

Fiscal Year ended October 31, 2006

# Summary of Company Financial Statements



MEMBERSHIP

December 8, 2006

Listed Company Name **Kanamoto Company, Ltd.**  
 Company Code Number **9678**  
 Listing Exchanges **Tokyo Stock Exchange, Sapporo Stock Exchange**  
 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 8, 2006  
 Scheduled Dividend Payment Date January 29, 2007  
 Regular General Meeting of the Shareholders January 26, 2007  
 Has the Company adopted a Unit Stock System? Yes (One unit equals 1,000 shares)

## 1. Operating Results for the Fiscal Year Ended October 31, 2006

(November 1, 2005–October 31, 2006)

### (1) Operating Results

(Numbers less than one million yen have been rounded down)

	Revenues		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended October 31, 2006	60,753	(6.2)	3,715	(143.4)	3,739	(90.7)
Fiscal year ended October 31, 2005	57,202	(-3.5)	1,526	(-17.1)	1,960	(7.3)

	Net Income		Net Income per Share of Common Stock	Net Income per Share of Common Stock Fully Diluted	Return on Shareholders' Equity	Return on Total Assets	Ordinary Income Margin
	Yen	%	Yen	Yen	%	%	%
Fiscal year ended October 31, 2006	1,720	(182.4)	56.67	—	4.8	4.6	6.1
Fiscal year ended October 31, 2005	609	(△48.7)	20.16	—	1.8	2.4	3.4

(Notes) 1. Average number of shares outstanding during the fiscal year

Fiscal Year ended October 31, 2006 30,357,093 shares

Fiscal Year ended October 31, 2005 29,856,334 shares

2. Are there any changes in accounting method? Yes

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

### (2) Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	Millions of yen	Millions of yen	%	Yen
Fiscal year ended October 31, 2006	83,514	38,376	46.0	1,167.90
Fiscal year ended October 31, 2005	79,037	33,903	42.9	1,135.43

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- (Notes) 1. Number of shares issued and outstanding at fiscal year-end  
 Fiscal Year ended October 31, 2006 32,859,118 shares  
 Fiscal Year ended October 31, 2005 29,853,076 shares
2. Number of shares of treasury stock at fiscal year-end  
 Fiscal year ended October 31, 2006 13,123 shares  
 Fiscal year ended October 31, 2005 400,165 shares

## 2. Projected Operating Results for the Fiscal Year Ending October 31, 2007

(November 1, 2006 - October 31, 2007)

	Revenues	Operating Income	Ordinary Income	Net Income
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Interim period	32,010	2,610	2,700	1,770
Full year	61,540	3,900	4,000	2,410

Reference: Projected net income per share of common stock (Full year) ¥73.34

## 3. Dividends

· Cash dividends	Annual Dividend per Share of Common Stock			Total Dividends (Annual)	Dividend Payout Ratio (%)	Dividends as a Percentage of Net Assets (%)
	Interim	Year-end	Full-year			
Fiscal year ended October 31, 2005	9.00	9.00	18.00	537	89.3	1.6
Fiscal year ended October 31, 2006	9.00	9.00	18.00	564	31.8	1.6
Fiscal year ended October 31, 2007 (projected)	9.00	9.00	18.00			

Note: The above projections were prepared based upon information available to the Company at the time the projections were announced as well as various assumptions concerning the future economic and business environment. Actual operating results may differ from the projected figures depending upon various factors in the future.

## V Company Financial Statements

### 1. Comparative Balance Sheets

(Unit: Thousands of yen)

Classification	Notes	Prior Fiscal Year (As of October 31, 2005)		Current Fiscal Year (As of October 31, 2006)		Change from prior year
		Amount	Percent	Amount	Percent	
(Assets)						
I Current Assets						
1. Cash and deposits		13,230,849		17,461,345		4,230,495
2. Notes receivable, trade	*7	2,583,873		2,876,924		293,051
3. Accounts receivable, trade		10,665,107		10,734,102		68,994
4. Merchandise inventory		253,508		259,214		5,706
5. Construction equipment		1,207,108		968,243		△238,864
6. Supplies		58,439		61,649		3,210
7. Prepaid expenses		227,935		243,706		15,771
8. Deferred tax assets		367,932		384,442		16,510
9. Accrued consumption tax		28,532		—		△28,532
10. Loans to affiliated companies		500,000		100,000		△400,000
11. Other		543,018		350,702		△192,315
Allowance for doubtful accounts		△1,001,255		△456,245		545,010
Total Current Assets		28,665,048	36.3	32,984,085	39.5	4,319,036
II Fixed Assets						
(1) Tangible Fixed Assets						
1. Rental equipment		36,016,051		35,733,522		
Accumulated depreciation		26,562,165	9,453,886	26,646,008	9,087,513	△366,372
2. Buildings		11,276,024		11,763,231		
Accumulated depreciation		5,931,201	5,344,822	6,300,982	5,462,248	117,426
3. Structures		3,838,891		3,988,185		
Accumulated depreciation		2,935,593	903,297	3,054,780	933,405	30,107
4. Machinery and equipment	*2	4,080,135		4,124,204		
Accumulated depreciation		3,306,513	773,622	3,427,606	696,598	△77,023
5. Vehicles and delivery equipment		38,625		35,888		
Accumulated depreciation		36,286	2,338	33,898	1,989	△349
6. Tools, furnishings and fixtures		1,018,889		1,049,851		
Accumulated depreciation		743,191	275,697	803,601	246,249	△29,447
7. Land	*2	25,869,082		25,634,236		△234,845
8. Construction in progress		—		246,544		246,544
Total Tangible Fixed Assets		42,622,746	53.9	42,308,785	50.6	△313,961

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Classification	Notes	Prior Fiscal Year (As of October 31, 2005)		Current Fiscal Year (As of October 31, 2006)		Change from prior year
		Amount	Percent	Amount	Percent	
(2) Intangible Fixed Assets						
1. Goodwill		—		64,000		64,000
2. Goodwill		96,000		—		△96,000
3. Software		50,772		42,749		△8,022
4. Telephone subscription rights		40,512		40,512		—
Total Intangible Fixed Assets		187,284	0.2	147,261	0.2	△40,022
(3) Investments and Other						
1. Investment securities		5,684,987		6,115,087		430,100
2. Stock of affiliated companies		979,307		1,029,332		50,025
3. Advances		7,647		8,107		460
4. Long-term loan to affiliated company		—		500,000		500,000
5. Claims in bankruptcy, claims in reorganization and other similar claims		320,870		197,310		△123,560
6. Long-term prepaid expenses		49,633		47,710		△1,923
7. Deferred tax assets		479,224		50,933		△428,291
8. Insurance reserve		55,016		59,191		4,174
9. Long-term guaranty money deposited		—		998,388		998,388
10. Other		787,944		19,418		△768,526
Allowance for doubtful accounts		△321,855		△385,941		△64,085
Reserve for investment losses		△480,173		△565,171		△84,997
Total Investments and Other Assets		7,562,603	9.6	8,074,368	9.7	511,765
Total Fixed Assets		50,372,634	63.7	50,530,415	60.5	157,781
Total Assets		79,037,683	100.0	83,514,501	100.0	4,476,818

Classification	Notes	Prior Fiscal Year (As of October 31, 2005)		Current Fiscal Year (As of October 31, 2006)		Change from prior year
		Amount	Percent	Amount	Percent	
(Liabilities)						
I Current liabilities						
1. Notes payable, trade	*4	7,214,389		8,246,886		1,032,496
2. Accounts payable, trade	*4	2,425,623		2,522,512		96,889
3. Long-term bank loans due within one year		10,555,000		9,935,000		△620,000
4. Accounts payable, other		2,389,330		2,562,743		173,413
5. Accrued expenses		227,269		236,233		8,964
6. Corporate taxes payable		530,934		1,291,556		760,622
7. Consumption and other taxes		—		193,662		193,662
8. Deposits		30,579		33,822		3,242
9. Accrued bonuses to employees		448,076		437,693		△10,383
10. Accrued bonuses to directors and auditors		—		5,500		5,500
11. Equipment notes payable		133,487		340,345		206,857
12. Other		127,434		428,603		301,168
Total Current Liabilities		24,082,124	30.5	26,234,559	31.4	2,152,434
I Long-term Liabilities						
1. Long-term bank loans		17,590,000		15,120,000		-2,470,000
2. Long-term accrued expenses		1,876,971		2,030,031		153,059
3. Accrued employees retirement benefits		1,506,210		1,663,537		157,326
4. Retirement allowance to directors and auditors		79,121		90,261		11,140
Total Long-term Liabilities		21,052,303	26.6	18,903,829	22.6	△2,148,473
Total Liabilities		45,134,428	57.1	45,138,388	54.0	3,960
(Shareholders' Equity)						
I Shareholders' Equity	*1	8,596,737	10.9	—	—	—
II Common stock						
(1) Capital surplus		9,720,343		—		—
Additional paid-in capital		9,720,343	12.3	—	—	—

Classification	Notes	Prior Fiscal Year (As of October 31, 2005)		Current Fiscal Year (As of October 31, 2006)		Change from prior year
		Amount	Percent	Amount	Percent	
III Total capital surplus						
(1) Earned surplus		1,375,287		—		—
(2) Legal earned surplus						
1. General reserve		11,831,684		—		—
(3) Unappropriated retained earnings		928,192		—		—
Total earned surplus		14,135,164	17.9	—	—	—
IV Valuation difference on other negotiable securities		1,637,603	2.0	—	—	—
V Treasury stock	*3	△186,594	△0.2	—	—	—
Total Shareholders' Equity		33,903,254	42.9	—	—	—
Total Liabilities and Shareholders' Equity		79,037,683	100.0	—	—	—
(Net Assets)						
I Owners' equity						
1 Paid-in capital		—	—	9,696,717	11.6	—
2 Capital surplus						
(1) Capital legal reserve		—	—	10,817,389		—
(2) Other capital surplus		—	—	143,480		—
Total capital surplus		—	—	10,960,869	13.1	—
3 Earned surplus						
(1) Earned legal reserve		—	—	1,375,287		—
(2) Other earned surplus						
Reserve for advanced depreciation of fixed assets		—	—	19,601		—
General reserve		—	—	11,831,684		—
Earned surplus brought forward		—	—	2,084,192		—
Total earned surplus		—	—	15,310,766	18.4	—
4 Treasury		—	—	△6,303	△0.0	—
Total owners' equity		—	—	35,962,049	43.1	—
II Valuation and translation adjustments						
1 Valuation difference on other investment securities		—	—	2,414,062		—
Total valuation and translation adjustments		—	—	2,414,062	2.9	—
Total Net Assets		—	—	38,376,112	46.0	—
Total Liabilities and Net Assets		—	—	83,514,501	100.0	—

## 2. Comparative Statements of Income

(Unit: Thousands of yen)

Classification	Notes	Prior fiscal year (From November 1, 2004 To October 31, 2005)		Current fiscal year (From November 1, 2005 To October 31, 2006)		Change from prior year		
		Amount	Percent	Amount	Percent			
I Operating revenues								
1. Rental revenues		39,607,013		41,812,990		2,205,977		
2. Sales		17,595,627	57,202,641	100.0	18,940,955	60,753,945	100.0	1,345,327
II Cost of revenues								
1. Cost of rental revenues			29,975,696			30,482,810		507,114
2. Cost of goods sold								
Balance of merchandise inventory at beginning of period		284,707			253,508			△31,198
Merchandise inventory purchases		13,307,926			13,889,685			581,758
Merchandise received from other accounts	*2	474,698			538,040			63,342
Total		14,067,332			14,681,234			613,902
Balance of merchandise inventory at end of period		253,508	13,813,823		259,214	14,422,020		5,706
Total cost of revenues			43,789,520	76.5		44,904,830	73.9	1,115,310
Gross profit			13,413,121	23.5		15,849,115	26.1	2,435,993
III Selling, general and administrative expenses								
1. Freight-out		57,620			58,986			1,366
2. Vehicle fuel expense		121,408			139,812			18,403
3. Advertising and public relations expense		95,511			136,688			41,177
4. Transfer to allowance for doubtful accounts		183,671			—			△183,671
5. Director compensation		71,527			77,535			6,008
6. Salary allowance		4,494,439			4,766,693			272,253
7. Bonuses		768,535			917,503			148,968
8. Transfer to accrued bonuses to employees		448,076			437,693			△10,383
9. Transfer to accrued bonuses to directors and auditors		—			5,500			5,500
10. Transfer to retirement allowances to directors and auditors		7,579			11,140			3,561
11. Employees retirement benefit expense		483,661			285,223			△198,437
12. Travel and transportation expenses		213,104			239,287			26,182
13. Entertainment expenses		62,136			70,516			8,380

14. Insurance premiums		101,490			98,504			△2,986
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Classification	Notes	Prior fiscal year (From November 1, 2004 To October 31, 2005)		Current fiscal year (From November 1, 2005 To October 31, 2006)		Change from prior year
		Amount	Percent	Amount	Percent	
15. Communications expense		337,403		336,030		△1,373
16. Maintenance and repairs		93,383		100,981		7,597
17. Consumables expense		269,484		301,152		31,668
18. Utilities		230,104		245,702		15,598
19. Taxes and public charge		400,680		366,944		△33,736
20. Welfare expenses		733,143		795,018		61,874
21. Depreciation and amortization expense		806,604		729,618		△76,985
22. Rent		1,456,211		1,519,994		63,783
23. Other expenses		450,832	11,886,610	492,786	12,133,316	41,953
Operating income			1,526,510		3,715,798	2,189,288
IV Non-operating revenues						
1. Interest revenue		8,402		9,272		870
2. Dividend income		58,373		38,486		△19,887
3. Gain on sale of investment securities		359,093		24,883		△334,210
4. Rents received	*1	244,052		250,919		6,867
5. Insurance benefits		47,709		40,910		△6,799
6. Other	*1	206,311	923,943	196,908	561,380	△9,403
V Non-operating expenses						
1. Interest expense		317,034		326,636		9,601
2. Stock issuance expense		—		14,762		14,762
3. Other		172,555	489,590	196,528	537,926	23,972
Ordinary income			1,960,863		3,739,252	1,778,389

Classification	Notes	Prior fiscal year (From November 1, 2004 To October 31, 2005)		Current fiscal year (From November 1, 2005 To October 31, 2006)		Change from prior year
		Amount	Percent	Amount	Percent	
VI Extraordinary profits						
1. Gain on disposal of fixed assets	*3	57,433		50,018		△7,414
2. Valuation gain on investment enterprise partnership		10,849		8,515		△2,334
3. Reversal of allowance for doubtful accounts		—		32,142		32,142
4. Compensation received		—		255,500		255,500
5. Other		1,164	69,447	14,175	360,351	13,011
VII Extraordinary losses						
1. Loss on sale or disposal fixed assets	*4	120,158		49,845		△70,312
2. Impairment loss	*5	—		594,568		594,568
3. Valuation loss on investment securities		29,589		—		△29,589
4. Loss on valuation of affiliated company stock		55,000		—		△55,000
5. Transfer to reserve for investment losses		200,173		84,997		△115,176
6. Transfer to reserve for doubtful accounts for affiliated company stock		407,149		17,786		△389,363
7. Other		25,275	837,348	62,518	809,716	37,242
Income before taxes and adjustments			1,192,962		3,289,887	2,096,925
Corporate, local and business taxes		833,579		1,684,230		850,650
Adjustment for corporate and other taxes		△249,835	583,744	△114,543	1,569,686	135,291
Net income			609,217		1,720,201	1,110,983
Profit carry-forward from prior period			587,686		—	—
Interim cash dividends			268,711		—	—
Unappropriated retained earnings			928,192		—	—

## Detailed Statement of Cost of Rental Revenues

(Unit: Thousands of yen)

Classification	Notes	Prior fiscal year (From November 1, 2004 To October 31, 2005)		Current fiscal year (From November 1, 2005 To October 31, 2006)		Change from prior year
		Amount	Percent	Amount	Percent	
Rent		16,784,998	56.0	16,908,191	55.5	123,192
Repair expense		2,580,883	8.6	2,640,970	8.7	60,086
Freight charges		4,963,842	16.6	5,158,322	16.9	194,479
Depreciation expense	*2	4,054,814	13.5	3,785,558	12.4	△269,255
Consumables expense		578,899	1.9	943,399	3.1	364,500
Other costs	*3	1,012,256	3.4	1,046,368	3.4	34,111
Total		29,975,696	100.0	30,482,810	100.0	507,114

Note 1	Cost of rental revenues is the direct cost incurred to receive revenues from the rental of construction equipment and other goods.	Same as at left
Note *2	The Company posted rental equipment asset depreciation expense of ¥3,735,380 and construction equipment depreciation expense of ¥319,434,000.	The Company posted rental equipment asset depreciation expense of ¥3,533,016,000 and construction equipment depreciation expense of ¥252,542,000.
Note *3	Other costs consisted mainly of taxes and public charges of ¥397,338,000, insurance premiums of ¥542,878,000 and interest of ¥55,531,000 related to installment payment purchases of rental equipment assets.	Other costs consisted mainly of taxes and public charges of ¥420,603,000, insurance premiums of ¥571,332,000 and interest of ¥34,522,000 related to installment payment purchases of rental equipment assets.

### 3. Appropriation of Retained Earnings

		Prior fiscal year General Meeting of the Shareholders Approval Date (January 27, 2006)	
Classification	Notes	Thousands of yen	
I Unappropriated retained earnings			928,192
II Appropriated as follows			
1. Dividends		268,677	
2. Directors and auditors bonuses		7,300	
(Auditors bonuses)		(1,800)	
3. Voluntary reserves			
Reserve for advanced depreciation of fixed assets		19,601	295,579
III Net income carried forward to the next period			632,613

#### 4. Statement of Changes in Net Assets

##### Statement of Changes in Net Assets

Current Fiscal Year (From November 1, 2005 to October 31, 2006)

(Unit: Thousands of yen)

	Owners' equity								
	Paid-in capital	Capital surplus			Earned surplus				
		Capital legal reserve	Other capital surplus	Total capital surplus	Earned legal reserve	Other earned surplus			Total earned surplus
						Fixed assets Reserve for advanced depreciation	General reserve	Earned surplus brought forward	
October 31, 2005 balance	8,596,737	9,720,343	—	9,720,343	1,375,287	—	11,831,684	928,192	14,135,164
Changes of items during the fiscal year									
Issuance of new shares	1,099,980	1,097,046		1,097,046					—
Transfer to reserve for advanced depreciation of fixed assets				—		19,601		△19,601	—
Transfer to general reserve				—					—
Dividends from surplus				—				△268,677	△268,677
Dividends from surplus (interim dividends)				—				△268,622	△268,622
Directors and auditors bonuses from appropriation of earnings				—				△7,300	△7,300
Net income				—				1,720,201	1,720,201
Purchase of treasury stock				—					—
Disposal of treasury stock			143,480	143,480					—
Net changes of items other than owners' equity during the fiscal year	—								
Total changes of items during the fiscal year	1,099,980	1,097,046	143,480	1,240,526	—	19,601	—	1,155,999	1,175,601
October 31, 2006 balance	9,696,717	10,817,389	143,480	10,960,869	1,375,287	19,601	11,831,684	2,084,192	15,310,766

	Owners' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total owners' equity	Valuation difference on other investment securities	Total valuation and translation adjustments	
October 31, 2005 balance	△186,594	32,265,650	1,637,603	1,637,603	33,903,254
Changes of items during the fiscal year					
Issuance of new shares		2,197,026		—	2,197,026
Transfer to reserve for advanced depreciation of fixed assets		—		—	—
Transfer to general reserve		—		—	—
Dividends from surplus		△268,677		—	△268,677
Dividends from surplus (interim dividends)		△268,622		—	△268,622
Directors and auditors bonuses from appropriation of earnings		△7,300		—	△7,300
Net income		1,720,201			1,720,201
Purchase of treasury stock	△11,781	△11,781		—	△11,781
Disposal of treasury stock	192,072	335,552		—	335,552
Net changes of items other than owners' equity during the fiscal year			776,458	776,458	776,458
Total changes of items during the fiscal year	180,290	3,696,399	776,458	776,458	4,472,857

October 31, 2006 balance	△6,303	35,962,049	2,414,062	2,414,062	38,376,112
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### Significant accounting policies

Item	Prior fiscal year From November 1, 2004 To October 31, 2005	Current fiscal year From November 1, 2005 To October 31, 2006
1. Valuation standards and valuation methods for negotiable securities	<p>Common stock of subsidiaries and affiliated companies</p> <p>The Company has adopted the cost method based upon the moving average method</p> <p>Other negotiable securities</p> <p>Negotiable securities with a market on a securities exchange</p> <p>The Company has adopted the market value method (the full amount of the valuation difference is charged to equity using the direct transfer to capital method, with the disposal cost determined by the moving average method) based on the market price on the fiscal year closing date or similar prices</p> <p>Other negotiable securities without a market price</p> <p>The Company has adopted the cost method based upon the moving average method</p>	<p>Common stock of subsidiaries and affiliated companies</p> <p>Same as at left</p> <p>Other negotiable securities</p> <p>Negotiable securities with a market on a securities exchange</p> <p>The Company has adopted the market value method (the full amount of the valuation difference is charged to net assets using the direct transfer to capital method, with the disposal cost determined by the moving average method) based on the market price on the fiscal year closing date or similar prices</p> <p>Other negotiable securities without a market price</p> <p>Same as at left</p>
2. 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	Same as at left
3. Appraisal standards and appraisal method for merchandise inventories and supplies	<p>(1) Merchandise inventories</p> <p>Lower of cost or market based on the last-in, first-out method</p> <p>(2) Supplies</p> <p>The Latest purchase cost method</p>	<p>(1) Merchandise inventories</p> <p>Same as at left</p> <p>(2) Supplies</p> <p>Same as at left</p>
4. Depreciation method for fixed assets	<p>(1) Tangible fixed assets</p> <p>The Company has adopted the declining-balance method. 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.</p> <p>The depreciable lives mainly used by the Company are as follows.</p> <p>Rental assets 5-10 years</p> <p>Buildings 31-34 years</p> <p>(2) Intangible fixed assets</p> <p>Software for use within the Company is depreciated using the straight-line method based on the assumed useful life for internal use (5 years).</p> <p>(3) Long-term prepaid expenses</p>	<p>(1) Tangible fixed assets</p> <p>Same as at left</p> <p>(2) Intangible fixed assets</p> <p>Same as at left</p> <p>(3) Long-term prepaid expenses</p>

	The Company has adopted straight-line depreciation.	Same as at left
5. Deferred assets	—————	(1) Stock issuance expense The full amount is accounted for as an expense when the funds are expended.
6. Accounting standards for allowances and reserves	<p>(1) Allowance for doubtful accounts</p> <p>To provide for losses on doubtful accounts such as accounts receivable, the Company charges to income an amount based on actual loss experience for normal accounts, plus an amount for projected unrecoverable amounts based on assessments of individual accounts.</p> <p>(2) Accrued bonuses to employees</p> <p>To fully provide for expenditures of bonuses the Company will pay to employees, an amount is appropriated to the reserve during the fiscal year based upon a salary estimate amount.</p> <p>—————</p>	<p>(1) Allowance for doubtful accounts</p> <p>Same as at left</p> <p>(2) Accrued bonuses to employees</p> <p>Same as at left</p> <p>(3) Accrued bonuses to directors and auditors</p> <p>To fully provide for expenditures of bonuses the Company will pay to directors and auditors, an amount is appropriated to the reserve at fiscal year-end to provide for the liability recognized during the period.</p> <p>(Change in accounting policy)</p> <p>In prior years, the Company accounted for directors and auditors bonuses as a decrease in unappropriated earnings based on approval of resolution for appropriation of retained earnings at the General Meeting of the Shareholders. Beginning in the current fiscal year, however, the Company will account for such bonuses as an expense of the accounting period in which such bonuses are accrued, based on the Accounting Standard for Directors' Bonus (Accounting Standards Board of Japan Accounting Standard Statement No. 4). As a result of this change, operating income, ordinary income and income before taxes and adjustments were ¥5,500,000 less, respectively, than they otherwise would have been had the accounting standard used in prior fiscal years been applied.</p>

Item	Prior fiscal year From November 1, 2004 To October 31, 2005	Current fiscal year From November 1, 2005 To October 31, 2006
	<p>(4) Accrued employees retirement benefits</p> <p>The Company provides for accrued employees retirement benefits based upon the projected amounts of the liability for accrued employees retirement benefits and the value of pension assets at the end of the fiscal year. At the end of each fiscal year, the Company appropriates an amount to the reserve to provide for the liability recognized during the period. Past years' service liabilities are fully written off in the year incurred.</p> <p>The difference based on an actuarial calculation is charged to income beginning in the fiscal year following the year in which incurred, with the amounts allocated proportionately using the straight-line method, based on a specified number of years (10 years) that is less than the average remaining period of employment for employees at the time the difference arises.</p> <p>(5) Retirement allowances to directors and auditors</p> <p>The Company provides for retirement allowances to directors and auditors based upon pertinent rules and appropriated to the account at the end of the fiscal year proportionately based upon length of service.</p> <p>(6) Reserve for investment losses</p> <p>The Company provides for losses from the decline in real prices of assets such as the stock of subsidiary companies that are subject to asset impairment accounting by applying internally established standards that take into consideration subsidiary company operating results and asset quality.</p>	<p>(4) Accrued employees retirement benefits</p> <p style="text-align: center;">Same as at left</p> <p>(5) Retirement allowances to directors and auditors</p> <p style="text-align: center;">Same as at left</p> <p>(6) Reserve for investment losses</p> <p style="text-align: center;">Same as at left</p>
7. 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.	Same as at left
8. Hedge transactions	<p>(1) Hedge transactions</p> <p>The Company accounts for hedge transactions using allocations based on accounting standards for foreign currency-denominated transactions, and special rule accounting based on accounting standards for financial products.</p>	<p>(1) Hedge transactions</p> <p style="text-align: center;">Same as at left</p>



Item	Prior fiscal year From November 1, 2004 To October 31, 2005	Current fiscal year From November 1, 2005 To October 31, 2006
	<p>(2) Hedge methods and hedged transactions The Company uses currency swaps and forward transactions in order to avoid the currency fluctuation risk related to the Company's foreign currency-denominated straight bonds and liabilities for import payments. The Company also uses interest swaps to avoid interest rate fluctuation risk related to interest on bank borrowing.</p> <p>(3) Hedging policies The Company's use of derivative transactions is limited to hedging risk within the scope of the Company's assets and liabilities subject to market fluctuation risk.</p> <p>(4) Method for evaluating the effectiveness of hedges The Company does not evaluate the effectiveness of its hedge transactions because it can assume that its currency swap transactions and forward transactions will completely offset market fluctuations or changes in cash flow from the time the hedge begins until it is terminated. In addition, the Company's interest swap transactions fulfill the requirements for special rule accounting, and the Company has elected to use this in place of an evaluation of effectiveness.</p>	<p>(2) Hedge methods and hedged transactions Same as at left</p> <p>(3) Hedging policies Same as at left</p> <p>(4) Method for evaluating the effectiveness of hedges Same as at left</p>
9. Other significant matters for preparation of the fiscal year financial statements	<p>(1) Accounting treatment of consumption tax Consumption tax is taken out of all Statement of Income items and Balance Sheet items, except mainly for receivables and payables.</p>	<p>(1) Accounting treatment of consumption tax Same as at left</p>

## Changes in Important Matters Used as the Basis for Preparation of the Company Financial Statements

Prior fiscal year From November 1, 2004 To October 31, 2005	Current fiscal year From November 1, 2005 To October 31, 2006
<p style="text-align: center;">———</p>	<p>(Accounting Standard for Impairment of Fixed Assets)</p> <p>Beginning from this fiscal year, the Company has adopted the Accounting Standard for Impairment of Fixed Assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” (Business Accounting Council, August 9, 2002) and “Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets” (Accounting Standards Board of Japan, October 31, 2003, Financial Accounting Standard Implementation Guidance No. 6).</p> <p>As a result, income before taxes and adjustments decreased by ¥594,568,000.</p> <p>The total amount of the impairment loss is deducted directly from the balance for each asset based on the revised standards for preparation of company financial statements and other rules.</p>
<p style="text-align: center;">———</p>	<p>(Accounting Standard for Presentation of Net Assets in the Balance Sheet)</p> <p>Beginning from this fiscal year, the Company has adopted the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Statement No. 5 dated December 9, 2005) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Guidance No. 8 dated December 9, 2005).</p> <p>The amount corresponding to the total of shareholders’ equity based on the past accounting standard is ¥38,376,112,000.</p> <p>The net asset section of the balance sheet for the fiscal year under review was prepared based on the revised financial statements rules.</p>

## Change in Presentation Method

Prior fiscal year From November 1, 2004 To October 31, 2005	Current fiscal year From November 1, 2005 To October 31, 2006
<p>(Company Balance Sheets)</p> <p>1. Following promulgation of the Law to Partially Amend the Securities and Exchange Law Etc. (Law No. 97 of 2004) on June 9, 2004 and its application on December 1, 2004, and the revision of the Practical Guidelines for Accounting for Financial Instruments (Accounting Committee Report No. 14) on February 15, 2005, the Company changed its reporting method to disclose investments in venture capital investment limited partnerships and similar associations (investments regarded as negotiable securities under Article 2 paragraph 2 of the Securities and Exchange Law) as "investment securities" beginning from the fiscal year under review.</p> <p>The amount of a such investments included in investment securities for the fiscal year under review is ¥96,201,000, and the amount of such investments included in "Other" under Investments and Other Assets in the prior fiscal year was ¥92,556,000.</p> <p>2. _____</p> <p>3. _____</p>	<p>(Company Balance Sheets)</p> <p>1. _____</p> <p>2. Beginning from this fiscal year, the Company will report "goodwill" as "goodwill," based on based on the revised financial statements rules.</p> <p>2. Until the prior fiscal year, "long-term guaranty money deposited" was reported as an item in "Other" under Investments and Other. For this fiscal year, the Company has reported this item under a separate classification because the amount exceeds 1% of total assets.</p> <p>The amount of "long-term guaranty money deposited" at the end of the prior fiscal year was ¥768,406,000.</p>
<p>(Company Statements of Income)</p> <p>1. The Company has reported cash bonus received (¥2,905,000 for the fiscal year under review), which was reported as a separate category until the prior fiscal year, in "Other" under non-operating revenues because the amount remains less than 10% of total non-operating revenues.</p> <p>2. In prior fiscal years, the Company reported the loss on valuation of affiliated company stock in "Other" under extraordinary losses, but for the fiscal year under review this item is reported separately because the amount exceeded 10% of the total amount of extraordinary losses.</p> <p>The amount of the loss on valuation of affiliated company stock at the end of the prior fiscal year was ¥646,000.</p>	<p>(Company Statements of Income)</p> <p>1. _____</p> <p>2. _____</p>

## Supplemental Information

Prior fiscal year From November 1, 2004 To October 31, 2005	Current fiscal year From November 1, 2005 To October 31, 2006
<p>Following promulgation of the Law to Partially Amend the Local Tax Law (Law No. 9 of 2003) on March 31, 2003 and the introduction of a corporate size-based tax system in the corporate fiscal year beginning after April 1, 2004, the Company will report the added value portion and capital portion of corporate taxes in selling, general and administrative expenses from the fiscal year under review in accordance with the Practical Solution on Presentation for Corporate Size-Based Portion of Corporate Business Tax on the Income Statement (Accounting Standards Board of Japan, Corporate Accounting Standards Committee Report No. 12 dated February 13, 2004).</p> <p>As a result, selling, general and administrative expenses increased by ¥75,654,000, and operating income, ordinary income and income before taxes and adjustments decreased by ¥75,654,000.</p>	<p style="text-align: center;">—</p>



**(Notes to the Statements of Income)**

Prior fiscal year (From November 1, 2004 To October 31, 2005)	Current fiscal year (From November 1, 2005 To October 31, 2006)
<p>*1. Transactions with affiliates</p> <p>Seconded employees' salaries      105,532,000</p> <p>Rent receipts                              154,325,000</p>	<p>*1. Transactions with affiliates</p> <p>Seconded employees' salaries      110,824,000</p> <p>Rent receipts                              160,017,000</p>
<p>*2. Balance in other accounts transferred to cost of rental equipment assets and construction equipment sold</p> <p>Rental equipment assets              468,870,000</p> <p>Construction equipment                5,827,000</p> <hr/> <p>Total                                        474,698,000</p>	<p>*2. Balance in other accounts transferred to cost of rental equipment assets and construction equipment sold</p> <p>Rental equipment assets              531,732,000</p> <p>Construction equipment                6,308,000</p> <hr/> <p>Total                                        538,040,000</p>
<p>*3. Gain on sale or retirement of fixed assets</p> <p>Land                                        50,776,000</p> <p>Buildings                                  3,122,000</p> <p>Machinery and equipment              3,528,000</p> <p>Tools, furnishings and fixtures        6,000</p> <hr/> <p>Total                                        57,433,000</p>	<p>*3. Gain on sale or retirement of fixed assets</p> <p>Land                                        49,905,000</p> <p>Buildings                                  110,000</p> <p>Tools, furnishings and fixtures        3,000</p> <hr/> <p>Total                                        50,018,000</p>
<p>*4. Loss on sale or retirement of fixed assets</p> <p>(Loss on sale of fixed assets)</p> <p>Land                                        1,915,000</p> <p>Machinery and equipment              605,000</p> <p>Buildings                                  58,008,000</p> <p>Tools, furnishings and fixtures        53,000</p> <p>Structures                                 108,000</p> <p>(Loss on retirement of fixed assets)</p> <p>Rental equipment assets              23,585,000</p> <p>Buildings                                  1,047,000</p> <p>Structures                                 2,213,000</p> <p>Machinery and equipment              1,651,000</p> <p>Tools, furnishings and fixtures        1,502,000</p> <p>Vehicle transport equipment          24,000</p> <p>Other                                        29,442,000</p> <hr/> <p>Total                                        120,158,000</p>	<p>*4. Loss on sale or retirement of fixed assets</p> <p>(Loss on sale of fixed assets)</p> <p>Land                                        2,428,000</p> <p>Buildings                                  108,000</p> <p>(Loss on retirement of fixed assets)</p> <p>Rental equipment assets              21,854,000</p> <p>Buildings                                  16,225,000</p> <p>Structures                                 5,036,000</p> <p>Machinery and equipment              2,327,000</p> <p>Tools, furnishings and fixtures        1,680,000</p> <p>Vehicle transport equipment          136,000</p> <p>Others                                       48,000</p> <hr/> <p>Total                                        49,845,000</p>

Prior fiscal year (From November 1, 2004 To October 31, 2005)	Current fiscal year (From November 1, 2005 To October 31, 2006)						
*5.	<p>*5. Impairment loss</p> <p>During this fiscal year the Kanamoto Group incurred an impairment loss on the following asset groups.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Location</th> <th style="text-align: center;">Use</th> <th style="text-align: center;">Asset</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Kamakura City, Kanagawa Prefecture Kanazawa City, Ishikawa Prefecture Muroran City, Hokkaido Five other locations</td> <td style="text-align: center;">Dormant assets</td> <td style="text-align: center;">Land</td> </tr> </tbody> </table> <p>Asset groupings used by the Kanamoto Group to apply asset impairment accounting are based on the block classified as the smallest segment for which profitability can be determined regularly by business. Specifically, dormant assets are grouped as units that generate independent cash flow.</p> <p>For certain dormant assets for which the asset value was less than book value, the Company reduced book value to the recoverable value, and accounted for the reduction as an impairment loss (¥594,568,000) under extraordinary losses. This ¥594,568,000 was for land.</p> <p>The recoverable value for this asset group is measured according to net sales price, and the land is evaluated using the inheritance tax assessment value based on the land tax assessment value or other amount as a base.</p>	Location	Use	Asset	Kamakura City, Kanagawa Prefecture Kanazawa City, Ishikawa Prefecture Muroran City, Hokkaido Five other locations	Dormant assets	Land
Location	Use	Asset					
Kamakura City, Kanagawa Prefecture Kanazawa City, Ishikawa Prefecture Muroran City, Hokkaido Five other locations	Dormant assets	Land					

### (Statements of Changes in Net Assets)

#### Current fiscal year (From November 1, 2005 to October 31, 2006)

Class of treasury stock and number of shares

(Thousands of shares)

	Number of shares at end of prior fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at end of the current fiscal year
Treasury stock				
Common stock Notes 1, 2	400	12	400	13
Total	400	12	400	13

(Notes) 1. The number of treasury stock shares of common stock increased by 12,000 shares through purchases of shares comprising less than one investment unit.

2. The number of treasury stock shares of common stock decreased by 400,000 shares through disposals of treasury stock.

## (Notes to Leasing Transactions)

Prior fiscal year (From November 1, 2004 To October 31, 2005)				Current fiscal year (From November 1, 2005 To October 31, 2006)			
1. Finance lease transactions except for leases that transfer ownership of the property to the lessee.				1. Finance lease transactions except for leases that transfer ownership of the property to the lessee.			
(1) Amounts corresponding to lease property acquisition price, accumulated depreciation and outstanding balances at the end of the fiscal year				(1) Amounts corresponding to lease property acquisition price, accumulated depreciation and outstanding balances at the end of the fiscal year			
	Acquisition price (¥'000)	Accumulated depreciation (¥'000)	Outstanding balance (¥'000)		Acquisition price (¥'000)	Accumulated depreciation (¥'000)	Outstanding balance (¥'000)
Rental assets	34,441,263	13,278,651	21,162,612	Rental assets	36,236,228	16,177,904	20,058,323
Other assets	307,584	174,410	133,173	Other assets	275,184	184,247	90,936
Total	34,748,848	13,453,062	21,295,785	Total	36,511,412	16,362,152	20,149,260
(2) Outstanding balance of future lease payments at the end of the fiscal year				(2) Outstanding balance of future lease payments at the end of the fiscal year			
Within one year	5,326,336,000			Within one year	5,815,719,000		
After one year	15,327,278,000			After one year	13,838,896,000		
Total	20,653,615,000			Total	19,654,616,000		
(3) Amount of lease payments, depreciation expense and interest expense				(3) Amount of lease payments, depreciation expense and interest expense			
Lease payments	6,030,861,000			Lease payments	5,812,109,000		
Depreciation expense	5,475,320,000			Depreciation expense	5,344,449,000		
Interest expense	709,565,000			Interest expense	595,986,000		
(4) Accounting method for amount equivalent to depreciation expense				(4) Accounting method for amount equivalent to depreciation expense			
Straight-line depreciation using the lease term as the depreciable life and zero residual value.				Same as at left			
(5) Accounting method for amount equivalent to interest expense				(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 to each year.				Same as at left			
2. Operating leases				2. Operating leases			
Future lease payments				Future lease payments			
Within one year	1,476,233,000			Within one year	1,938,033,000		
After one year	3,376,419,000			After one year	4,808,904,000		
Total	4,852,653,000			Total	6,746,938,000		



## (Negotiable Securities)

For the prior fiscal year (as of October 31, 2005) and this fiscal year (as of October 31, 2006), the stock of the Company's subsidiary companies and affiliated companies did not have a market price.

## (Notes Related to Tax Effect Accounting)

Prior fiscal year (As of October 31, 2005)	Current fiscal year (As of October 31, 2006)
1. Major factors creating deferred tax assets and deferred tax liabilities	1. Major factors creating deferred tax assets and deferred tax liabilities
Deferred tax assets	Deferred tax assets
Amount in excess of limit for inclusion 203,734,000	Amount in excess of limit for inclusion 114,383,000
Disallowance of deferred business taxes 52,019,000	Disallowance of deferred business taxes 102,760,000
Excess accrued employees retirement benefit 599,817,000	Excess accrued employees retirement benefit 663,311,000
Amount in excess of limit for inclusion in retirement allowance to directors and auditors 31,964,000	Amount in excess of limit for inclusion in retirement allowance to directors and auditors 36,465,000
Amount in excess of limit for inclusion in accrued bonuses to employees 181,022,000	Amount in excess of limit for inclusion in accrued bonuses to employees 179,049,000
Disallowance of excess depreciation 311,670,000	Disallowance of excess depreciation 274,669,000
Disallowance of reserve for investment losses 193,990,000	Impairment loss 240,205,000
Other 382,989,000	Disallowance of reserve for investment losses 228,329,000
Total deferred tax assets 1,957,210,000	Other 371,722,000
Deferred tax liability	Subtotal - deferred tax assets 2,210,898,000
Valuation difference on negotiable securities 1,110,053,000	Valuation reserve 139,144,000
Net deferred tax assets 847,156,000	Total deferred tax assets 2,071,754,000
	Deferred tax liability
	Valuation difference on negotiable securities 1,636,377,000
	Net deferred tax assets 435,376,000
Disclosure classifications:	Disclosure classifications:
Current assets 367,932,000	Current assets 384,442,000
Property and equipment 479,224,000	Property and equipment 50,933,000
2. Causes of principal differences between the statutory tax rate and burden ratio for corporate and other taxes following application of tax effect accounting by major category.	2. Causes of principal 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 40.4%	Statutory corporate tax rate 40.4%
(Adjustment)	(Adjustment)
Local tax equalization 7.3%	Local tax equalization 2.7%
Items not included permanently in losses such as expense account 2.5%	Items not included permanently in losses such as expense account 1.0%
Reversal of corporate taxes payable from past fiscal years $\Delta$ 3.4%	Affect from application of asset impairment accounting for fixed assets 4.2%
Burden ratio for corporate and other taxes after application of tax effect accounting 46.8%	Affect from special deduction for income such as expropriations $\Delta$ 0.6%
	Burden ratio for corporate and other taxes after application of tax effect accounting 47.7%

**(Per Share Information)**

Prior fiscal year (From November 1, 2004 To October 31, 2005)		Current fiscal year (From November 1, 2005 To October 31, 2006)	
Net assets per share	¥1,135.43	Net assets per share	¥1,167.90
Net income per share of common stock	¥20.16	Net income per share of common stock	¥56.67
Net income per share of common stock after adjustment for potential ordinary shares	—	Net income per share of common stock after adjustment for potential ordinary shares	—
The Company has not reported net income per share of common stock after adjustment for potential ordinary shares because it does not have any potential shares that would have a dilution effect.		The Company has not reported net income per share of common stock after adjustment for potential ordinary shares because it does not have any potential shares that would have a dilution effect.	
		(Supplemental Information) Beginning from the current fiscal year, the Company has adopted the revised Accounting Standard for Earnings Per Share (Accounting Standards Board of Japan Statement No. 2 dated January 31, 2006 (revised 2006) and the Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4 dated January 31, 2006 (revised 2006)). There are no material items to report as a result of this change.	

Note: The basis for calculating net income per share and net income per share on a fully diluted basis is provided below.

(Unit: Thousands of yen)

	Prior fiscal year (From November 1, 2004 To October 31, 2005)	Current fiscal year (From November 1, 2005 To October 31, 2006)
Net income per share		
Fiscal year net income	609,217	1,720,201
Amount not attributable to major shareholders	7,300	—
Fiscal year net income related to common stock	601,917	1,720,201
Average number of shares outstanding during the fiscal year	29,856,334	30,357,093
Summary of latent common stock not included in the calculation of net income per share on a fully diluted basis because it will not have a dilution effect	—	—

**(Material events after the close of the fiscal year)**

The Company had no material items to report.

## VI Changes to Directors and Auditors

### 1. Changes to Representative Directors

There are no pertinent items.

### 2. Changes to Directors

#### (1) Candidates for new appointments as Director

Name	New position	Current position
Hiroyuki Isono	Director and Corporate Officer Division Manager, Administration Division, General Manager, Secretarial Office and Chairman, Internal Management Project Team Committee	Corporate Officer Division Manager, Administration Division, General Manager, Secretarial Office
Tatsuo Kanamoto	Director and Corporate Officer Regional Manager, Construction Equipment Rental Division, Hokkaido Region	Corporate Officer Regional Manager, Construction Equipment Rental Division, Hokkaido Region
Manabu Nagasaki	Director and Corporate Officer Regional Manager, Construction Equipment Rental Division, Tohoku Region	Corporate Officer Regional Manager, Construction Equipment Rental Division, Tohoku Region
Michiya Hakamada	Director (part-time)	ORIX Corporation General Manager, Hokkaido Block serving concurrently as General Manager, Sapporo Branch

Note: Michiya Hakamada fulfills the requirements for Outside Director as stipulated in Article 2-15 of the Company Law.

#### (2) Retiring Directors

Name	Current position
Hidemitsu Washida	Director and Advisor
Eichu Kanamoto	Director and Corporate Officer Manager in Charge of Administration Division & Credit Analysis Section, Credit Management Division and Chairman, Internal Management Project Team Committee
Osamu Kawashima	Director (part-time)

Note: Osamu Kawashima is an Outside Director as stipulated in Article 2-15 of the Company Law.

#### (3) Candidates for new appointments as Corporate Auditor

Name	New position	Current position
Eichu Kanamoto	Auditor (Standing Corporate Auditor)	Director and Corporate Officer Manager in Charge of Administration Division & Credit Analysis Section, Credit Management Division and Chairman, Internal Management Project Team Committee
Nobutomo Kuwata	Auditor (part-time)	North Pacific Bank, Ltd. Standing Corporate Auditor

Note: Nobutomo Kuwata fulfills the requirements for Outside Director as stipulated in Article 2-16 of the Company Law.

(4) Candidates for new appointments as Corporate Officer

Name	New position	Current position
Satoru Toiya	Corporate Officer Division Manager, Construction Equipment Rental Division, Kanto & Shinetsu Region	Division Manager, Construction Equipment Rental Division, Kanto & Shinetsu Region
Naoki Mukunashi	Corporate Officer Assistant General Manager, Business Coordination Headquarters serving concurrently as General Manager, Overseas Business Office	Assistant General Manager, Business Coordination Headquarters serving concurrently as General Manager, Overseas Business Office

(5) Retiring Corporate Officers

Name	Current position
Eichu Kanamoto	Director and Corporate Officer Manager in Charge of Administration Division & Credit Analysis Section, Credit Management Division and Chairman, Internal Management Project Team Committee