Towards a new Kanamoto

40th ANNIVERSARY

kanamoto co., ltd.

ANNUAL REPORT 2003

For the 12 months ended October 31,2003

Starting "Metamorphose"

Forty years of continually challenging the potential of the construction equipment rental business.
Always striving to achieve the highest level of service.

Kanamoto's growth has been synonymous with the development of Japan's construction equipment rental business. Whether the concern is products, quality assurance, supply channels, or a state-of-the-art business model developed to meet changing times, helping customers rationalize their operations has always been our foremost goal.

With support from over 7,400 customer firms nationwide, Kanamoto will further expand the possibilities for construction equipment rental solutions in the years ahead.

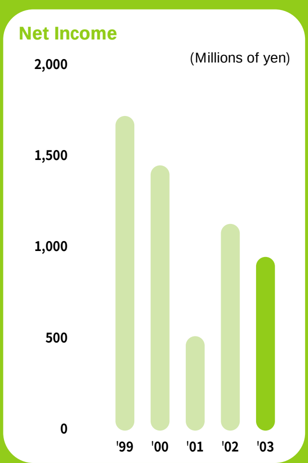
For purposes of this report, the Balance Sheets and Statements of Income were created using financial data prepared according to Japan's Securities Report guidelines, and adjusted to conform to U.S. SEC reporting standards.

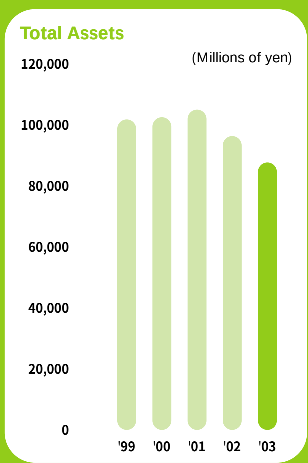
CONTENTS

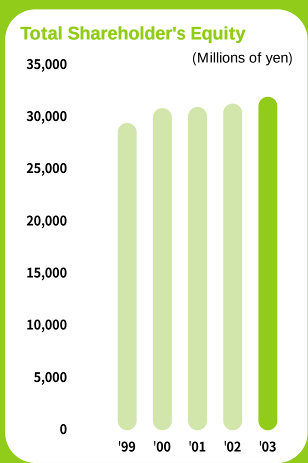
Financial Highlights (Non-Consolidated)

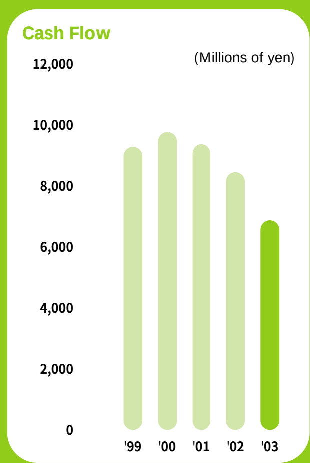
	Millions of yen		Percent change	Thousands of U.S. dollars
	2002	2003	(2002・2003)	2003
Rental revenues and sales of goods	¥ 60,606	¥ 60,494	-0.2	$ 556,013
Operating income	2,255	2,350	+4.2	21,605
Net income	1,134	953	-15.9	8,768
Total shareholders' equity	31,356	32,004	+2.0	294,160
Total assets	96,717	87,627	-9.3	805,399
	Yen		Percent change	U.S. dollars
Per share of common stock				
Net income	37.49	31.30	-16.5	$ 0.29
Cash dividends	18.00	18.00	00.0	0.17

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥ 108.8=US $1, the approximate exchange rate on October 31, 2003.









Devoting our total efforts to building a strong company adapted to today's rapidly evolving business environment.

Founded in 1964, today Kanamoto has reached a turning point in its history as we begin our 40th year of solid business achievement.

Kanamoto was launched from a single retail establishment founded to sell steel products. As the Company grew, it expanded by entering the construction equipment rental industry, at that time still a niche industry but one whose tremendous future potential we were quick to realize. Kanamoto grew rapidly as a result, establishing a strong market position during the tremendous rise in domestic construction investment during Japan's high-growth years. The Company listed its stock on the Sapporo Stock Exchange in 1991 and on the Tokyo Stock Exchange Second Section in 1996, and in 1998 Kanamoto's shares were elevated to the Tokyo Stock Exchange First Section. Over these years, we expanded successfully to become Japan's leading construction equipment rental company.

On behalf of the Company, I wish to express my sincere appreciation to Kanamoto's customers, business partners, shareholders, managers and employees throughout Japan for your continued support.

Looking back over these 40 years, the character of the construction equipment rental industry has been transformed decade by decade, as Japan's economy evolved from the high economic growth period, through the years of the asset-inflation bubble economy and its collapse, and into an era of economic globalization. Today the environment surrounding our Company is extremely challenging, notably the intensified competition to obtain customers and falling rental unit prices as the volume of public works construction declines.

As its principal objective over the years, Kanamoto has sought to provide excellent, uniform service to customers throughout Japan. We have devoted our efforts to improving the level of customer satisfaction by aggressively expanding our business base, through efforts such opening new sales branches and forming the Kanamoto alliance group.

In today's market, where users' needs are evolving at a rapid-fire pace, the ideal approach to best service is changing daily. Kanamoto will stay abreast of the latest market trends, and continue to offer its customers the high-quality services they've come to expect only from Kanamoto.

Since November 2001, Kanamoto has been implementing the "Kanamoto Survival Plan," a medium-term management plan whose main objective is reducing costs. Because we have achieved most of our initial objectives and continue to improve in-house systems throughout the Company, in the new fiscal year we have also begun executing "Metamorphose," Kanamoto's new long-range management plan whose key objective is a bold new effort to strengthen the Construction Equipment Rental Division's operating systems. "Metamorphose," a term from biological science, means "transformation and casting off the old."

The primary objective of "Metamorphose" is to transform Kanamoto into a company that can thrive robustly under a changing environment, by having every employee zealously work to strengthen the Company's management base and improve and expand earnings.

I look forward to all of us working together with renewed vigor and support in the future.

Kanchu Kanamoto
President and Chief Executive Officer

The new long-range management plan "Metamorphose"

In its new long-range management plan "Metamorphose", Kanamoto will focus on enhancing operating systems in the Construction Equipment Rental Division, the core business of Kanamoto and the Kanamoto group.To accomplish this plan we have established the following objectives.

a) Earnings-focused management

Kanamoto will shift its focus from the revenues-first approach utilized in the past and emphasize gross profit. Moreover, because the Company has already completed replacement of its rental assets with the latest emissions-controlled models designed to reduce pollution, during the plan period the Company will limit introductions of new rental assets and work to reduce the amount of depreciation and amortization expense, which reduces operating income.The Company will continue to aggressively introduce small-scale construction equipment and inexpensive rental assets, however, which boast high profit margins.

b) Execute a bold scrap and build program

Currently, Hokkaido accounts for 41% of Kanamoto' s total revenues by region, with Honshu accounting for the remaining 59%. Kanamoto will further pursue the shift in sales towards Honshu, and implement a flexible branch office location strategy that will increase the percentage of revenues accounted for by Honshu to 65%. In addition to taking bolder measures to close and scale back the number of unprofitable branches in particular, the Company will concentrate on establishing lightly-equipped branches centered particularly in the Tokyo metropolitan area.

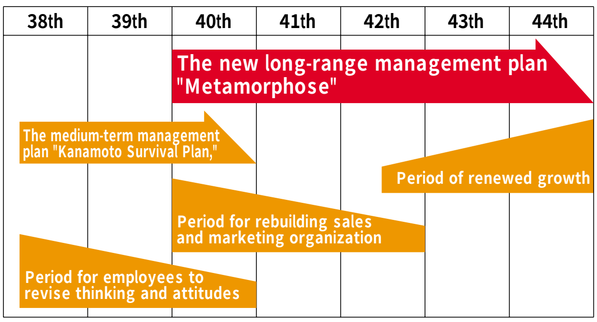
c) Build a powerful marketing organization where customers are always Number One

By taking maximum advantage of its information systems, Kanamoto will implement marketing programs to thoroughly fulfill user needs, including new models and new construction methods, and capture regional construction projects.The Company will continue to reconfigure its asset composition to best suit the regional characteristics of each branch office, independently and autonomously of the others, to create a position in which Kanamoto' s presence is indispensable for its customers' operations.

d) Pursue Kanamoto's alliance strategy

Kanamoto is presently pursuing its approach of building a Kanamoto alliance group, which the Company has developed in western Japan and used to produce tangible results in market share growth in the corresponding region. The Company will introduce the technique in other marketing areas as well. By using this approach Kanamoto has strengthened corporate cooperation as the Kanamoto group, regardless of whether its partners are consolidated or non-consolidated companies, and improved synergistic effects. Although the Kanamoto group reaches from Hokkaido to Okinawa when all alliance firms are included, each business base is linked organically to form a unified entity capable of providing the same quality of products and services throughout Japan.

■ Shift from medium-term management plan to Kanamoto's new long-range five-year management plan



Kanamoto's Directors

Construction site convenience and management savings. Maximizing user benefits.

Kanamoto conducts its primary business activity – the rental and sale of construction machinery and equipment – through its Construction Equipment Rental Division.
The principal benefit for construction companies that actively utilize rental equipment is the ability to secure "the right equipment, at the right time, in the right quantity."

Construction Equipment Rental Division

A full product line-up with more than 400,000 pieces of rental machinery and equipment

Kanamoto's mission is to be ready with all of the equipment a user requires at a construction site. Whatever products our customers need, we can instantly check the status of our inventory from Kanamoto's rental asset group using the online network linking all of our branches. Knowing the operating or maintenance condition of every piece of equipment in our rental inventory enables us to offer services that rapidly and accurately respond to each user's needs.

A branch network stretching across Japan

The Kanamoto branch network can respond to customer orders throughout Japan. Over the last few years, we've concentrated on opening branch offices in the Tokyo metropolitan area where demand is strong, and earned a solid reputation with customers in the Kanto Region. And through its alliances with leading local companies in Kyushu and Okinawa, Kanamoto provides efficient services to construction firms in these areas as well.

A complete compensation system for customer peace of mind

At Kanamoto we insure all of our rental equipment against any type of accident, in order to cope with unforeseen emergencies. Kanamoto's comprehensive indemnity system provides coverage and reduces users' responsibility for monetary compensation due to an unforeseen accident.
What's more, we strive to ensure our presence as our customers' business partner is indispensable, by introducing new products and proposing the latest operating solutions in response to firms' evolving needs.

A business partner that fulfills customers' trust

Every Kanamoto sales office throughout Japan has a storage yard and repair and maintenance facilities, staffed by members of our team of nearly 400 full-time maintenance technicians. Altogether Kanamoto has nearly 1,600 qualified maintenance staff, each of whom holds an average of four maintenance qualifications. To offer the services customers have come to rely on for safe operating performance, at Kanamoto we continually strive to improve our maintenance capabilities.

Fiscal 2003 operating results (Millions of Yen)

Rental revenues	39,234
Sales revenues	13,970
Division total	53,204

Today's changes are Kanamoto's driving force. Always in step with our customers.

Since being founded 40 years ago, Kanamoto has never stopped challenging itself. By advancing into emerging fields that address the demands of each new era, while steadily pushing into growing sectors, Kanamoto has expanded beyond being just an equipment rental company and developed into a firm that can provide integrated solutions.

Steel Sales Division

Kanamoto — born in the "iron city", Muroran. The Steel Sales Business Division was our first operating division, the foundation on which Kanamoto was built. The main business area for the Steel Sales Division is Hokkaido, where it sells primarily general steel products (such as steel plate, shaped steel, round steel bar, and steel pipe) and structural steel. As a distributor with strong regional ties, Kanamoto has won the hard-earned trust of its customers.
The Steel Sales Division's strength lies in its combination of both retail and wholesale functions. Currently this division is giving priority to the Sapporo area in Hokkaido, where demand is particularly strong, and developing its business in cooperation with the Construction Equipment Rental Division.

Fiscal 2003 operating results (Millions of Yen)

Division total	6,374

Information Products Division

Kanamoto established the Computer and Peripheral Equipment Rental Division in 1983 as its third operating division. Beginning with the rental of IBM PC-AT computers, which were the most advanced equipment of their time, this division has met the needs of companies that wish to use the latest machines and the most up-to-date technology. We are proud to have been the first authorized company in Japan to offer workstations from Sun Microsystems, the largest manufacturer of WS in the U.S. In addition to providing PCs and PC servers, as well as various manufacturer models to address specific diversified user needs, today Kanamoto provides not only computer rentals for data centers and call centers but can propose equipment configurations for unique systems solutions.

Sun Blade™ and Sun Fire™ are registered trademarks or trademarks of Sun Microsystems, Inc. in the United States and other countries.

Fiscal 2003 operating results (Millions of Yen)

Rental revenues	405
Sales revenues	512
Division total	916

Construction equipment rental industry trends and Kanamoto's positioning

The construction equipment rental business has established a strong reputation with both businesses and individual users by offering excellent convenience and economy. According to a study by the Ministry of Economy and Industry (2002), the construction equipment rental industry now accounts for 57.1% of Japan's domestic market for construction equipment. Kanamoto is keenly aware of customers' expectations towards this expanding market, and works incessantly to meet customers' needs.

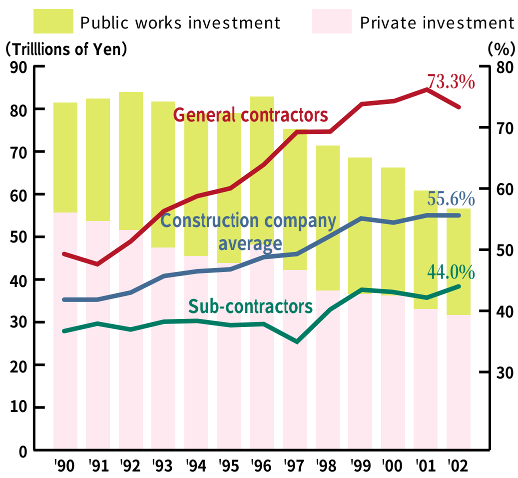
Construction equipment rental demand as a management rationalization solution

For several years following the collapse of the economic bubble, construction investment in Japan was maintained at a high level of approximately 80 trillion yen with the government's support. Since 1997 construction investment has fallen sharply to a much lower level, because of a freeze on private investment and a reduction in public works spending. This change has put tremendous pressure on the construction industry to rationalize its management, and every company is making an all-out effort to reduce debt and shrink assets.

As part of this effort, more companies are making the shift from direct ownership to construction equipment rentals as a means to procure construction equipment. Reliance on the use of rentals by construction firms to meet their equipment needs continues to maintain an upward trend, rising to 55.6% fiscal 2002.

As a solution enabling companies to slash equipment procurement costs, eliminate the need for investment in storage and repair facilities, and reduce maintenance and other running costs, the role of construction equipment rentals will continue to grow.

Change in construction investment in Japan and reliance on construction equipment rentals



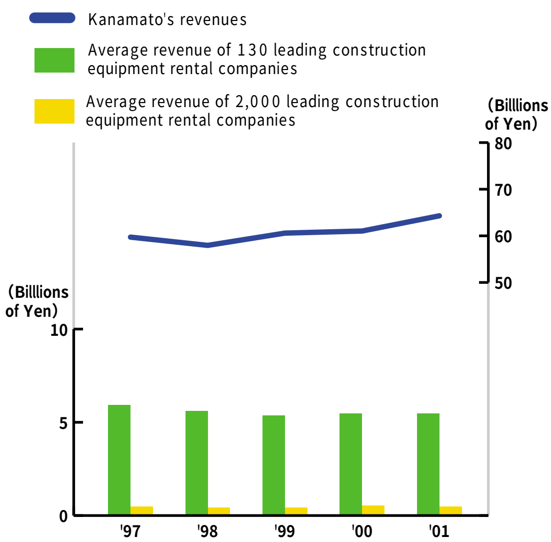
Based on data from the Ministry of Land, Infrastructure and Transport and the Japan Civil Engineering Association

Development of the construction equipment rental industry as restructuring continues

According to information published by the Ministry of Economy, Trade and Industry, the size of Japan's construction equipment rental industry market in fiscal 2002 was roughly ¥981.4 billion, equivalent to approximately 1.7% of total construction investment. The market is fragmented, consisting of approximately 2,000 companies broadly classified into multi-regional equipment rental companies such as Kanamoto, local equipment rental companies developing operations in specific regions, and manufacturer-related rental firms that have entered the business in recent years. With the overwhelming number of firms being local equipment rental companies, further industry restructuring is anticipated as competition within the industry heats up because of the drop in rental unit prices in recent years and as firms that cannot replace their assets with new equipment are weeded out.

According to a survey by a construction equipment rental industry newspaper, Kanamoto was Number One in the construction equipment rental company revenue rankings, and large, multi-regional rental companies held the top four of the Top Ten positions for fiscal 2001, the latest year for which data is available. This markedly illustrates the sharp distinction between the industry's leading companies and local equipment rental firms.

Changes in the average revenue of construction equipment rental companies and Kanamoto's net revenues



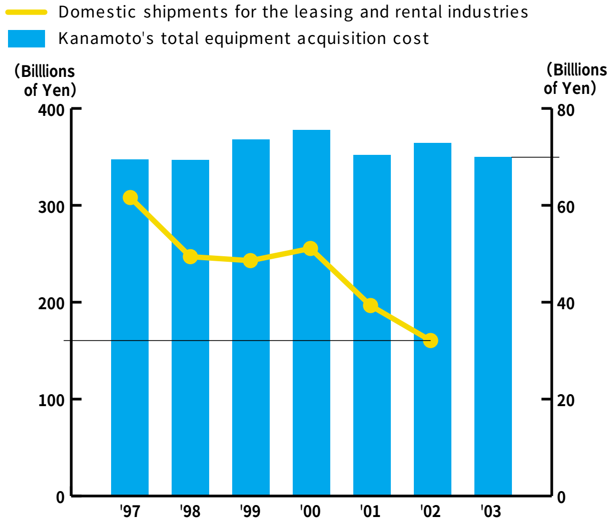
A product lineup that meets the needs of equipment users and society

For any construction equipment rental company, a full line of products is indispensable. At Kanamoto, we recognize that having a wide range of high-quality goods in stock at all times is essential for offering companies the ideal models and components at the right time in response to their diverse orders and inquiries. From an equally vital perspective, however, at Kanamoto we believe acting to help solve the environmental problems confronting our entire society is a critically important corporate issue.

A state-of-the-art product lineup

To respond to our customers' diverse orders, at Kanamoto we stock all of the tools needed in a construction site, from construction equipment, temporary housing units, and on-site sanitation facilities to floor plate and steel plate, furniture and fixtures. Moreover, we continually enhance our value to customers, by regularly updating our product lineup to include the most advanced models. This is one reason we are actively acquiring the latest rental assets, even as the volume of shipments by construction equipment manufacturers is decreasing.

Change in the value of domestic shipments by construction equipment manufacturers and Kanamoto's total equipment acquisition cost

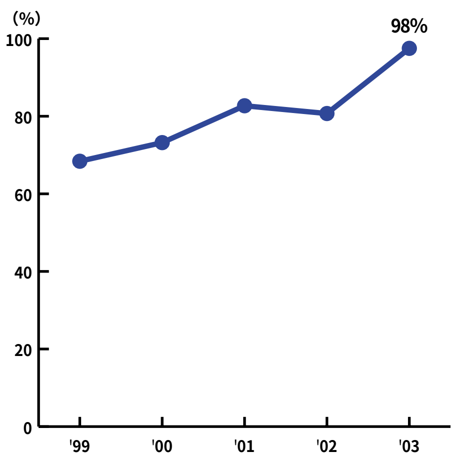


Based on a survey by the Japan Construction Equipment Manufacturers Association
Kanamoto's total equipment acquisition cost includes equipment acquired through leasing agreements

Kanamoto leads the industry in replacing assets with environmentally-friendly equipment

Efforts aimed at environmental preservation continue to gather speed in Japan. The strengthening of exhaust emissions regulations in particular is attracting attention. While news reports frequently cite automobiles as the main target, reduced emissions regulations apply to construction equipment as well. This means lowering the level of exhaust gases is no longer just the responsibility of manufacturers, but is an equipment supplier's obligation as well.
Kanamoto recognized this situation years ago, and began efforts to update all of its rental assets well ahead of other companies in the industry. Today, approximately 98% of all equipment owned by Kanamoto clears national exhaust emissions regulations. Kanamoto is updating its assets to fulfill its corporate social responsibilities, and this policy has enabled us ultimately to create a product line-up that offers our customer firms enhanced utility and value as well.

Percentage of Kanamoto equipment updated to meet low-emissions regulations



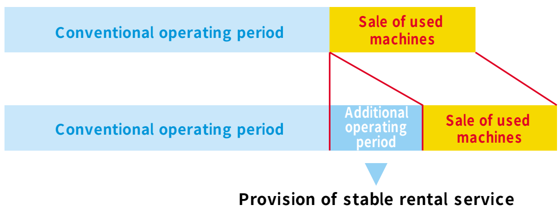
Asset operations that generate future earnings

To maximize the benefits for user firms and shareholders, Kanamoto seeks to maintain continuous and stable earnings. From rental asset acquisition through operations, to the final sale of used equipment, Kanamoto strives to maintain asset operations that correspond to changes in its operating environment and create a rational earnings model.

Completion of product lineup update enables Kanamoto to improve earnings capability

Based on its social mission to utilize environmental management practices, Kanamoto was ahead of other companies in actively replacing rental and company assets with low-emissions equipment. As a result, today Kanamoto has differentiated itself sharply from other industry firms that have yet to replace their assets, and boasts a state-of-the-art product lineup that already meets pollution control regulations.
This policy enables Kanamoto to achieve asset management that ensures strong annual earnings.
Kanamoto's principal business of construction equipment rentals is based on a business model of ensuring sufficient annual earnings through asset rentals, plus earning a profit on the sale of used equipment. Maximization of "rental revenues plus profit on used equipment sales" (lifetime recovery) and appropriate asset control are therefore absolutely indispensable. Because Kanamoto will not need to replace or update most large assets over the next several years, from the standpoint of asset operations we'll be able to extend our asset rental operating period.
This means we'll be able to increase our lifetime recovery and improve our earnings picture.

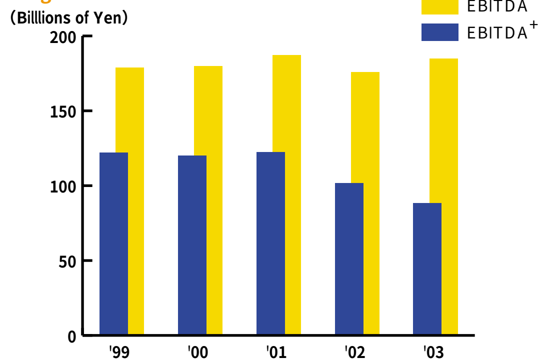
Effect of extending asset operating period



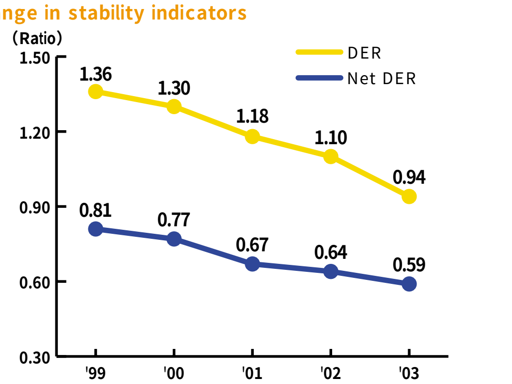
Source of earnings – Emphasis on EBITDA+

At Kanamoto, we've aimed at increasing EBITDA (earnings income before interest, taxes, depreciation and amortization) in the broad sense, while continually emphasizing improvement to our ROI (return on investment) and capital investment within the scope of cash flow from operating activities.
Unlike product sales, the equipment rental business generates a depreciation and amortization expense burden corresponding to the volume of assets owned. On the other hand, however, this creates a cycle that generates earnings from adequate periodic income through rentals, plus a profit from the disposal of used equipment. In other words, today's depreciation burden is the source of tomorrow's profit when assets are sold. This is the reason Kanamoto focuses on EBITDA as its most important management indicator.
Because we also frequently utilize finance leases when introducing assets and have numerous small-scale assets with a value of less than 200,000, Kanamoto has adopted a measure referred to as EBITDA+ that adds finance lease fee payments, small-sum assets, and installment purchase fees to EBITDA as ordinarily calculated. For the past several years, Kanamoto's EBITDA+ has been stable at a high level.
In addition, our Net Debt Equity Ratio, an indicator of financial soundness, remains less than one, and in the future as well Kanamoto will endeavor to keep its financial condition stable.

Change in EBITDA+



Change in stability indicators



The Debt Equity Ratio (DER), the ratio of interest-bearing debt as a percentage of shareholders' equity, indicates financial stability. The Net Debt Equity Ratio (Net DER) is calculated by deducting cash and deposits from interest-bearing debt. In most cases a value of less than 1.0 is desired for both indicators.

Corporate History – Forty Years of Kanamoto Evolution and Growth

October 1964 Kanamoto Shoten Co., Ltd. established (Reorganization in Muroran, Hokkaido)
Zenchu Kanamoto appointed President and Representative Director


Kanamoto Shoten Co.,Ltd


Kanamoto Shoten era apron

October 1971 Began development of sales branch network (Hokkaido)


Tomakomai Office (currently the Tomakomai Steel Sales Branch)

December 1972 Company name changed to Kanamoto Co., Ltd.


Former headquarters building

September 1979 Advanced into Aomori Prefecture with the first office located outside of Hokkaido


Hachinohe Branch (currently the Momoishi Branch)

September 1981 Taichu Kanamoto (Currently honorary chairman) appointed President and Representative Director

March 1982 Advanced into Akita Prefecture.


Akita Branch in 1982

October *Third-party allocation of shares in (400 thousand shares; par value 50 yen)*

November Advanced into Iwate Prefecture


Morioka Branch in1982

July 1983 Advanced into Chiba Prefecture


Chiba Branch

September Launched Computer and Peripheral Equipment Division as the company's third operating division (Tomakomai, Hokkaido)


Offices of the former Computer and Peripheral Equipment Rental Division after relocation to Tokyo

February 1985 Advanced into Gunma Prefecture


Tatebayashi Branch

July Advanced into Miyagi Prefecture


Sendai Branch in 1985

November *Completed on-line computer system network linking all branches*


Calculation Section computer room in 1985

June 1986 Advanced into Kanagawa Prefecture


Shonan Branch

July 1987 Advanced into Fukushima Prefecture


Koriyama Branch

November *Start of "Act '90" medium-term management plan*

December 1988 Advanced into Tochigi Prefecture


Utsunomiya Branch

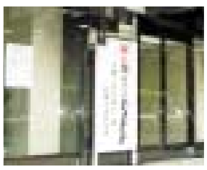
June 1989 Branches located in nearly all regions of Hokkaido

September Advanced into Niigata Prefecture


Nigata Branch (currently the Nigata Machinery Center)

November 1990 *Start of "New Act" medium-term management plan*

June 1991 Advanced into Yamagata Prefecture
Listed on the Sapporo Stock Exchange



Sapporo Stock Exchange on the day Kanamoto listed its stock


Shonai Branch (currently the Sakata Branch)

July — Advanced into Saitama Prefecture


Kanetsu Branch (currently the Kamisato Branch)

October — Completed Information Products Division Ofuna Technocenter
Completed 1:1.2 stock split
Paid an annual dividend of ¥12, including a dividend of ¥4.5 to commemorate the Company's stock listing


Ofuna Technocenter

October 1992
Completed 1:1.1 stock split
Increased dividend by ¥2.5 per share and paid annual dividend of ¥10

August 1993
Issued Swiss franc-denominated warrants (SFr60 million)


Signing ceremony for Swiss franc-denominated warrants

October — *Completed 1:1.5 stock split, paid annual dividend of ¥10*

November — *Start of "Challenging '96" medium-term management plan*

December — Advanced into Nagano Prefecture


Nagano Branch

January 1994 — Advanced into Aichi Prefecture


Mikawa Branch

April
Increased capital through public offering (2 million shares)
Began conducting overseas IR briefings


Overseas IR briefings

July — Advanced into Osaka Prefecture
Issued Swiss franc-denominated convertible bonds (SFr100 million)


Osaka Branch


Signing ceremony for convertible bonds

October
Completed 1:1.3 stock split
Paid annual dividend of ¥10

April 1995 — Advanced into Toyama Prefecture


Toyama Branch

August — *Designated as a loan transaction stock for the Sapporo Stock Exchange*

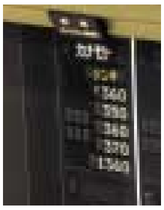
October — Advanced into Fukui Prefecture


Fukui Branch

Completed 1:1.1 stock split
Increased annual dividend by ¥2 to ¥12

March 1996
Increased capital through public offering (2 million shares)
Listed on the Second Section of the Tokyo Stock Exchange


Tokyo Stock Exchange on the day Kanamoto listed its stock

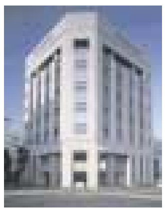

Kanamoto's stock began trading as a new brand


Kanamoto received Mercury Plaque from the Tokyo Stock Exchange

May — Advanced into Ishikawa Prefecture


Kanazawa Branch

June
Relocated head office functions in Sapporo, Chuo Ward
Conversion of first unsecured convertible bonds (¥10 billion)


New headquarters building

October — Advanced into Ibaraki Prefecture
Completed 1:1.1 stock split
Increased annual dividend by ¥2 to ¥14


Mito Branch

November — *Start of "Plan Jupiter" medium-term management plan*

December — Advanced into Mie Prefecture


Tokai Branch

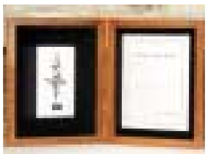
April 1997 — *Designated as a stock for margin trading on the Tokyo Stock Exchange*

October — *Increased annual dividend by ¥2 to ¥16*

November — *Issued Eurodollar-denominated straight corporate bonds (US$42 million)*

January 1998 — *Introduced stock option program*

April — *Stock elevated to the First Section of the Tokyo Stock Exchange*


Notification of elevation of Kanamoto's stock to the First Section of the Tokyo Stock Exchange


Celebration of Kanamoto's designation as a First Section stock

June — Kanchu Kanamoto appointed President and Representative Director

September — *Honored by the Tokyo Stock Exchange with the Commendation Award for Listed Companies, for more than five consecutive years of annual dividend increases following listing on the Exchange*

October — *Increased ordinary annual dividend by ¥2 to ¥18*

August 1999 — Established SRG Kanamoto Co., Ltd.


SRG Kanamoto Tomakomai Center

July — Beer restaurant Providence opened


Beer restaurant Providence

October — *Commemorative per-share dividend of ¥1 to commemorate 35th year anniversary, paying total annual dividend of ¥19*

November — Construction completed on the Kanamoto Hamamatsucho K Building (Tokyo)

Issued ¥5 billion yen-denominated zero-coupon bond (Switzerland)


Tokyo operation division

January 2000 — *Implemented second stock option program*

March — Kanamoto concluded an alliance with Machida Kikou Co., Ltd.

October — *Paid annual ordinary dividend of ¥18 per share*

Transferred temporary housing production business to Kanatech Co., Ltd.

November — *Established commitment facility (first in Hokkaido)*

December — Kanamoto concluded an alliance with Kyushu Kensan Co., Ltd.


Machida Kikou Co., Ltd


Kanatech Co., Ltd.


Kyushu Kensan Co., Ltd.

January 2001 — *Introduced corporate officer system*

June — Established Kanamoto Shikoku Co., Ltd.


Kanamoto Shikoku Co., Ltd.

November — *Start of "Kanamoto Survival Plan" medium-term management plan*

Established second commitment facility

Opened Hassamu Megastation

Converted Daiichi Machine Industries Co., Ltd. into a subsidiary


Hassamu Megastation


Daiichi Machine Industries Co., Ltd.

February 2002 — Established sales office in Tokyo


Haneda Branch

June — *Concluded a syndicated loan (7 billion yen)*

November — *Established third commitment facility*

Advanced to Hyogo Prefecture


Kobe Branch

August 2003 — Merged with Taniguchi Co., Ltd.


Headquarter office of Taniguchi Co., Ltd. (currently the Otaru Branch)

November — *Start of "Metamorphose" long-range management plan*

Established fourth commitment facility

Converted Daiichi Machine Industries Co., Ltd. into a wholly-owned subsidiary

December — *Kanamoto honored with the IR Excellent Firm Award from the Japan Association for Individual Investors (JAII) (fourth company to receive the award)*


Award presentation ceremony


Kanamoto received the IR Excellent Firm Award from the Japan Association for Individual Investors

January 2004 — Converted Kanamoto Shikoku Co., Ltd. into a wholly-owned subsidiary.
(Merger planned for April 2004)

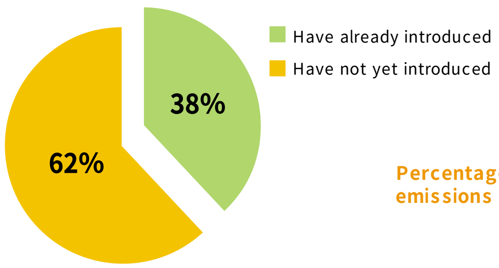
A diversified approach for creation of a "sustainable society"

As a business for the 21st century, Kanamoto must give consideration to both the local communities and areas where we do business and the global environment. As a company we are moving steadily forward while seeking the ideal environmental approach to pursue.

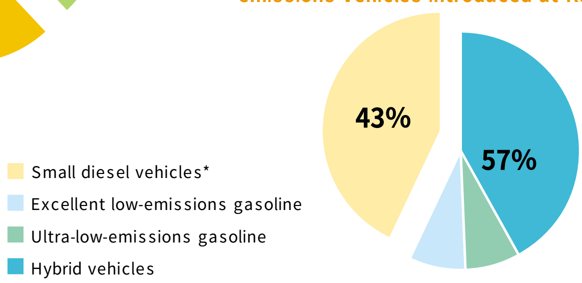
Kanamoto introduces low-fuel consumption, low-emissions automobiles for company vehicles

According to the results of a mass media research firm survey concerning the level of environmental management at listed firms and leading companies, among 350 companies (number of valid responses) including Kanamoto in non-manufacturing industries, 134 firms have introduced use of low-fuel consumption, low-emissions automobiles.
Kanamoto was ahead of other companies when it adopted the Toyota Prius, a hybrid automobile, as its company vehicle in 1998. The company currently uses 200 of these models for company business.
Kanamoto is also aggressively introducing other low-emissions vehicles, and as of 2003 approximately 57% of the company's business vehicles are environmentally friendly low-fuel consumption, low-emissions vehicles.

Percentage of firms that have introduced low-fuel consumption, low-emissions automobiles (non-manufacturing industries)



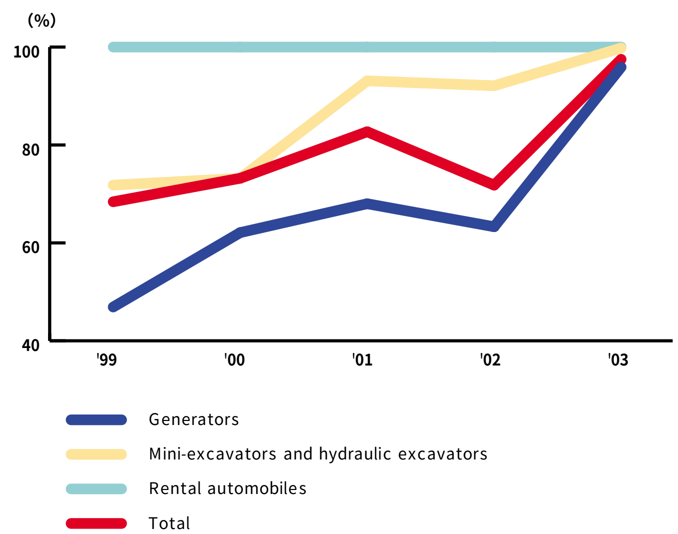
Percentage of low-fuel consumption, low-emissions vehicles introduced at Kanamoto



*Diesel engines in vehicles adopted for service automobiles and other uses are not based on the new standard.

Rental equipment updated using reduced-emissions equipment

Percentage of equipment introduced that meets antipollution standards

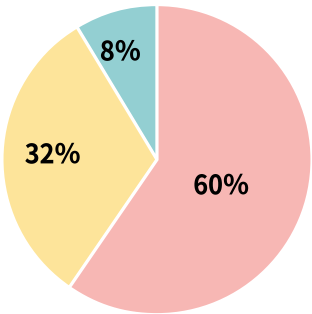


Rentals allow our customer firms to use construction equipment owned by Kanamoto on a shared basis. Such rentals provide a service for effectively utilizing the earth's valuable energy resources, while enabling each user firm to shrink its capital investment. So the construction equipment rental business is, so to speak, one answer to the world's environmental problems.
Nevertheless, even if they make a substantial effort to utilize rentals, customer firms will not be able to achieve their environmental management goals if rental equipment does not meet antipollution standards. Currently, over 98% of the construction equipment Kanamoto owns consists of state-of-the-art models that already meet today's tough antipollution requirements. In the years ahead, Kanamoto will help its customers achieve their environmental management plans by offering a full lineup of the latest construction equipment.

Disposal of waste motor oil

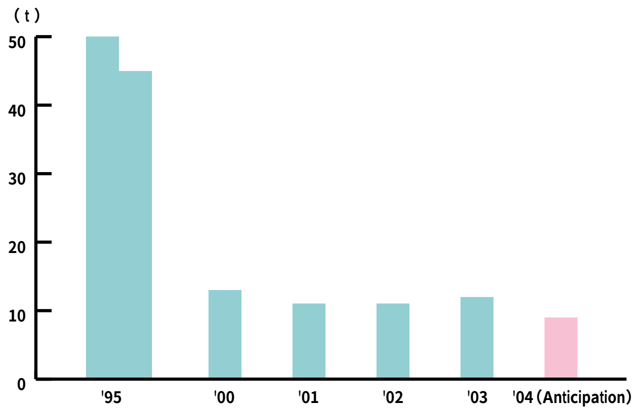
Approximately 60% of the waste motor oil collected at Kanamoto's maintenance shops is recycled as winter heating fuel, using smokeless waste oil stoves that breakdown dioxin and other contaminants. As a result, not only does Kanamoto help minimize air pollution, it has also reduced costs for disposal of waste motor oil and new heating fuel. In addition, about 30% of such recovered waste oil is sold by recyclers as a raw material for reclaimed oil and recycled products. All together, roughly 90% of the waste motor oil collected by Kanamoto is being effectively used as an environmentally friendly resource.

Breakdown of waste motor oil disposal



Approach to paper resource measures (paperless office and recycling)

Quantity of paper resources used



Kanamoto fully computerized its legally required forms by 2000, reducing its cost for such forms to less than one-third its actual cost in 1995 and realizing resource savings of approximately 82 tons per year in quantity of paper used. Although the Company has increased the number of branches and employees since 2000, as a result of multiple use of in-house documents, E-mail and other resource-saving efforts, the volume of paper used has remained nearly flat. Kanamoto plans to pursue further resource savings in the future as a result of a new system placed into operation in January 2004. Used paper resources are also being recycling as sales promotion goods at contract recycled paper plants.

Corporate Data (As of March 1, 2004)

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

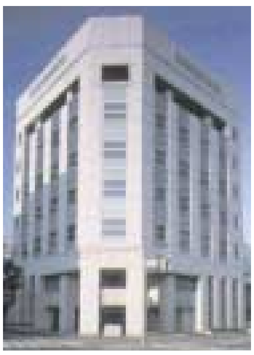
Revenues
¥60,494 million
(Fiscal year ended October 2003)

Number of Employees
1,097
(Excluding directors and temporary or part-time workers)

Principal Businesses
Rental of construction equipment
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
North Pacific Bank
The Norinchukin Bank
Hokkaido Shinren
The Hokkaido Bank
UFJ Bank Limited
The Daishi Bank

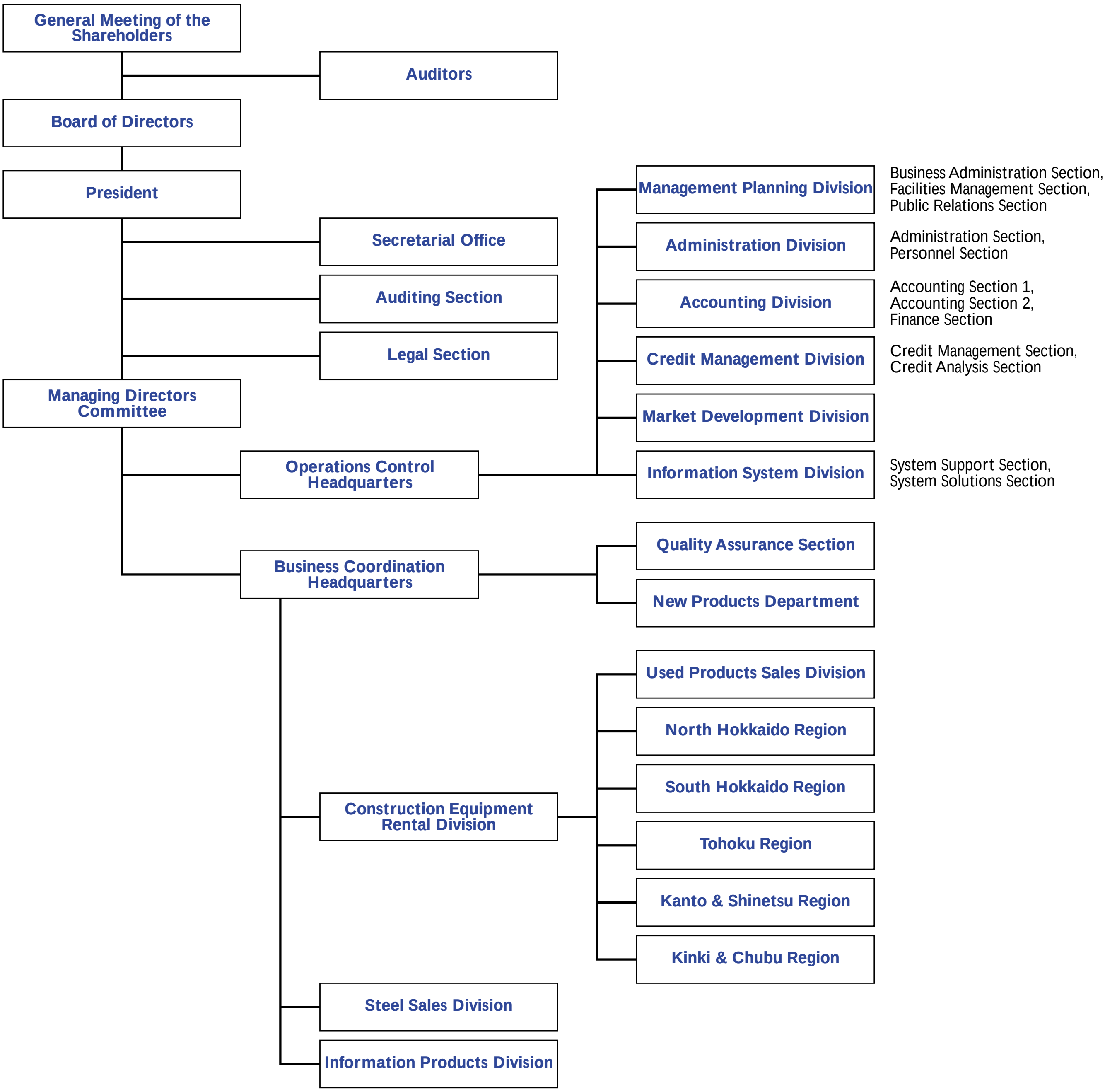
Principal Shareholders
ORIX Corporation
Taichu Kanamoto
Saburo Kanamoto
Komatsu
Kanamoto Capital Company
The Master Trust Bank of Japan, Ltd.
North Pacific Bank
The Hokkaido Bank
The Tokio Marine & Fire Insurance Company
Denyo Co., Ltd



Headquaters Buillding
(Sapporo.Hokkaido)

Tokyo Operating Division

Organization Chart



Our Growing Branch Network

Number of Branches	Hokkaido	Honshu	**Total**
Construction Equipment Rental Operations	53	81	134
Steel Sales	3	0	3
Information Products Operations	0	1	1
Total	56	82	138

During the 39th business period we closed 7 existing branches and opened 3 new branches.

Construction Equipment Rental Division ■

Steel Sales Division ●

Information Products Division ▲

Kanamoto Alliance Group Firms

Assist Co., Ltd. *(9 branches)* ■
Engaged in the rental of safety products such as signals or signs for the construction industry.

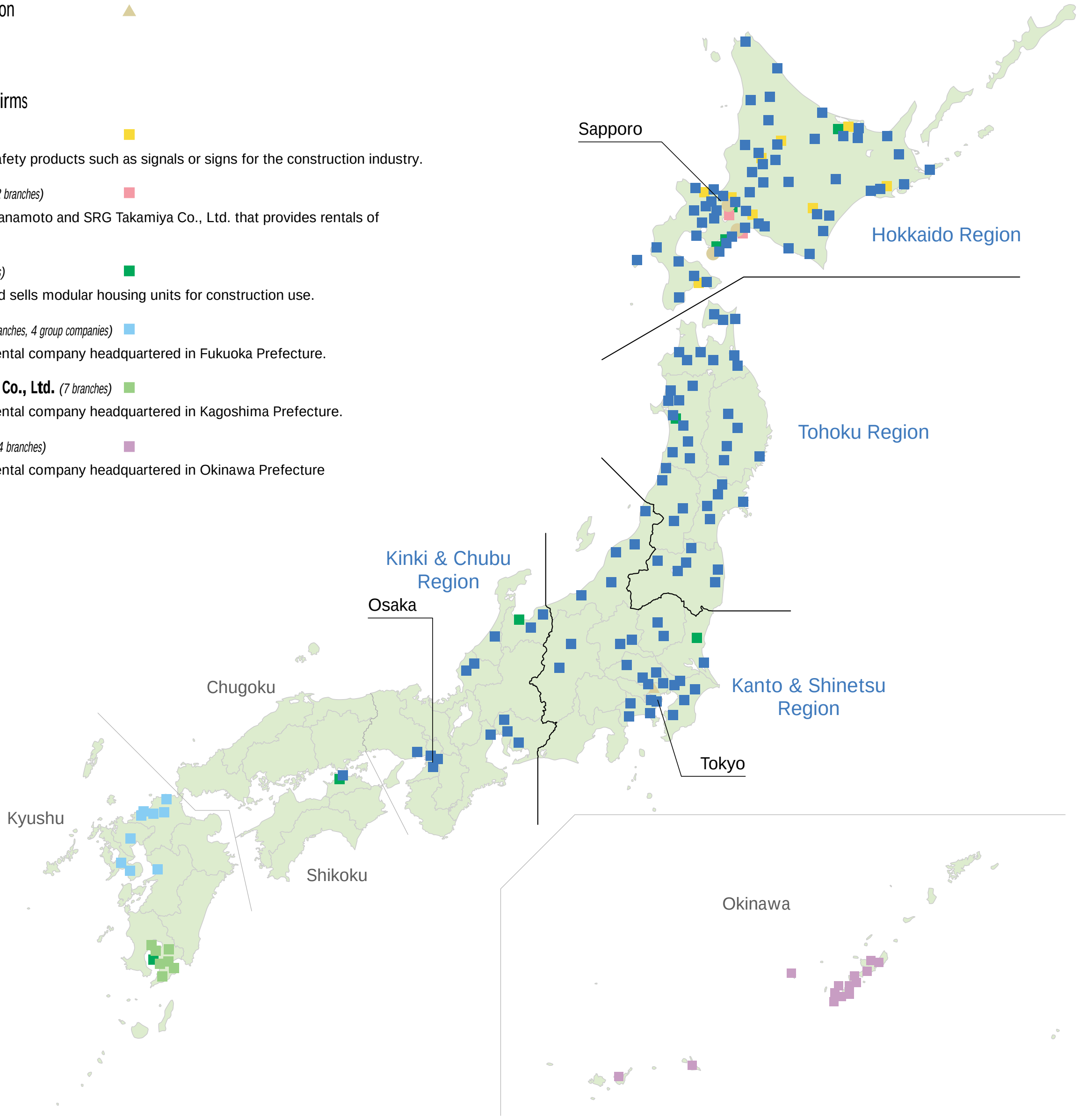
SRG Kanamoto Co., Ltd. *(2 branches)* ■
A joint venture between Kanamoto and SRG Takamiya Co., Ltd. that provides rentals of temporary scaffolding.

Kanatech Co., Ltd. *(7 branches)* ■
Designs, manufactures and sells modular housing units for construction use.

Kyushu Kensan Group *(9 branches, 4 group companies)* ■
Construction equipment rental company headquartered in Fukuoka Prefecture.

Daiichi Machine Industries Co., Ltd. *(7 branches)* ■
Construction equipment rental company headquartered in Kagoshima Prefecture.

Machida Kikou Co., Ltd. *(14 branches)* ■
Construction equipment rental company headquartered in Okinawa Prefecture



Financial Section

(November 1, 2002-October 31, 2003)

Report of Operating Results and Financial Position for the 39th Business Period

Consolidated Financial Position

Non-consolidated Financial Position

Report of the Audit Committee

Board of Directors

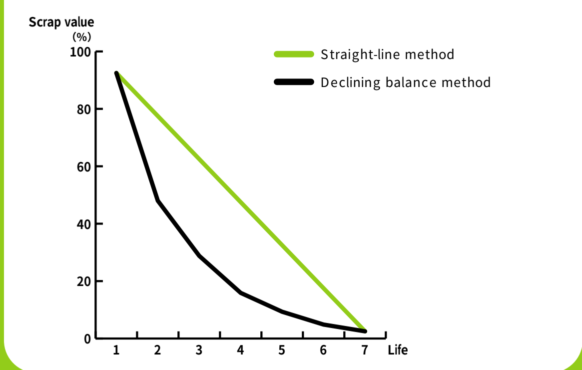
Notes 1

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.

Notes 2

Kanamoto uses a variety of techniques when introducing rental assets. In addition to purchasing assets by installments, the Company also uses finance leases (including operating leases). Under Japan's current accounting standards, finance leases (including operating leases) are an off-balance sheet item (details are provided in the notes to the accounting statements).
Accordingly, please refer to the balance sheets (description page **) and the Supplemental Information (details of tangible fixed assets published on page **) concerning the amount of rental assets introduced in the fiscal year under review, and to the balance sheets (description page **) and the note on finance leases (including operating leases) in the notes to the balance sheets (description page **) concerning depreciation and amortization expense.

Kanamoto has adopted the declining balance method for depreciation and amortization expense. As shown, this results in a situation where paper gains are easily produced if assets can be used over long periods of time because the depreciation and amortization expense is large for the first year, then grows smaller in later years. The difference in depreciation according to the declining balance method and the straight-line method is shown in the diagram.



Comparison of straight-line method and declining balance method

Under Japan's current accounting system, large variances between actual asset values and book values can occur in asset value assessments. One reason is the fact durable lives are stipulated by the Tax Code. For assets handled by Kanamoto in particular, implementing planned rental assets introductions suitable to the size of its business and keeping balance sheet depreciation and amortization expense uniform are extremely difficult because the durable lives established by law are different for each equipment model.
Accordingly, to achieve results more closely approximating the market-value accounting concept, Kanamoto also introduces assets by utilizing both operating leases and finance leases in an effort to equalize and reduce depreciation and amortization expense.

Operating results

The business environment

During the consolidated fiscal year under review, business sentiment in some sectors of Japan's economy showed a positive outlook. In particular, operating results recovered substantially in major manufacturing industries that had previously completed excess capacity adjustments.

On the other hand, in industries such as construction and services where industry reorganization has not progressed very far, the deflationary economy continued to play itself out. At the small and medium-sized enterprises that comprise the vast majority of the economy in particular, a situation colored by a sense of economic stagnation continued.

Personal consumption also remained sluggish, affected by the delay in recovery of the business environment and worries about the future that are manifest in questions about employment and pension issues.

In the construction industry, which is Kanamoto's main customer, there was no early order boost from government orders for public works. With healthy private sector demand also concentrated in only the major metropolitan areas, a tough environment prevailed throughout Japan.

A synopsis for each of Kanamoto's business sectors is provided below.

Management Results and Activities
Construction Equipment Rental Division

With the decline in public works, construction equipment rental prices remained at rock bottom levels. The business environment surrounding the industry remained severe. Customers made more forceful requests for discounts, encouraged by excessive competition among firms.

Given the decline in government orders for public works during fiscal 2003, plus other influences such as nationwide local elections and a House of Representatives election, construction equipment rental demand throughout the fiscal year suffered from a lack of upward momentum.

Particularly in regions where the volume of public works orders was small, the circumstances that swept over and engulfed the construction equipment rental industry, which was already gasping from a wave of price competition as firms sought to maintain sales, showed no positive signs of easing.

In its Construction Equipment Rental Division, Kanamoto continued efforts from the prior fiscal year as it sought to thoroughly implement low-cost operations. During the consolidated fiscal year under review, the Company undertook efforts to reduce transportation charges and review maintenance costs, areas that received less attention in the past. Management also worked to maintain profits through measures such as shifting rental assets to models less susceptible to unit price reductions.

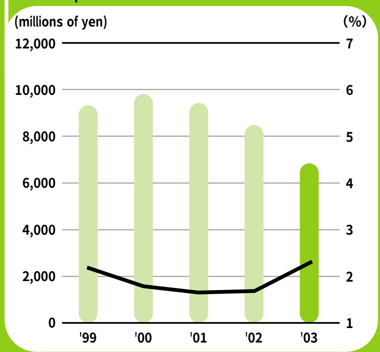
During the consolidated fiscal year under review, Kanamoto opened two branches and closed two branches in the Hokkaido region, closed one branch in the Tohoku region, added three new branches in the Kanto-Shinetsu region and opened two new branches in the Kinki-Chubu region. Altogether the branch network grew by a net addition of four branches (seven opened, three closed). This included two newly established branches in the Hokkaido district in Otaru and Yoichi, which were added when the Company merged with Taniguchi Co., Ltd. in August 2003.

By region, the downward trend in public works construction in both Hokkaido and the Tohoku region was undeniable. Nevertheless, the Company made a strong effort and kept the decline in construction equipment rental revenues by region to 2.4% and 0.5%, respectively, by focusing on even small-scale construction works with the intent of not losing any orders. Rental revenues in the Kanto-Shinetsu region rose by 4.1% compared to the prior fiscal year, reflecting the results of new branches opened in Tokyo and the surrounding areas, while rental revenues in the Kinki-Chubu region jumped 15.3% as the result of Kanamoto's alliance efforts.

During the consolidated fiscal year under review, the percentage of total rental revenues accounted for by Hokkaido and

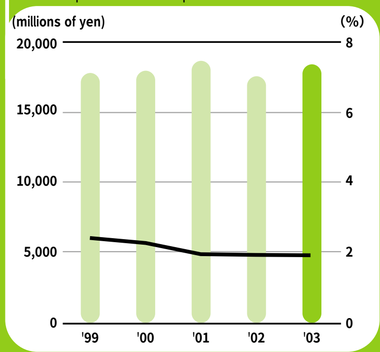
Cash Flow
PCFR

CF = Net income + Depreciation expense - (Cash dividends + Bonuses to directors and auditors)
PCFR =Total market capitalization ÷ CF = Stock Price ÷ Cash flow per share of common stock



EBITDA+
EBITDA+ Ratio

EBITDA+ =Operating income + Depreciation expense + Other depreciation and amortization expense+ Low-price rental assets, and others
EBITDA+ is an indicator used only for the construction equipment rental business and excludes steel products and information products



Honshu were 41.3% and 58.7%, respectively, and the results from Kanamoto's effort to shift business to the Tokyo metropolitan area are becoming steadily apparent. As a result of these changes, revenues from construction equipment rentals increased by 1.3% year-on-year.
With regard to the division's sales revenues, on the other hand, revenues from overseas sales of used construction equipment grew by 9.2%. Domestic sales rose by 2.4%, reflecting the results of a campaign the Company initiated to sell used temporary unit housing. As a result, total sales revenues increased by 5.8% compared to the prior consolidated fiscal year.

Operating income recovered and grew by 4.2%. This reflected efforts to shrink both total cost of revenues from operations and selling, general and administrative expenses by managing a low-cost operation, and the success of the Company's effort to achieve a more balanced depreciation expense burden by emphasizing leases as the means for introducing construction rental assets.
In addition, as described above Taniguchi Co., Ltd., a wholly-owned consolidated subsidiary conducting its business in this sector, was merged with Kanamoto in August 2003.

Steel Sales Division
The Steel Sales Division focused its efforts on increasing sales mainly in the Sapporo metropolitan area, where demand for steel materials was strong, with the retail business also taking pains to promote increased sales. Efforts to stimulate demand were less successful than expected, however. Added to this was the Company's effort to strengthen internal credit controls to maintain sound receivables. As a result, sales fell by 14.3% compared to the prior consolidated fiscal.

Information Products Division and Other Businesses
Because demand shifted away from expensive engineering workstations to low-priced PC workstations, Kanamoto's Information Products Business Division saw its rental revenue shrink by 17.4% compared to the prior consolidated fiscal year. Equipment sales also fell, declining 32.4% as sales of wireless LAN modules for factory use came to an end and development and mass production of new model modules was delayed. For the division as a whole, revenues decreased 26.5%, but operating income rose substantially, jumping by 467.1% because of an increase in highly profitable sales of used PCs.

In other businesses, in March 2003 the Company liquidated Providence Brewery Co., Ltd.

Based on the above results, revenue declined by 0.2% compared to prior year to ￥60,494 million yen, and operating income rose 4.2%, to ￥2,350 million.
Ordinary income was off 1.2%, to ￥2,447 million, and net income for the year was ￥953 million, 15.9% lower than in the prior fiscal year.

Fiscal Year ended October 31, 2003 Consolidated Operating Results

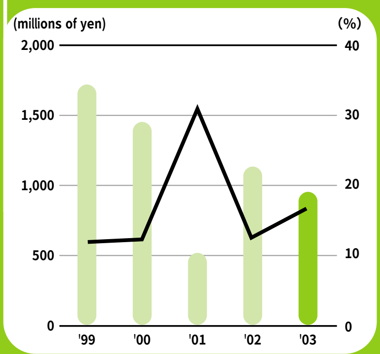
(Million yen; %)

	Revenues	Operating Income	Ordinary Income	Net Income
Consolidated FY under review	63,686	2,307	2,279	913
Change from prior year	–3.1%	0.9%	–4.3%	–24.4%

(Percentage figures show change compared to prior year)

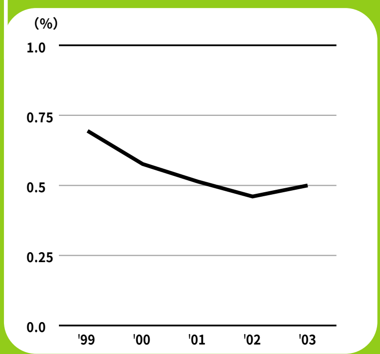
Net Income
PER

PER = Total market capitalization at end of period ÷ Net Income



PBR

PBR = ROE × PER



Issues to be addressed by the Company

Under the financial restoration policy proclaimed by the Koizumi Cabinet, controls on public works expenditures are being slowly implemented.

Given the large number of domestic and international problems that need to be resolved, the current government economic policies based primarily on fiscal spending controls are unlikely to undergo any major changes during the next several fiscal years. At the same time, however, there are also limits on the low volume of private sector construction projects, which are concentrated in major metropolitan areas. Overall, there is little expectation for an immediate increase in construction demand.

Moreover, the construction equipment rental industry also faces headwinds that grow more intense with each passing day, as the volume of public works decreases. In addition to sharp unit price declines that are larger than anticipated, operating margins at construction equipment rental companies continue to shrink each year as building contractors demand large discounts. The severity of competition among firms makes new investment difficult for independent operators and small and medium-sized firms, and the industry faces an extremely tough business environment.

On the other hand, despite being confronted with this severe business environment, there are some positive signs for the construction equipment rental industry as well.

First, according to the Survey on Conditions in Specified Service Industries released by the Ministry of Economy, Trade and Industry, which looked at the size of the rental industry market, after reaching a peak in 1996-1997 construction equipment rental revenues began declining. Despite cutbacks in total construction investment, however, revenues began to increase again in 2000, and in 2001 rose 5.6% compared to the prior year to ￥1,063.1 billion.

Another bright spot is the rise in the construction equipment rental ratio. This shows the extent to which construction firms rely on rentals of construction equipment, by measuring the number of pieces of rental equipment as a percentage of all of the construction equipment used at construction job sites. In the latest survey the ratio stood rose to 55.6%, which was further broken down to 73.3% for large general contractors and 44.0% for subcontractors and cooperating companies.

Looked at by type of equipment, compared to the prior year survey the number of equipment categories for which construction firms relied on equipment rentals for 60% or more of their equipment needs increased by two categories to 17 equipment categories. The number of categories for which the ratio was 70% or higher rose by three to 11 categories. For the construction equipment rental industry, the increasing reliance of construction companies on rentals as shown by this trend is a very positive factor.

Kanamoto has now completed the first two years of its "Kanamoto Survival Plan," the three-year medium-term management plan the Company has been executing since the fiscal year ended October.

During these two years, Kanamoto reduced and improved the total cost of revenues and its selling, general and administrative expenses, and heightened every employee's sense of the challenges facing the Company. As a result, the Company was able to achieve operating results that exceeded its initial targets.

As Kanamoto continues its efforts to reduce costs and prepares a new organization based on execution of its Survival Plan, we have also prepared a new five-year management plan, called "Metamorphose" as the Company's latest blueprint for profit growth.

In the new long-range management plan, Kanamoto will focus on enhancing the operating systems in the Construction Equipment Rental Division, which is Kanamoto's core business. To accomplish this plan we have established the following objectives, which we will execute using bold, aggressive measures.

Fiscal Year ending October 31, 2004 Projected Consolidated Operating Results

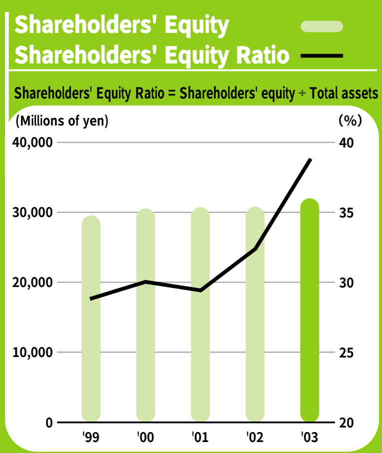
(Million yen)

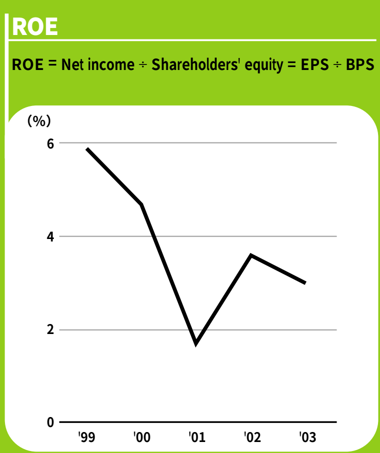
	Revenues		Operating Income		Ordinary Income		Net Income	
Interim period	29,970	–8.0%	1,020	–46.5%	920	–48.8%	420	–46.2%
Full year	59,590	–6.4%	1,630	–29.3%	1,450	–36.4%	580	–36.5%

(Percentage figures show change compared to prior year)

a) Earnings-focused management

Kanamoto will shift its focus from the revenues-first approach utilized in the past and emphasize gross profit. Moreover, during the plan period the Company will limit the introduction of new rental assets and work to reduce the amount of depreciation and





amortization expense, which reduces operating income.

b) Execute a bold scrap and build program

Kanamoto will further pursue the shift in sales towards Honshu, which will increase the percentage of revenues generated in central Japan.
In addition to taking bolder measures to close and scale back the number of unprofitable branches in particular, the Company will concentrate on establishing lightly-equipped branches centered particularly in the Tokyo metropolitan area.

c) Build a powerful marketing organization where customers are always Number One

By taking maximum advantage of its information systems, Kanamoto will implement marketing programs to thoroughly fulfill user needs.
The Company will continue to reconfigure its asset composition to best suit the regional characteristics of each branch office, to create a position in which Kanamoto's presence is indispensable for its customers' operations.

d) Pursue Kanamoto's alliance strategy

Kanamoto is developing its approach of building a Kanamoto alliance group, which the Company has developed in western Japan and used to produce tangible results in market share growth in the corresponding region. The Company will introduce the technique in other marketing areas as well.

The key factor as we pursue these measures will be the procedures we use to manage the Company's rental assets.
Over the past few years, Kanamoto made an effort to differentiate itself from other companies by aggressively carrying out a program to update and reinforce its rental assets on an accelerated schedule. This has focused mainly on an antipollution program targeting areas such as emissions control.

As a result, the majority of Kanamoto's asset lineup consists of construction equipment models with state-of-the-art pollution control equipment. Because it will not be necessary for the Company to replace its new equipment for the next several years to comply with regulations, Kanamoto will be able to increase the number of years over which its uses rental assets, and implement asset operations that ensure sufficient asset rental-based periodic income.
Kanamoto will not face any large capital investment burdens for equipment rental assets.
On the other hand, the sale and disposal of used construction equipment that has contributed to earnings to-date will be limited.

Moreover, to form sound industry business practices, Kanamoto has a policy of responding to non-payment of user service fees with a firm business stance and optimization of rental fees, and has drafted a plan projecting a temporary drop in revenue and earnings during the first two periods that corresponds to the tough business environment

By steadily following the individual measures and strategies outlined in "Metamorphose," its new long-range management plan, however, the Company projects substantial improvement in its earnings level by the final fiscal year of the plan.

Basic policies concerning business management and distribution of earnings

Kanamoto Company believes that adapting to changes in its business environment, developing the firm on a sustainable basis and maximizing earnings contributes to the best results for all of its stakeholders. This is the reason the Company has always made the centerpiece of its action agenda the concept "constantly seek innovation and strive to energize the business."
By offering each customer optimal solutions and services fine-tuned to its exact needs, based on rational rental proposals that take maximum advantage of Kanamoto's years of accumulated equipment rental knowledge and experience, Kanamoto seeks to grow in a manner that will contribute fully to society.

To ensure the long-term, integrated expansion of shareholders' profits, Kanamoto Company continues to focus comprehensively on both capital investments and profitability based on its medium-term profit plan, general dividend trends and a sound financial position. In particular, the Company remains committed to its policy of stable dividend growth.
Given the Company's present circumstances and markets, management believes it has adopted an appropriate position with regard to Kanamoto's investment unit and stock allocation, and has no plans to reduce these positions at this time. The Company currently also has no plans to execute a stock split.
The Company will continue to flexibly examine its activities, however, in accordance with the future situation concerning the distribution of investment units.

ROA

ROA = Net income ÷ Total assets

Dividend per Share of Common Stock

The 1999 cash dividends of ¥19 inclluded a one - time commemorative dividend of ¥1 to celebrate the 35th anniversary of the Company's founding.

Consolidated Balance Sheets

ASSETS

As of October 31, 2003 and 2002	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Current assets:			
Cash and cash equivalents	¥ 15,433	**¥ 11,921**	**$ 109,564**
Short-term investments (Note 3)	79	**47**	**434**
Notes and accounts receivable, trade	23,121	**21,412**	**196,801**
Inventories	810	**854**	**7,852**
Deferred income taxes (Note 8)	167	**261**	**2,401**
Other current assets	2,960	**2,395**	**22,010**
Less: Allowance for doubtful accounts	(495)	**(489)**	**(4,493)**
Total current assets	42,075	**36,401**	**334,569**
Property and equipment:			
Rental equipment	50,009	**43,790**	**402,485**
Building and structures	15,177	**15,333**	**140,928**
Machinery and equipment	4,770	**5,153**	**47,366**
Less: Accumulated depreciation	(44,097)	**(42,361)**	**(389,348)**
	25,859	**21,915**	**201,431**
Land	24,601	**24,638**	**226,448**
Construction in progress	109	**2**	**17**
Total property and equipment	50,569	**46,555**	**427,896**
Investments and other assets:			
Investments in associates (Note 3)	199	**164**	**1,504**
Investments in securities (Note 3)	3,483	**3,409**	**31,328**
Deferred income taxes (Note 8)	1,749	**1,383**	**12,715**
Other assets	1,819	**1,662**	**15,278**
Less: Allowance for doubtful accounts	(580)	**(564)**	**(5,182)**
Total investments and other assets	6,670	**6,054**	**55,643**
	¥ 99,314	**¥ 89,010**	**$ 818,108**

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
As of October 31, 2003 and 2002	2002	2003	2003
Current liabilities:			
Short-term bank loans (Note 4)	¥ 905	**¥ 713**	**$ 6,557**
Current portion of long-term debt (Note 4)	24,965	**14,854**	**136,526**
Notes and accounts payable, trade	11,965	**11,048**	**101,547**
Accrued income taxes	19	**648**	**5,958**
Accrued bonuses for employees	541	**443**	**4,070**
Other current liabilities	1,625	**1,208**	**11,091**
Total current liabilities	40,020	**28,914**	**265,749**
Non-current liabilities:			
Long-term debt (Note 4)	24,700	**25,423**	**233,664**
Accrued pension and severance costs (Note 5)	1,676	**1,777**	**16,336**
Other liabilities	1,580	**918**	**8,438**
Total non-current liabilities	27,956	**28,118**	**258,438**
Minority interests	97	**71**	**656**
Contingent liabilities (Note 6)			
Shareholders' equity:			
Common stock:			
Authorized–66,000,000 shares			
Issued–30,253,241 shares	8,597	**8,597**	**79,014**
Additional paid-in capital	9,720	**9,720**	**89,342**
Retained earnings	13,044	**13,400**	**123,162**
Net unrealized gain (loss) on other securities, net of taxes (Note 3)	(108)	**367**	**3,377**
Treasury stock	(12)	**(177)**	**(1,630)**
Total shareholders' equity	31,241	**31,907**	**293,265**
	¥ 99,314	**¥ 89,010**	**$ 818,108**

Consolidated Statements of Income

Year Ended October 31, 2003 and 2002	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Rental revenues			
Cost of rentals	¥ 40,561	**¥ 40,724**	**$ 374,307**
Sales of goods	30,631	**30,928**	**284,268**
Cost of sales	24,691	**22,962**	**211,045**
Gross profit	19,376	**17,970**	**165,167**
Selling, general and administrative expenses	15,245	**14,788**	**135,917**
Operating income	12,957	**12,480**	**114,707**
	2,288	**2,308**	**21,210**
Other income (expenses):			
Interest and dividend income	56	**82**	**756**
Interest expenses	(475)	**(398)**	**(3,659)**
Others, net	259	**(117)**	**(1,071)**
Income before income taxes	2,128	**1,875**	**17,236**
Income taxes (Note 8)			
Current	865	**1,036**	**9,523**
Deferred	59	**(55)**	**(506)**
	924	**981**	**9,017**
Income before minority interests	1,204	**894**	**8,219**
Minority interests in subsidiaries	(5)	**(20)**	**(180)**
Net income	¥ 1,209	**¥ 914**	**$ 8,399**

	Yen 2002	Yen 2003	U.S. dollars (Note 1) 2003
Per share of common stock:			
Net income			
Basic	¥ 39.99	**¥ 29.96**	**$ 0.28**
Diluted	30.76	**27.11**	**0.25**
Cash dividends applicable to the year	18.00	**18.00**	**0.17**

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
Year Ended October 31, 2003 and 2002	2002	2003	2003
Cash flows from operating activities:			
Net income before income taxes and minority interests	¥ 2,128	**¥ 1,875**	**$ 17,236**
Adjustments for:			
Depreciation expense	8,120	**6,651**	**61,127**
Loss on disposal or sales of property and equipment	199	**89**	**817**
Write-down of investments in securities	241	**260**	**2,387**
Profit on sales of investments in securities	(157)	**(135)**	**(1,240)**
Provision for allowance for doubtful accounts	301	**(22)**	**(204)**
Provision for accrued pension and severance costs	(333)	**101**	**934**
Interest and dividend income	(56)	**(82)**	**(756)**
Interest expenses	746	**580**	**5,328**
Other adjustments	564	**949**	**8,725**
Change in assets and liabilities			
Decrease (increase) in trade receivables	2,985	**1,708**	**15,703**
Decrease (increase) in inventories	337	**(45)**	**(412)**
Increase (decrease) in trade payable	(1,104)	**(917)**	**(8,428)**
Others, net	(524)	**281**	**2,582**
Subtotal	13,447	**11,293**	**103,799**
Interest and dividend income received	56	**82**	**756**
Interest expenses paid	(748)	**(601)**	**(5,523)**
Income taxes paid	(2,109)	**(415)**	**(3,818)**
Cash flows from operating activities	10,646	**10,359**	**95,214**
Cash flows from investing activities:			
Payments for purchase of investments in securities	(2,646)	**(1,362)**	**(12,515)**
Proceeds from sales of investments in securities	2,243	**1,988**	**18,276**
Payments for purchase of property and equipment	(398)	**(638)**	**(5,868)**
Others, net	359	**(95)**	**(877)**
Cash flows from investing activities	(442)	**(107)**	**(984)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	160	**(192)**	**(1,766)**
Proceeds from long-term debt	13,670	**15,000**	**137,868**
Repayments of long-term debt	(24,053)	**(27,896)**	**(256,400)**
Cash dividends paid	(545)	**(541)**	**(4,975)**
Others	6	**(135)**	**(1,243)**
Cash flows from financing activities	(10,762)	**(13,764)**	**(126,516)**
Net increase (decrease) in cash and cash equivalents	(558)	**(3,512)**	**(32,286)**
Cash and cash equivalents at beginning of year	15,991	**15,433**	**141,850**
Cash and cash equivalents at end of year	¥ 15,433	**¥ 11,921**	**$ 109,564**

Consolidated Statements of Shareholders' Equity

	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
Year Ended October 31, 2002 and 2003					
Balance at October 31, 2001	30,253	¥ 8,597	¥ 9,720	¥ 12,396	¥ 141
Net income				1,209	
Cash dividends				(544)	
Bonuses to directors and auditors				(17)	
Other					(249)
Balance at October 31, 2002	30,253	¥ 8,597	¥ 9,720	¥ 13,044	(108)
Net income				914	
Cash dividends				(541)	
Bonuses to directors and auditors				(17)	
Other					475
Balance at October 31, 2003	30,253	¥ 8,597	¥ 9,720	¥ 13,399	¥ 367

	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
Balance at October 31, 2002	$ 79,014	$ 89,342	$ 119,890	$ (997)
Net income			8,399	
Cash dividends			(4,974)	
Bonuses to directors and auditors			(153)	
Other				4,374
Balance at October 31, 2003	$ 79,014	$ 89,342	$ 123,162	$ 3,377

Notes to Consolidated Financial Statements

1. Basis of presenting 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, 2003, which was ¥108.80 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 excise significant influence over operating and financial policies are stated at cost and the 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 are comprised of 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.

(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 capitalized"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, 2003, 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, 2003 were as follows:

October 31, 2003	Acquisition costs	Carrying value	Unrealized gain (loss)
	Millions of yen		
Unrealized gain:			
Stocks	¥ 1,130	¥1,846	¥ 716
	1,130	1,846	716
Unrealized loss:			
Stocks	146	123	(23)
Corporate bonds	57	55	(2)
Other	1,114	1,040	(74)
	1,317	1,218	(99)
Total	¥ 2,447	¥ 3,046	¥ 617

October 31, 2003	Acquisition costs	Carrying value	Unrealized gain (loss)
	Thousands of U.S. dollars		
Unrealized gain:			
Stocks	$10,385	$16,962	$6,577
	10,385	16,962	6,577
Unrealized loss:			
Stocks	1,345	1,136	(209)
Corporate bonds	523	506	(17)
Other	10,242	9,557	(685)
	12,110	11,199	(911)
Total	$ 22,495	$ 28,161	$ 5,666

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

October 31, 2002	Acquisition costs	Carrying value	Unrealized gain (loss)
	Millions of yen		
Unrealized gain:			
Stocks	¥873	¥1,276	¥ 403
	873	1,276	403
Unrealized loss:			
Stocks	1,143	783	(360)
Corporate bonds	141	137	(4)
Other	1,214	989	(225)
	2,498	1,909	(589)
Total	¥ 3,371	¥ 3,185	¥ (186)

Non-marketable securities classified as other securities at October 31, 2003 and 2002 amounted to ¥384 million ($3,527 thousand) and ¥374 million, respectively.
Proceeds from sales of securities classified as other securities amounted to ¥1,924 million ($17,688 thousand) with an aggregate gain on sales of ¥135 million ($1,240 thousand) for the year ended October 31, 2003.
Proceeds from sales of securities classified as other securities amounted to ¥1,320 million with an aggregate gain on sales of ¥87 million for the year ended October 31, 2002.

The redemption schedule for bonds with maturity dates at October 31, 2003 was summarized as follows:

October 31, 2003	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	Millions of yen			
Corporate bonds	¥ 23	¥ 31	¥ -	¥-
Other	16	-	894	38
Total	¥ 39	¥ 31	¥ 894	¥ 38

October 31, 2003	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	Thousands of U.S. dollars			
Corporate bonds	$ 215	$ 292	-	-
Other	145	-	$ 8,220	$ 351
Total	$ 360	$ 292	$ 8,220	$ 351

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

	Millions of yen			
October 31, 2002	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
Total	¥ 75	¥ 74	¥ 777	¥ 27

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

The annual average interest rates applicable to short-term bank loans outstanding at October 31, 2003 and 2002 were 1.14% and 1.49%, respectively.

Long-term debt at October 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Loans from banks and insurance companies, maturing through 2008 :			
Secured	¥ 345	**¥ 135**	**$ 1,244**
Unsecured	25,441	**30,272**	**278,233**
0.55% unsecured convertible bonds due 2003	3,164	**-**	**-**
Zero coupon unsecured convertible bonds due 2003	1,000	**-**	**-**
Floating rate U.S. dollar bonds due 2002	5,278	**-**	**-**
Obligations under installment purchases, maturing through 2007	14,437	**9,870**	**90,713**
	49,665	**40,277**	**370,190**
Less current portion	24,965	**14,854**	**136,526**
	¥ 24,700	**¥ 25,423**	**$ 233,664**

Aggregate annual maturities of long-term debt subsequent to October 31, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year Ending October 31		
2004	¥ 14,854	$ 136,526
2005	11,493	105,641
2006	7,860	72,246
2007	4,740	43,567
2008 and thereafter	1,330	12,210
	¥ 40,277	$ 370,190

At October 31, 2003, 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 (Note 1)
Buildings and structures	¥ 35	$ 323
Land	197	1,815

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 its 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.

The projected benefit obligation and funded status including a portion of the governmental welfare program at October 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Projected benefit obligation	¥ (5,409)	**(6,204)**	**$ (57,027)**
Plan assets	2,983	**3,385**	**31,117**
Unrecognized actuarial assumption adjustment	750	**1,042**	**9,574**
Accrued pension and severance costs	¥ (1,676)	**¥ (1,777)**	**$ (16,336)**

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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Service cost	¥ 413	**¥ 412**	**$ 3,791**
Interest cost	143	**160**	**1,467**
Expected return on plan assets	(110)	**(116)**	**(1,070)**
Amortization:			
Actuarial losses	48	**80**	**734**
Prior service cost	(395)	**-**	**-**
Unrecognized benefit obligation at transition	-	**-**	**-**
Net periodic pension and severance costs	¥ 99	**¥ 536**	**$ 4,922**

The assumptions used were as follows:

Discount rate	2.5 %
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, 2003 and 2002, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Guarantees of loans	¥ 372	**¥ 290**	**$ 2,669**
Trade notes discounted	85	**-**	**-**
Trade notes endorsed	178	**57**	**519**

7. Leases

Lease payments under finance leases for the years ended October 31, 2003 and 2002 were ¥5,626 million ($51,705 thousand) and ¥4,343 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, 2003 and 2002, was as follows:

	Millions of yen			Thousands of U.S. dollars		
For the year ended October 31, 2003	Rental equipment	Machinery and equipment	**Total**	Rental equipment	Machinery and equipment	**Total**
Acquisition costs	¥ 28,089	¥ 556	**¥ 28,645**	$ 258,168	$ 5,109	$ 263,277
Accumulated depreciation	7,344	255	**7,599**	67,500	2,345	69,845
Net leased property	¥ 20,745	¥ 301	**21,046**	$ 190,668	$ 2,764	$ 193,432

	Millions of yen	Thousands of U.S. dollars (Note 1)
Obligations under finance leases:		
Due within one year	¥ 4,928	$ 45,294
Due after one year	16,288	149,702
Total	¥ 21,216	$ 194,996

	Millions of yen		
For the year ended October 31, 2002	Rental equipment	Machinery and equipment	**Total**
Acquisition costs	¥ 25,612	¥ 667	**¥ 26,279**
Accumulated depreciation	8,300	384	**8,684**
Net leased property	¥ 17,312	¥ 283	**¥ 17,595**

	Millions of yen
Obligations under finance leases:	
Due within one year	¥ 4,663
Due after one year	13,357
Total	¥ 18,020

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 ¥5,035 million ($46,274 thousand) and ¥688 million ($6,320 thousand), respectively, for the year ended October 31, 2003. 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 and ¥384 million, respectively, for the year ended October 31, 2002.

The minimum rental commitments under non-cancellable operating leases for the years ended October 31, 2003 and 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
For the Year Ended October 31,2003		
Due within one year	¥ 1,793	$ 16,480
Due after one year	3,239	29,767
Total	¥ 5,032	$ 46,247

	Millions of yen
For the Year Ended October 31,2002	
Due within one year	¥ 1,543
Due after one year	2,643
Total	¥ 4,186

Notes to Consolidated Financial Statements

8. Income taxes

The difference between the statutory tax rate and the effective tax rate for the years ended October 31, 2003 and 2002 was as follows:

	2002	2003
Statutory tax rate	41.7%	**41.7 %**
Operating losses of subsidiaries	1.2	**2.6**
Expenses not deductible for tax purposes	1.1	**1.4**
Inhabitants per capita taxes	3.9	**4.5**
Write - down of investment in associates	(3.4)	**-**
Other	(1.1)	**2.1**
Effective tax rate	43.4 %	**52.3 %**

The significant components of deferred tax assets and liabilities at October 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Deferred tax assets:			
Depreciation expenses	¥ 388	**¥ 414**	**$ 3,809**
Directors' retirement benefits	82	**80**	**732**
Accrued bonuses for employees	150	**146**	**1,346**
Provisions for doubtful accounts	223	**243**	**2,229**
Accrued enterprise tax	1	**52**	**477**
Accrued pension and severance costs	696	**729**	**6,701**
Operating loss carryforwards	176	**154**	**1,420**
Net unrealized loss on securities	78	**-**	**-**
Others	298	**220**	**2,023**
Sub-total	2,092	**2,038**	**18,737**
Less valuation allowance	(176)	**(145)**	**(1,332)**
Total deferred tax assets	1,916	**1,893**	**17,405**
Deferred tax liabilities:			
Net unrealized gain on securities	-	**249**	**2,289**
Net deferred tax assets	¥ 1,916	**¥ 1,645**	**$ 15,116**

9. Supplemental cash flow information

Non-cash investing and financing activities for the years ended October 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Non-cash investing and financing activities:			
Additions to obligations under installment purchases	¥ 3,637	**¥ 2,548**	**$ 23,423**

10. Segment information

Business segment information for the years ended October 31, 2003 and 2002 was as follows:

2002

Millions of yen

For the year ended October 31, 2002	Construction related business	Steel related business	Information and communication related and other business	Total	Eliminations and corporate items	Consolidated
Sales						
Outside customers	¥ 56,558	¥ 7,436	¥ 1,258	**¥ 65,252**	¥ -	¥ 65,252
Intersegment	-	-	-	**-**	-	-
Total	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 (loss)	¥ 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

2003

Millions of yen

For the year ended October 31, 2003	Construction related business	Steel related business	Information and communication related and other business	Total	Eliminations and corporate items	Consolidated
Sales						
Outside customers	¥ 56,396	¥ 6,374	¥ 916	**¥ 63,686**	¥ -	¥ 63,686
Intersegment	-	-	-	**-**	-	-
Total	56,396	6,374	916	**63,686**	-	63,686
Operating expenses	54,190	6,379	892	**61,461**	(83)	61,378
Operating profit	¥ 2,206	¥ (5)	¥ 24	**¥ 2,225**	¥ 83	¥ 2,308
Identifiable assets	¥65,283	¥ 2,775	¥ 1,067	**¥ 69,125**	¥ 19,885	¥ 89,010
Depreciation	6,472	5	10	**6,487**	163	6,650
Capital expenditures	3,843	66	13	**3,922**	478	4,400

Thousands of U.S. dollars

For the year ended October 31, 2003	Construction related business	Steel related business	Information and communication related and other business	Total	Eliminations and corporate items	Consolidated
Sales						
Outside customers	$ 518,344	$ 58,584	$ 8,424	**$ 585,352**	$ -	$ 585,352
Intersegment	-	-	-	**-**	-	-
Total	518,344	58,584	8,424	**585,352**	-	585,352
Operating expenses	498,073	58,632	8,196	**564,901**	(759)	564,142
Operating profit	$ 20,271	$ (48)	$ 228	**$ 20,451**	$ 759	$ 21,210
Identifiable assets	$600,027	$ 25,509	$ 9,807	**$ 635,343**	$182,765	$818,108
Depreciation	59,482	49	95	**59,626**	1,501	61,127
Capital expenditures	35,318	611	121	**36,050**	4,393	40,443

11. Subsequent events

On January 27, 2003, the Company's shareholders approved the payment of a cash dividend of ¥9.00 ($0.08) per one share to shareholders of record at October 31, 2003, or a total payment of ¥269 million ($2,471 thousand).

Non-consolidated Balance Sheets

ASSETS

As of October 31, 2003 and 2002	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Current assets:			
Cash and time deposits	¥ 14,578	**¥ 11,346**	**$ 104,284**
Short-term investments	75	**39**	**360**
Notes receivable, trade	10,423	**10,148**	**93,273**
Accounts receivable, trade	11,796	**11,159**	**102,565**
Inventories	399	**376**	**3,456**
Deferred income taxes (Note 5)	152	**228**	**2,093**
Other current assets	2,899	**2,360**	**21,690**
Less: Allowance for doubtful accounts	(462)	**(490)**	**(4,505)**
Total current assets	39,860	**35,166**	**323,216**
Property and equipment:			
Rental equipment	48,816	**42,505**	**390,676**
Buildings	10,825	**11,161**	**102,579**
Structures	3,874	**3,855**	**35,437**
Machinery and equipment	4,644	**5,039**	**46,310**
Less: Accumulated depreciation	(42,841)	**(41,201)**	**(378,686)**
	25,318	**21,359**	**196,316**
Land	24,228	**24,382**	**224,097**
Construction in progress	104	**2**	**18**
Total property and equipment	49,650	**45,743**	**420,431**
Investments and other assets:			
Investments in securities	3,468	**3,392**	**31,174**
Investments in associates	805	**1,025**	**9,421**
Deferred income taxes (Note 5)	1,727	**1,453**	**13,359**
Other assets	1,780	**1,618**	**14,872**
Less: Allowance for doubtful accounts	(573)	**(770)**	**(7,074)**
Total investments and other assets	7,207	**6,718**	**61,752**
	¥ 96,717	**¥ 87,627**	**$ 805,399**

LIABILITIES AND SHAREHOLDERS' EQUITY

As of October 31, 2003 and 2002	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:			
Current portion of long-term bank loans	¥ 8,289	**¥ 9,576**	**$ 88,015**
Current portion of straight bonds	5,278	**-**	**-**
Current portion of convertible bonds	4,164	**-**	**-**
Notes payable, trade	8,091	**7,387**	**67,898**
Accounts payable, trade	2,857	**3,049**	**28,022**
Notes payable, other	289	**363**	**3,336**
Accounts payable, other	7,888	**5,785**	**53,172**
Accrued income taxes	-	**645**	**5,928**
Accrued bonuses for employees	519	**429**	**3,941**
Other current liabilities	676	**523**	**4,805**
Total current liabilities	38,051	**27,757**	**255,117**
Non-current liabilities:			
Long-term bank loans	16,858	**20,592**	**189,265**
Long-term accounts payable, other	8,614	**5,321**	**48,906**
Accrued pension and severance costs	1,660	**1,777**	**16,332**
Other liabilities	177	**176**	**1,619**
Total non-current liabilities	27,309	**27,866**	**256,122**
Contingent liabilities (Note 3)			
Shareholders' equity:			
Common stock:			
Authorized – 66,000,000 shares			
Issued – 30,253,241 shares	8,597	**8,597**	**79,014**
Additional paid-in capital	9,720	**9,720**	**89,342**
Legal reserve	1,372	**1,375**	**12,641**
Retained earnings	11,778	**12,122**	**111,416**
Net unrealized gain (loss) on other securities, net of taxes	(108)	**367**	**3,377**
Treasury stock	(2)	**(177)**	**(1,630)**
Total shareholders' equity	31,357	**32,004**	**294,160**
	¥ 96,717	**¥ 87,627**	**$ 805,399**

Non-consolidated Statements of Income

Year ended October 31, 2003 and 2002	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Rental revenues	¥ 39,206	**¥ 39,639**	**$ 364,325**
Cost of rentals	29,952	**30,597**	**281,220**
Sales of goods	21,401	**20,856**	**191,688**
Cost of sales	16,505	**16,098**	**147,958**
Gross profit	14,150	**13,800**	**126,835**
Selling, general and administrative expenses	11,895	**11,449**	**105,230**
Operating income	2,255	**2,351**	**21,605**
Other income (expenses):			
Interest and dividend income	56	**81**	**749**
Interest expenses	(446)	**(373)**	**(3,427)**
Others, net	188	**(202)**	**(1,861)**
Income before income taxes	2,053	**1,857**	**17,066**
Income taxes (Note 5)			
Current	830	**1,032**	**9,481**
Deferred	89	**(129)**	**(1,183)**
	919	**903**	**8,298**
Net income	¥ 1,134	**¥ 954**	**$ 8,768**

Per share of common stock:	Yen 2002	Yen 2003	U.S. dollars (Note 1) 2003
Net income			
Basic	¥ 37.49	**¥ 31.30**	**$ 0.29**
Diluted	28.85	**28.30**	**0.26**
Cash dividends applicable to the year	18.00	**18.00**	**0.17**

Non-consolidated Statements of Shareholders' Equity

	Thousands of shares of common stock	Millions of yen				
		Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Net unrealized gain (loss) on other securities, net of taxes
Year Ended October 31, 2003 and 2002						
Balance at October 31, 2001	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)
Balance at October 31, 2002	30,253	¥ 8,597	¥ 9,720	¥ 1,372	¥ 11,778	¥ (108)
Net income					954	
Cash dividends					(541)	
Bonuses to directors and auditors					(17)	
Other				3	(52)	475
Balance at October 31, 2003	30,253	¥ 8,597	¥ 9,720	¥ 1,375	¥ 12,122	¥ 367

	Thousands of U.S. dollars (Note 1)				
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Net unrealized gain (loss) on other securities, net of taxes
Year Ended October 31, 2003					
Balance at October 31, 2002	$ 79,014	$ 89,342	$ 12,615	$ 108,252	$ (997)
Net income				8,768	
Cash dividends				(4,974)	
Bonuses to directors and auditors				(153)	
Other			26	(477)	4,374
Balance at October 31, 2003	$ 79,014	$ 89,342	$ 12,641	$ 111,416	$ 3,377

Notes to Non-consolidated Financial Statements

1. Basis of presenting 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, 2003, which was ¥108.80 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, 2003 and 2002, the Company was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Guarantees of loans	¥ 372	**¥ 290**	**$ 2,669**

4. Leases

Lease payments under finance leases for the years ended October 31, 2003 and 2002 were ¥5,279 million ($48,523 thousand) and ¥3,838 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, 2003 and 2002, was as follows:

	Millions of yen			Thousands of U.S. dollars		
For the year ended October 31, 2003	Rental equipment	Machinery and equipment	**Total**	Rental equipment	Machinery and equipment	**Total**
Acquisition costs	¥ 27,425	¥ 459	**¥ 27,884**	$ 252,073	$ 4,217	$ 256,290
Accumulated depreciation	7,097	194	**7,291**	65,230	1,780	67,010
Net leased property	¥ 20,328	¥ 265	**¥ 20,593**	$ 186,843	$ 2,437	$ 189,280

	Millions of yen	Thousands of U.S. dollars
Obligations under finance leases:		
Due within one year	¥ 4,689	$ 43,098
Due after one year	16,064	147,648
Total	¥ 20,753	$ 190,746

	Millions of yen		
For the year ended October 31, 2002	Rental equipment	Machinery and equipment	Total
Acquisition costs	¥ 24,072	¥ 563	¥ 24,635
Accumulated depreciation	7,533	339	7,872
Net leased property	¥ 16,539	¥ 224	¥ 16,763

	Millions of yen
Obligations under finance leases:	
Due within one year	¥ 4,259
Due after one year	12,900
Total	¥ 17,159

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 ¥4,721 million ($43,391 thousand) and ¥657 million ($6,037 thousand), respectively, for the year ended October 31, 2003.
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 and ¥334 million, respectively, for the year ended October 31, 2002.

The minimum rental commitments under non-cancellable operating leases for the years ended October 31, 2003 and 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
For the year ended October 31, 2003		
Due within one year	¥ 1,790	$ 16,450
Due after one year	3,238	29,767
Total	¥ 5,028	$ 46,217

	Millions of yen
For the year ended October 31, 2002	
Due within one year	¥ 1,543
Due after one year	2,643
Total	¥ 4,186

5. Income taxes

The difference between the statutory tax rate and the effective tax rate for the years ended October 31, 2003 and 2002 was as follows:

Year ended October 31, 2003 and 2002	2002	2003
Statutory tax rate	41.7 %	**41.7 %**
Inhabitants' per capita taxes	3.8	**4.3**
Expenses not deductible for tax purposes	1.1	**1.4**
Other	-1.9	**1.2**
Effective tax rate	44.7 %	**48.6 %**

The significant components of deferred income tax assets at October 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended October 31, 2003 and 2002	2002	2003	2003
Deferred tax assets:			
Depreciation expenses	¥ 387	**¥ 404**	**$ 3,713**
Directors' retirement benefits	74	**71**	**654**
Accrued bonuses for employees	144	**143**	**1,319**
Provisions for doubtful accounts	223	**237**	**2,177**
Accrued enterprise tax	-	**52**	**477**
Accrued pension and severance costs	692	**729**	**6,700**
Net unrealized loss on securities	78	**-**	**-**
Others	281	**294**	**2,701**
Total deferred tax assets	1,879	**1,930**	**17,741**
Deferred tax liabilities:			
Net unrealized gain on securities	-	**249**	**2,289**
Net deferred tax assets	¥ 1,879	**¥ 1,681**	**$ 15,452**

6. Subsequent events

On January 27, 2004, the Company's shareholders approved the payment of a cash dividend of ¥9.00 ($0.08) per one share to shareholders of record at October 31, 2003, or a total payment of ¥269 million ($2,471 thousand).

Report of the Audit Committee

The Audit Committee has received the reports of the audit procedures and results concerning the business performance of the directors during the 39th Business Period from November 1, 2002 through October 31, 2003 from each of the auditors. After discussing the reports we have prepared this Audit Report and report as follows.

1. Scope of audit by the Audit Committee

Each of the auditors attends the meetings of the Board of Directors and other important meetings, receives business reports from the directors and other managers, reads documents concerning matters such as important decisions, and investigates the conditions of the business and financial conditions at the head office and the main branches, and also requests copies of accounting and other documents, explanations of such documents and management reports from the subsidiary companies to the extent considered necessary, in accordance with the policies specified by the Board of Directors and the duties of their office. The auditors also receive the report and explanations of the independent auditors, and carry out the procedures determined to be necessary for matters such as investigation of accounting documents and related documents.

For matters such as transactions between directors and business competitors, transactions between directors and the Company that may be detrimental to the Company's profitability, undocumented uses of profits by the Company, unusual or uncustomary transactions with a shareholder, and purchases and sale of the Company's stock, in addition to the audit procedures indicated above the auditors may request reports from the directors and other managers as they deem necessary and conduct an investigation into the details of the circumstances surrounding the transactions in question.

2. Result of audit

(1) In our opinion, the audit procedures and audit results received from the independent public accounting firm Shin Nihon & Co. are appropriate.

(2) The Business Report fairly represents the condition of the Company in accordance with the laws of Japan and the Articles of Incorporation of the Company.

(3) We have examined the Statement of Proposed Appropriation of Retained Earnings in consideration of the financial condition of the Company and other circumstances surrounding the business, and determined that there are no matters that should be highlighted as a concern.

(4) We have examined the supporting schedules and determined that there are no matters that should be highlighted as a concern.

(5) We have determined that there were no serious occurrences of dishonest or false activity or violations of any laws or the Company's Articles of Incorporation by any of the directors in carrying out the duties and responsibilities of their offices including business activities concerning the subsidiary companies.

Furthermore, we have determined that no director violated the duties and responsibilities of his office concerning matters such as transactions between directors and business competitors, transactions between directors and the Company that may be detrimental to the Company's profitability, undocumented uses of profits by the Company, unusual or uncustomary transactions with a shareholder, and purchases and sale of the Company's stock.

December 25, 2003
Audit Committee, Kanamoto Company, Ltd.

(Note) Outside Corporate Auditor Kiyoshi Onishi is the outside auditor as stipulated by Article 18, Section 1 of The Law for Special Exceptions to the Commercial Code Concerning Audits, etc. of Joint Stock Corporations.

Board of Directors (As of March 1, 2004)

Directors

Kanchu Kanamoto *
President
CEO

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

Yukio Sato *
Senior Corporate Officer
Manager, Business Coordination Headquarters

Eichu Kanamoto *
Division Manager, Administration Division
Manager in Charge of Credit Management
Division & Auditing Section

Nobuhito Utatsu *
Division Manager, Accounting Division

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

Hitoshi Narita *
Division Manager, Management Planning Division
Office Chief, Secretarial Office

Kojiro Satsuma

Tadao Saika

Asterisk indicates directors who hold the additional post of corporate officer.

Auditors

Toshizo Okumura
Standing Corporate Auditor

Shinroku Sawada
Standing Corporate Auditor

Kiyoshi Onishi
Outside Corporate Auditor

Akio Hashimoto
Outside Corporate Auditor

Corporate Officers

Hideki Nomiya
Business Coordination Headquarters
Manager in Charge of Steel Sales Division

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

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

kanamoto co., ltd.
http://www.kanamoto.co.jp

Printed with soy ink
Printed in Japan