October 2000 Accounting Bulletin (Consolidated)

December 14, 2000

Listed Company Name **Kanamoto Company, Ltd.**
Listing Exchanges **Tokyo Stock Exchange, First Section;Sapporo Stock Exchange**
Company Code Number **9678**
Head Office Address 1-19, Odori Higashi 3-chome, Chuo-ku, Sapporo, Hokkaido Japan 060-0041
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Date of Report to the Board of Directors December 14, 2000

1. Consolidated operating results for the fiscal year ended October 31, 2000

(1) Consolidated operating results (Numbers less than one million yen have been rounded down)

	Revenues		Operating Income		Ordinary Income		Net Income	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Fiscal year ended October 31, 2000	61,996	(—)	3,042	(—)	2,548	(—)	1,360	(—)
Fiscal year ended October 31, 1999	—	(—)	—	(—)	—	(—)	—	(—)

	Net income per share of common stock	Net income per share of common stock after adjustment for potential ordinary shares	Return on shareholders' equity	Return on total assets	Ordinary income margin
	Yen	Yen	%	%	%
Fiscal year ended October 31, 2000	45.51	36.35	4.4	2.5	4.1
Fiscal year ended October 31, 1999	—	—	—	—	—

(Notes) ① Equity method investment profit or loss Fiscal year ended October 31, 2000 — Fiscal year ended October 31, 1999 —

② Valuation profit or loss on negotiable securities ¥656 million Valuation profit or loss on derivative transactions —

③ Are there any changes in accounting method? No

④ The percentages shown for revenues, operating income, ordinary income and fiscal year net income are the percent increase or decrease compared to the prior fiscal year

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ millions	¥ millions	%	Yen
Fiscal year ended October 31, 2000	103,412	30,781	29.7	1,018.72
Fiscal year ended October 31, 1999	—	—	—	—

(3) Consolidated cash flow (¥ millions)

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at the end of the fiscal year
Fiscal year ended October 31, 2000	10,616	△1,826	△8,544	16,422
Fiscal year ended October 31, 1999	—	—	—	—

(4) Companies to which consolidation accounting and equity method accounting apply

Number of consolidated companies: 5 companies Number of unconsolidated subsidiaries accounted for under the equity method: 0 companies Number of affiliated companies accounted for under the equity method: 0 companies

(5) Changes to which consolidation accounting and equity method accounting apply

Consolidation (New): 5 companies (Excluded): 0 companies Equity method accounting (New): 0 companies (Excluded): 0 companies

2. Projected consolidated operating results for the fiscal year ending October 31, 2001 (November 1, 2000 – October 31, 2001)

(¥ millions)

	Revenues	Ordinary Income	Net Income
Interim period	30,760	1,680	310
Full year	62,430	2,550	220

(Reference) Projected net income per share of common stock (fiscal year) ¥7.28

Ⅰ Current conditions of the Company's group

The Kanamoto Company group is comprised of the parent company, six subsidiaries and three affiliated companies. The business activities of the group are centered on the rental and sale of construction equipment, temporary construction materials, safety equipment and other products, the sale of steel materials, and the rental and sale of information technology equipment (computers and peripheral equipment). The Company is also undertaking development of electric power supply and service businesses and food and beverage businesses as supplemental business activities. An explanation of each company's position with regard to its relevant business is provided below.

〔Businesses related to the Construction Equipment Rental Division〕

The Company's rental division is engaged in the rental of construction equipment and tools. **Taniguchi Co., Ltd.** (a subsidiary company) manages a rental business providing machines used for construction. Taniguchi Co., Ltd. operates in designated marketing areas and borrows rental equipment assets from the Company as needed in order to meet customer demand.

SRG Kanamoto Co., Ltd. (a subsidiary) operates a rental business that provides temporary materials for construction use. **Assist Co., Ltd.** (a subsidiary company) is engaged in the rental of furniture and fixtures and safety products for the construction industry. The Company and Taniguchi Co., Ltd. borrow rental assets from SRG Kanamoto Co., Ltd. and Assist Co., Ltd. as needed to rent to their own customers.

In addition to the above companies, **Kanatech Co., Ltd.** (a subsidiary company) develops, manufactures and sells modular housing units for temporary use, and **Polyshield Services Co., Ltd.** (a subsidiary company) is engaged in the sale and construction of specialized rust-proof, water-proof shields.

〔Businesses related to the Steel Sales Division〕

The Company's Steel Sales Division sells steel products and construction-related manufactured goods. The Company has no subsidiaries or affiliated companies that are related to this division.

〔Businesses related to the Computer and Peripheral Equipment Rental Division and other businesses〕

As the Company's information and telecommunications-related division, Kanamoto's Computer and Peripheral Equipment Rental Division is engaged in the rental and sale of computers, computer peripheral equipment and equipment for the development of computer products. Companies affiliated with this division include **Newtech Co., Ltd.** (an affiliated company), which primarily manufactures and sells computer peripheral equipment such as RAID (products using technology to provide faster HDD access), and **Active Technology Co., Ltd.** (an affiliated company), which is principally engaged in the sale of telecommunications-related equipment such as wireless LAN devices.

As supplemental businesses, **Active Power Co., Ltd.** (an affiliated company) is engaged in the sale of micro-turbine generators and supplies these products to the Company, among others, and **Providence Brewery Co., Ltd.** (a subsidiary company) brews and sells regional beers and operates a brewpub restaurant in conjunction with this activity.

〔Relationship of the operating businesses〕

Kanamoto Co., Ltd.

Construction Equipment Rental Division
Steel Sales Division
Computers and Peripheral Equipment

Construction-related businesses

(Consolidated companies)
Taniguchi Co., Ltd.
Assist Co., Ltd.
SRG Kanamoto Co., Ltd.
Kanatech Co., Ltd.

(Non-consolidated companies)
Polyshield Services Co., Ltd.

Computer and Peripheral Equipment-related and other businesses

Computer and peripheral equipment-related businesses
(Affiliated companies)※
Newtech Co., Ltd.
Active Technology Co., Ltd.

Other businesses
(Consolidated company)
Providence Brewery Co., Ltd.

(Affiliated company)※
Active Power Co., Ltd.

(Note) ※ Indicates affiliated companies to which equity method accounting is not applied.

Ⅱ Management policies and operating results

1. Basic policies concerning business management and distribution of earnings

Every company's mission is to a achieve successful performance that produces maximum satisfaction for all stakeholders of the company, including customers, shareholders and the local community. Based on this premise, at the Kanamoto group we've made commitment to change – embodied in the philosophy "never be satisfied with present conditions and constantly move ahead, regardless of the environment" – the fundamental management outlook for developing our businesses. The Company's group will further strengthen consolidated group management and continue to take actions adapted to the current environment by seeking new customer needs and establishing new information and services focused around the construction equipment rental business, the mainstay of the Company's principal business activity.

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

To accomplish these goals Kanamoto Company focuses on the importance of cash flow and places particular impo rtance on the growth of EBITDA (earnings before interest, taxes and depreciation and amortization).

2. Medium to long-term corporate management strategy

Over the long term Kanamoto Company faces a situation in which public enterprise expense budgets are shrinking. As the construction industry slims down, construction equipment rentals will play a substantial role as an important outsourcing industry and the percentage of equipment used at construction sites that is rented will continue a marked upward trend. There are other numerous avenues that will also enable Kanamoto to grow, such as expansion of the Company's business into regions where it currently does not have branches and enhancement of the Company's responsiveness to private sector and construction industry demand.

Kanamoto Company is also continuing its venture business support activities, in order to nurture new businesses that will follow the growth path of its construction equipment rental business.

The principal elements of Kanamoto Company's Medium-Term Management Plan for November 1999 through October 2002 are the following.

① Expand the Company's service area by opening branches where the Company still does not have branches in western Japan and building the Company's group of business alliances.

② Continue to invest in venture businesses within the framework of a specified amount of net income.

③ Refine the Company's financial strategy of focusing on global standards and strive to improve the Company's debt rating.

With regard to building the alliance group as indicated in ①, Machida Machinery Co., Ltd. (an unlisted company), the largest equipment rental company in Okinawa, joined the Company's alliance group in March 2000. In other actions Kanamoto is planning to establish Kanamoto Shikoku Co., Ltd. next spring in a joint venture with Tadano, Ltd., a manufacturer of cranes and other equipment used for construction (listed on the First Sections of the Tokyo Stock Exchange and the Osaka Stock Exchange), which will provide construction equipment rentals as it primary business. The Company also plans to make Daiichi Machine Industries Co., Ltd. (unlisted), a company with its headquarters in Kanoya in Kagoshima Prefecture with which we have had a good business relationship, into a subsidiary company.

In separate action we formed a collaborative business alliance for construction equipment rental in December 1999 with Komatsu Group. Both companies will benefit by avoiding redundant investments and achieving more effective utilization of owned assets, and by continuing to coordinate activities in each marketing region.

The Company's investments in venture businesses indicated in ② above are being made for the purpose not only of capital gains from a new public offering but as always with the goal of also developing new future businesses for the Company.

Based upon these fundamental paths, Kanamoto Company is aiming as a consolidated group to enhance the business development capabilities of the Company group by strengthening the abilities of the respective businesses and ensuring that each company has a solid financial foundation.

2. Operating Results

(1) Summary of fiscal year operating results (Fiscal year ended October 2000)

〔External environment〕

Japan's economy during the fiscal year saw signs of business uncertainty decrease at large enterprises as a result of support provided by the government's large-scale economic recovery package and greater efforts by companies over th e past few years to improve their performance. At the same time, however, a look at the Bank of Japan's short-term Diffusion Index showed that the business outlook for small and medium-sized firms is still severe and that the gap between firms is widening. Individual consumption also continued to stagnate, because the recovery in profits at large companies is fundamentally the result of adjustments to personnel expense and has not resulted in an improvement to the employment environment. Overall, the economic recovery did not spread to all parts of Japan's economy.

In the construction industry, which remains Kanamoto's leading customer, there remains concern over the future direction of public works spending. There has been no improvement in the business environment, such as a sustained increase in private sector demand, despite positive movements in local areas as a result of the large-scale economic measures mentioned above.

〔Conditions for the Company〕

Looking at the **Construction Equipment Rental Division**, the Company's primary business, the Company achieved revenues that were slightly above the level of the prior year, through efforts such as opening many small-scale branches in Hokkaido to ensure no business was overlooked and allow Kanamoto to dominate the Hokkaido region. In the Tohoku area the Company showed double-digit growth thanks to the success of past efforts to dominate the region and the start of public works construction centered on expressway projects. The Company also returned to bullish growth in the Sea of Japan region, where new demand in recent years had been weak. In the Kanto region, for the past few years the Company has maintained operating results at the prior year's level and has not been effected by the fluctuations in demand. In the Kinki-Tokai region the Company has steadily increased its customers, and revenues grew by double digits over the prior year. As a result of the above activity, total rental revenues increased 3.1% over the prior fiscal year. The division eked out only small gains in sales revenues, as used equipment sales were postponed because of the influence of positive inquiries regarding equipment rentals and sales of new equipment declined as construction firms refrained from new purchases. Total sales revenues edged upward 1.2% compared to the same period of the prior fiscal year. For the division as a whole, operating revenues were up 2.6%.

During the fiscal year the Company adjusted its branch network by opening a total of 15 branches including nine branches in the Hokkaido region, four branches in the Tohoku region, one branch in the Sea of Japan region and one branch in the Kinki-Tokai region. The company also established a delivery yard and closed one branch in the in the Sea of Japan region.

In the **Steel Sales Division**, despite progress in steel market inventory adjustments in the Company's main sales area in Hokkaido, sales fell 5.9% from the prior year. This reflected a decline in actual demand because of the slow recovery in private sector demand, and a decline in unit prices.

In the **Computer and Peripheral Equipment Rental Division**, rental revenues were off 4.6% as the Company was effected by computer workstation model changes, one of the division's main products. Sales revenues dropped sharply, falling 34.7% because of a change in generations of wireless LAN boards for factory use. For the division as a whole total revenue declined 24.9%.

〔Business conditions at consolidated subsidiaries〕

Taniguchi Co., Ltd. is building a definite share in the Shiribeshi region of Hokkaido. The company increased both revenues and income during the current fiscal year.

Assist Co., Ltd. (Hokkaido) was successful in strengthening its branch activity and increased sales and income.

SRG Kanamoto Co., Ltd., which closed its books on its first fiscal year since being established, maintained its sales and income at the level in its initial business plan. Amidst the clash of competing companies, the firm steadily increased its level of name awareness.

Business operations were transferred from the parent company to **Kanatach Co., Ltd.** only in October 2000. The new company's contribution to consolidated operating results, therefore, will begin from the next business period (fiscal year ending October 2001).

Providence Brewery Co., Ltd., which brews and sells craft beers in Muroran, Hokkaido, received a gold prize for its pilsner beer at last year's international beer festival in Osaka. The company followed this achievement by winning bronze medals for its dunkel and bock beers. The brewery has earned a solid reputation in the beer industry.

〔Other business operating results〕

The Company completed its third year of efforts to invest in and support venture businesses. Venture businesses in which the Company has invested continued to perform well. During the fiscal year the Company provided support to eight firms, by offering capital funding or by purchasing bonds, and invested a total invested during the year of ¥162.0 million. **Active Power Co., Ltd.**, which markets micro-turbine generators produced by Capstone Turbine Corporation in the U.S., recently began selling the Model 330 (U.S. specifications) and also began renting equipment during the fiscal year to meet users' needs.

As a result of the above activities, consolidated revenue was ¥61,996 million, ordinary income was ¥2,548 million and net income for the fiscal year was ¥1,360 million.

(2) Outlook for the next fiscal year (business period ending October 2001)

〔Business environment〕

Although Japan's economy will continue its slow recovery, one key uncertainty factor will be the drift in the political situations in both Japan and the U.S. When added to the fact that still more time will be required for personnel adjustments by Japanese firms, full recovery remains a number of months away.

With regard to the environment surrounding the construction equipment rental industry, the Company's principal business sector, the second supplementary budget approved in November 2000 will ensure robust business expenditure during the first half of the Company's fiscal year ending in October 2001. On the other hand, changes such as a decision to cancel 210 public works projects and reduce expenditures by ¥2,500.0 billion will mean that as expected, the overall direction will undoubtedly be towards large cutbacks in public works spending. Under these conditions, the percentage of construction equipment rentals by construction firms is continuing to increase annually as companies strive to maintain profitability. In the Fiscal 1999 industry survey the proportion of rental equipment used at construction sites increased to 55.2%, the highest level ever recorded. Because the percentage of subcontractors that have switched to rentals is still low, Kanamoto Company believes there is still considerable room for growth in construction equipment rentals.

At the same time, the intensifying competition to survive the shakeout in the rental equipment industry is becoming more severe each day, calling for extraordinary efforts to maintain profitability. The industry now finds itself in an era of survival of the fittest, and companies will be clearly winnowed into winners and losers.

〔Company response (including consolidated subsidiaries)〕

From a management perspective, Kanamoto Company will move ahead with plans to strengthen its dominance in the Construction Equipment Rental Division's existing sales regions and pursue its alliance strategy in western Japan. The Company plans to establish six branches that will strengthen its foundations in existing marketing areas. Kanamoto Shikoku Co., Ltd., which was described above, will begin operations in the spring of 2001. In other areas, Kanamoto Company is responding quickly to the Internet sales transactions that have begun to be tested by the construction industry.

Past efforts by the Company to fine-tune its management and business have been well received. Going forward, the Company will continue to enhance its improvement program centered on full-time, hands-on directors.

With regard to consolidated subsidiaries, there are many potential tie-up partners for the Company's Construction Equipment Rental Division in construction-related businesses, and the Company plans further tie-ups that will promote efficient management. The Steel Sales Division and the Computer and Peripheral Equipment Rental Division will continue to sell the products they currently handle, and will push to increase sales of the unique rust-proof, water-proof shield *Polyshield* and ShareWave, Inc.'s high-speed wireless LAN respectively, both new products. Both divisions will work to maintain present levels of profitability. The Company will also plan efforts to continue expanding sales of micro-turbine generators.

Furthermore, because of the need for management decisions and business execution that encompass many aspects besides the principal businesses, the Company will introduce an Executive Director system as described earlier. This system will be designed to speed up decision making and provide more flexible business execution. The change to the Company's Articles of Incorporation required for this system will be discussed at the 36th General Meeting of the Shareholders the Company plans to hold in January 2001.

〔Projected consolidated operating results for the fiscal year ending October 2001〕

As a result of the above activities, the Company projects revenues for the next fiscal year will be ¥62,430 million (an increase of 0.7% over the prior fiscal year), and ordinary income will be ¥2,550 million (no change from the prior year. Based on the assumption that an accumulated deficit of approximately ¥1,900 million from the application of accounting for retirement benefits will be eliminated with a lump-sum amortization, net income for the fiscal year is projected to be ¥220 million.

Ⅲ Consolidated Financial Statements

1. Consolidated balance sheet

(Amounts less than ¥1 thousand have been rounded down)

Category / Consolidated accounting fiscal year		36th Business Period (Fiscal year ended October 31, 2000) Amount		Percent
(Assets)			¥ thousands	%
Current assets				
Cash and deposits	※5		16,432,624	
Notes and trade accounts receivable	※1, 2		23,331,420	
Negotiable securities			746,755	
Inventory			826,210	
Deferred tax assets			103,282	
Construction equipment			3,691,573	
Other current assets			434,903	
Allowance for doubtful accounts			△173,786	
Total current assets			45,392,983	43.9
Fixed assets				
Tangible fixed assets				
Rental equipment		58,856,589		
Accumulated depreciation		40,030,757	18,825,832	
Buildings and structures	※5	14,336,898		
Accumulated depreciation		5,951,947	8,384,950	
Machinery, equipment and delivery equipment		4,250,914		
Accumulated depreciation		2,849,813	1,401,100	
Land			24,181,603	
Construction in progress			338,959	
Other assets		685,233		
Accumulated depreciation		456,247	228,985	
Total tangible fixed assets			53,361,432	51.6
Intangible fixed assets				
Total intangible fixed assets			62,658	0.1
Investments and other assets				
Investment securities	※3		2,960,312	
Other			1,380,019	
Deferred tax assets			485,310	
Allowance for doubtful accounts			△230,181	
Total investments and other assets			4,595,461	4.4
Total fixed assets			58,019,552	56.1
Total assets			103,412,535	100.0

(Amounts less than ¥1 thousand have been rounded down)

Category / Consolidated accounting fiscal year		36th Business Period (Fiscal year ended October 31, 2000) Amount		Percent
(Liabilities)			¥ thousands	%
Current liabilities				
Notes and accounts payable, trade			11,696,005	
Short-term bank loans			4,726,615	
Long-term bank loans due within one year	※5		7,793,285	
Corporate taxes payable			203,817	
Accrued bonuses to employees			502,903	
Accounts payable, other			7,607,164	
Other current liabilities			418,080	
Total current liabilities			32,947,871	31.9
Long-term liabilities				
Straight bonds			5,277,692	
Convertible bonds			9,796,000	
Long-term bank loans	※5		13,230,142	
Retirement allowances to directors and auditors			287,454	
Long-term accrued expenses			11,023,476	
Total long-term liabilities			39,614,765	38.3
Total liabilities			72,562,637	70.2
(Minority interest)				
Minority interest			68,261	0.1
(Shareholders' equity)				
Common stock			8,591,481	8.3
Additional paid-in capital			9,715,111	9.4
Consolidated retained earnings			12,484,124	12.0
			30,790,715	29.7
Treasury stock	※4		△165	△0.0
Parent company stock held by subsidiaries			△8,915	△0.0
Total shareholders' equity			30,781,636	29.7
Total liabilities, minority interest and shareholders' equity			103,412,535	100.0

2. Consolidated statement of income

(Amounts less than ¥1 thousand have been rounded down)

Category / Consolidated accounting fiscal year	36th Business Period From November 1, 1999 To October 31, 2000 Amount		Percent
		¥ thousands	%
Revenues from operations			
Rental revenues	40,376,456		
Sales	21,620,128	61,996,584	100.0
Cost of revenues from operations			
Cost of rental revenues	29,407,688		
Cost of goods sold	17,426,785	46,834,473	75.5
Gross profit		15,162,111	24.5
Selling and administrative expenses ※1		12,119,518	19.6
Operating income		3,042,592	4.9
Non-operating revenue			
Interest revenue	47,972		
Dividend income	39,486		
Gain on sale of negotiable securities	128,873		
Insurance benefits	224,685		
Rents	211,014		
Consolidation account write-off	1,425		
Other	123,975	777,433	1.3
Other expenses			
Interest expense	627,344		
Valuation loss on negotiable securities	197,066		
Bond issue expense	147,500		
Contribution to pension plan	159,724		
Other	139,474	1,271,109	2.1
Ordinary income		2,548,916	4.1
Extraordinary profit			
Adjustment of prior period profit or loss ※3	42,596		
Gain on sale of fixed assets	205		
Guarantee of moving expenses	131,462		
Gain on sale of investment securities	1,561	175,825	0.3
Extraordinary loss			
Loss on sale or retirement of fixed assets ※3	199,694		
Valuation loss on investment securities	16,351	216,046	0.4
Fiscal year income before taxes and adjustments		2,508,695	4.0
Corporate, local and business taxes	1,242,998		
Adjustment for corporate and other taxes	△51,884	1,191,113	1.9
Minority interest loss		42,829	0.1
Net income		1,360,411	2.2

3. Statement of Consolidated Retained Earnings

(Amounts less than ¥1 thousand have been rounded down)

Category \ Consolidated accounting fiscal year	36th Business Period From November 1, 1999 To October 31, 2000 Amount	
		¥ thousands
Balance of consolidated retained surplus at the beginning of the period		11,704,914
Reduction in consolidated retained earnings		
Dividends	566,500	
Directors and auditors' bonuses	14,700	581,200
Fiscal year net income		1,360,411
Balance of consolidated retained surplus at the end of the period		12,484,124

4. Consolidated Statement of Cash Flows

(Amounts less than ¥1 thousand have been rounded down)

Category / Consolidated accounting fiscal year	36th Business Period From November 1, 1999 To October 31, 2000
I. Cash flow from operating activities	¥ thousands
Interim period net income before taxes and adjustments	2,508,695
Depreciation and amortization expense	8,925,928
Amortization of consolidated adjustment account	△1,425
Gain on sale of fixed assets	△205
Loss on disposal of fixed assets	199,694
Profit from adjustment of prior period profit or loss	△41,232
Installment purchases of assets for small-value rentals	477,179
Reclassification of cost of sales associated with disposal of construction equipment	100,156
Reclassification of cost of sales associated with disposal of rental assets	784,842
Expenditures for acquisition of rental assets	△909,340
Valuation loss on negotiable securities	197,066
Valuation loss on investment securities	16,351
Gain on sale of negotiable securities	△128,873
Gain on sale of investment securities	△1,561
Bond issuance expense	147,500
Gain on redemption of bonds	△28,358
Increase in allowance for doubtful accounts	77,840
Increase in accrued bonuses to employees	23,486
Increase in retirement allowances to directors and auditors	8,653
Interest revenue and dividend income	△87,458
Interest expense on installment purchases of rental assets	287,428
Interest expense	627,344
Decrease in accounts receivable, trade	2,118,674
Decrease in inventory assets	96,860
Decrease in accounts payable, trade	△640,466
Decrease in accounts payable, other	△452,636
Directors and auditors' bonuses paid	△14,700
Other	△260,986
Sub-total	14,030,456
Interest and dividends received	87,458
Interest expense	△904,592
Payment of corporate and other taxes	△2,597,030
Cash flow from operating activities	10,616,292
II Cash flow from investing activities	
Disbursements for investments in term deposits	△5,506
Revenue from payments of term deposits	200,000
Revenue from repayment of loans	37,500
Funds used for purchase of negotiable securities	△3,034,898
Funds provided from the sale of negotiable securities	3,145,151
Funds used for purchase of investment securities	△814,647
Funds provided from sale of investment securities	243,454
Funds used for purchase of investments	△140,234
Funds used for the purchase of tangible fixed assets	△1,445,974
Funds provided from the sale of tangible fixed assets	3,510
Funds used for the purchase of intangible fixed assets	△14,710
Cash flow from investing activities	△1,826,355

		¥ thousands
III	Cash flow from financing activities	
	Decrease in short-term bank borrowing	△3,975,710
	Funds provided by long-term bank borrowing	7,762,200
	Funds used to repay long-term bank borrowing	△7,909,668
	Funds provided from the issue of straight bonds	4,852,500
	Funds used for repayment of straight bonds	△310,642
	Funds provided from the issue of common stock	44,137
	Funds used for repayment of installment obligations	△8,441,391
	Reduction in treasury stock	807
	Payment of dividends to parent company	△565,352
	Payment of dividends to minority interest shareholders	△1,750
	Cash flow from financing activities	△8,544,869
IV	Increase in cash and equivalents	245,067
V	Balance of cash and equivalents at beginning of period	16,177,328
VI	Balance of cash and equivalents at end of the interim period	16,422,395

5. Significant Accounting Policies for the Consolidated Financial Statements

(1) Companies included in the consolidation

The five subsidiary companies included in the consolidation are SRG Kanamoto Co., Ltd., Taniguchi Co., Ltd., Assist Co., Ltd., Kanatech Co., Ltd. and Providence Brewery Co., Ltd.

In addition to the subsidiary companies listed above, Polyshield Services Co., Ltd. has been excluded from consolidation because the company's total assets, sales, profit or loss and retained earnings are small in size and do not have a material effect on the consolidated financial statements.

(2) Matters pertaining to application of equity method accounting

The Company's investments in one unconsolidated company and in Newtech Co., Ltd., an affiliated company, have been omitted from items to which equity method accounting is applied because their respective effect on consolidated net income or loss and consolidated retained earnings is immaterial and neither company is important to the Company's overall operations. Both companies have been valued using the cost method.

(3) Matters pertaining to the fiscal year for consolidated subsidiaries

The fiscal year-end for the consolidated subsidiary companies is August 31. When preparing the consolidated financial statements the Company uses the subsidiaries' financial statements as of August 31, adjusted for significant transactions that have occurred between the subsidiaries' fiscal year-end and the consolidation date that have a material effect on the consolidated financial results.

(4) Accounting principles and standards used for normal accounting treatment

① Appraisal standards and appraisal methods for principal assets

a. Appraisal standards and appraisal methods for negotiable securities

Securities with a market on an exchange ････ Lower of cost or market method based upon the moving average method
Other negotiable securities ･･････････････ Cost method, cost being determined by the moving average method

b. Appraisal standards and appraisal method for construction equipment

Amount after deduction of depreciation expense calculated according to the declining-balance method from the original prices, by separate fiscal year of purchase.

c. Appraisal standards and appraisal method for merchandise inventories and supplies

Merchandise inventories ･･････････ Lower of cost or market based on the Last-in, First-out method
Supplies･･････････････････････････ The Latest Purchase Cost method

② Depreciation methods for principal depreciable assets

a. Tangible fixed assets

The Company has adopted the declining-balance method based upon provisions in the corporate tax code. Buildings on land that is leased under a fixed-term land lease agreement, however, are depreciated using the straight-line method using the remaining period of the fixed-term lease as the depreciable life and zero residual value.

Furthermore, for some consolidated subsidiary companies the Company has adopted the straight-line depreciation method for buildings acquired on or after April 1, 1998 (excluding equipment installed in buildings).

b. Intangible fixed assets

Software acquired for the Company's internal use is depreciated using the straight-line method based on the assumed useful life for internal use (5 years).

③ Accounting standards for allowances and reserves

a. Allowance for doubtful accounts ･･････････ In order to provide for losses on doubtful accounts such as accounts receivable, the Company charges to income the maximum amount that can be charged to income based on the provisions of the Corporate Income Tax Law plus an amount for projected unrecoverable amounts based on assessments of individual accounts. In addition, for consolidated subsidiaries the Company charges the maximum amount that can be charged to income based on the provisions of the Corporate Income Tax Law.

b. Accrued bonuses to employees･･･････････ In order to provide for bonus expenditures paid to employees the Company appropriates an amount based on estimated salaries for the fiscal year.

c. Retirement allowances to directors and auditors ･･･････ The Company provides for retirement allowances to directors and auditors based upon pertinent rules and appropriates amounts proportionately to the account based upon length of service.

④ Accounting treatment for lease transactions

For finance lease transactions except for leases that transfer ownership of the property to the lessee, rent expenses are charged to income as payments are made.

⑤ Other important matters that are the basis for creation of the consolidated financial statements

a. Qualified pension plan

(a) The Company adopted a qualified corporate pension plan (Kanamoto Pension Fund) for its retirement benefit system on July 1, 1990.

(b) Past service costs are being funded over a period of 7 years.

(c) The liability for past service costs as of March 31, 2000 was ¥505,081,000.

b. Accounting treatment for consumption tax

Consumption tax is taken out of all Statement of Income items and Balance Sheet items, except mainly for receivables and payables.

(5) Valuation of consolidated subsidiary assets and liabilities

The Company has adopted the market value method and appraisal method of depreciation for the assets and liabilities of consolidated subsidiaries.

(6) Amortization of the consolidation adjustment account

As a general rule, the Company's offsetting elimination of the parent company's investment account and the subsidiaries' capital accounts are based on the date of investment rule. The portion of the excess of cost over underlying net assets at the date of investment resulting from the offset elimination for which the cause is not known is transferred to the appropriate account. The remainder is transferred to the consolidation adjustment account.

The consolidation account is amortized over five years using the straight-line method, except for extremely small amounts which are written off completely in the year in which they occur.

(7) Appropriation of retained earnings

The Statement of Consolidated Retained Earnings is created based upon the appropriation of net income decided upon by the Company during the consolidated accounting fiscal year.

(8) Items included in cash and equivalents on the Consolidated Statement of Cash Flows

Funds included in cash (cash and cash equivalents) on the Consolidated Statement of Cash Flows include cash on hand, deposits that can be withdrawn on demand and highly liquid short-term investments that mature within 3 months of the date of acquisition and which can be easily converted into cash and that have minimal risk of a change in price.

6. Notes to the Financial Statements

(Notes to the Consolidated Balance Sheet)

※1.	Discount on notes receivable, trade	¥126,279,000
※2.	Balance of notes receivable – trade endorsed	¥141,558,000
※3.	Balance of stocks and bonds of non-consolidated subsidiaries and affiliated companies (Fixed assets) Investment securities	¥86,500,000
※4.	Treasury stock shares	277 shares
※5.	Assets offered as collateral security	
	(1) Assets provided as collateral	
	Deposits	¥3,012,000
	Buildings and structures	¥230,911,000
	Total	¥233,924,000
	(2) Liabilities secured by the above collateral	
	Long-term bank loans due within one year	¥18,995,000
	Long-term bank loans	¥226,005,000
	Total	¥245,000,000
※6.	Guarantees ¥305,398,000	

(Notes to the Consolidated Statement of Income)

※1.	Major expense categories and amounts included in selling expense and administrative expenses	
	Employee salaries and wages	¥4,596,035,000
	Depreciation expense	¥1,108,982,000
	Rents	¥1,441,240,000
	Amount transferred to allowance for doubtful accounts	¥246,747,000
	Amount transferred to accrued bonuses to employees	¥502,903,000
	Amount transferred to retirement allowances to directors and auditors	¥8,653,000
※2.	Details of the adjustment to prior period net income	
	Amount received from adjustment of tax liability	¥41,232,000
	Recovery of bad debts	¥971,000
	Reduction in allowance for doubtful accounts	¥392,000
	Total	¥42,596,000
※3.	Loss on sale or disposal of fixed assets	
	(Loss on sale of fixed assets)	
	Buildings	¥18,716,000
	(Loss on disposal of fixed assets)	
	Rental assets	¥62,375,000
	Buildings and structures	¥19,908,000
	Machinery, equipment and delivery equipment	¥4,904,000
	Other	¥93,788,000
	Total	¥180,977,000

(Notes to the Consolidated Statement of Cash Flows)

1.	Relationship between the ending balance for cash and cash equivalents and the amounts in the categories shown on the consolidated balance sheet	
	Cash and equivalents	¥16,432,624,000
	Term deposits with a maturity longer than 3 months	- 10,229,000
	Cash and cash equivalents	¥16,422,395,000
2.	Details of major non-fund transactions	
	(1) Conversion of convertible bonds to capital	
	Increase in capital from conversion of convertible bonds	¥253,000,000
	Increase in additional paid-in capital from conversion of convertible bonds	253,000,000
	Decrease in convertible bonds from conversion	¥506,000,000
	(2) The amount of assets and liabilities related to installment transactions that are newly accounted for during this consolidated accounting fiscal year is ¥10,127,000 respectively.	

(Notes for leasing transactions)

1. Finance lease transactions except for leases that transfer ownership of the property to the lessee.

(1) Amounts corresponding to lease property acquisition prices, accumulated depreciation and outstanding balances at the end of the fiscal year accounting period.

	Rental assets	Tools, furnishings and fixtures
Acquisition price	¥16,688,293,000	¥775,954,000
Accumulated depreciation	8,788,906,000	366,698,000
Outstanding balance	7,899,386,000	409,255,000

(2) Outstanding balance of future lease payments a the end of the fiscal year

Within one year	¥2,654,146,000
After one year	5,490,558,000
Total	¥8,144,704,000

(3) Amount of lease payments, depreciation expense and interest expense

Lease payments	¥3,095,716,000
Depreciation expense	2,834,121,000
Interest expense	292,721,000

(4) Accounting method for amount equivalent to depreciation expense
Straight-line depreciation using the lease term as the depreciable life and zero residual value.

(5) Accounting method for amount equivalent to interest expense
Interest method using the difference between total lease payments and the acquisition price of the lease property, allocated equally to each year.

2. Operating leases
Future lease payments

Within one year	¥1,422,400,000
After one year	2,704,382,000
Total	¥4,126,782,000

(Notes related to tax effect accounting)

1. Principal causes of deferred tax assets

Disallowance of excess depreciation	¥315,974,000
Excess accrued retirement allowances to directors and auditors	119,868,000
Excess accrued bonuses to employees	68,370,000
Other	84,379,000
Total	¥588,592,000

2. Causes of the main differences between the statutory tax rate and burden ratio for corporate and other taxes following application of tax effect accounting, by major category

Statutory corporate tax rate	41.7%
(Adjustments)	
Local tax equalization	2.9%
Items not included permanently in losses such as expense accounts	1.1%
Consolidated subsidiary losses	2.0%
Other	△0.2%
Burden ratio for corporate and other taxes after application of tax effect accounting	47.5%

Ⅳ Business segment information

1. Segment information by type of business

Current consolidated accounting year (From November 1, 1999 to October 31, 2000)

(Unit: Yen thousands)

	Construction equipment rental business	Steel sales business	Computer and peripheral equipment and other businesses	Total	Eliminations or entire company	Consolidated
I. Revenues and operating income						
Revenues						
(1) Sales to outside customers	52,750,998	7,913,856	1,331,730	61,996,584	—	61,996,584
(2) Sales or transfers between related segments	—	—	—	—	—	—
Total	52,750,998	7,913,856	1,331,730	61,996,584	—	61,996,584
Operating expenses	49,824,402	7,786,326	1,392,625	59,003,353	△49,361	58,953,992
Operating income	2,926,596	127,530	△60,895	2,993,231	49,361	3,042,592
II. Assets, depreciation expense and capital disbursements						
Assets	74,087,494	3,957,846	1,797,710	79,843,051	23,569,484	103,412,535
Depreciation expense	8,749,672	140,073	36,181	8,925,928	—	8,925,928
Capital disbursements	10,310,902	2,148	3,405	10,316,457	309,754	10,626,212

(Notes) 1. Method of business classification

Businesses are classified based on consideration of similarities such as the type of labor and products, the nature of the business and the business markets.

2. Principal products, by business

Business	Principal products
Construction equipment rentals	Construction equipment such as hydraulic shovels, generators, temporary materials used for construction, construction safety equipment, temporary modular housing units, special rustproof and waterproof shields
Steel sales	Steel bar, sheet steel, steel products such as round bar, steel scrap
Computers and peripherals and other businesses	Computers and peripheral devices, telecommunications-related equipment, microturbine generators, microbrewery

3. The total amount for assets that were eliminated or included in the categories for all companies was ¥23,569,484,000 and represents primarily assets used for idle working capital at the parent company (cash, deposits and negotiable securities), long-term investment funds (investment securities and assets used in administrative departments.

2. Segment information by location

Current consolidated accounting period fiscal year (November 1, 1999 to October 31, 2000)

The Company does not report segment information by location because the Company does not have any consolidated subsidiaries or important offices located in countries or regions outside of Japan.

3. Foreign sales

Current consolidated accounting period fiscal year (November 1, 1999 to October 31, 2000)

The Company did not have any foreign sales during the current consolidated accounting period fiscal year.

Ⅴ Market value of negotiable securities

(Unit: Yen thousands)

Type	Current consolidated accounting period fiscal year (As of October 31, 2000)		
	Amount reported on the consolidated balance sheet	Market value	Valuation profit or loss
Assets classified as current assets			
Stocks	479,035	477,964	△1,070
Bonds	227,681	227,808	126
Other	40,038	39,188	△850
Subtotal	746,755	744,961	△1,793
Assets classified as fixed assets			
Stocks	1,041,030	1,928,794	887,763
Bonds	38,337	38,392	54
Other	1,000,578	771,210	△229,368
Subtotal	2,079,945	2,738,396	658,450
Total	2,826,701	3,483,358	656,657

(Notes) **1. Method used to calculate market value**

(1) Listed negotiable securities

Valued mainly on the basis of the final closing prices on the Tokyo Stock Exchange

(2) Over-the-counter negotiable securities

Valued on the basis of trading prices such as those published by the Japan Association of Securities Dealers

(3) Beneficiary certificates for unlisted security investment trusts

Valued on the basis of each trust's standard valuation

2. Consolidated balance sheet valuation of negotiable securities that are excluded from disclosure requirements

Assets classified as fixed assets

Unlisted stock except for over-the-counter stocks ¥870,367,000

Corporate bonds with stock warrants attached ¥10,000,000

Ⅵ Derivative contract amount, market value and valuation profit and loss

From time to time Kanamoto Company utilizes interest rate and currency derivative transactions. The amounts of these contracts and the amounts equivalent to valuation profit and loss during the current consolidated accounting period fiscal year are very small. Details of the transactions have been omitted because the amounts are deemed to have little influence on the company's financial position.

Ⅶ Transactions with affiliated parties

Directors and individual shareholders (Unit: Yen thousands)

Position	Name	Address	Capital or financing	Work or responsibilities	Owned (Unowned) percentage of voting rights, etc.	Relationship: Concurrent director's duties, etc.	Relationship: Business relationship	Type of transaction	Amount of transaction	Category	Balance at end of period
Director	Taichu Kanamoto	Shibuya-ku, Tokyo	—	Chairman	(Unowned) Direct 5.5%	—	—	Common stock purchase	3,342	—	—
Director	Kanchu Kanamoto	Higashi-ku, Sapporo	—	President	(Unowned) Direct 1.5%	—	—	Common stock purchase	5,014	—	—
Director	Saburo Kanamoto	Muroran, Hokkaido	—	Senior Advisor	(Unowned) Direct 5.2%	—	—	Common stock purchase	3,342	—	—

(Note) Transaction terms and conditions and policy for decisions on transaction terms and conditions
Stock purchase prices are determined based on the appraised price, with the terms of payment being a lump-sum cash payment.