



# Kanamoto

annual report **2002**  
[ For the 12 months ended October 31, 2002 ]



## The Key to Business is Rationalization and Integrated Capabilities. Reliable Solutions Leading to a New Era

Kanamoto has always sought innovation and change. We view never-ending challenges, including the expansion of our main business and the development of new markets, the development of strategically located branches and adjustment of the construction industry's posture of reliance on public works investment, as our primary obligation for increasing customer satisfaction. In a tough new era, the solution demanded the most by today's business environment is "rationalization" that can deliver multifaceted services, beginning with construction equipment rentals. To respond to these expectations, Kanamoto will boldly and steadily continue to evolve in the future, working with all of our stakeholders to lead the way to the next generation.

### C O N T E N T S

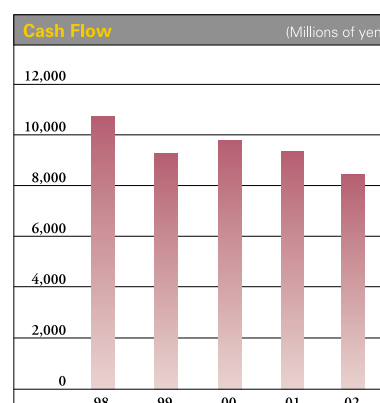
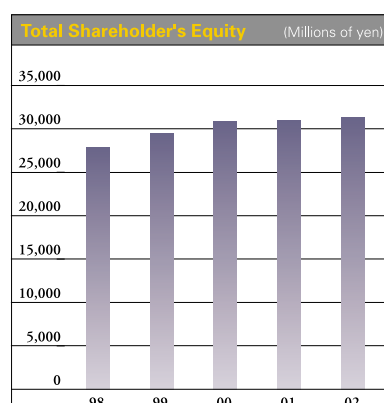
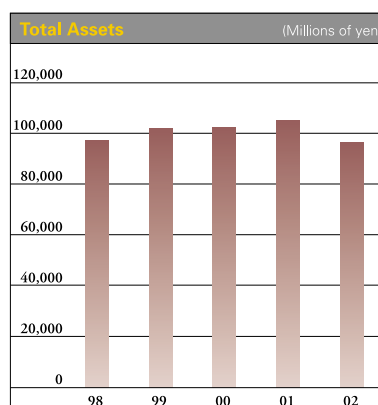
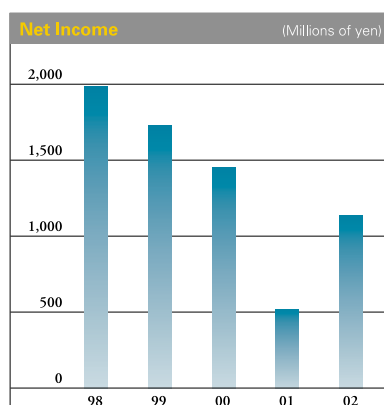
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For purposes of this report, the Balance Sheets and Statements of Income were created using financial data prepared according to Japan's Securities Report guidelines, and adjusted to conform to U.S. SEC reporting standards.

## Non-Consolidated Financial Highlights

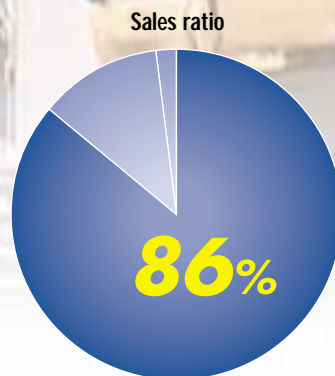
	Millions of yen		Percent change (2001 • 2002)	Thousands of U.S. dollars
	2001	2002		2002
Rental revenues and sales of goods	¥ 64,295	¥ 60,606	-5.7	\$ 491,939
Operating income	2,771	2,255	-18.6	18,308
Net income	518	1,134	+118.9	9,206
Total shareholders' equity	31,034	31,356	+1.0	254,520
Total assets	105,423	96,717	-8.2	785,044
	Yen		Percent change	Thousands of U.S. dollars
<b>Per share of common stock</b>				
Net income	17.14	37.49	+118.7	\$ 0.30
Cash dividends	18.00	18.00	00.0	0.15

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥ 123.2=US \$1, the approximate exchange rate on October 31, 2002.



## Construction Equipment Rental Division

Vigorously promotes construction company asset reductions and the strengthening of operating efficiency by enabling construction companies to obtain the right equipment at the right time and in the right quantity.

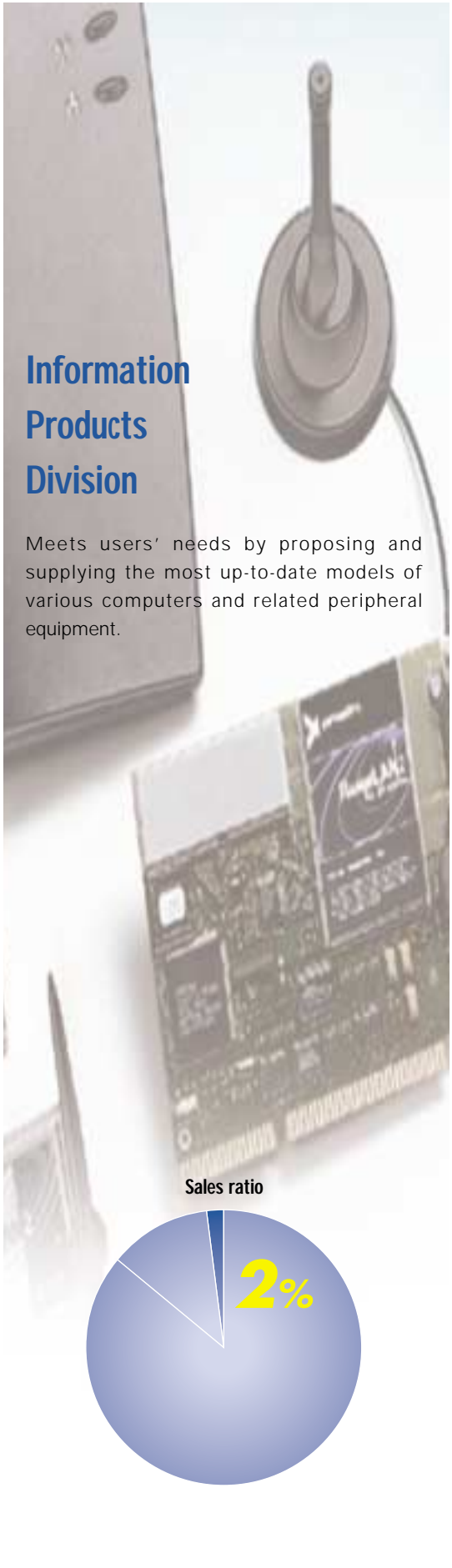
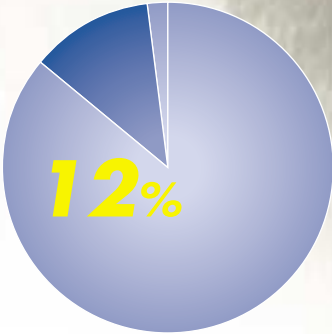




## Steel Sales Division

Develops its business as a distributor centered on Hokkaido, handling a variety of steel materials and general steel products.

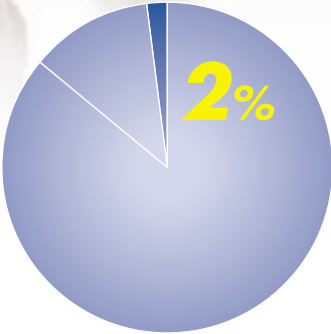
Sales ratio



## Information Products Division

Meets users' needs by proposing and supplying the most up-to-date models of various computers and related peripheral equipment.

Sales ratio



### Seeking to expand Kanamoto's current advantages in the construction equipment rental market through a full-fledged rationalization strategy

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Thank you very much for your continued interest and support of Kanamoto Co., Ltd.

Kanamoto Company has always made the centerpiece of its action agenda the concept, "constantly seek innovation and strive to energize the business." We believe that adapting to changes in the business environment, developing the firm on a sustainable basis and maximizing earnings contributes to the best results for our stakeholders. Our focus is on maintaining our ability to continually distribute profits to our shareholder partners, and on demonstrating Kanamoto's potential to customers and local communities as the leading construction equipment rental company, by developing our business throughout Japan. We seek to offer detailed services that are intimately linked to each local area, by having each branch office act as an independent business enterprise.

#### Value of the rental business increasing under Japan's tough economic environment

Japan is being swept along by the tide of structural reform alternatives currently being adopted to restore government finances to health. In line with these alternatives, the central and local governments are slashing their budgets. Public-works expenditures are no exception. Private sector capital investment also shows absolutely no signs of reviving, and as a result the volume of domestic construction investment has been declining annually since reaching a peak in fiscal 1996.

These developments have also affected Kanamoto's main business of construction equipment rentals. Business turned downwards into negative growth, and for the fiscal year ended in October 2002 Kanamoto unfortunately was unable to avoid a drop in revenues and income.

When we consider the outlook for the future, on the other hand, the fact is that the deterioration in business conditions holds not just negative aspects but brings with it some positive factors for Kanamoto as well. The most important of these is the increase in the value of the construction equipment rental business in a tough economic environment.

The construction firms that are Kanamoto's customers are being compelled to rationalize various aspects of their operations. In particular, the voice of the market is saying that firms must reduce their total assets and total liabilities and net worth, focus on becoming more nimble with a lighter balance sheet, and improve earnings capabilities.

One of greatest strengths of the construction equipment rental business lies in the fact that it demonstrates its maximum benefit in the reduction of a user's balance sheet. An equipment rental service that enables users to procure "the necessary assets" in "the necessary quantity" for the "necessary period of time" without investing their own capital is a system that excels in producing outstanding economic rationality.

Moreover, construction firms still rely on equipment rentals for less than 50% of their equipment needs at construction sites in Japan, which provides sufficient room for equipment rentals to grow. At Kanamoto, we believe that how we turn the industry's margin for growth to Kanamoto's advantage, while making good use of the equipment rental business' benefits, holds the key to Kanamoto's future.

#### Adding momentum to Kanamoto's earnings recovery, with four measures for efficient utilization of management resources

In the construction equipment rental market, where competition over the remaining margin for growth is escalating, Kanamoto will concentrate on the following four points to retain and expand its existing advantages and further enhance its position as the industry leader.

The first is to shift management resources to Japan's three major metropolitan areas. This is a measure to increase operating revenues through maximization of market share in the Tokyo, Osaka and Nagoya areas, where Kanamoto's share in the past has been low, by pursuing branch development.

The second is to be more thorough in equipment selection, in order to give priority to purchasing rental assets that produce the fastest recovery of invested capital. This will enable Kanamoto to operate its owned assets more efficiently.

The third is to expand Kanamoto's alliance strategy. Kanamoto has achieved positive results so far by forming alliances with other firms that have strong local ties, centered on areas in western Japan where Kanamoto does not have its own branches. In the future, Kanamoto will seek to achieve growth of its business territory, promote asset sharing and prevent unreasonable price declines, by further expanding and developing this approach.

The fourth is to boldly reduce various costs. Kanamoto will seek to cut expenses and expand earnings, by pursuing internal rationalization and curtailing wasteful expenditures.

Against the backdrop of the measures described above, Kanamoto is aiming to enhance revenues and earning by increasing both consolidated revenues and consolidated operating income for the fiscal year ending in October 2003. This will set the stage for an earnings recovery in the following fiscal year.

### **Maintain Kanamoto's policy of stable profit returns to shareholders based on the medium-term profit plan**

To ensure the long-term, integrated expansion of shareholders' profits, Kanamoto Company continues to focus comprehensively on both capital investments based on its medium-term profit plan and on profitability, dividend trend and a sound financial position. The Company also remains committed to its policy of stable dividend growth.

At the same time, the Company utilizes its internal reserves by allocating funds for the introduction of the rental equipment assets that will become the source of future earnings.

Furthermore, Kanamoto has established a policy and system for the amortization of treasury stock, based on the assumption the Company will execute the policy at the appropriate time according to circumstances.

Given the Company's present circumstances and markets, the Company believes it has adopted an appropriate position with regard to its investment unit and stock allocation, and has no plans to reduce its positions at this time. The Company will continue to flexibly examine its activities, however, in accordance with the future distribution of investment units.

For aspects of its business that require strict valuation of assets at market prices and the application of conservative accounting principles, Kanamoto believes it is vitally important to vigorously fulfill these requirements. Moreover, Kanamoto has always emphasized ROI (return on investment) and cash flow, and seeks growth in EBITDA (earnings before interest, taxes, depreciation and amortization) to meet its primary objective of establishing a solid foundation for management. The Company considers EBITDA to be the most appropriate measure for comprehensive evaluation of earnings in an industry that requires a large portfolio of assets such as construction equipment rental, and continually measures this index and applies it for making management decisions.

Finally, I would like to comment on the tough economic environment we face in Japan today. Some individuals may look at this situation and judge the construction equipment rental business to be an unlikely candidate for investment. They may also see the construction equipment rental industry as a traditional business, not a new sector that is enjoying rapid growth.

The fact remains true, however, that in order to improve their balance sheets, construction contractors in Japan must rely on construction equipment rentals more than ever before. Additional painful steps will also be necessary to restore the construction industry to sound health. Both weak construction contractors and weak construction equipment rental companies will close their doors. Already the separation of the strongest from weakest players is becoming a powerful wave that will sweep through both industries.

I remain steady in my conviction that by applying the solid management strategies and dynamic marketing tactics discussed in this report, Kanamoto will turn today's weak economic conditions into a positive factor for the company, and will emerge the sole winner in the industry.

In closing, on behalf of Kanamoto and all of its employees I would like to express my appreciation for your sincere understanding of the company's management efforts, and for your steadfast goodwill and support.



Kanachu Kanamoto President

*K. Kanamoto*

## Operating Results

### 1. Summary of fiscal year consolidated operating results (Fiscal year ended October 2002)

During the fiscal year under review, restraints arising from the need to restore central government finances prevented the administration from implementing fiscal stimulus measures, and Japan's economy did not see any improvement in business sentiment. In the construction industry, the principal customer for Kanamoto's construction equipment rental business, an extremely severe business environment continued not only because of lower public works spending, but also because of a rapid slowdown in private sector capital investment, with the exception of the Tokyo metropolitan area. A summary of operating results for each operating division is discussed below.

#### Construction-related business

The latest figures based on research by the Japan Civil Engineering Association (issued June 2002) showed that Japan's construction companies rely on construction equipment rentals for 55.5% (up 1.2% points over the prior year) of their equipment needs. The demand for construction equipment rentals remains unchanged and vigorous. The number of public works construction projects declined, however, and revenues for the construction industry overall were lower. As a result, companies faced strong pressure to reduce construction equipment rental prices. Despite the upward trend in the use of rentals to meet construction equipment needs, therefore, revenues for the construction equipment rental industry as a whole declined, and the business environment confronting the industry remained extremely challenging.

#### Conditions for the Company (Unconsolidated)

In its Construction Equipment Rental Division, Kanamoto reorganized the existing branch network according to territories, and revised management reporting lines. The Company also sought to reduce costs through several measures, including closing four unprofitable branches and simultaneously integrating the back-office activities of the branch network. During the fiscal year under review, Kanamoto opened two new branches in the Hokkaido territory, added three new branches and closed one branch in the Tohoku territory, beefed up the Kanto-Shinetsu territory by opening four branches and closing two branches, and added one new branch while closing an unprofitable branch in the Kinki-Chubu territory. Altogether, the branch network grew by a net addition of six branches.

As a result of the above steps, the Company maintained the operating rates for its rental asset at the same high levels achieved in the past. By keeping reductions in rental unit prices to a minimum, the Company held the decline in construction equipment rental revenues to 5.3%.

By region, compared to the prior fiscal year rental revenues declined by 10.6% in Hokkaido and 8.1% in the Tohoku territory, respectively, as both regions bore the brunt of decreasing demand for public works construction. In the Kanto-Shinetsu territory, revenues increased by 3.9%. While public works spending and private construction demand in the Tokyo metropolitan area was vigorous, this was offset by weak conditions in the Shinetsu region and the northern Kanto area. In the Kinki-Chubu territory, business remained brisk in both the

Osaka and Nagoya metropolitan areas, demand also picked up in the Hokuriku region as that area shook off a temporary slump, and the alliance group strategy for developing western Japan also contributed positive results. For the territory as a whole, equipment rental revenues rose 9.8%.

With regard to sales revenues for the division, on the other hand, revenues from the overseas sale of used construction equipment grew strongly, but despite steady sales activity in the domestic sales territories unit price declines greatly influenced revenues. As a result, sales revenues were off by 3.8% compared to the prior fiscal year.

From the standpoint of profitability, the Construction Equipment Rental Division's operating income can under intense pressure from the effects of lower rental unit prices, with the result that profitability declined compared to the prior fiscal year. This was despite the fact that the Company achieved cost reductions based on the new "Kanamoto Survival Plan" Three-Year Plan, which the Company began implementing during the period under review, and attained a more balanced depreciation expense burden by emphasizing leases as the form for introducing assets.

#### Conditions for consolidated subsidiaries

Fiscal year operating results for the consolidated subsidiaries in construction-related businesses were as follows.

At Taniguchi Co., Ltd., revenue increased by 1.6% compared to the prior fiscal year and net income jumped 35.1%, as the firm fought strongly in a tough environment in which public sector construction in Hokkaido is declining.

Assist Co., Ltd. enjoyed the results of its prior year efforts to expand and strengthen its sales offices. Revenue increased by 18.5%, and net income rose by 108.3%.

Although SRG Kanamoto Co., Ltd. set the stage for strengthening sales by opening a new branch in Sapporo, revenue fell 4.7% and the company incurred a net loss as the result of stagnant construction demand, lower unit prices and the rise in costs for opening the new branch.

Kanatech Co., Ltd. increased its revenue by 14.2%, aided by the supply of modular housing units to other members of Kanamoto's alliance group. Net income declined by 72.2%, however, as costs of sales rose because of efforts to broaden the firm's product lineup and higher transportation expenses.

Daiichi Machine Industries Co., Ltd. became one of Kanamoto's consolidated subsidiaries during the fiscal year under review. Although a true comparison of year-to-year results is not possible because Daiichi changed its fiscal period closing month and applied special accounting rules, the firm achieved steady growth in both revenues and operating earnings. Nevertheless, the company ended the fiscal year with a net loss, as the amortization of prior year costs also increased.

As a result of the above activities, consolidated fiscal year revenues from construction-related businesses fell by 1.8% to ¥56,558 million, and operating income decreased by 17.6% to ¥2,108 million.

#### Steel sales-related business

The Steel Sales Division focused its sales efforts by shifting human resources to the Sapporo metropolitan area, where demand was strong. The division was unable to increase revenue despite great efforts made to cover the drop in revenues generated by its steel production raw materials (iron scrap)



section, which the division decided to abolish as of the end of January 2002, by handling steel materials with strong demand and construction materials. The division also lowered prices to meet market unit prices. The division was able to minimize the negative influence of the local market, however, where private sector demand remained in a slump.

As a result, sales fell 10.8% to ¥7,435 million, and operating income declined 67.7% to ¥47 million.

### Information Products-related business and other businesses

At Kanamoto's Information Products Division, which manages the Company's information and telecommunications businesses, workstation rentals, which were strong in the prior fiscal year, were weakened by a delay in rental inquiries for models equipped with new OS because of the market's outlook. Rentals of personal computers were strong in terms of quantity, but rental prices weakened under the influence of falling sales prices. Given tough conditions, rental revenue declined 14.8% compared to the prior year. Equipment sales were strong, particularly for wireless LAN, which enjoyed steady sales similar to the previous fiscal year, with unit prices showing only a minute decline of 0.8%. For the division as a whole, revenues decreased 7.0%.

In other businesses, Kanamoto faced uncertain prospects at Providence Brewery Co., Ltd., which struggled from flat personal consumption and the inability to expand sales channels in the tradition-bound alcoholic beverage industry. The Company was unable to avoid a decision to discontinue local beer production in February 2002.

Revenues for the Company's computer and peripheral equipment-related business and other businesses fell 9.6% to ¥1,257 million, and operating income was down 83.7% to ¥4 million.

### ■ Fiscal Year ending October 31, 2002 Consolidated operating results

	Revenues	Operating Income	Ordinary Income	Net Income
Consolidated FY under review	65,251	2,287	2,381	1,209
Change from prior year	△3.1%	△20.4%	△26.9%	155.8%

(Percentage figures show the change compared to prior year)

### Other business operating results

The Company did not locate any promising investment targets for Kanamoto's venture business support activities and did not provide any support, such as new capital investment, during the consolidated fiscal year under review.

## 2. Outlook for the next consolidated fiscal year (Business period ending October 2003)

The Japanese government is slowly taking steps to put Japan's financial system back on a sound footing at an early stage, as part of the Koizumi Cabinet's reforms. As a result, many observers believe this will accelerate the restructuring and shuttering of so-called "heavily-indebted troubled companies." With regard to the supplementary budget as well, although the government drafted a public works budget totaling roughly ¥1.5 trillion, this failed to satisfy industry expectations because of sharp cuts in the total amount of the initial budget. Given these conditions, Kanamoto believes the tough competitive situation among manufacturer-related rental companies, large multi-regional rental firms and middle-market rental companies will continue, but this will also serve as a factor leading to greater industry reliance on construction equipment rentals.

The present circumstances provide an opportunity to expand market share in the construction equipment rental business, which is the leading sector among construction-related industries. Kanamoto will focus on ensuring increased earnings, by acting to strengthen its business through greater cooperation and integration among the Kanamoto alliance group companies, and promoting a product line-up that suits customers needs by reviewing some of the products the companies handle. Kanamoto will simultaneously promote the rationalization of back-office operations and maintenance, to bolster low-cost operations. The priority for new sales branch openings will be on the Tokyo metropolitan area. Together with the recent expansion of Kanamoto's market share, we will aggressively introduce rental assets during the next fiscal year as well.

In other areas, although the Steel Sales Division and the Information Products Division represent only a small portion of Kanamoto's total net revenues, we will work to continually increase the revenues at each division. Furthermore, the Company will fully write off the estimated loss incurred from the liquidation of Providence Brewery Co., Ltd. during the consolidated fiscal year under review.

### ■ Fiscal year ending October 31, 2003 Projected consolidated operating results

	Revenues		Operating Income		Ordinary Income		Net Income	
Interim period	33,300	2.1%	1,480	△12.7%	1,410	△20.7%	690	△25.9%
Full year	65,500	0.4%	2,360	3.2%	2,180	△8.4%	1,000	△17.3%

(Percentage figures show the change compared to prior year)

## Financial position

For the consolidated accounting fiscal year under review, cash flow from operating activities was down 14.6% to ¥10,645. This was ¥1,823 million less than in the prior consolidated accounting fiscal year. In addition to higher income before taxes and adjustments, this reflected a decrease in accrued employee retirement benefits and lower depreciation and amortization expense, plus an increase in payment of corporate and other taxes.

Cash flow used for investing activities was ¥442 million, ¥320 million (42.0%) less than in the prior fiscal year. This was primarily the result of fewer funds used for the purchase of tangible fixed assets.

Cash flow used for financing activities was ¥10,761 million, ¥1,376 million less than in the prior consolidated accounting fiscal year. The Company used funds provided by long-term bank borrowings to repay outstanding loans and redeem straight and convertible bonds.

As a result of the above, the balance of cash and the cash equivalents at the end of the consolidated accounting fiscal year under review was ¥15,433 million, ¥558 million (3.5%) less than at the end of the prior consolidated accounting fiscal year.

## Consolidated Balance Sheets

### ASSETS

As of October 31, 2002 and 2001	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
<b>Current assets :</b>			
Cash and cash equivalents	¥ 15,991	¥ 15,433	\$ 125,270
Short-term investments (Note 3)	120	79	644
Notes and accounts receivable, trade	25,808	23,121	187,666
Inventories	1,118	810	6,570
Deferred income taxes (Note 8)	230	167	1,359
Other current assets	3,283	2,960	24,023
Less : Allowance for doubtful accounts	(325)	(495)	(4,015)
<b>Total current assets</b>	<b>46,225</b>	<b>42,075</b>	<b>341,517</b>
<b>Property and equipment :</b>			
Rental equipment	56,322	50,009	405,922
Building and structures	14,883	15,177	123,190
Machinery and equipment	4,949	4,770	38,716
Less : Accumulated depreciation	(46,639)	(44,097)	(357,932)
	29,515	25,859	209,896
Land	24,397	24,601	199,683
Construction in progress	59	109	883
<b>Total property and equipment</b>	<b>53,971</b>	<b>50,569</b>	<b>410,462</b>
<b>Investments and other assets :</b>			
Investments in associates (Note 3)	204	199	1,615
Investments in securities (Note 3)	3,585	3,483	28,274
Deferred income taxes (Note 8)	1,567	1,749	14,196
Other assets	1,534	1,819	14,761
Less : Allowance for doubtful accounts	(447)	(580)	(4,709)
<b>Total investments and other assets</b>	<b>6,443</b>	<b>6,670</b>	<b>54,137</b>
	¥ 106,639	¥ 99,314	\$ 806,116

## LIABILITIES AND SHAREHOLDERS' EQUITY

As of October 31, 2001 and 2002	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
<b>Current liabilities :</b>			
Short-term bank loans (Note 4)	¥ 510	¥ 905	\$ 7,349
Current portion of long-term debt (Note 4)	15,240	24,965	202,634
Notes and accounts payable, trade	12,620	11,965	97,121
Accrued income taxes	1,319	19	157
Accrued bonuses for employees	595	541	4,393
Other current liabilities	1,643	1,625	13,182
<b>Total current liabilities</b>	<b>31,927</b>	<b>40,020</b>	<b>324,836</b>
<b>Non-current liabilities :</b>			
Long-term debt (Note 4)	40,043	24,700	200,489
Accrued pension and severance costs (Note 5)	2,009	1,676	13,602
Other liabilities	1,750	1,580	12,821
<b>Total non-current liabilities</b>	<b>43,802</b>	<b>27,956</b>	<b>226,912</b>
<b>Minority interests</b>	<b>67</b>	<b>97</b>	<b>792</b>
<b>Contingent liabilities (Note 6)</b>			
<b>Shareholders' equity :</b>			
Common stock :			
Authorized—66,000,000 shares			
Issued—30,253,241 shares	8,597	8,597	69,779
Additional paid-in capital	9,720	9,720	78,899
Retained earnings	12,396	13,044	105,876
Net unrealized gain(loss) on other securities, net of taxes (Note 3)	141	(108)	(880)
Treasury stock	(11)	(12)	(98)
<b>Total shareholders' equity</b>	<b>30,843</b>	<b>31,241</b>	<b>253,576</b>
	<b>¥ 106,639</b>	<b>¥ 99,314</b>	<b>\$ 806,116</b>

## Consolidated Statements of Income

<i>Year Ended October 31, 2002 and 2001</i>	Millions of yen		Thousands of U.S. dollars <i>(Note 1)</i>
	2001	2002	2002
<b>Rental revenues</b>	¥ 41,839	¥ 40,561	\$ 329,228
<b>Cost of rentals</b>	31,190	30,631	248,625
<b>Sales of goods</b>	25,507	24,691	200,414
<b>Cost of sales</b>	19,986	19,376	157,276
<b>Gross profit</b>	16,170	15,245	123,741
<b>Selling, general and administrative expenses</b>	13,298	12,957	105,174
<b>Operating income</b>	2,872	2,288	18,567
<b>Other income (expenses):</b>			
Interest and dividend income	40	56	452
Interest expenses	(544)	(475)	(3,856)
Others, net	(1,343)	259	2,108
<b>Income before income taxes</b>	1,025	2,128	17,271
<b>Income taxes (Note 8)</b>			
Current	1,883	865	7,017
Deferred	(1,308)	59	482
	575	924	7,499
<b>Income before minority interests</b>	450	1,204	9,772
<b>Minority interests in subsidiaries</b>	(23)	(5)	(43)
<b>Net income</b>	¥ 473	¥ 1,209	\$ 9,815
	Yen		U.S. dollars <i>(Note 1)</i>
	2001	2002	2002
<b>Per share of common stock :</b>			
Net income			
Basic	¥ 15.64	¥ 39.99	\$ 0.32
Diluted	13.89	30.76	0.25
Cash dividends applicable to the year	18.00	18.00	0.15

# Consolidated Statements of Cash Flows

Year Ended October 31, 2001 and 2002	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
<b>Cash flows from operating activities :</b>			
Net income before income taxes and minority interests	¥ 1,025	¥ 2,128	\$ 17,271
Adjustments for :			
Depreciation expenses	9,486	8,120	65,908
Loss on disposal or sales of property and equipment	102	199	1,618
Write-down of investments in securities	126	241	1,954
Profit on sales of investments in securities	(376)	(157)	(1,277)
Provision for allowance for doubtful accounts	368	301	2,440
Provision for accrued pension and severance costs	2,009	(333)	(2,703)
Interest and dividend income	(40)	(56)	(452)
Interest expenses	844	746	6,058
Other adjustments	1,401	564	4,578
Change in assets and liabilities			
Decrease (increase) in trade receivables	(2,476)	2,985	24,232
Decrease (increase) in inventories	(291)	337	2,732
Increase (decrease) in trade payable	901	(1,104)	(8,963)
Others, net	964	(524)	4,252
<b>Subtotal</b>	<b>14,043</b>	<b>13,447</b>	<b>109,144</b>
Interest and dividend income received	40	56	452
Interest expenses paid	(845)	(748)	(6,072)
Income taxes paid	(768)	(2,109)	(17,114)
<b>Cash flows from operating activities</b>	<b>12,470</b>	<b>10,646</b>	<b>86,410</b>
<b>Cash flows from investing activities :</b>			
Payments for purchase of investments in securities	(2,772)	(2,646)	(21,474)
Proceeds from sales of investments in securities	3,066	2,243	18,206
Payments for purchase of property and equipment	(1,073)	(398)	(3,232)
Others, net	16	359	2,910
<b>Cash flows from investing activities</b>	<b>(763)</b>	<b>(442)</b>	<b>(3,590)</b>
<b>Cash flows from financing activities :</b>			
Increase (decrease) in short-term bank loans, net	(4,217)	160	1,299
Proceeds from long-term debt	10,136	13,670	110,958
Repayments of long-term debt	(17,542)	(24,053)	(195,239)
Cash dividends paid	(544)	(545)	(4,420)
Others	29	6	52
<b>Cash flows from financing activities</b>	<b>(12,138)</b>	<b>(10,762)</b>	<b>(87,350)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(431)</b>	<b>(558)</b>	<b>(4,530)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>16,422</b>	<b>15,991</b>	<b>129,800</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 15,991</b>	<b>¥ 15,433</b>	<b>\$ 125,270</b>

## Consolidated Statements of Shareholders' Equity

Year Ended October 31, 2001 and 2002	Thousands of shares of common stock	Millions of yen			
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain(loss) on other securities, net of taxes
<b>Balance at October 31, 2000</b>	30,229	¥ 8,591	¥ 9,715	¥ 12,484	¥ –
Net income				473	
Cash dividends				(544)	
Bonuses to directors and auditors				(17)	
Issuance of common stock	24	6	5		
Other					141
<b>Balance at October 31, 2001</b>	30,253	8,597	9,720	12,396	141
Net income				1,209	
Cash dividends				(544)	
Bonuses to directors and auditors				(17)	
Other					(249)
<b>Balance at October 31, 2002</b>	30,253	¥ 8,597	¥ 9,720	¥ 13,044	¥ (108)
		Thousands of U.S. dollars (Note 1)			
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain(loss) on other securities, net of taxes
<b>Balance at October 31, 2001</b>		\$ 69,779	\$ 78,899	\$ 100,616	\$ 1,141
Net income				9,815	
Cash dividends				(4,420)	
Bonuses to directors and auditors				(135)	
Other					(2,021)
<b>Balance at October 31, 2002</b>		\$ 69,779	\$ 78,899	\$ 105,876	\$ (880)

## 1. Basis of presenting of consolidated financial statements

The consolidated financial statements have been prepared from the accounts maintained by Kanamoto Co., Ltd. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

In order to facilitate the understanding of readers outside Japan, certain reclassifications are given to the consolidated financial statements prepared for domestic purposes.

Translations of Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the approximate exchange rate on October 31, 2002, which was ¥123.20 to US\$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, or 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 principles

The consolidated financial statements include the accounts of the Company and significant companies which the Company controls through majority voting right or existence of certain conditions. All significant inter-company transactions and accounts are eliminated.

Investments in unconsolidated subsidiaries and affiliates of which the Company has the ability to exercise significant influence over operating and financial policies are stated at cost and equity method is not applied for the valuation of such investments since they are considered immaterial in the aggregate.

### (b) Cash and cash equivalents

For the purpose of statements of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks and all highly liquid investments with maturities of three months or less.

### (c) Securities

Securities except for investments in unconsolidated subsidiaries and affiliates are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with unrealized gains and losses reported in a separate component of shareholders' equity, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### (d) Inventories

Inventories are mainly valued on the basis of lower of cost or market, using the last-in, first-out method.

### (e) Property and equipment

Property and equipment are stated at cost. Depreciation is mainly computed at rates based on the estimated useful lives of assets on the declining-balance method.

The principal estimated useful lives range from 5 to 10 years for rental equipment and from 10 to 34 years for building and structures.

### (f) Accrued pension and severance costs

To provide for employees' severance indemnities and pension payments, net periodic pension and severance costs are computed based on the projected benefit obligation and the pension plan assets.

The actuarial assumption adjustment is to be amortized by the straight-line method beginning the following fiscal year over a period of 10 years, which is less than the average remaining years of service of the active participations in the plans.

The unrecognized benefit obligation at transition is being amortized for the year ended October 31, 2001.

In the year ended October 31, 2002, the Company made amendments to its welfare pension fund plans in accordance with the amendments to the Welfare Pension Insurance Law of Japan. As a result, prior service cost was incurred. This prior service cost is being amortized for the year ended October 31, 2002.

### (g) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitaliz" information is disclosed in the notes to the lessee's financial statements.

### (h) Earnings per share

Basic Earnings per Share ("EPS") is computed based on the average number of shares of common stock outstanding for the period. Diluted EPS assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price.

### (i) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such appropriations.

## 3. Short-term investments, investments in securities

At October 31, 2002, the Company and its consolidated subsidiaries did not possess any securities classified as trading securities or held-to-maturity securities. Securities classified as other securities are included in "short-term investments" and "investments in securities" in the consolidated balance sheets.

The components of unrealized gain or loss on marketable securities classified as other securities at October 31, 2002 were as follows:

## Notes to Consolidated Financial Statements

		Millions of yen		
<i>October 31, 2002</i>		Acquisition costs	Carrying value	Unrealized gain (loss)
<b>Unrealized gain:</b>				
Stocks		¥ 873	¥ 1,276	¥ 403
		873	1,276	403
<b>Unrealized loss:</b>				
Stocks		1,143	783	(360)
Corporate bonds		141	137	(4)
Other		1,214	989	(225)
		2,498	1,909	(589)
<b>Total</b>		¥ 3,371	¥ 3,185	¥ (186)
		Thousands of U.S. dollars		
<i>October 31, 2001</i>		Acquisition costs	Carrying value	Unrealized gain (loss)
<b>Unrealized gain:</b>				
Stocks		\$ 7,085	\$ 10,360	\$ 3,275
		7,085	10,360	3,275
<b>Unrealized loss:</b>				
Stocks		9,278	6,352	(2,926)
Corporate bonds		1,145	1,112	(33)
Other		9,854	8,028	(1,826)
		20,277	15,492	(4,785)
<b>Total</b>		\$ 27,362	\$ 25,852	\$ (1,510)

The components of unrealized gain or loss on marketable securities classified as other securities at October 31, 2001 were as follows:

		Millions of yen		
<i>October 31, 2001</i>		Acquisition costs	Carrying value	Unrealized gain (loss)
<b>Unrealized gain:</b>				
Stocks		¥ 839	¥ 1,521	¥ 682
		839	1,521	682
<b>Unrealized loss:</b>				
Stocks		839	636	(203)
Corporate bonds		231	228	(3)
Other		1,033	798	(235)
		2,103	1,662	(441)
<b>Total</b>		¥ 2,942	¥ 3,183	¥ 241

Non-marketable securities classified as other securities at October 31, 2002 and 2001 amounted to ¥373 million (\$3,032 thousand) and ¥517 million, respectively.

Proceeds from sales of securities classified as other securities amounted to ¥1,320 million (\$10,712 thousand) with an aggregate gain on sales of ¥159 million (\$1,287 thousand) for the year ended October 31, 2002.

Proceeds from sales of securities classified as other securities amounted to ¥1,806 million (\$14,795 thousand) with an aggregate gain on sales of ¥377 million (\$3,089 thousand) for the year ended October 31, 2001.

The redemption schedule for bonds with maturity dates at October 31, 2002 was summarized as follows:

		Millions of yen			
<i>October 31, 2002</i>		Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Corporate bonds		¥ 75	¥ 62	¥ –	¥ –
Other		–	12	777	27
<b>Total</b>		¥ 75	¥ 74	¥ 777	¥ 27
		Thousands of U.S. dollars			
		Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Corporate bonds		\$ 609	\$ 502	\$ –	\$ –
Other		–	95	6,305	220
<b>Total</b>		\$ 609	\$ 597	\$ 6,305	\$ 220



The redemption schedule for bonds with maturity dates at October 31, 2001 was summarized as follows:

<i>October 31, 2001</i>	Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Corporate bonds	¥ 114	¥ 113	¥ —
Other	—	15	764
<b>Total</b>	<b>¥ 114</b>	<b>¥ 128</b>	<b>¥ 764</b>

#### 4. Short-term bank loans and long-term debt

The annual average interest rates applicable to short-term bank loans outstanding at October 31, 2002 and 2001 were 1.49% and 1.66%, respectively.

Long-term debt at October 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Loans from banks and insurance companies, maturing through 2,011 :</b>			
Secured	¥ —	¥ 568	\$ 4,611
Unsecured	22,367	25,218	204,692
0.55% unsecured convertible bonds due 2003, convertible currently at ¥1,508.7 (\$12.25) for one share	4,787	3,164	25,682
Zero coupon unsecured convertible bonds due 2003, convertible currently at ¥622 (\$5.05) for one share	4,494	1,000	8,117
Floating rate U.S. dollar bonds due 2002	5,278	5,278	42,838
Obligations under installment purchases, maturing through 2007	18,357	14,437	117,183
	55,283	49,665	403,123
Less current portion	15,240	24,965	202,634
	¥ 40,043	¥ 24,700	\$ 200,489

Aggregate annual maturities of long-term debt subsequent to October 31, 2002 are as follows:

<i>Year Ending October 31</i>	Millions of yen	Thousands of U.S. dollars
2003	¥ 24,965	\$ 202,634
2004	11,486	93,237
2005	7,738	62,814
2006	4,076	33,081
2007 and thereafter	1,400	11,357
	¥ 49,665	\$ 403,123

At October 31, 2002, assets pledged as collateral for short-term bank loans and long-term debt, including current portion of long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 38	\$ 305
Land	197	1,602

#### 5. Accrued pension and severance costs

An employee whose employment is terminated is entitled, in most cases, to pension payments or lump-sum severance indemnities, the amounts of which are determined by reference to the basic rate of pay, length of service and the conditions under which the termination occurs.

The Company has established contributory defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan, which cover a portion of the governmental welfare pension program, under which the contributions are made jointly by the Company and their employees, and which include an additional portion representing the substituted non-contributory pension plans. In addition, certain subsidiaries have maintained lump-sum severance indemnity plans.

## Notes to Consolidated Financial Statements

The projected benefit obligation and funded status including a portion of the governmental welfare program at October 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Projected benefit obligation	¥ (5,270)	¥ (5,409)	\$ (43,908)
Plan assets	2,782	2,983	24,213
Unrecognized actuarial assumption adjustment	479	750	6,093
<b>Accrued pension and severance costs</b>	<b>¥ (2,009)</b>	<b>¥ (1,676)</b>	<b>\$ (13,602)</b>

In computing projected benefit obligation, several simplified methods are permitted to small companies, and certain subsidiaries have adopted such methods.

The components of net periodic pension and severance costs for the years ended October 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Service cost	¥ 407	¥ 413	\$ 3,354
Interest cost	138	143	1,161
Expected return on plan assets	(105)	(110)	(894)
<b>Amortization:</b>			
Actuarial losses	—	48	389
Prior service cost	—	(395)	(3,207)
Unrecognized benefit obligation at transition	1,982	—	—
<b>Net periodic pension and severance costs</b>	<b>¥ 2,422</b>	<b>¥ 99</b>	<b>\$ 803</b>

The assumptions used were as follows:

Discount rate	3.0 %
Expected rate of return on plan assets	4.0 %
Method of attributing benefit to periods of service	Straight-line basis
Amortization period for prior service cost	1 year
Amortization period for actuarial assumption adjustment	10 years
Amortization period for unrecognized benefit obligation at transition	1 year

### 6. Contingent liabilities

At October 31, 2002 and 2001, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Guarantees of loans	¥ 377	¥ 372	\$ 3,022
Trade notes discounted	67	85	686
Trade notes endorsed	167	178	1,447

## 7. Leases

Lease payments under finance leases for the years ended October 31, 2002 and 2001 were ¥4,343 million (\$35,254 thousand) and ¥3,115 million, respectively.

Pro forma information on leased property such as acquisition costs, accumulated depreciation, obligations under finance leases, depreciations expenses, interest expenses on finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended October 31, 2002 and 2001, was as follows:

For the year ended October 31, 2002	Millions of yen			Thousands of U.S. dollars		
	Rental equipment	Machinery and equipment	Total	Rental equipment	Machinery and equipment	Total
Acquisition costs	¥ 25,612	¥ 667	¥ 26,279	\$ 207,891	\$ 5,412	\$ 213,303
Accumulated depreciation	8,300	384	8,684	67,373	3,115	70,488
<b>Net leased property</b>	<b>¥ 17,312</b>	<b>¥ 283</b>	<b>¥ 17,595</b>	<b>\$ 140,518</b>	<b>\$ 2,297</b>	<b>\$ 142,815</b>

	Millions of yen	Thousands of U.S. dollars
<b>Obligations under finance leases:</b>		
Due within one year	¥ 4,663	\$ 37,848
Due after one year	13,357	108,418
<b>Total</b>	<b>¥ 18,020</b>	<b>\$ 146,266</b>

For the year ended October 31, 2001	Millions of yen			Millions of yen
	Rental equipment	Machinery and equipment	Total	
Acquisition costs	¥ 14,914	¥ 1,220	¥ 16,134	<b>Obligations under finance leases:</b>
Accumulated depreciation	7,163	563	7,726	Due within one year
<b>Net leased property</b>	<b>¥ 7,751</b>	<b>¥ 657</b>	<b>¥ 8,408</b>	Due after one year
				<b>Total</b>
				¥ 8,587

Depreciation expenses and interest expenses, which are not reflected in the consolidated statements of income, computed by the straight-line method and the interest method were ¥3,732 million (\$30,295 thousand) and ¥384 million (\$3,118 thousand), respectively, for the year ended October 31, 2002.

Depreciation expenses and interest expenses, which are not reflected in the consolidated statements of income, computed by the straight-line method and the interest method were ¥2,837 million and ¥291 million, respectively, for the year ended October 31, 2001.

The minimum rental commitments under non-cancellable operating leases for the years ended October 31, 2002 and 2001 were as follows:

For the Year Ended October 31, 2002	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 1,543	\$ 12,527
Due after one year	2,643	21,450
<b>Total</b>	<b>¥ 4,186</b>	<b>\$ 33,977</b>

For the Year Ended October 31, 2001	Millions of yen
Due within one year	¥ 1,681
Due after one year	2,837
<b>Total</b>	<b>¥ 4,518</b>

**8. Income taxes**

The difference between the statutory tax rate and the effective tax rate for the years ended October 31, 2002 and 2001 was as follows:

	2001	2002
<b>Statutory tax rate</b>	41.7 %	<b>41.7 %</b>
Operating losses of subsidiaries	4.4	<b>1.2</b>
Expenses not deductible for tax purposes	2.6	<b>1.1</b>
Inhabitants per capita taxes	7.8	<b>3.9</b>
Write - down of investment in associates	—	<b>(3.4)</b>
Other	(0.4)	<b>(1.1)</b>
<b>Effective tax rate</b>	56.1 %	<b>43.4 %</b>

The significant components of deferred tax assets and liabilities at October 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Deferred tax assets:</b>			
Depreciation expenses	¥ 477	¥ 388	\$ 3,150
Directors' retirement benefits	118	82	665
Accrued bonuses for employees	123	150	1,216
Provisions for doubtful accounts	139	223	1,812
Accrued enterprise tax	105	1	4
Accrued pension and severance costs	836	696	5,653
Operating loss carryforwards	139	176	1,432
Net unrealized loss on securities	—	78	630
Others	100	298	2,425
Sub total	2,037	2,092	16,987
Less valuation allowance	(139)	(176)	(1,432)
<b>Total deferred tax assets</b>	1,898	1,916	15,555
<b>Deferred tax liabilities:</b>			
Net unrealized gain on securities	(101)	—	—
<b>Net deferred tax assets</b>	¥ 1,797	¥ 1,916	\$ 15,555

**9. Supplemental cash flow information**

Non-cash investing and financing activities for the years ended October 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Non-cash investing and financing activities:</b>			
Additions to obligations under installment purchases	¥ 9,701	¥ 3,637	\$ 29,521

## 10. Segment information

Business segment information for the years ended October 31, 2002 and 2001 was as follows:

2001 <i>For the year ended October 31, 2001</i>	Millions of yen					Consolidated
	Construction related business	Steel related business	Information and communication related and other business	Total	Eliminations and corporate items	
<b>Sales</b>						
Outside customers	¥ 57,613	¥ 8,342	¥ 1,391	¥ 67,346	¥ —	¥ 67,346
Intersegment	—	—	—	—	—	—
<b>Total</b>	57,613	8,342	1,391	67,346	—	67,346
Operating expenses	55,055	8,194	1,364	64,613	(139)	64,474
Operating profit (loss)	¥ 2,558	¥ 148	¥ 27	¥ 2,733	¥ 139	¥ 2,872
Identifiable assets	¥ 76,592	¥ 3,970	¥ 1,439	¥ 82,001	¥ 24,638	¥ 106,639
Depreciation	9,455	13	18	9,486	—	9,486
Capital expenditures	10,045	1	0	10,046	458	10,504

2002 <i>For the year ended October 31, 2002</i>	Millions of yen					Consolidated
	Construction related business	Steel related business	Information and communication related and other business	Total	Eliminations and corporate items	
<b>Sales</b>						
Outside customers	¥ 56,558	¥ 7,436	¥ 1,258	¥ 65,252	¥ —	¥ 65,252
Intersegment	—	—	—	—	—	—
<b>Total</b>	56,558	7,436	1,258	65,252	—	65,252
Operating expenses	54,450	7,388	1,254	63,092	(128)	62,964
Operating profit	¥ 2,108	¥ 48	¥ 4	¥ 2,160	¥ 128	¥ 2,288
Identifiable assets	¥ 70,991	¥ 3,444	¥ 1,437	¥ 75,872	¥ 23,442	¥ 99,314
Depreciation	7,950	6	12	7,968	152	8,120
Capital expenditures	4,677	2	—	4,679	31	4,710

<i>For the year ended October 31, 2002</i>	Thousands of U.S. dollars					Consolidated
	Construction related business	Steel related business	Information and communication related and other business	Total	Eliminations and corporate items	
<b>Sales</b>						
Outside customers	\$ 459,080	\$ 60,354	\$ 10,208	\$ 529,642	\$ —	\$ 529,642
Intersegment	—	—	—	—	—	—
<b>Total</b>	459,080	60,354	10,208	529,642	—	529,642
Operating expenses	441,967	59,968	10,173	512,108	(1,033)	511,075
Operating profit (loss)	\$ 17,113	\$ 386	\$ 35	\$ 17,534	\$ 1,033	\$ 18,567
Identifiable assets	\$ 576,220	\$ 27,950	\$ 11,667	\$ 615,837	\$ 190,279	\$ 806,116
Depreciation	64,529	50	96	64,675	1,233	65,908
Capital expenditures	37,963	16	—	37,979	253	38,232

## 11. Subsequent events

On January 28, 2003, the Company's shareholders approved the payment of a cash dividend of ¥9.00 (\$0.07) per one share to shareholders of record at October 31, 2002, or a total payment of ¥272 million (\$2,210 thousand).

## Non-consolidated balance sheets

### ASSETS

As of October 31, 2002 and 2001	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
<b>Current assets :</b>			
Cash and time deposits	¥ 15,692	¥ 14,578	\$ 118,331
Short-term investments	114	75	609
Notes receivable, trade	12,520	10,423	84,601
Accounts receivable, trade	12,587	11,796	95,750
Inventories	806	399	3,237
Deferred income taxes (Note 5)	226	152	1,233
Other current assets	3,258	2,899	23,526
Less : Allowance for doubtful accounts	(318)	(462)	(3,750)
<b>Total current assets</b>	<b>44,885</b>	<b>39,860</b>	<b>323,537</b>
<b>Property and equipment :</b>			
Rental equipment	56,321	48,816	396,232
Buildings	10,766	10,825	87,868
Structures	3,857	3,874	31,441
Machinery and equipment	4,923	4,644	37,695
Less : Accumulated depreciation	(46,491)	(42,841)	(347,732)
	29,376	25,318	205,504
Land	24,258	24,228	196,651
Construction in progress	59	104	846
<b>Total property and equipment</b>	<b>53,693</b>	<b>49,650</b>	<b>403,001</b>
<b>Investments and other assets :</b>			
Investments in securities	3,581	3,468	28,147
Investments in associates	662	805	6,538
Deferred income taxes (Note 5)	1,563	1,727	14,019
Other assets	1,486	1,780	14,452
Less : Allowance for doubtful accounts	(447)	(573)	(4,650)
<b>Total investments and other assets</b>	<b>6,845</b>	<b>7,207</b>	<b>58,506</b>
	¥ 105,423	¥ 96,717	\$ 785,044

## LIABILITIES AND SHAREHOLDERS' EQUITY

As of October 31, 2002 and 2001	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
<b>Current liabilities :</b>			
Current portion of long-term bank loans	¥ 7,755	¥ 8,289	\$ 67,281
Current portion of straight bonds	–	5,278	42,838
Current portion of convertible bonds	–	4,164	33,799
Notes payable, trade	9,151	8,091	65,675
Accounts payable, trade	2,647	2,857	23,189
Notes payable, other	422	289	2,346
Accounts payable, other	8,284	7,888	64,023
Accrued income taxes	1,290	–	–
Accrued bonuses for employees	575	519	4,217
Other current liabilities	722	676	5,488
<b>Total current liabilities</b>	<b>30,846</b>	<b>38,051</b>	<b>308,856</b>
<b>Non-current liabilities :</b>			
Straight bonds	5,278	–	–
Convertible bonds	9,281	–	–
Long-term bank loans	14,305	16,858	136,834
Long-term accounts payable, other	12,399	8,614	69,921
Accrued pension and severance costs	1,998	1,660	13,470
Other liabilities	282	177	1,443
<b>Total non-current liabilities</b>	<b>43,543</b>	<b>27,309</b>	<b>221,668</b>
<b>Contingent liabilities (Note 3)</b>			
<b>Shareholders' equity :</b>			
Common stock :			
Authorized – 66,000,000 shares			
Issued – 30,253,241 shares	8,597	8,597	69,779
Additional paid-in capital	9,720	9,720	78,899
Legal reserve	1,372	1,372	11,140
Retained earnings	11,205	11,778	95,599
Net unrealized gain (loss) on other securities, net of taxes	141	(108)	(880)
Treasury stock	(1)	(2)	(17)
<b>Total shareholder's equity</b>	<b>31,034</b>	<b>31,357</b>	<b>254,520</b>
	¥ 105,423	¥ 96,717	\$ 785,044





# Non-consolidated Statements of Shareholders' Equity

<i>Year Ended October 31, 2002 and 2001</i>	Thousands of shares of common stock	Millions of yen					Net unrealized gain(loss) on other securities, net of taxes
		Common stock	Additional paid-in capital	Legal reserve	Retained earnings		
<b>Balance at October 31, 2000</b>	30,229	¥ 8,591	¥ 9,715	¥ 1,245	¥ 11,375	¥ –	
Net income					518		
Cash dividends					(544)		
Bonuses to directors and auditors					(17)		
Transfer to legal reserve				127	(127)		
Issuance of common stock	24	6	5				
Other						141	
<b>Balance at October 31, 2001</b>	30,253	8,597	9,720	1,372	11,205	141	
Net income					1,134		
Cash dividends					(544)		
Bonuses to directors and auditors					(17)		
Other						(249)	
<b>Balance at October 31, 2002</b>	30,253	¥ 8,597	¥ 9,720	¥ 1,372	¥ 11,778	¥ (108)	
		Thousands of U.S. dollars (Note 1)					
<i>Year Ended October 31, 2002</i>		Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Net unrealized gain(loss) on other securities, net of taxes	
<b>Balance at October 31, 2001</b>		\$ 69,779	\$ 78,899	\$ 11,140	\$ 90,948	\$ 1,141	
Net income					9,206		
Cash dividends					(4,420)		
Bonuses to directors and auditors					(135)		
Other						(2,021)	
<b>Balance at October 31, 2002</b>		\$ 69,779	\$ 78,899	\$ 11,140	\$ 95,599	\$ (880)	

## 1. Basis of presenting of non-consolidated financial statements

The non-consolidated financial statements have been prepared from the accounts maintained by Kanamoto Co., Ltd. (the "Company") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

In order to facilitate the understanding of readers outside Japan, certain reclassifications are given to the non-consolidated financial statements prepared for domestic purposes.

Translations of Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the approximate exchange rate on October 31, 2002, which was ¥123.20 to US\$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, or 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) Basis of presentation

The non-consolidated financial statements are prepared on the basis of the same accounting policies as those discussed in Note 2 to the consolidated financial statements except that investments in subsidiaries and affiliates are stated at cost.

## 3. Contingent liabilities

At October 31, 2002 and 2001, the Company was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Guarantees of loans	¥ 377	¥ 372	\$ 3,022

## 4. Leases

Lease payments under finance leases for the years ended October 31, 2002 and 2001 were ¥3,838 million (\$31,152 thousand) and ¥2,717 million, respectively.

Pro forma information on leased property such as acquisition costs, accumulated depreciation, obligations under finance leases, depreciation expenses, and interest expenses on finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended October 31, 2002 and 2001, was as follows:

For the year ended October 31, 2002	Millions of yen			Thousands of U.S. dollars		
	Rental equipment	Machinery and equipment	Total	Rental equipment	Machinery and equipment	Total
Acquisition costs	¥ 24,072	¥ 563	¥ 24,635	\$ 195,390	\$ 4,567	\$ 199,957
Accumulated depreciation	7,533	339	7,872	61,141	2,752	63,893
Net leased property	¥ 16,539	¥ 224	¥ 16,763	\$ 134,249	\$ 1,815	\$ 136,064

	Millions of yen	Thousands of U.S. dollars
<b>Obligations under finance leases:</b>		
Due within one year	¥ 4,259	\$ 34,569
Due after one year	12,900	104,706
<b>Total</b>	¥ 17,159	\$ 139,275

For the year ended October 31, 2001	Millions of yen		
	Rental equipment	Machinery and equipment	Total
Acquisition costs	¥ 14,031	¥ 623	¥ 14,654
Accumulated depreciation	6,821	306	7,127
Net leased property	¥ 7,210	¥ 317	¥ 7,527

	Millions of yen
<b>Obligations under finance leases:</b>	
Due within one year	¥ 2,893
Due after one year	4,788
<b>Total</b>	¥ 7,681

Depreciation expenses and interest expenses, which are not reflected in the non-consolidated statements of income, computed by the straight-line method and the interest method were ¥3,272 million (\$26,560 thousand) and ¥334 million (\$2,709 thousand), respectively, for the year ended October 31, 2002.

Depreciation expenses and interest expenses, which are not reflected in the non-consolidated statements of income, computed by the straight-line method and the interest method were ¥2,472 million and ¥252 million, respectively, for the year ended October 31, 2001.

The minimum rental commitments under non-cancellable operating leases for the years ended October 31, 2002 and 2001 were as follows:

<i>For the year ended October 31, 2002</i>	Millions of yen	Thousands of U.S. dollars	<i>For the year ended October 31, 2001</i>	Millions of yen
Due within one year	¥ 1,543	\$ 12,527	Due within one year	¥ 1,681
Due after one year	2,643	21,450	Due after one year	2,837
<b>Total</b>	<b>¥ 4,186</b>	<b>\$ 33,977</b>	<b>Total</b>	<b>¥ 4,518</b>

## 5. Income taxes

The difference between the statutory tax rate and the effective tax rate for the years ended October 31, 2002 and 2001 was as follows:

<i>Year ended October 31, 2002 and 2001</i>	2001	2002
<b>Statutory tax rate</b>	41.7 %	41.7 %
Inhabitants per capita taxes	7.2	3.8
Expenses not deductible for tax purposes	2.4	1.1
Other	0.4	1.9
<b>Effective tax rate</b>	<b>51.7 %</b>	<b>44.7 %</b>

The significant components of deferred income tax assets at October 31, 2002 and 2001 were as follows:

<i>Year ended October 31, 2002 and 2001</i>	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
<b>Deferred tax assets:</b>			
Depreciation expenses	¥ 477	¥ 387	\$ 3,145
Directors' retirement benefits	118	74	601
Accrued bonuses for employees	120	144	1,172
Provisions for doubtful accounts	139	223	1,812
Accrued enterprise tax	105	—	—
Accrued pension and severance costs	833	692	5,617
Net unrealized loss on securities	—	78	630
Others	98	281	2,275
<b>Total deferred tax assets</b>	<b>1,890</b>	<b>1,879</b>	<b>15,252</b>
<b>Deferred tax liabilities:</b>			
Net unrealized gain on securities	(101)	—	—
<b>Net deferred tax assets</b>	<b>¥ 1,789</b>	<b>¥ 1,879</b>	<b>\$ 15,252</b>

## 6. Subsequent events

On January 28, 2003, the company's shareholders approved the payment of a cash dividend of ¥9.00 (\$0.07) per one share to shareholders of record at October 31, 2002, or a total payment of ¥272 million (\$2,210 thousand).

## Taichu Kanamoto's latest work, Revealed: My Management, My Life, has been published

Revealed: My Management, My Life, written by Kanamoto's Chairman Taichu Kanamoto and published by The Hokkaido Shimbun Press, was released in September 2002.

The book includes thoughts on Taichu Kanamoto's management philosophy in Part One and previously unreleased materials written over the past 50 years in Part Two, plus a collection of 32 articles originally published in the Hokkaido Shimbun as the column "Breakfast Table" over a three-year period in 1986-87 and 1999. The book also includes drafts of unpublished materials.

The book condenses the management principles and philosophy of life of Kanamoto's chairman, from the era when his father established his own shop up to the present day. The work may best be described as a book that will help readers gain a deeper appreciation of Kanamoto Company's business approach (Currently only available in a Japanese-language edition).



*Revealed: My Management, My Life*  
By Taichu Kanamoto /  
Published by The Hokkaido  
Shimbun Press  
Duodecimo font, 296 pages  
List price ¥1,500



*"I sought to eliminate vague expressions to the extent possible and aimed for clear, concise writing." (Author Taichu Kanamoto)*



*Kiyoto Matsui, Daiichi's  
President*

## Daiichi Machine Industries Co., Ltd. now a Kanamoto subsidiary

On November 1, 2001, Kanamoto acquired a majority of the stock of Daiichi Machine Industries Co., Ltd. (Head office: Kanoya, Kagoshima Prefecture), converting the company into a Kanamoto subsidiary. As a long-standing member of the Kanamoto alliance group, Daiichi built an excellent relationship with Kanamoto over many years as a business partner covering the southern Kyushu region. Like Kanamoto, Daiichi made construction equipment rentals its main business and has created a solid business base, particularly in the Okuma area of Kagoshima Prefecture, where Daiichi's head office is located. Kanamoto looks forward to the contribution that Daiichi's earnings will make to Kanamoto's consolidated operating results.

Daiichi will continue operations under its trade name Daiichi Machine Industries Co., Ltd. Kiyoto Matsui will continue serving as Daiichi's President and Representative Director.



*Daiichi Machine  
Industries Co., Ltd.*

## Eliminating the mounting problem of construction equipment theft losses - Kanamoto begins marketing Theft Sensor anti-theft warning device

To counter the construction equipment theft losses that have become a rapidly growing problem recently, Kanamoto developed Theft Sensor, an anti-theft warning device. In addition to installing the device on the company's own construction equipment, Kanamoto has also begun marketing the alarm to other construction equipment manufacturers and construction equipment rental companies.

According to statistics released by the Japan Construction Equipment Manufacturers Association, the number of construction equipment theft losses increased by approximately seven-fold over the five-year period since 1995, with over 1,000 thefts occurring in 2000. The number of cases in which stolen construction equipment is used to commit other crimes is also climbing, and incidents in which stolen hydraulic excavators are used to demolish a bank's ATM corner and loot the cash from each ATM machine show no signs of abating. After any initial disturbance, the Theft Sensor developed by Kanamoto will generate a warning message exceeding 100dB when it detects any additional movement, such as slight vibrations, jolting or tilting of the construction equipment on which the sensor is installed. In addition, the device incorporates a second-stage security system, which simultaneously with the warning message will automatically alert police, via a monitoring and report center, if the device has been set to report mode. What's more, by installing options such as an intruder sensor and infrared sensors, companies can also use Theft Sensor for security needs in other locations, such as job site offices.

The Theft Sensor II Hydro-Sever, which Kanamoto has begun selling as the second model in the Theft Sensor series, incorporates a mechanism that enables the controller to shut off the hydraulic excavator's power circuits. Because the hydraulic circuits have been disabled, thieves will be unable to move the equipment even if they manage to start the engine



*First machine equipped with Theft  
Sensor, developed by Kanamoto*

by illegal means. This makes Theft Sensor II Hydro-Sever the optimal anti-theft device for large-scale construction equipment that must be driven onto a trailer under its own power.

Kanamoto plans to install anti-theft devices such as Theft Sensor or Hydro-Sever on all of the company's rental equipment, so customers will know they can use Kanamoto's services with even greater peace of mind. This is just another example of how Kanamoto increases the added value of its equipment rental system. Kanamoto doesn't intend to keep this advantage as added value all for itself, however, and is working to eliminate crime from the entire industry by recommending the broad use of Theft Sensor by other companies in the industry and construction equipment manufacturers.

## Branch Network

### Our Growing Branch Network

Number of Branches	Hokkaido	Honshu	Total
	As of October 31, 2002	As of October 31, 2002	As of October 31, 2002
Construction Equipment Rental Operations	56	77	133
Steel Sales	3	0	3
Information Products Operations	0	1	1
<b>Total</b>	<b>59</b>	<b>78</b>	<b>137</b>

During the 38<sup>th</sup> business period we closed 4 existing branches and opened 10 new branches.

- Construction Equipment Rental Division ■
- Steel Sales Division ●
- Information Products Division ▲

#### Kanamoto Alliance Group Firms (8 companies) □

##### **Assist Co., Ltd.** (9 offices)

Engaged in the rental of safety products such as signals or signs for the construction industry.

##### **SRG Kanamoto Co., Ltd.** (2 branches)

A joint venture between Kanamoto and SRG Takamiya Co., Ltd. that provides rentals of temporary scaffolding.

##### **Kanatech Co., Ltd.** (13 branches)

Designs, manufactures and sells modular housing units for construction use.

##### **Kanamoto Shikoku Co., Ltd.**

A construction equipment rental company established as a joint venture between Kanamoto and Tadano, Ltd.

##### **Kyushu Kansen Group** (9 branches, 4 group companies)

Construction equipment rental company headquartered in Fukuoka Prefecture.

##### **Daichi Machine Industries Co., Ltd.** (7 branches)

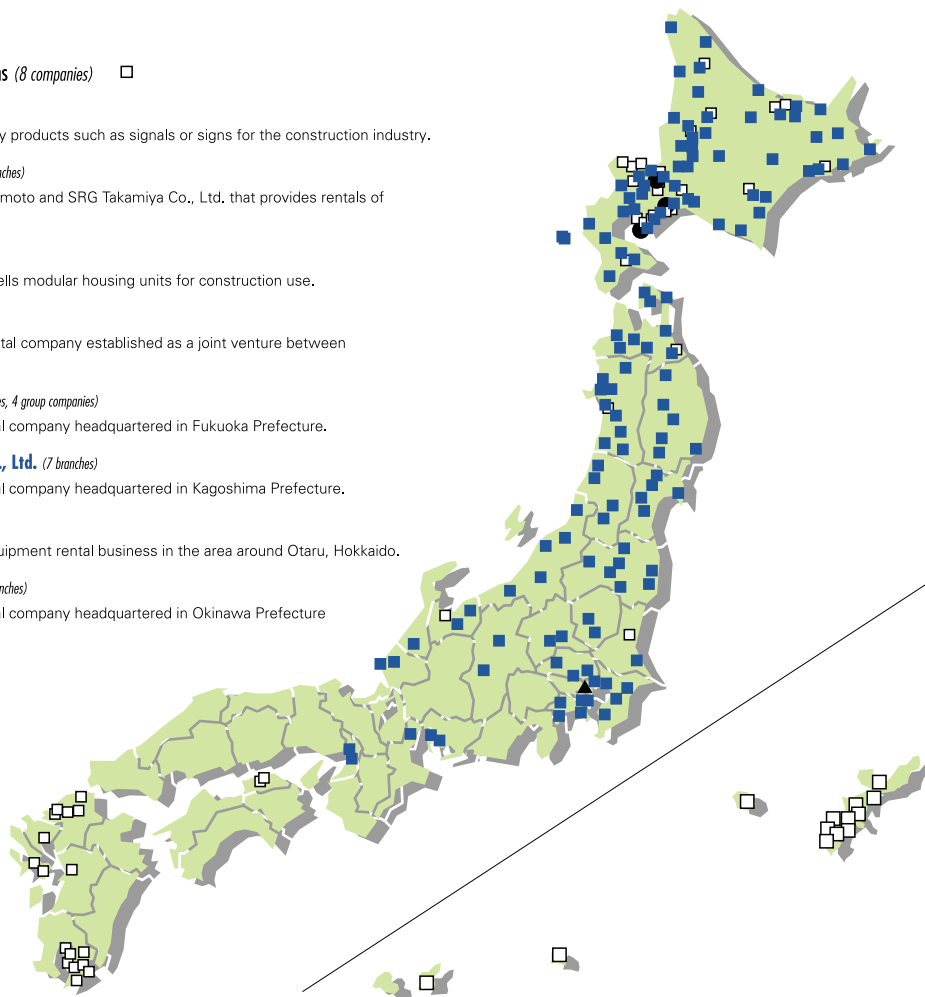
Construction equipment rental company headquartered in Kagoshima Prefecture.

##### **Taniguchi Co., Ltd.** (3 branches)

Developing a construction equipment rental business in the area around Otaru, Hokkaido.

##### **Machida Kikou Co., Ltd.** (13 branches)

Construction equipment rental company headquartered in Okinawa Prefecture



## Shareholders' Information (As of March 1, 2003)

### Company Name

Kanamoto Company, Ltd.

### Head Office

1-19, Odori Higashi 3-chome Chuo-ku, Sapporo,  
Hokkaido 060-0041 Japan

### Established

October 28, 1964

### Capitalization

¥ 8.6 billion (Paid-in capital)

### Listing Exchanges

Tokyo Stock Exchange, First Section  
Sapporo Stock Exchange

### Stock Code

9678

### Common Shares Issued and Outstanding

30,253,000

### Fiscal Year-end

October 31

### Revenues

¥60,606 million

(Fiscal year ended October 2002)

### Number of Employees

1,093 (859 male, 234 female)

(Excluding directors and temporary or part-time  
workers)

### Principal Businesses

Rental of construction equipments

Sale of steel products

Rental of engineering workstations and computer peripherals

### Primary Lenders

The Bank of Tokyo-Mitsubishi

The Mitsubishi Trust and Banking Corporation

Mizuho Corporate Bank

SUMITOMO MITSUI Banking Corporation

The Norinchukin Bank

North Pacific Bank

Hokkaido Shinren

The Hokkaido Bank

Shinkin Central Bank

UFJ Bank Limited

### Principal Shareholders

ORIX Corporation

Taichu Kanamoto

Saburo Kanamoto

Komatsu

Kanamoto Capital Company

The Master Trust Bank of Japan, Ltd.

North Pacific Bank

The Hokkaido Bank

The Tokio Marine & Fire Insurance Company

DENYO Co., Ltd.



## Directors

**Taichu Kanamoto**  
*Chairman*

**Kanchu Kanamoto**  
*President  
CEO*

**Hidemitsu Washida**  
*Executive Vice President  
Manager in Charge of  
Operations Control Headquarters*

**Shinroku Sawada**  
*Senior Corporate Officer  
Manager in Charge of Business Planning*

**Yukio Sato**  
*Senior Corporate Officer  
Manager, Business Coordination Headquarters  
Manager, New Products Section*

**Eichu Kanamoto**  
*Division Manager, Administration Division*

**Nobuhito Utatsu**  
*Division Manager, Accounting Division*

**Kojiro Satsuma**

**Tadao Saika**

## Auditors

**Toshizo Okumura**  
*Standing Corporate Auditor*

**Norizumi Tsuda**  
*Standing Corporate Auditor*

**Kiyoshi Onishi**  
*Outside Corporate Auditor*

## Corporate Officers

*(Shown with the division that is representative of their work as a Corporate Officer)*

**Kanchu Kanamoto**  
*President  
CEO*

**Hidemitsu Washida**  
*Manager in Charge of  
Operations Control Headquarters*

**Shinroku Sawada**  
*Senior Corporate Officer  
Manager in Charge of Business Planning*

**Yukio Sato**  
*Senior Corporate Officer  
Manager, Business Coordination Headquarters  
Manager, New Products Section*

**Eichu Kanamoto**  
*Division Manager, Administration Division*

**Nobuhito Utatsu**  
*Division Manager, Accounting Division*

**Hideki Nomiya**  
*Business Coordination Headquarters*

**Masakazu Hirata**  
*Deputy Division Manager,  
Construction Equipment Rental Division  
Division Manager, Used Products Sales Division  
Manager, Quality Assurance Section*

**Hitoshi Narita**  
*Division Manager, Business Planning Division*

**Tetsuo Kanamoto**  
*Division Manager, Construction Equipment  
Rental Division  
Regional Manager, Kinki&Chubu Region  
Construction Equipment Rental Division*

**Keiichi Kitakata**  
*Division Manager, Research & Investment Division*

**Hiroshi Kumagai**  
*Division Manager, Information System Division*

**Tatsuo Kanamoto**  
*Regional Manager, Tohoku Region  
Construction Equipment Rental Division*

**Yuichi Asano**  
*Division Manager, Credit Management Division  
Manager, Auditing Section  
Manager, Legal Section*

A close-up photograph of yellow industrial machinery. A black cable with a yellow connector is plugged into a port on the machinery. The background is a clear blue sky. The machinery has a textured, slightly worn surface.

**kanamoto co., ltd.**

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