

Hibiya Engineering, Ltd.
ANNUAL REPORT 2005



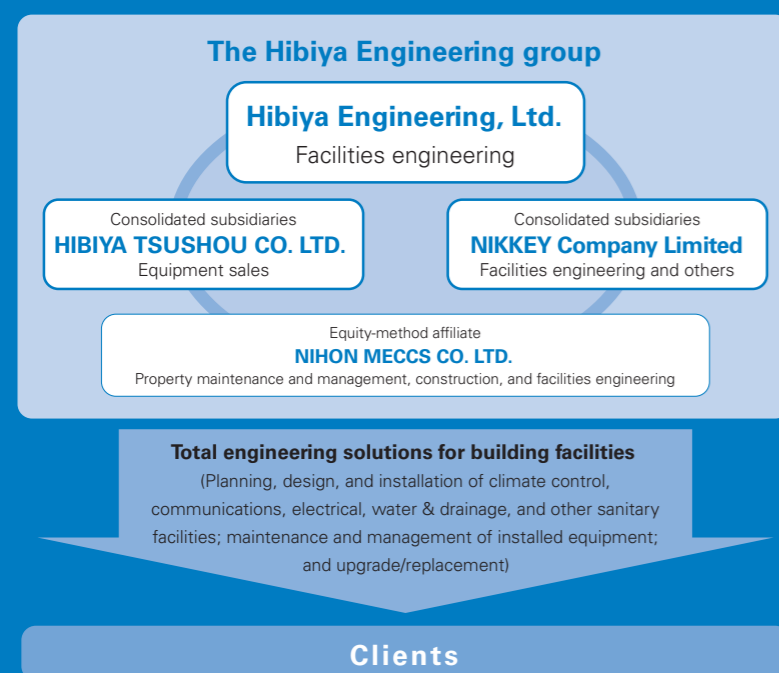
PROFILE

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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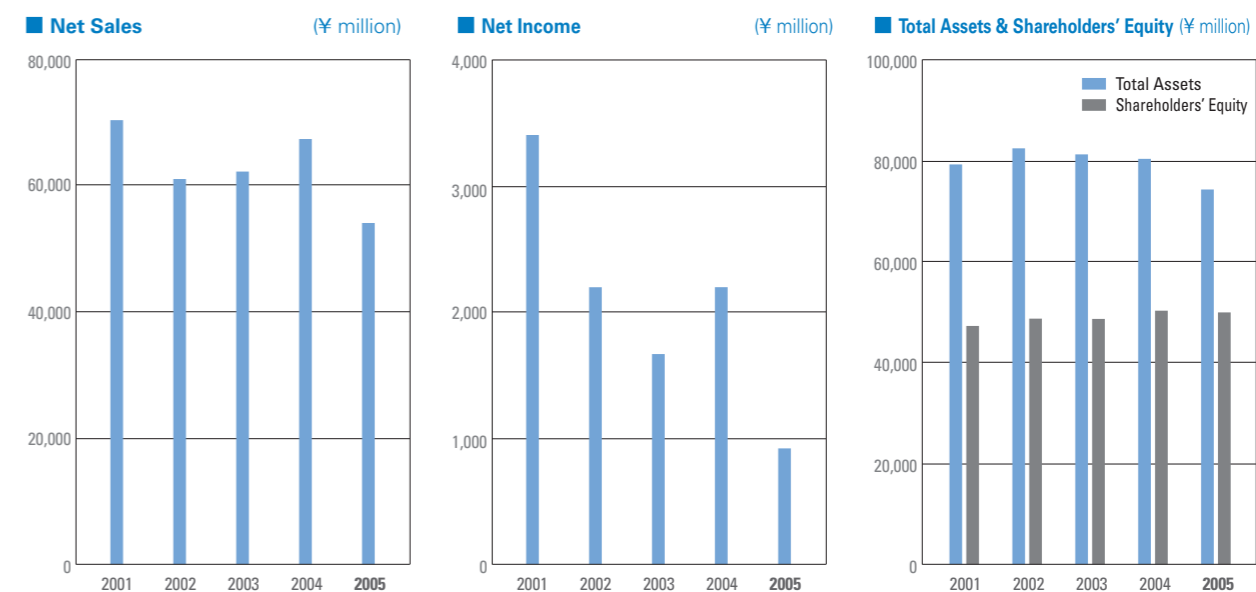
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Consolidated Financial Highlights

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

	2001	2002	2003	2004	2005	2005
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥70,258	¥61,047	¥62,232	¥67,317	¥54,065	\$503,445
Net Income	3,406	2,209	1,675	2,211	922	8,586
Total Assets	79,650	82,493	81,204	80,311	74,212	691,051
Shareholders' Equity	47,154	48,590	48,521	50,222	49,888	464,550
	Yen					U.S. dollars
Per share:						
Shareholders' Equity	¥1,178.92	¥1,215.59	¥1,266.83	¥1,362.08	¥1,388.28	\$12.93
Net Income	85.17	55.25	40.78	57.24	24.55	0.23
Cash Dividends (non-consolidated basis)	17.00	15.00	15.00	15.00	15.00	0.14

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, 2005, which was ¥107.39 to U.S. \$1.00.



A Message from the President



Shinya Kimura
President and Representative Director

It is a great pleasure to present this review of the Company's activities over the past fiscal year.

Before joining Hibiya Engineering as President in June 2004, I had spent many years in a variety of other roles in Japan's construction market. Despite this, I found that the Company faced more challenging circumstances than I had anticipated. The changes that have taken place during the past twelve months have been more rapid than I, or others in the market, had been expecting: these included a decline in construction orders from Nippon Telegraph and Telephone (NTT) and its group companies, among Hibiya Engineering's most important customers, and a reduction in construction budgets by both central and local governments, which have led to intense price competition among general contractors such as ourselves.

These developments reinforced our conviction that market conditions were likely to become even more difficult going forward, and prompted a series of reforms intended to meet the challenges ahead. You can read in more detail below about the Hibiya21 2006 medium-term plan, a three-year program of restructuring that we began to implement throughout the year under review. While I regret that we were unable to meet our numerical targets for the first year, I am confident that we achieved progress on a number of fronts. This was most noticeable in terms of a new understanding among all the Company's employees and managers that Hibiya Engineering has to reform both by leveraging the strengths and expertise that have been built up to date, and by meeting the changing needs of the marketplace. Despite missing our initial tangible goals, I believe the Company did make solid progress during the year towards preparing to implement the plan's medium-term objectives.

We will leverage our expertise in technology to make bold moves into new markets

Our group consists of Hibiya Engineering, two consolidated subsidiaries, and one affiliate. Our principal areas of operation are the planning, design, management, and installation of climate control equipment, electrical equipment, and plumbing/sanitary facilities; and the sale of related equipment and products. The group's key strength is its extremely advanced levels of technology. This is something that I was aware of before joining the Company last year, and which I have seen confirmed since becoming President. The supremely skilled and knowledgeable engineers who have led Hibiya since its establishment four decades ago have institutionalized this expertise to create a powerful culture of providing high-quality services to customers that I believe will enable it to meet new market challenges effectively. However, the Company does not rely on this legacy, but actively works towards further advances and the development of new technologies.

I am convinced that the Company has the potential for

further growth by developing new markets to increase our opportunities for the provision of such high-quality services. Key to this is a reinforcement of our marketing strategy.

The Company's development over the past four decades has been achieved on a sound financial basis. I am pleased to report that the reserves we have accumulated enable us to finance future growth without recourse to external funding.

We have virtually met our goals of winning private-sector orders to offset the decline in order volumes from the NTT group

Hibiya Engineering supplies products and services to three key customer groups: NTT and its group companies, the public (government) sector, and industry. The mainstay of sales to the NTT group has been the repair and upgrade of the aging switching stations that house its communications facilities. The major program of large construction projects carried out by NTT DoCoMo in recent years is now virtually complete. NTT Urban Development has followed its 2004 stock market listing with an active strategy of investment and market expansion that involved substantial construction of office properties. The value of orders received from NTT and its group companies declined 8.0% during the year, to ¥25,183 million, continuing the contraction of this market.

The market for construction orders from central and local government is particularly difficult, given the ongoing downsizing of public-sector finances in Japan.

The decline in orders from both these market segments is part of a trend that we have been forecasting for some time. Our strategy going forward is to counter this with further growth in sales to private industry. We came close to our target in this area during the year under review, increasing orders to ¥17,553 million (a rise of 22.9%).

The Company has to date responded successfully to the focus on repair and upgrade work for NTT. This has involved a proposal-driven marketing approach targeted at anticipating repair schedules and the implementation of new technologies. At the same time, we have won increased volumes of upgrade orders from private industry.

Meanwhile, the ending of the recent trend towards major office property developments in both the greater Tokyo and greater Osaka regions has been followed by a shift in construction demand towards condominiums. The Company has successfully expanded its orders for such projects.

Two of the projects completed during the year under review, the NTT DoCoMo Sumida Building and the NTT East Japan Saitama Media Wave, are among the largest properties developed in recent years. We do not expect to see new projects of similar scale for some time. We regard Hibiya Engineering's participation in these projects, and

their successful completion, as some of the highlights of the year.

These challenging market conditions led to a decline in consolidated sales and a substantial fall in net income

Everybody at the Company worked hard during the year to combat these extremely testing market conditions by expanding our scope of operations and pursuing precisely targeted and proactive marketing strategies, while seeking to reduce costs throughout the organization. On a consolidated basis, orders declined 2.1%, to ¥50,057 million; sales totaled ¥54,065 million (down 19.7%), and the Company reported an operating loss of ¥10 million. Net income was ¥922 million (down 58.3%).

On a non-consolidated basis, orders declined 1.8%, to ¥47,669 million, sales declined 22.9%, to ¥45,284 million, and the operating loss totaled ¥93 million. Net income was ¥370 million (down 70.3%).

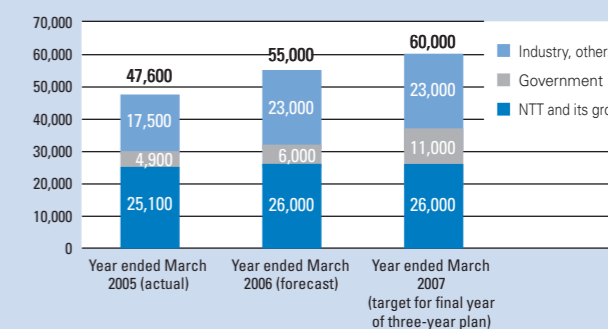
To mark the milestone of forty years in business, we have begun to implement a medium-term plan that will transform Hibiya Engineering

The Hibiya21 2006 management plan covers the three years that began in April 2004. It marks the start of a second phase of reforms, following the medium-term plan implemented in the previous three years. The basic objective of the new plan is to revisit how the Company operates as we celebrate our 40th anniversary in March 2006, and to transform Hibiya Engineering in line with the changes we anticipate in market conditions going forward.

In what we regard as an industry-wide challenge, we believe the Company has only limited prospects for further progress if it maintains its current business model and merely fine-tunes existing strategies in response to market conditions. The new management plan is intended to provide benchmarks in the creation of a new business model with which Hibiya Engineering can move forward.

At the heart of the new plan are strategies to meet what we regard as the urgent challenges presented by the changing market structure. Specifics include initiatives to

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



strengthen our marketing organization, aimed at raising the proportion of orders won from private industry, and enhancing our earnings structure so that we can remain profitable in the highly price-competitive commercial market. The two principal thrusts of the new plan are to build up a highly effective, proposal-based marketing capability, and to achieve a radical reduction of our cost structure.

I am confident that the medium-term plan is achieving tangible progress in transforming the way employees and management approach the business

Although we fell short of our numerical goals in the first year of the new management plan, I believe we achieved a number of important initial goals that will be crucial to the plan's eventual implementation.

These concern changing the culture of the organization. A company such as ours, which aims to develop new areas of operation and to enter new markets, needs to approach these challenges in a different way to how it has operated in the past. Achieving this transformation requires a new approach from individuals throughout the corporation, and a corporate culture that is appropriate to the new circumstances. During the year under review, we took a number of initial steps towards facilitating these changes, including reforms to the Company's personnel systems, revisions to the organizational structure, and the establishment of a new management vision.

Given the importance of attitude and approach in implementing the goals of the Hibiya21 2006 plan, I am pleased to report such definite progress during the term under review.

That said, I am keenly aware of our failure to achieve the targets set for ourselves during the year, in spite of the great efforts made by everybody at Hibiya Engineering. I ascribe this in large part to the greater than expected deterioration in market conditions.

We will continue to bolster our marketing capabilities, in recognition of the longer-term importance of expanding into new markets and areas of business

I'd like to reinforce my belief that we cannot expect the market in which we currently operate to expand substantially going forward. This means that the key to our future success will be our ability to maintain and increase our share of a limited market. Of our three principal customer segments, NTT and its group companies have been extremely important for Hibiya Engineering since our establishment, but we cannot realistically anticipate any major growth in orders beyond current levels. In the government sector, we need to be proactive in meeting the challenges of the shift towards private finance initiatives (PFIs) and energy service companies (ESCOs).

However, our crucial objective over the coming years is to enhance our ability to win orders from the private sector, a market in which we have traditionally been only a minor presence. Our goal during the coming two years is to build on the foundations laid during the year under review and to achieve steady growth in such orders. Price competition in the commercial market means that we will need to encourage a new profit-focused corporate culture and approach to cost control if we are to operate profitably.

Implementing the medium-term plan is constantly at the center of my thoughts regarding the future of the Company. In this sense, I see no need for excessive

pessimism over whether we meet all of a single year's specific targets. For example, we have set the twin goals of winning more orders in the private sector and becoming the contractor of choice for customers looking for a market-leading track record of achievement, technology, and reliability. Neither of these can be achieved immediately. That said, I am increasingly confident, as a result of our achievement in winning more private-sector orders last year, that we can make major progress during the current year and beyond.

In the year under review, we established a Planning Division to direct such marketing activities across the Company. Fulfilling an extremely important role in coordinating and driving our marketing, I am confident that this initiative will contribute to a steady enhancement of our overall marketing and sales capabilities.

We are taking further active steps to formalize the Company's dedication to the highest standards of corporate governance and disclosure

As rapid change in the commercial and regulatory environments presents us with new challenges, we regard the enhancement of corporate governance as a crucial part of our efforts to raise the value of the enterprise. We have taken a number of steps in this direction.

Two of the Company's four auditors are external appointments. Two external auditors were newly appointed in June 2002 to reinforce the monitoring of key management objectives at the board of directors level and the implementation of operational goals. We have also established a Management Council to examine major operational issues, establish strategies, and examine the organizational structure of our business. The intention in all these initiatives has been to support timely and well-directed decision-making.

Meanwhile, a series of structural reforms in December 2002 saw the establishment of an 'Examination Room' to enhance our internal monitoring of operations, and an IR/Public Relations Group to promote a more active approach to investor disclosure through the hosting of results meetings and the creation of an IR section in the

Company's web site. This Annual Report, the first we have published in English, represents an attempt to improve fair disclosure to non-Japanese investors, while the Japanese version is substantially expanded in comparison to previous years.


We have also taken several initiatives to manage transaction risk. These include the creation of a risk management manual and the strengthening of customer credit management.

Since becoming President, I have taken every available opportunity to discuss issues with employees throughout our network of branches and work sites. My overriding sense is that everybody at Hibiya Engineering shares the goal of becoming an organization that provides the highest quality of services at the most competitive price. I am convinced that the Company is steadily reforming itself, and am encouraged that, with the right leadership, we will unite in realizing the new business model that can enable us to maximize our bright future potential.

In view of the difficult conditions of the year under review, the Company has maintained its full-year dividend at ¥15 per share, divided equally between interim and year-end payments. We plan to issue a ¥10 per share commemorative dividend during the current year in celebration of Hibiya Engineering's 40th anniversary. This will raise full-year dividends per common share to ¥25.

I can reassure our shareholders that everyone at Hibiya Engineering is dedicated to achieving the goals of the medium-term plan over the coming two years. Along with all my fellow employees, I look forward to your continued understanding and support.

August, 2005



Shinya Kimura
President and Representative Director

Medium-Term Plan "HIBIYA21 2006"

Objectives

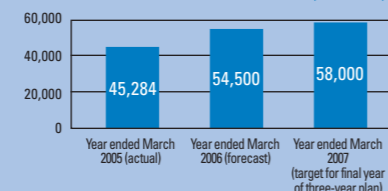
- To achieve an early recovery in earnings, based on an enhanced ability to deliver proposal-based marketing solutions and cost reductions
- To build a platform for further growth, through effective utilization of technologies and capital, and the development of new markets
- To transform our approach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

Major Figures (on non-consolidated basis)

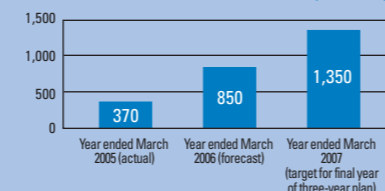
(¥ million)

	Year ended March 2005 (actual)	Year ended March 2006 (forecast)	Year ended March 2007 (target for final year of three-year plan)
Orders Received	47,669	55,000	60,000
Net Sales	45,284	54,500	58,000
Operating Income / Loss	(93)	1,000	2,000
Net Income	370	850	1,350
Gross profit margin	8.6%	9.5%	10.0%
Return on Shareholders' Equity	1.0%	2.3%	3.6%
Net Sales per Employee	5,900	7,200	8,000

Net Sales (¥ million)



Net Income (¥ million)



Private finance initiatives (PFI)

The concept behind a PFI is to utilize the financial, management, and technology resources of the private sector in the construction, maintenance, and operation of public facilities. The first PFI project was implemented in the United Kingdom in 1992, and similar initiatives have followed worldwide. In Japan, the popularly known 'PFI Law' was passed in July 1997.

Hibiya Engineering, as co-leader with Konoike of a bidding three-member consortium, in July 2003 won an order through public competitive tender to construct a research facility at Gifu University. This first PFI project was followed in January 2005 by an order to build a student dormitory at Tohoku University (Sanjo), again as co-leader of a consortium with Konoike. We continue to develop this market actively.

Operations by segment

Construction

The value of completed construction work during the year declined 22.8%, to ¥45,540 million. Segment profitability moved from operating income of ¥1,766 million in the previous term to a loss of ¥107 million.

Ventilation orders totaled ¥24,259 (down 9.1%), and the value of completed works fell 26.2%, at ¥23,717 million. Electrical equipment orders declined 3.8%, to ¥12,095 million, while the value of completed works was down 1.7%, at ¥12,521 million. Orders for plumbing and sanitary technology increased 20.5%, to ¥11,573 million, and the value of completed works was down 34.2%, at ¥9,302 million.

Equipment

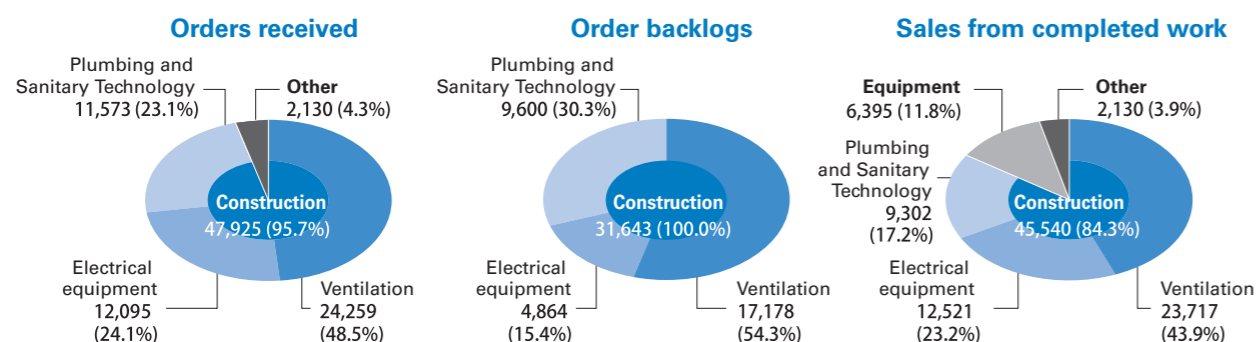
Sales in the equipment segment totaled ¥6,395 million, an increase of 6.1% over the previous year. Operating income declined 72.4%, to ¥27 million.

Other (manufacture and sale of construction-use equipment)

Sales in the other segment declined 6.7%, to ¥2,130 million. Operating income was down 70.5%, at ¥46 million.

Orders, order balance, and completed work by business, year ended March 31, 2005 (¥ 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, 2005 (¥ million)

	Construction	Equipment	Other	Total	Eliminations or corporate	Consolidated
Sales						
1) Sales to customers	¥45,540	¥6,395	¥2,130	¥54,065	¥ -	¥54,065
2) Internal sales and transfers	-	2,593	495	3,088	(3,088)	-
Total	45,540	8,988	2,625	57,153	(3,088)	54,065
<i>Reference: Year ended March 31, 2004 Sales</i>	<i>59,010</i>	<i>10,382</i>	<i>2,927</i>	<i>72,319</i>	<i>(5,002)</i>	<i>67,317</i>
Operating expenses						
	45,647	8,961	2,579	57,187	(3,112)	54,075
<i>Reference: Year ended March 31, 2004 Operating expenses</i>	<i>57,244</i>	<i>10,284</i>	<i>2,771</i>	<i>70,299</i>	<i>(5,071)</i>	<i>65,228</i>
Operating income/loss						
	(107)	27	46	(34)	24	(10)
<i>Reference: Year ended March 31, 2004 Operating income</i>	<i>1,766</i>	<i>98</i>	<i>156</i>	<i>2,020</i>	<i>69</i>	<i>2,089</i>

Consolidated earnings of Hibiya Engineering, Ltd. (the Company) declined during the year to March 31, 2005, and were short of the targets set for the first year of the Hibiya21 2006 three-year plan. This targets orders of ¥60 billion, sales of ¥58 billion, and operating income of ¥2 billion in the year ending March 2007.

The 19.7% decline in consolidated net sales, from ¥67,317 million in the previous year to ¥54,065 million, resulted principally from reduced spending by NTT and its group companies, and by a scaling-back of central and local government budgets. Parent sales to the NTT group stood at ¥25,183 million, a decline of 8.0% during the year and 31.9% lower than four years previously. Similarly, parent sales to the government segment have fallen 28.3% during the past year and 41.7% compared with four years ago. The value of commercial projects increased, but by too little to offset the falls in other areas. Addressing this fundamental change in market demand is a key challenge for the Company going forward.

Expenses

While we were able to reduce the cost of sales to compensate for the decline in sales, a deterioration in the gross margin on completed work (from 11.2% to 9.9%) and a reduction of only 2.0% in selling, general, and administrative expenses led to a ¥10 million operating loss (down ¥2,099 million from the previous year).

Net income declined 58.3%, to ¥922 million, due to the booking of non-operating losses and a decline in equity-method income following a fall in sales at the group's equity-method affiliate, NIHON MECCS, to ¥47,209 million from ¥ 53,720 million in March, 2004. The group's two subsidiaries, as well as NIHON MECCS, remained profitable. Net income per share fell from ¥57.24 to ¥24.55 (non-diluted) and ¥24.48 (diluted).

Balance sheet

Assets

Total consolidated assets declined by ¥6,099 million during the year. This was a function of a ¥7,872 million reduction in current assets: cash and cash equivalents down ¥3,263 million, notes and accounts receivables-trade down ¥3,009 million, and marketable securities down ¥874 million. Fixed assets increased ¥1,773 million, due to the use of investment securities to purchase equities and the stock of NIHON MECCS.

Liabilities

Consolidated group liabilities declined by ¥5,765 million during the year, principally through reductions in notes and accounts payable-trade (down ¥3,673 million), income taxes payable (down ¥1,176 million), and accrued bonus (down ¥410 million). The Company continues to have no long-term borrowings.

Equity

Consolidated group equity declined by ¥334 million, as a result of reductions in shareholders' equity (down ¥745 million), increases in unrealized holding gains on securities (up ¥156 million), and a ¥1,235 million reduction in retained earnings. The ¥774 million decline in shareholders' equity was a function of ¥928 million in treasury stock buybacks and ¥1,546 million spent to retire 2,000,000 shares.

Asset efficiency

The result of this performance was to reduce return on equity (net income as a proportion of shareholders' equity) from 4.4% to 1.8%. We target a figure of 2.8% at the end of March 2006, through a dedicated focus on profitability.

Cash flow

Operations represented a net ¥1,791 million use of cash. The decline from a ¥4,897 million cash receipt the previous year resulted from the lower pre-tax net income, reduced borrowings, and increased corporation tax payments.

Investment activities represented a ¥73 million use of cash, compared to a ¥424 million use of cash the previous year. This was due to the redemption of public corporation bonds, which outweighed the increase in investment security acquisition costs.

Financing activities represented a ¥1,399 million use of cash, compared to a ¥1,724 million use of cash the previous year. This resulted from reduced expenditure on share buybacks and increased revenues from the sale of treasury stock.

Cash and equivalents at the end of the year under review declined ¥3,263 million (17.8%), to ¥15,056 million.

Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Assets			
Current assets:			
Cash and cash equivalents (Note3)	¥15,056	¥18,319	\$140,199
Marketable securities (Note 4)	1,296	2,170	12,068
Notes and accounts receivable-trade	17,907	20,916	166,747
Allowance for doubtful accounts	(117)	(114)	(1,089)
Cost of uncompleted contracts	4,241	4,849	39,492
Deferred tax assets (Note 7)	329	631	3,064
Other	709	522	6,602
Total current assets	39,421	47,293	367,083
Property, plant and equipment, at cost:			
Land	203	237	1,890
Buildings and structures	1,298	1,314	12,087
Other	676	669	6,295
Total	2,177	2,220	20,272
Accumulated depreciation	(1,584)	(1,556)	(14,750)
Total property, plant and equipment, net	593	664	5,522
Investments and other assets:			
Investment securities (Note 4)	16,871	15,323	157,100
Investments in affiliates (Note 4)	11,108	10,599	103,436
Long-term loans receivable	33	32	307
Long-term insurance premium	2,484	2,427	23,131
Investments in silent partnership	1,500	1,500	13,968
Deferred tax assets (Note 7)	223	371	2,077
Other	2,084	2,201	19,405
Allowance for doubtful accounts	(105)	(99)	(978)
Total investments and other assets	34,198	32,354	318,446
Total assets	¥74,212	¥80,311	\$691,051

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Liabilities and shareholders' equity			
Current liabilities:			
Notes and accounts payable-trade	¥16,749	¥20,422	\$155,964
Short-term borrowings (Note 6)	940	960	8,753
Income taxes payable (Note 7)	67	1,243	624
Advance received on uncompleted contracts	1,709	1,783	15,914
Accrued bonuses	482	892	4,488
Allowance for warranty for construction damages	38	35	354
Allowance for losses on construction contracts	84	—	782
Other	265	602	2,468
	20,334	25,937	189,347
Long-term liabilities:			
Deferred tax liabilities	65	42	605
Allowance for retirement benefits for employees (Note 10)	2,750	2,749	25,608
Allowance for retirement benefits for directors and corporate auditors	129	270	1,201
Consolidated adjustment account	44	89	410
	2,988	3,150	27,824
Minority interests	1,002	1,002	9,330
Contingent liabilities (Note 12)	—	—	—
Shareholders' equity (Note 13):			
Common stock, no par value:			
Authorized – 98,500,000 shares in 2005 and 2004	5,753	5,753	53,571
Issued – 38,000,309 shares in 2005 and 40,000,309 shares in 2004			
Additional paid-in capital	5,932	5,932	55,238
Retained earnings	37,690	38,925	350,964
Net unrealized holding gains on securities	2,016	1,860	18,773
Treasury stock, at cost:			
2,083 thousand shares in 2005 and 3,171 thousand shares in 2004	(1,503)	(2,248)	(13,996)
Total shareholders' equity	49,888	50,222	464,550
Total liabilities and shareholders' equity	¥74,212	¥80,311	\$691,051

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales (Note 14)	¥54,065	¥67,317	\$503,445
Cost of sales	48,716	59,761	453,636
Gross profit	5,349	7,556	49,809
Selling, general and administrative expenses (Note 8)	5,359	5,467	49,902
Operating income (loss)	(10)	2,089	(93)
Other income (expenses):			
Interest and dividend income	409	360	3,809
Interest expense	(21)	(20)	(196)
Gain on sales of marketable securities	58	4	540
Amortization of negative goodwill	44	44	410
Equity in earnings of affiliates	513	818	4,777
Allowance for doubtful accounts	—	1	—
Gain on sales of investment securities	214	64	1,993
Gain on sales of property, plant and equipment (Note 9)	5	—	47
Bad debt loss	(34)	—	(317)
Loss on devaluation of telephone rights	(16)	—	(149)
Loss on sales of land	(12)	—	(112)
Loss on devaluation of guaranty deposits	—	(2)	—
Other, net	150	257	1,397
	1,310	1,526	12,199
Income before income taxes and minority interests	1,300	3,615	12,106
Income taxes (Note 7):			
Current	53	1,533	494
Deferred	324	(210)	3,017
	377	1,323	3,511
Minority interests	1	81	9
Net income (Note 15)	¥ 922	¥ 2,211	\$ 8,586
	Yen		U.S. dollars (Note 1)
Per share of common stock:	2005	2004	2005
Net assets per share (Note 15)	¥1,388.28	¥1,362.08	\$12.93
Net income per share (Note 15):			
Basic	24.55	57.24	0.23
Diluted	24.48	57.17	0.23

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

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

	Number of shares of common stock (shares)	Common stock (Note 12)	Additional paid-in capital (Note 12)	Retained earnings (Note 12 and 16)	Unrealized holding gain on securities	Treasury stock	
							(Millions of yen)
Balance at March 31, 2003	40,000,309	¥5,753	¥5,932	¥37,337	¥ 650	¥(1,151)	
Net income	—	—	—	2,211	—	—	
Cash dividends paid	—	—	—	(571)	—	—	
Bonuses to directors and corporate auditors	—	—	—	(52)	—	—	
Net changes in unrealized holding gain on securities	—	—	—	—	1,209	—	
Net changes in treasury stock	—	—	—	—	—	(1,097)	
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)	
		Common stock (Note 12)	Additional paid-in capital (Note 12)	Retained earnings (Note 12 and 16)	Unrealized holding gain on securities	Treasury stock	
		(Thousands of dollars)					
Balance at March 31, 2004		\$53,571	\$55,238	\$362,463	\$17,320	\$(20,933)	
Net income		—	—	8,586	—	—	
Cash dividends paid		—	—	(5,159)	—	—	
Bonuses to directors and corporate auditors		—	—	(400)	—	—	
Loss on disposal of treasury stock		—	—	(130)	—	—	
Retirement of treasury stock		—	—	(14,396)	—	—	
Net changes in unrealized holding gain on securities		—	—	—	1,453	—	
Net changes in treasury stock		—	—	—	—	6,937	
Balance at March 31, 2005		\$53,571	\$55,238	\$350,964	\$18,773	\$(13,996)	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 1,300	¥ 3,615	\$ 12,106
Depreciation and amortization	105	110	978
Amortization of negative goodwill	(44)	(44)	(410)
Increase (decrease) in allowance for doubtful accounts	9	(23)	84
Increase (decrease) in allowance for retirement benefits for employees	1	(30)	9
Increase (decrease) in allowance for retirement benefits for directors and corporate auditors	(141)	18	(1,313)
Increase (decrease) in accrued bonuses	(409)	99	(3,809)
Increase in allowance for compensation for construction damages	2	1	19
Increase allowance for losses on construction contracts	84	—	782
Interest and dividend income	(409)	(360)	(3,809)
Interest expense	21	20	196
Gain (loss) on sales of marketable securities	(58)	(4)	(540)
Gain (loss) on sales of investment securities	(214)	(64)	(1,993)
Gain (loss) on sales of land	12	—	112
Bad debt loss	34	—	317
Loss from devaluation of telephone rights	16	—	149
Loss from devaluation of guaranty deposits	—	1	—
Equity in earnings of affiliates	(513)	(818)	(4,777)
Decrease in notes and accounts receivable	3,009	3,376	28,019
Decrease in inventories	608	2,724	5,662
Decrease in notes and accounts payable	(3,674)	(1,890)	(34,212)
Decrease in advances received on uncompleted contracts	(74)	(1,938)	(689)
Consumption taxes	(171)	210	(1,592)
Other	(404)	258	(3,763)
Subtotal	(910)	5,261	(8,474)
Interest and dividend received	399	350	3,715
Interest paid	(21)	(20)	(196)
Income taxes paid	(1,259)	(694)	(11,723)
Net cash provided (used in) by operating activities	(1,791)	4,897	(16,678)
Cash flows from investing activities			
Payments for purchase of marketable securities	(600)	(800)	(5,587)
Proceeds from sales of marketable securities	218	—	2,030
Proceeds upon maturity of bonds	2,880	1,157	26,818
Payments for purchase of property, plant and equipment	(36)	(90)	(335)
Proceeds from sales of property, plant and equipment	14	—	130
Payments for purchase of intangible assets	(13)	(26)	(121)
Proceeds from sales of land	22	—	205
Payments for purchase of investment securities	(3,070)	(816)	(28,587)
Proceeds from sales of investment securities	496	207	4,619
Payments for insurance contribution	(302)	(200)	(2,812)
Proceeds from reversal of insurance contribution	289	124	2,691
Other	29	20	269
Net cash used in investing activities	(73)	(424)	(680)
Cash flows from financing activities			
Decrease in short-term borrowings	(20)	(50)	(186)
Payments for purchase of treasury stock	(928)	(1,097)	(8,641)
Proceeds from sales of treasury stock	109	1	1,015
Cash dividends paid	(554)	(571)	(5,159)
Cash dividends paid to minority shareholders	(6)	(7)	(56)
Net cash used in financing activities	(1,399)	(1,724)	(13,027)
Net increase (decrease) in cash and cash equivalents	(3,263)	2,749	(30,385)
Cash and cash equivalents at beginning of year	18,319	15,570	170,584
Cash and cash equivalents at end of year (Note 3)	¥15,056	¥18,319	\$140,199

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 Bu-

reau 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, 2005, which was ¥107.39 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 2005 and 2004. 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 loss-

es 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 compensation for construction damages

Allowance for compensation 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 expected losses on construction contracts

Allowance for expected 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 ¥3,313 million (\$30,850 thousand) and ¥8,033 million for the year ended March 31, 2005 and 2004, 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 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 stipu-

late 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.

(o) Impairment of Fixed Assets

A new Japanese accounting standard "Impairment of Fixed Assets" was issued in August 2002 that is required to be adopted effective April 1, 2005. Early adoption is permitted. 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 Company is currently assessing the impact of this new accounting standard on its financial position and operating results.

3 Cash and cash equivalents

Cash and cash equivalents at March 31, 2005 and 2004 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and deposit bank	¥14,056	¥17,319	\$130,887
Marketable securities	2,295	3,170	21,371
Marketable securities other than open bond investment trust	(1,295)	(2,170)	(12,059)
Cash and cash equivalents	¥15,056	¥18,319	\$140,199

4. Marketable securities and investment securities

(1) At March 31, 2005 and 2004, acquisition cost, book value and fair value of securities with available fair values were as follows:

(a) Available-for-sale securities

	Millions of yen		
	2005	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)

	Millions of yen		
	2004	2004	
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	¥ 2,135	¥ 4,216	¥2,081
Debt securities			
Government bonds	—	—	—
Corporate bonds	1,164	1,222	58
Other bonds	7,273	8,179	906
Others	316	378	62
Total	¥10,888	¥13,995	¥3,107

Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	¥ 15	¥ 13	¥ (2)
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other bonds	2,081	2,077	(4)
Others	678	655	(23)
Total	¥ 2,774	¥ 2,745	¥ (29)

	Thousands of U.S. dollars		
	2005	2005	
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	\$24,872	\$ 46,336	\$21,464
Debt securities			
Government bonds	—	—	—
Corporate bonds	10,290	10,737	447
Other bonds	62,073	71,897	9,824
Others	1,434	1,546	112
Total	\$98,669	\$130,516	\$31,847

Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	\$ 968	\$ 913	\$ (55)
Debt securities			
Government bonds	—	—	—
Corporate bonds	4,656	4,656	(0)
Other bonds	22,321	22,181	(140)
Others	726	689	(37)
Total	\$28,671	\$ 28,439	\$ (232)

(2) At March 31, 2005 and 2004, book value 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
	2005	2004	2005
Investments in affiliates	¥11,108	¥10,599	\$103,436
Total	¥11,108	¥10,599	\$103,436

(b) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Unlisted equity securities	¥ 548	¥ 253	\$ 5,103
Commercial paper	1,000	1,000	9,312
Others	550	500	5,122
Total	¥2,098	¥1,753	\$19,537

(3) At March 31, 2005 and 2004, maturities of available-for-sale securities with maturity were as follows:

	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

	Millions of yen				
	2004				
	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	584	638	—	—	1,222
Other bonds	1,005	3,261	5,507	483	10,256
Others	582	236	20	196	1,034
Total	¥2,171	¥4,135	¥5,527	¥679	¥12,512

	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	9,228	6,164	—	—	15,392
Other bonds	2,840	48,571	38,570	4,563	94,544
Others	—	261	177	1,797	2,235
Total	\$12,068	\$54,996	\$38,747	\$6,360	\$112,171

Sale of securities classified as available-for-sale securities for the years ended March 31, 2005 and 2004 amounted to ¥714 million (\$6,649 thousand) and ¥206

million, respectively, and net realized gains amounted to ¥272 million (\$2,514 thousand) and ¥64 million, respectively.

5. Derivative financial instruments

At March 31, 2005 and 2004, the Company holds bonds containing derivatives under available-for-sale securities for which fair values are available. The dif-

ference between the acquisition cost and the carrying value is recognized in income or loss.

(a) Nikkei Stock Average linked bond

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition Cost	¥483	¥468	\$4,498
Carrying Value	490	483	4,563
Unrealized gain (loss)	¥ 7	¥ 15	\$ 65

The disposable amount may be affected by the interest rate fluctuation from the daily change of Nikkei

Stock Average. The final redemption value will never be under 100%.

(b) Credit linked bond

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition Cost	¥499	¥451	\$4,647
Carrying Value	500	499	4,656
Unrealized gain (loss)	¥ 1	¥ 48	\$ 9

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

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

6. Short-term borrowings

Short-term borrowings from banks, at March 31, 2005 and 2004 were represented by overdraft and short-term notes, bearing weighted average interest rate of 1.395% per annum.

The Company and its consolidated subsidiaries have no long-term debt at March 31, 2005 and 2004.

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 (\$14,247 thousand) as of March 31, 2005 and 2004. The unused facilities maintained by the consolidated subsidiaries as of March 31, 2005 and 2004 amounted to ¥750 million (\$6,984 thousand).

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 2005 and 42.0% for 2004 .

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, 2005 and 2004:

	2005	2004
Statutory tax rate	40.7%	42.0%
Non-deductible expenses	5.0	1.8
Non-taxable dividend income	(0.8)	(0.2)
Per capital inhabitants tax	4.0	1.5
Valuation allowance	(2.0)	1.0
Adjustment to deferred tax assets due to change in the aggregate statutory tax rate	—	0.6
Equity in earnings of affiliates	(16.1)	(9.5)
Other	(1.8)	(0.6)
Effective tax rate	29.0%	36.6%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2005 and 2004 were follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Loss on revaluation of marketable securities	¥ 388	¥ 443	\$ 3,613
Enterprise taxes payable	18	111	168
Allowance for bonuses	197	364	1,834
Allowance for retirement benefits for employees	1,049	1,003	9,768
Allowance for retirement benefits for directors and corporate auditors	53	110	494
Loss from devaluation of guaranty deposits	36	39	335
Unrealized holding losses on securities	10	11	93
Other	273	300	2,542
Valuation allowance	(175)	(201)	(1,629)
Total deferred tax assets	¥ 1,849	¥ 2,180	\$ 17,218
Deferred tax liabilities:			
Cost of uncompleted contracts	(16)	(26)	(149)
Deferred gain on land	(1)	(1)	(9)
Unrealized holding losses on securities	(1,341)	(1,193)	(12,487)
Other	(4)	—	(37)
Total deferred tax liabilities	¥(1,220)	¥(1,220)	\$(12,682)
Net deferred tax assets (liabilities)	¥ 487	¥ 960	\$ 4,536

With the implementation of the "Revision of the Local Tax Law" (Legislation No.9, 2003) on March 31, 2003, a part of the tax basis of enterprise taxes comprises "amount of added value" and "amount of capital" from the fiscal year commenced April 1, 2004. The Company and its consolidated subsidiaries calculate enterprise taxes based on "amount of added value" and "amount of capital" and they are included in selling, general and administrative expenses for the year

ended March 31, 2005 pursuant to "Practical Treatment for Presentation of External Based-Corporate Enterprise Taxes in the Statement of Income" (Accounting Standards Board, Practical Solution Report No.12). As a result, selling, general and administrative expenses increased by ¥52 million (\$484 thousand), operating income and income before income taxes decreased by the same amount for the year ended March 31, 2005.

8. Selling, General and administrative expenses

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Salaries for employees	¥2,086	¥2,038	\$19,425
Allowance for bonuses	200	321	1,862
Allowance for retirement benefits for employees	172	171	1,602
Allowance for retirement benefits for directors and corporate auditors	42	51	391
Allowance for doubtful accounts	6	—	56
Office rent	855	869	7,962

The aggregate amounts of research and development expenses included in selling, general and administrative expenses for the year ended March 31, 2005 and 2004 were ¥218 million (\$2,030 thousand) and ¥234 million, respectively.

9. Gain on sale of property, plant and equipment

Significant components of the gain on sales of property, plant and equipment were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Buildings	¥5	¥—	\$47
Total	¥5	¥—	\$47

10. Retirement benefits

Allowance for retirement benefits for employees included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation			
Employee pension fund – Tokyo Air-conditioning and Plumbing Contractors Associations	¥ —	¥ —	\$ —
Tax qualified pension plan	(2,344)	(2,255)	(21,827)
Severance indemnities	(2,531)	(2,531)	(23,568)
Fair value of pension assets			
Employee pension fund – Tokyo Air-conditioning and Plumbing Contractors Associations	3,731	3,450	34,743
Tax qualified pension plan	2,035	1,894	18,950
Severance indemnities	—	—	—
Unrecognized actuarial differences	89	144	829
Allowance for severance and retirement benefits			
Employee pension fund – Tokyo Air-conditioning and Plumbing Contractors Associations	—	—	—
Tax qualified pension plan	65	90	605
Severance indemnities	2,685	2,659	25,002

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, 2005 and 2004 are employees' severance and retirement benefit expense consisting of the following:

	Millions of Yen		Thousands of U.S. dollars
	2005	2004	2005
Severance and retirement benefit expense	¥489	¥497	\$4,553
Service costs – benefits earned during the year	256	272	2,384
Interest cost on projected benefit obligation	112	115	1,043
Amortization of actuarial differences	13	18	121
Expected return on plan assets	(13)	(25)	(121)
Contribution to employee pension fund of Tokyo Air-conditioning and Plumbing Contractors Associations	121	117	1,126

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

The discount rates on benefits obligation used by the Companies are 2.5% for the years ended March 31, 2005 and 2004, and the rate of expected return on plan assets used principally by the Company and its consolidated subsidiaries are 0.78% in the year ended

March 31, 2005 and 1.5% in 2004. 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.

11. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2005 and 2004,

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

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

	Thousands of U.S. dollars		
	2005		
Vehicle	\$ 279	\$ 205	\$ 74
Equipment	2,058	1,173	885
Total	\$2,337	\$1,378	\$959

	Millions of yen		
	2004		
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	¥ 32	¥ 20	¥ 12
Equipment	225	113	112
Total	¥257	¥133	¥124

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

expense and interest expense for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2005	2004	2005
Lease payments	¥68	¥76	\$633
Depreciation expense	60	67	559
Interest expense	8	9	74

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

	Millions of Yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 47	¥ 56	\$ 438
Due after one year	61	75	568
Total	¥108	¥131	\$1,006

12. Contingent liabilities

Contingent liabilities at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2005	2004	2005
For guarantee for insurance contract of an affiliate not accounted for by equity method	¥180	¥ —	\$1,676
For guarantee for interest rate swap contract of an affiliate not accounted for by equity method	—	485	—
Total	¥180	¥485	\$1,676

13. Shareholders' equity

Under the Code, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in additional paid-in capital.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount

of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

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 Code.

Year-end cash dividends are approved by the shareholders after the end of each fiscal year. Semi-annual interim cash dividends are declared by the Board Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each fiscal year or interim six-month period. In accordance with the Code, these dividends and the related appropriations of retained earnings are not reflected in the financial statements at the end of such fiscal or interim six-month periods but are recorded at the time they are approved.

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, 2005 and 2004 were as follows:

2005	Millions of yen					
	Construction	Equipment	Other	Total	Eliminations or Corporate	Consolidated
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

2004	Millions of yen					
	Construction	Equipment	Other	Total	Eliminations or Corporate	Consolidated
Net sales:						
Outside customers	¥59,008	¥ 6,027	¥2,282	¥67,317	¥ —	¥67,317
Inter-segment	2	4,355	645	5,002	(5,002)	—
Total	59,010	10,382	2,927	72,319	(5,002)	67,317
Operating expenses	57,244	10,284	2,771	70,299	(5,071)	65,228
Operating income	¥ 1,766	¥ 98	¥ 156	¥ 2,020	¥ 69	¥ 2,089
Assets and others:						
Assets	¥29,324	¥ 6,254	¥2,663	¥38,241	¥42,070	¥80,311
Depreciation	91	1	18	110	—	110
Capital Expenditures	79	0	68	147	—	147

2005	Thousands of U.S. dollars					
	Construction	Equipment	Other	Total	Eliminations or Corporate	Consolidated
Net sales:						
Outside customers	\$424,062	\$59,549	\$19,834	\$503,445	\$ —	\$503,445
Inter-segment	—	24,146	4,609	28,755	(28,755)	—
Total	424,062	83,695	24,443	532,200	(28,755)	503,445
Operating expenses	425,058	83,444	24,015	532,517	(28,979)	503,538
Operating income	\$ (996)	\$ 251	\$ 428	\$ (317)	\$ 224	\$ (93)
Assets and others:						
Assets	\$235,795	\$58,115	\$22,134	\$316,044	\$375,007	\$691,051
Depreciation	727	9	270	1,006	—	1,006
Capital Expenditures	242	84	177	503	—	503

Common assets included in "Eliminations or Corporate" column under "Assets" amounted to ¥41,508 million (\$386,516 thousand) and ¥43,749 million as of March 31, 2005 and 2004, 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.

The Company and its consolidated subsidiaries calculate enterprise taxes based on "amount of added

value" and "amount of capital" and they are included in selling, general and administrative expenses for the year ended March 31, 2005 as mentioned in Note 7. As a result, selling, general and administrative expenses and operating loss in construction segment increased by ¥52 million (\$484 thousand) for the year ended March 31, 2005.

None of segment information by geographic segments or overseas sales is shown as the Company and its consolidated subsidiaries have no foreign operations or overseas sales.

15. Amounts per share

Amounts per share for the years ended March 31, 2005 and 2004 were as follows:

	Yen		Dollars	
	2005	2004	2005	
Net income per share	¥24.55	¥57.24	\$0.23	
Diluted net income per share	24.48	57.17	0.23	

16. Subsequent event

The following appropriation of retained earnings at March 31, 2005, were approved at the annual meeting of shareholders of the Company held on June 29, 2005.

	Millions of yen	Thousands of U.S. dollars
Cash dividends - ¥7.5 (\$0.07) per share	¥270	\$2,514

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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 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, 2005

KPMG AZSA & Co.

Corporate Data

Investor Information

Total number of shares authorized	96,500,000 shares
Total number of shares issued	38,000,309 shares
Number of shareholders	3,549 shares

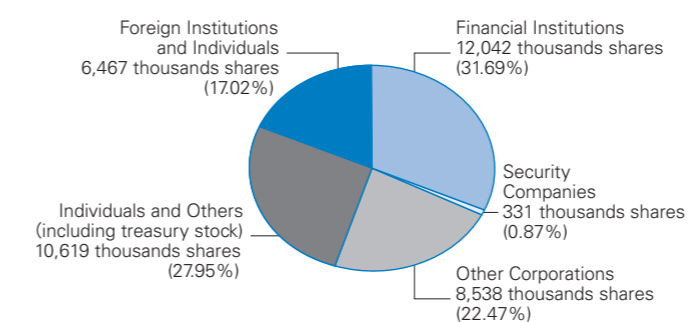
Major Shareholders

Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1 Sumitomo Mitsui Banking Corporation	1,704	4.5
2 Mizuho Corporate Bank, Ltd.	1,703	4.5
3 BBH for Fidelity Low Price Stock Fund	1,500	3.9
4 NTT Urban Development Co.	1,371	3.6
5 Hibiya Engineering Customer Stock Ownership Plan	1,362	3.6
6 Japan Trustee Services Bank, Ltd. (Trust a/c)	1,270	3.3
7 The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	2.4
8 The Japan Telecommunications Welfare Associations	839	2.2
9 The Dai-ichi Mutual Life Insurance Company	818	2.2
10 The Master Trust Bank of Japan, Ltd. (Trust a/c)	900	2.4

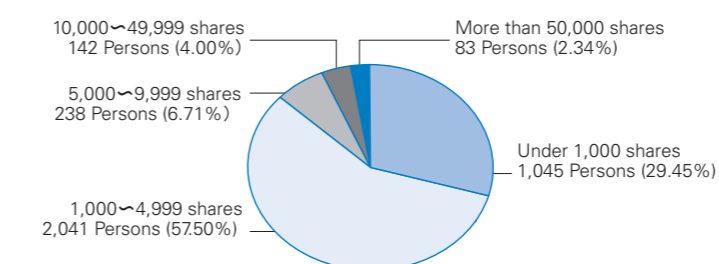
Note

- 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)
- The Company holds 1,931,292 shares of treasury stock.

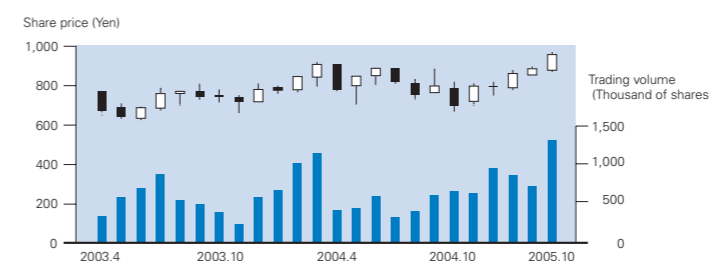
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

President and Representative Director	Shinya Kimura
Vice President and Representative Director	Hideo Maekawa
Senior Managing Director	Kazuhiko Hiyoshi
Managing Director	Toshiya Kubota
Managing Director	Shizuo Atsumi
Director	Katsumasa Tanaka
Director	Yasuo Shinoda
Director	Hitoshi Ishii
Director	Masahiro Ikeda
Director	Masanori Ishikawa
Director	Tetsuhiro Inohara
Director	Satoshi Katou
Director	Kouji Terai
Director	Morio Fukuki
Director	Akitoshi Furuhashi
Director	Hideaki Iwata
Standing Corporate Auditor	Hisashi Murakawa
Auditor	Kazuomi Matsuzaki
Auditor	Michihiro Matsumoto
Auditor	Makoto Satou

Note

- Akitoshi Furuhashi and Hideaki Iwata are external directors under the terms of the Commercial Code Article 188 Section 2.7.2.
- Hisashi Murakawa and Makoto Satou are external auditors under the terms of the Commercial Code Regulations Related to Auditors of a Joint-stock Corporation, Article 18 Section 1.

Offices

Head Office

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

Tokyo Main Office

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

Branches

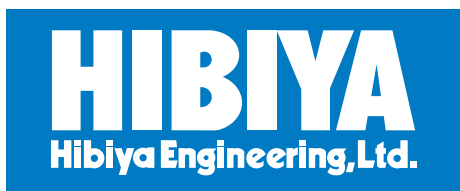
Yokohama, Osaka, Shikoku, Nagoya, Hokuriku, Tohoku, Hiroshima, Kyushu, Sapporo

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

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