracts

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

(f) Construction contracts

Long-term construction contracts, whose contract amount is ¥1,000 million or more, construction schedule is 12 months or more and percentage of completion is 30% or more, are accounted for by the percentage of completion method.

The construction revenues accounted for by the

percentage of completion method are ¥2,664 million (\$22,678 thousand) and ¥3,313 million for the year ended March 31, 2006 and 2005, respectively.

(g) Cost of uncompleted contracts

Cost of uncompleted contracts for the Company and inventories for the consolidated subsidiaries are stated at cost using the specific identification cost method.

(h) Property, plant and equipment, and depreciation

Depreciation of property, plant and equipment is computed using the declining-balance method at rates based on their useful lives prescribed in the Japanese tax regulations.

(i) Retirement benefits

The Company and its consolidated subsidiaries have tax qualified pension plans and employee severance indemnities covering substantially all of its employees. In addition the Company and a certain consolidated subsidiary participate in employee pension fund of Tokyo Air-Conditioning and Plumbing Contractors Associations.

The Company and its consolidated subsidiaries provide allowance 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.

In addition, directors and corporate auditors of the Company and its consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. Severance and retirement allowance for directors and corporate auditors are recorded at the amount that would be required if they retired at each balance sheet date. These amounts are subject to the approval of the shareholders in accordance with the Commercial Code of Japan ("the Code").

(j) Leases

Non-cancelable leases are accounted for as operating leases (whether such leases are classified as operating or finance lease) except that leases which stipulate the transfer of ownership of the leased assets to the lessee

are accounted for as finance leases.

(k) 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 are considered to be cash and cash equivalents.

(l) Income taxes

The Company computes the provision for income taxes based on the pretax income included in the consolidated statement of income and recognizes 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.

(m) 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.

(n) Derivatives

The Company states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses. At March 31, 2006, the Company does not hold derivative financial instruments.

(o) Impairment of Fixed Assets

The Companies adopted the new standard "Impairment of Fixed Assets" as of April 1, 2005. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The effect of adoption of new standard was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥3 million (\$26 thousands).

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2006 and 2005 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and bank deposits	¥11,500	¥14,056	\$ 97,897
Marketable securities	5,325	2,296	45,331
Marketable securities other than open bond investment trust	(3,326)	(1,296)	(28,314)
Cash and cash equivalents	¥13,499	¥15,056	\$114,914

4. Marketable securities and investment securities

(1) At March 31, 2006 and 2005, acquisition cost, book value and fair value of securities with available fair values were as follows:

(a) Available-for-sale securities

	Millions of yen		
	2006		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	¥ 4,549	¥10,800	¥6,251
Debt securities			
Government bonds	—	—	—
Corporate bonds	600	659	59
Other bonds	6,366	7,233	867
Others	182	234	52
Total	¥11,697	¥18,926	¥7,229

Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	¥ 498	¥ 454	¥(44)
Debt securities			
Government bonds	—	—	—
Corporate bonds	197	195	(2)
Other bonds	2,400	2,375	(25)
Others	55	53	(2)
Total	¥3,150	¥3,077	¥(73)

	Millions of yen		
	2005		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	¥ 2,671	¥ 4,976	¥2,305
Debt securities			
Government bonds	—	—	—
Corporate bonds	1,105	1,153	48
Other bonds	6,666	7,721	1,055
Others	154	166	12
Total	¥10,596	¥14,016	¥3,420

Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	¥ 104	¥ 98	¥ (6)
Debt securities			
Government bonds	—	—	—
Corporate bonds	500	500	(0)
Other bonds	2,397	2,382	(15)
Others	78	74	(4)
Total	¥3,079	¥3,054	¥(25)

	Thousands of U.S. dollars		
	2006		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	\$38,725	\$ 91,938	\$53,213
Debt securities			
Government bonds	—	—	—
Corporate bonds	5,108	5,610	502
Other bonds	54,192	61,573	7,381
Others	1,549	1,992	443
Total	\$99,574	\$161,113	\$61,539

Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	\$ 4,239	\$ 3,865	\$(374)
Debt securities			
Government bonds	—	—	—
Corporate bonds	1,677	1,660	(17)
Other bonds	20,431	20,218	(213)
Others	468	451	(17)
Total	\$26,815	\$26,194	\$(621)

(2) At March 31, 2006 and 2005, book values of securities with no available fair values were as follows:

(a) Securities in non-consolidated subsidiaries and affiliates

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Investment in affiliates	¥11,421	¥11,108	\$97,225	\$97,225
Total	¥11,421	¥11,108	\$97,225	\$97,225

(b) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Unlisted equity securities	¥ 790	¥ 548	\$ 6,725	\$ 6,725
Commercial paper	1,999	1,000	17,017	17,017
Others	550	550	4,682	4,682
Total	¥3,339	¥2,098	\$28,424	\$28,424

(3) At March 31, 2006 and 2005, maturities of available-for-sale securities with maturity were as follows:

	Millions of yen				
	2006				
	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	524	331	—	—	855
Other bonds	2,802	2,890	3,965	—	9,657
Others	—	38	53	196	287
Total	¥3,326	¥3,259	¥4,018	¥196	¥10,799

	Millions of yen				
	2005				
	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	991	662	—	—	1,653
Other bonds	305	5,216	4,142	490	10,153
Others	—	28	19	193	240
Total	¥1,296	¥5,906	¥4,161	¥683	¥12,046

	Thousands of U.S. dollars				
	2006				
	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	4,461	2,818	—	—	7,279
Other bonds	23,853	24,602	33,753	—	82,208
Others	—	323	451	1,669	2,443
Total	\$28,314	\$27,743	\$34,204	\$1,669	\$91,930

Sale of securities classified as available-for-sale securities for the years ended March 31, 2006 and 2005 amounted to ¥131 million (\$1,115 thousand) and ¥714

million, respectively, and net realized gains amounted to ¥12 million (\$102 thousand) and ¥272 million, respectively.

5. Derivative financial instruments

At March 31, 2005, the Company holds bonds containing derivatives under available-for-sale securities for which fair values are available. The difference between the acquisition

cost and the carrying value is recognized in income or loss. At March 31, 2006, the Companies did not hold any derivative financial instruments.

(a) Nikkei Stock Average linked bond

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Acquisition Cost	¥ —	¥483	\$ —	\$ —
Carrying Value	—	490	—	—
Unrealized gain (loss)	¥ —	¥ 7	\$ —	\$ —

The disposable amount may be affected by the interest rate fluctuation from the daily change of Nikkei Stock Average. The final redemption value would never be under 100%.

(b) Credit linked bond

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Acquisition Cost	¥ —	¥499	\$ —	\$ —
Carrying Value	—	500	—	—
Unrealized gain (loss)	¥ —	¥ 1	\$ —	\$ —

The final redemption value might be under 100% due to credit events of the bonds.

The fair value of bonds has been calculated according to the information provided in the guidelines of the Japan Securities Dealers Association from the financial institution the Company acquired the bonds.

Types, purpose and policy related to derivative financial instruments

The Company does not hold derivative transactions or balances. However, the Company holds the bonds containing derivatives for utilizing floating cash. The Company has no intention to use derivatives for dealing or speculative purposes.

Risks related to derivative financial instruments

Derivative instruments are subject to credit risk and market risk. Credit risk is the possibility that a loss may result from a counter party's failure to perform according to the terms and conditions of the contract. As the derivative transactions are made solely with major financial institutions that have high creditworthiness, the Company believes that the overall credit risk related to its financial instruments is insignificant. In addition,

credit linked bonds, which are subject to credit risk, are utilized only when the Company anticipates the credit risk with the instruments to be insignificant.

Market risk is the exposure created by potential fluctuations in market condition. Nikkei Stock Average linked bond are subject to risk that interest revenue may be affected by fluctuations of stock market condition.

Controls over derivative financial transactions

Derivative transactions are executed, upon approval by the director who is responsible for finance, through control by each appropriate department for transaction purpose, maximum limitation, selection of partners, and risk content. Transactions with large fluctuations are constantly monitored for market price, analyzed, and reported to the director. Other transactions are monitored and reported periodically.

Additional Note

The face value of bonds containing derivatives does not represent the amount of risk. The fair value used for revaluation is based on the information in the guidelines of the Japan Securities Dealers Association provided by the financial institution from which the Company acquired the bonds.

6. Short-term borrowings

Short-term borrowings from banks, at March 31, 2006 and 2005 were represented by overdraft and short-term notes, bearing weighted average interest rate for the years ended March 31, 2006 and 2005 were 1.387% and 1.395%.

Companies had no long-term debt at March 31, 2006 and 2005.

For efficient procurement of working capital, the consolidated subsidiaries have entered into overdraft contracts with 4 financial institutions in the aggregate amount of ¥1,530 million (\$13,025 thousand) as of March 31, 2006 and 2005. The unused facilities maintained by the consolidated subsidiaries as of March 31, 2006 and 2005 amounted to ¥900 million (\$7,662 thousand) and ¥750 million.

7. 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 2006 and 2005.

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 Company's effective tax rate for financial statement purposes for the years ended March 31, 2006 and 2005:

	2006	2005
Statutory tax rate	40.7%	40.7%
Non-deductible expenses	4.1	5.0
Non-taxable dividend income	(0.9)	(0.8)
Per capital inhabitant tax	3.0	4.0
Valuation allowance	(0.3)	(2.0)
Equity in earnings of affiliates	(7.2)	(16.1)
Other	(2.4)	(1.8)
Effective tax rate	37.0%	29.0%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 and 2005 were follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Loss on revaluation of marketable securities	¥ 385	¥ 388	\$ 3,278
Enterprise taxes payable	80	18	681
Accrued bonuses	289	197	2,460
Allowance for retirement benefits for employees	1,096	1,049	9,330
Allowance for retirement benefits for directors and corporate auditors	67	53	570
Loss from devaluation of guaranty deposits	25	36	213
Unrealized holding losses on securities	24	10	204
Other	303	273	2,579
Valuation allowance	(172)	(175)	(1,464)
Total deferred tax assets	2,097	1,849	17,851
Deferred tax liabilities:			
Cost of uncompleted contracts	(26)	(16)	(221)
Diferred gain on land	(1)	(1)	(9)
Unrealized holding gains on securities	(2,886)	(1,341)	(24,568)
Other	(4)	(4)	(34)
Total deferred tax liabilities	(2,917)	(1,362)	(24,832)
Net deferred tax assets (liabilities)	¥ (820)	¥ 487	\$ (6,981)

8. Selling, General and administrative expenses

Major components of selling, general and administrative expense are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Salaries for employees	¥2,119	¥2,086	\$18,039
Allowance for bonuses	279	200	2,375
Allowance for retirement benefits for employees	184	172	1,566
Allowance for retirement benefits for directors and corporate auditors	47	42	400
Depreciation expense	44	34	375
Allowance for doubtful accounts	4	6	34
Office rent	874	855	7,440

The aggregate amounts of research and development expenses included in selling, general and administrative expenses

for the year ended March 31, 2006 and 2005 were ¥234 million (\$1,992 thousand) and ¥218 million, respectively.

9. Loss on impairment of fixed assets

Significant components of the loss on impairment of fixed assets were as follows:

Category of fixed assets	Type of fixed assets	Millions of yen		Thousands of U.S. dollars
		2006	2005	2006
Idle assets	Land	¥3	¥—	\$26
Total		¥3	¥—	\$26

Companies categorize operating assets by management accounting unit, whereas idle assets are assigned to a particular asset group on an individual basis. At March 31, 2006 Companies wrote down the book value of

the idle assets to the recoverable amount and recorded Loss on impairment of fixed assets under Other expenses section.

10. Retirement benefits

Allowance for retirement benefits for employees included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation			
Employee pension fund – Tokyo Air-conditioning and Plumbing Contractors Associations	¥ —	¥ —	\$ —
Tax qualified pension plan	(2,457)	(2,344)	(20,916)
Severance indemnities	(2,560)	(2,531)	(21,793)
Fair value of pension assets			
Employee pension fund – Tokyo Air-conditioning and Plumbing Contractors Associations	4,614	3,731	39,278
Tax qualified pension plan	2,185	2,035	18,600
Severance indemnities	—	—	—
Unrecognized actuarial differences	95	89	809
Allowance for severance and retirement benefits			
Employee pension fund – Tokyo Air-conditioning and Plumbing Contractors Associations	—	—	—
Tax qualified pension plan	50	65	426
Severance indemnities	2,687	2,685	22,874

The consolidated subsidiaries adopt the simplification method of calculating the Projected benefits obligation. Included in the consolidated statements of income

for the years ended March 31, 2006 and 2005 are employees' severance and retirement benefit expense consisting of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Severance and retirement benefit expense	¥515	¥489	\$4,384
Service costs – benefits earned during the year	251	256	2,137
Interest cost on projected benefit obligation	114	112	970
Amortization of actuarial differences	16	13	136
Expected return on plan assets	(14)	(13)	(119)
Contribution to employee pension fund of Tokyo Air-conditioning and Plumbing Contractors Associations	148	121	1,260

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

The discount rates on benefits obligation used by Companies are 2.5% for the years ended March 31, 2006 and 2005, and the rate of expected return on plan assets used principally by Companies are 0.78% for the

11. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2006 and 2005, which

would have been reflected in the consolidated balance sheets if finance lease were capitalized currently accounted for as operating leases:

	Millions of yen		
	2006		
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	¥ 25	¥ 11	¥ 14
Equipment	164	98	66
Total	¥189	¥109	¥80

	Thousands of U.S. dollars		
	2006		
Vehicle	\$ 213	\$ 94	\$ 119
Equipment	1,396	834	562
Total	\$1,609	\$928	\$681

	Millions of yen		
	2005		
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	¥ 30	¥ 22	¥ 8
Equipment	221	126	95
Total	¥251	¥148	¥103

Lease payments relating to finance leases accounted for as operating leases in accompanying consolidated financial statements and the related depreciation ex-

pense and interest expense for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2006	2005	2006
Lease payments	¥56	¥68	\$477
Depreciation expense	50	60	426
Interest expense	6	8	51

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, 2006 and 2005, for finance leases currently accounted for as operating lease are summarized as follows:

	Millions of Yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥34	¥ 47	\$290
Due after one year	51	61	434
Total	¥85	¥108	\$724

12. Contingent liabilities

Contingent liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2006	2005	2006
For guarantee for insurance contract of an affiliate not accounted for by equity method	¥ 180	¥ 180	\$ 1,532
Total	¥ 180	¥ 180	\$ 1,532

13. Shareholders' equity

Under the Japanese laws and regulations, the entire amount of payment for new shares is required to be designated as common 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.

Japanese Company Law ("the Law") became effective on May 1, 2006, and, at the same time, the Code was repealed.

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Law, in cases when dividends are paid, an amount equal to 10% of the dividends or the excess of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve, whichever is the smaller, must be set aside as additional paid-in-capital or legal earnings reserve. Under the Code, additional paid-in capital and legal earnings reserve were available for distribution by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded

25% of common stock. Under the Law, 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 are sufficient distributable surplus. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the Board of Directors. Under the Law, 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 laws and regulations.

At the annual shareholders' meeting held on June 29, 2006, the shareholders resolved cash dividends and directors' and corporate auditors' bonuses amounting to ¥639 million (\$5,440 thousand) and ¥37 million (\$315 thousand), respectively. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2006. Such appropriations will be recognized in the period when they are resolved.

14. Segment information

The Company and its consolidated subsidiaries are mainly engaged in 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, 2006 and 2005 were as follows:

2006	Millions of yen					Consolidated
	Construction	Equipment	Other	Total	Eliminations or Corporate	
Net sales:						
Outside customers	¥52,506	¥7,807	¥2,458	¥62,771	¥ —	¥62,771
Inter-segment	—	4,580	491	5,071	(5,071)	—
Total	52,506	12,387	2,949	67,842	(5,071)	62,771
Operating expenses	52,118	12,238	2,796	67,152	(5,113)	62,039
Operating income	¥ 388	¥ 149	¥ 153	¥ 690	¥ 42	¥ 732
Assets and others:						
Assets	¥30,850	¥7,270	¥2,718	¥40,838	¥43,290	¥84,128
Depreciation	87	2	29	118	—	118
Loss on impairment fixed assets	—	3	—	3	—	3
Capital Expenditures	131	—	34	165	—	165

2005	Millions of yen					Consolidated
	Construction	Equipment	Other	Total	Eliminations or Corporate	
Net sales:						
Outside customers	¥45,540	¥6,395	¥2,130	¥54,065	¥ —	¥54,065
Inter-segment	—	2,593	495	3,088	(3,088)	—
Total	45,540	8,988	2,625	57,153	(3,088)	54,065
Operating expenses	45,647	8,961	2,579	57,187	(3,112)	54,075
Operating income	¥ (107)	¥ 27	¥ 46	¥ (34)	¥ 24	¥ (10)
Assets and others:						
Assets	¥25,322	¥6,241	¥2,377	¥33,940	¥40,272	¥74,212
Depreciation	78	1	29	108	—	108
Capital Expenditures	26	9	19	54	—	54

2006	Thousands of U.S. dollars					Consolidated
	Construction	Equipment	Other	Total	Eliminations or Corporate	
Net sales:						
Outside customers	\$446,974	\$ 66,460	\$20,924	\$534,358	\$ —	\$534,358
Inter-segment	—	38,989	4,180	43,169	(43,169)	—
Total	446,974	105,449	25,104	577,527	(43,169)	534,358
Operating expenses	443,671	104,180	23,802	571,653	(43,526)	528,127
Operating income	\$ 3,303	\$ 1,269	\$1,302	\$5,874	\$ 357	\$ 6,231
Assets and others:						
Assets	\$262,620	\$ 61,888	\$23,138	\$347,646	\$368,520	\$716,166
Depreciation	741	17	247	1,005	—	1,005
Loss on impairment fixed assets	—	26	—	26	—	26
Capital Expenditures	1,115	—	290	1,405	—	1,405

Common assets included in "Eliminations or Corporate" column under "Assets" amounted to ¥45,386 million (\$386,362 thousand) and ¥41,508 million as of March 31, 2006 and 2005, respectively. The significant assets

included in the amount were surplus operating funds (cash and marketable securities) and long-term investment fund (investment securities) of the Company.

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

None of segment information by geographic seg-

ments or overseas sales is shown as the Companies have no foreign operations or overseas sales.

15. Subsequent event

The following appropriations of retained earnings at March 31, 2006, were approved at the annual meeting of shareholders of the Company held on June 29, 2006.

	Millions of yen	Thousands of U.S. dollars
Cash dividends - ¥17.5 (\$0.15) per share	¥639	\$5,440
Bonuses to directors and statutory auditors	¥ 37	\$ 315

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hibiya Engineering, Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity 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 consolidated financial position of Hibiya Engineering, Ltd. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

Investor Information

As of March 31, 2006

Total number of shares authorized	96,500,000 shares
Total number of shares issued	38,000,309 shares
Number of shareholders	3,186 shares

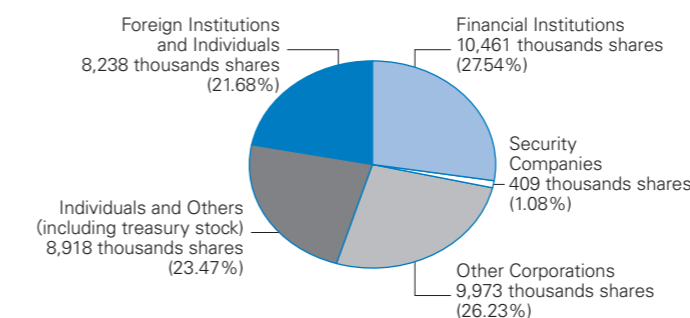
Major Shareholders

Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1 Japan Trustee Services Bank, Ltd. Trust a/c	1,527	4.02
2 BBH for Fidelity Low Price Stock Fund	1,400	3.68
3 NTT Urban Development Co.	1,371	3.61
4 Credit Suisse First Boston Europe PB Sec INT Non-Treaty Client	1,141	3.00
5 Hibiya Engineering Customer Stock Ownership Plan	1,076	2.83
6 The Master Trust Bank of Japan, Ltd. Retirement benefit trust account, Hyakujushi Bank account	900	2.37
7 Sumitomo Mitsui Banking Corporation	853	2.25
8 Mizuho Corporate Bank, Ltd.	853	2.24
9 The Japan Telecommunications Welfare Associations	838	2.21
10 The Dai-ichi Mutual Life Insurance Company	818	2.15

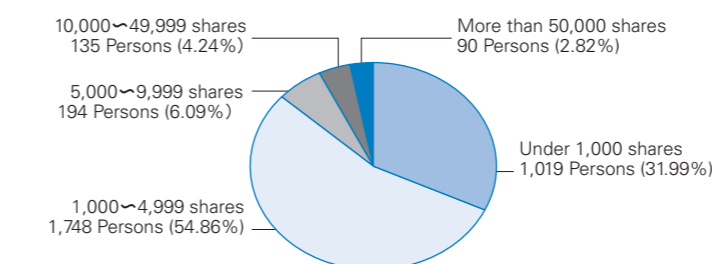
Note

- 1) Brandes Investment Partners L.L.C. submitted a notification of change in major shareholding on 14 January 2005. Inability to confirm the shares' ownership and other details means they are not included in the Brandes Investment Partners L.L.C. shareholding. The details of the 14 January 2005 notification are as follows:
Holder: Brandes Investment Partners L.L.C.
Number of shares held: 2,680,000 (7.05% of total outstanding shares)
- 2) The Company holds 1,504,174 shares of treasury stock.

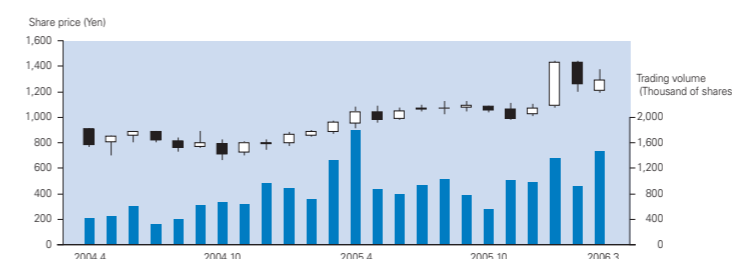
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

As of June 29, 2006

President and Representative Director	Shinya Kimura
Vice President and Representative Director	Yoshiaki Ugaki
Director	Toshiya Kubota
Director	Shizuo Atsumi
Director	Yasuo Shinoda
Director	Masahiro Ikeda
Director	Tetsuhiro Inohara
Director	Satoshi Katou
Director	Morio Fukuki
Director	Hideaki Iwata
Director	Toshikazu Chinzei
Standing Corporate Auditor	Hisashi Murakawa
Auditor	Kazuomi Matsuzaki
Auditor	Michihiro Matsumoto
Auditor	Makoto Satou

Note

- 1) Hideaki Iwata and Toshikazu Chinzei are external directors under the terms of the Corporate Law Article 2 Section 15.
- 2) Hisashi Murakawa and Makoto Satou are external auditors under the terms of the Corporate Law Article 2 Section 16.

Offices

As of March 31, 2006

Head Office*

5-37-8, Shiba, Minato-ku, Tokyo

Tokyo Main Office

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

Branches

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

Offices

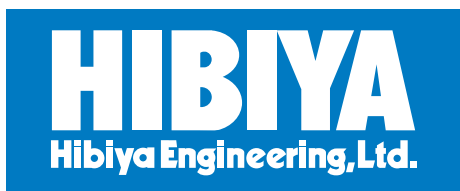
Kita-Kanto, Nagano, Niigata, Chiba, Ibaraki, Tama, Kawasaki, Kobe, Kyoto, Takamatsu, Shizuoka, Gifu, Toyama, Morioka, Yamagata, Fukushima, Aomori, Akita, Yamaguchi, Okayama, Kumamoto, Okinawa, Kitakyushu, Miyazaki, Nagasaki, Kagoshima, Oita, Hakodate

Research Facilities

Noda in Chiba Prefecture

*Head Office will relocate to the following address on October 10, 2006.

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



5-37-8, Shiba, Minato-ku, Tokyo, 108-0014, Japan
TEL +81-3-3454-1385 FAX +81-3-3452-4260
URL <http://www.hibiya-eng.co.jp/>



September 1, 2006

Annual Report 2006

Dear sir / madam :

We are pleased to send you an enclosed copy of Hibiya Engineering, Ltd. Annual Report 2006.

We hope you will find it useful and informative.

Should you have any comments or suggestions regarding the content of the Annual Report 2006, please do not hesitate to contact our Investor Relations Division, below.

Investor Relations Division
Hibiya Engineering, Ltd.
5-37-8, Shiba, Minato-ku, Tokyo, 108-0014, Japan
e-mail:information ir@hibiya-eng.co.jp

Sincerely yours,

Projections and Perspectives:

This Annual Report includes several descriptions about projections and prospects regarding future plans, strategies, and operating performance of the Company. Such descriptions, however, are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and the management's convictions according to information available to the Company as of March 31, 2006. Please understand, therefore, that such projections as those for operating performance may vary from what was initially anticipated by management, depending on general economic trends, changes in business environment, possible revisions to taxation and/or diverse relevant systems and other factors.