

**Summary of Nonconsolidated Financial Statements**  
 Fiscal year ended December 31, 2003  
 (UNAUDITED)

February 13, 2004

**PALTEK CORPORATION**

Security code number: 7587 (URL <http://www.paltek.co.jp>)  
 Shares traded: JASDAQ  
 Location of headquarters: Kanagawa, JAPAN  
 Name & Executive position of legal representative: Tadahito Takahashi  
 President  
 Please address all communications to: Tadashi Ito, Director, General Manager of  
 Operational Service Division and Environment  
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Date of Board of Directors' meeting for approval  
 of financial results: February 13, 2004  
 Date of ordinary general meeting of shareholders: March 27, 2004  
 Adoption of system of interim dividends: Yes  
 Application of unit trading system: Yes (100 shares per unit)

**1. Nonconsolidated operating results** (From January 1, 2003 to December 31, 2003)**(1) Nonconsolidated financial results**

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Fiscal 2003	14,046	21.6	1,061	20.0	1,226	24.1
Fiscal 2002	11,554	(15.2)	884	(29.2)	988	(14.2)

	Net income		Net income per share	Return on shareholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	(Millions of yen)	%	(Yen)	(Yen)	%	%
Fiscal 2003	659	54.1	53.60	-	8.1	11.1
Fiscal 2002	427	-	36.13	-	5.6	9.3

(Notes)

- Average number of shares outstanding during term (nonconsolidated basis):  
 December 2003 term: 11,835,295 shares      December 2002 term: 11,837,280 shares
- Changes in accounting policy during term: None
- The percentages shown next to net sales, operating income, ordinary income and net income represent year-on-year changes.

**(2) Dividends**

	Annual dividend per share			Total dividends paid (for the year)	Dividend payout ratio	Dividends/ Shareholders' equity
		Interim	End of term			
	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
Fiscal 2003	10.00	0.00	10.00	118	18.0	1.4
Fiscal 2002	10.00	0.00	10.00	118	27.7	1.5

**(3) Nonconsolidated financial position**

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2003	11,199	8,391	74.9	706.99
December 31, 2002	10,816	7,837	72.5	662.16

(Notes)

Number of shares issued and outstanding at the end of term (nonconsolidated):

December 2003 term: 11,833,880 shares

December 2002 term: 11,836,272 shares

Number of treasury stocks at the end of term (nonconsolidated):

December 2003 term: 5,519 shares

December 2002 term: 3,127 shares

**2. Nonconsolidated forecasts for December 2004 term**

(From January 1, 2004 to December 31, 2004)

	Net sales	Operating income	Ordinary income	Net income	Annual dividend per share		
					Interim	End of term	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Yen)	(Yen)	(Yen)
Interim 2004	7,250	485	445	258	0.00	-	-
Fiscal 2004	16,100	1,120	1,030	597	-	10.00	10.00

(N.b.) Projected net income per share for fiscal 2004: 50.45 yen

*The forecasts stated above are based on our current expectations and assumptions prepared using information available at present and subject to various uncertainties. Actual results may differ significantly due to a variety of causes. Please refer to the attached Page 12 for information regarding the preparation of the forecasts.*

## Nonconsolidated balance sheet

Thousands of yen	December 31, 2002	%	December 31, 2003	%	Year-on-year change
<b>Current assets</b>					
Cash and bank deposits	746,779		869,833		123,054
Notes receivable	1,077,930		506,807		(571,122)
Accounts receivable	2,834,474		3,098,571		264,096
Merchandise	3,072,386		3,745,256		672,870
Supplies	5,674		5,896		222
Advances paid	-		22,050		22,050
Prepaid expenses	117,852		111,017		(6,835)
Deferred tax assets	364,173		239,549		(124,624)
Other accounts receivable	19,708		38,748		19,039
Income tax refunds receivable	-		214,242		214,242
Consumption tax receivable	340,476		496,312		155,835
Others	1,375		2,145		770
Allowance for doubtful accounts	(6,712)		(6,111)		600
	<u>8,574,119</u>	79.3	<u>9,344,319</u>	83.4	<u>770,199</u>
<b>Fixed assets</b>					
<b>Tangible fixed assets</b>					
Buildings	155,105		128,852		
Accumulated depreciation	<u>73,959</u>		<u>65,510</u>		
	81,145		63,341		(17,804)
Furniture and fixtures	353,228		354,308		
Accumulated depreciation	<u>241,357</u>		<u>269,700</u>		
	111,871		84,607		(27,263)
Land	<u>36,629</u>		<u>14,138</u>		<u>(22,491)</u>
	229,646	2.1	162,087	1.5	(67,559)
<b>Intangible fixed assets</b>					
Telephone rights	2,577		2,577		-
Trade marks	300		200		(100)
Software	<u>201,124</u>		<u>175,605</u>		<u>(25,518)</u>
	204,001	1.9	178,382	1.6	(25,618)
<b>Investments and other assets</b>					
Investment securities	109,315		202,588		93,273
Investments in subsidiaries and associated companies	903,707		903,709		1
Investments in partnerships	61,400		60,142		(1,258)
Long-term loans receivable	53,302		-		(53,302)
Long-term loans to employees	62		-		(62)
Claims in bankruptcy	12,565		8,346		(4,219)
Long-term prepaid expenses	8,861		19		(8,842)
Deferred tax assets	509,538		115,030		(394,507)
Fixed leasehold deposits	131,110		131,176		65
Others	84,740		102,088		17,347
Allowance for doubtful accounts	<u>(65,868)</u>		<u>(8,346)</u>		<u>57,522</u>
	1,808,736	16.7	1,514,754	13.5	(293,981)
Total fixed assets	<u>2,242,384</u>	20.7	<u>1,855,225</u>	16.6	<u>(387,159)</u>
<b>Total assets</b>	<u>10,816,504</u>	100.0	<u>11,199,544</u>	100.0	<u>383,040</u>

Thousands of yen	December 31, 2002	%	December 31, 2003	%	Year-on-year change
<b>Current liabilities</b>					
Accounts payable	1,082,716		714,452		(368,263)
Short-term bank loans	1,150,000		1,450,000		300,000
Other payables	206,841		227,787		20,946
Accrued expenses	28,228		34,724		6,495
Income taxes payable	197,000		2,840		(194,160)
Deposits received	17,508		30,299		12,791
Accrued bonuses	34,424		45,157		10,732
Reserve for operating losses of subsidiaries	12,482		-		(12,482)
Others	646		7		(638)
	<u>2,729,847</u>	25.2	<u>2,505,268</u>	22.4	<u>(224,579)</u>
<b>Long-term liabilities</b>					
Liabilities for employees' retirement benefits	-		19,884		19,884
Liabilities for directors' and corporate auditors' retirement benefits	201,698		208,672		6,974
Others	47,475		74,590		27,115
	<u>249,173</u>	2.3	<u>303,146</u>	2.7	<u>53,973</u>
Total liabilities	2,979,021	27.5	2,808,415	25.1	(170,605)
<b>Shareholders' equity</b>					
Capital stock	1,335,487	12.3	1,335,487	11.9	-
Capital surplus					
Capital reserve	1,674,375		1,674,375		
	<u>1,674,375</u>	15.5	<u>1,674,375</u>	14.9	-
Retained earnings					
Legal reserve	46,100		46,100		-
Voluntary reserve					
Reserve for the development of domestic market for imported goods	18,560		-		(18,560)
General reserve	4,300,000		4,400,000		100,000
Unappropriated retained earnings	482,060		928,930		446,870
	<u>4,846,720</u>	44.8	<u>5,375,030</u>	48.0	<u>528,310</u>
Net - unrealized gains or losses on securities	(17,032)	(0.1)	10,170	0.1	27,203
Treasury stock	(2,067)	(0.0)	(3,935)	(0.0)	(1,867)
	<u>7,837,483</u>	72.5	<u>8,391,128</u>	74.9	<u>553,645</u>
<b>Total liabilities and shareholders' equity</b>	<u>10,816,504</u>	100.0	<u>11,199,544</u>	100.0	<u>383,040</u>

## Nonconsolidated statement of income

Thousands of yen	Year ended December 31, 2002	%	Year ended December 31, 2003	%	Year-on-year change
<b>Net sales</b>	11,554,934	100.0	14,046,239	100.0	2,491,304
<b>Cost of sales</b>					
Beginning inventory - Merchandise	2,505,379		3,072,386		
Purchase of merchandise	8,810,571		11,149,822		
Processing cost	75,263		96,878		
	11,391,214		14,319,086		
Transfers to other accounts	8,157		14,776		
Ending inventory - Merchandise	3,072,386		3,745,256		
	8,310,670	71.9	10,559,054	75.2	2,248,383
Gross profit	3,244,263	28.1	3,487,184	24.8	242,921
<b>Selling, general and administrative expenses</b>					
Provision for doubtful accounts	11,296		-		
Directors' and corporate auditors' salaries	-		141,932		
Salary	693,287		681,467		
Bonuses	187,409		204,697		
Employee benefit expenses	-		125,222		
Provision for bonuses	34,021		44,018		
Provision for directors' and corporate auditors' retirement benefits	17,985		20,205		
Rent expense	386,361		363,743		
Depreciation	135,032		118,319		
Commissions paid	183,790		125,882		
Others	710,460		600,098		
	2,359,646	20.4	2,425,587	17.2	65,941
Operating income	884,617	7.7	1,061,597	7.6	176,980
<b>Nonoperating income</b>					
Interest income	501		230		
Dividend income	5,338		1,374		
Foreign exchange gain	174,530		214,454		
Gain on sale of investment securities	4,289		2,822		
Rent revenue	10,964		-		
Others	14,682		14,621		
	210,307	1.8	233,503	1.6	23,195

PALTEK CORPORATION

Thousands of yen	Year ended December 31, 2002	%	Year ended December 31, 2003	%	Year-on-year change
<b>Nonoperating expenses</b>					
Interest expense	16,524		18,944		
Provision for doubtful accounts	57,522		-		
Loss on sale of investment securities	-		3,417		
Loss on surrender of insurance policy	14,094		-		
Commissions paid	14,000		17,771		
Payment for settlement of lawsuit	-		22,500		
Others	4,730		5,897		
	<u>106,872</u>	0.9	<u>68,532</u>	0.5	(38,339)
Ordinary income	988,053	8.6	1,226,568	8.7	238,515
<b>Extraordinary income</b>					
Gain on sales of fixed assets	-		478		
Reversal of allowance for doubtful accounts	-		559		
	<u>-</u>	-	<u>1,037</u>	0.0	1,037
<b>Extraordinary losses</b>					
Loss on sales of fixed assets	-		8,700		
Loss on disposal of fixed assets	8,225		8,954		
Loss on devaluation of fixed assets	22,585		-		
Loss on devaluation of investment in subsidiaries	20,000		-		
Allowance for operating losses of subsidiaries	12,482		-		
Loss on devaluation of investment securities	25,988		28,181		
Loss on liquidation of subsidiaries	143,240		18,145		
	<u>232,521</u>	2.0	<u>63,981</u>	0.4	(168,539)
Income before income taxes	755,531	6.6	1,163,624	8.3	408,093
Income taxes - current	435,066		4,707		
Income taxes - deferred	(107,206)		499,835		
	<u>327,859</u>	2.9	<u>504,542</u>	3.6	176,682
Net income	427,672	3.7	659,082	4.7	231,410
Retained earnings at the beginning of period	54,387		269,847		215,459
Unappropriated retained earnings	482,060		928,930		446,870

## Nonconsolidated statement of retained earnings

Thousands of yen	December 31, 2002	December 31, 2003	Year-on-year change
Unappropriated retained earnings	482,060	928,930	446,870
Reversal of voluntary reserve			
Reversal of reserve for development of domestic market for imported goods	18,560	-	
	18,560	-	(18,560)
	500,620	928,930	428,310
Appropriations			
Dividends	118,362	118,338	
Bonuses paid to directors and corporate auditors	12,410	24,715	
[ Bonuses for corporate auditors ]	[1,830]	[3,525]	
Voluntary reserve			
General reserve	100,000	600,000	
	230,772	743,053	512,281
Unappropriated retained earnings carried forward	269,847	185,876	(83,970)

## Summary of significant accounting policies

Item	December 31, 2002	December 31, 2003
1. Valuation of securities	(1) Securities of subsidiaries and associated companies: Stated at moving average cost (2) Available-for-sale securities: Available-for-sale securities with market values: Stated at fair market value as of balance sheet date. (Unrealized gains and losses are reported in the shareholders' equity section of the nonconsolidated balance sheet. Sales cost is calculated using the moving average method) Available-for-sale securities without market values: Stated at moving average cost	(1) Securities of subsidiaries and associated companies: Same as previous year (2) Available-for-sale securities: Available-for-sale securities with market values: Same as previous year Available-for-sale securities without market values: Same as previous year
2. Valuation of derivative instruments, etc.	Derivatives: As a principle, derivatives are stated at fair market value.	Derivatives: Same as previous year
3. Valuation of inventories	(1) Merchandise: Stated by moving average cost (2) Supplies: Stated by last purchased price method	(1) Merchandise: Same as previous year (2) Supplies: Same as previous year
4. Depreciation of fixed assets	(1) Tangible fixed assets: Declining balance method (Note: Buildings, excluding ancillary facilities, acquired on or after April 1, 1998 are depreciated based on the straight line method) Useful lives are as follows: Buildings 10 - 45 years Furniture and fixtures 5 - 15 years (2) Intangible fixed assets: The straight line method: Useful life of the software for internal use is 5 years.	(1) Tangible fixed assets: Same as previous year (2) Intangible fixed assets: Same as previous year
5. Transaction of foreign currency denominated assets and liabilities into Japanese yen	Foreign currency denominated monetary rights and obligations are translated into Japanese yen using the prevailing spot exchange rate as of the balance sheet date. Transaction differences are recognized as foreign exchange gains or losses. Foreign currency denominated monetary obligations that are subject to hedging by forward foreign exchange contracts are translated into Japanese yen using the actual contracted exchange rate.	Same as previous year
6. Allowances	(1) Allowance for doubtful accounts: An allowance for doubtful accounts is provided to cover possible losses from bad debts. The allowance with respect to non-classified loans/receivables is calculated based on historical default rates. For classified loans/receivables, the Company states an amount deemed to be unrecoverable based on the prospect of recovery of individual loans/receivables. (2) Accrued bonuses: Reserves are provided to cover the estimated amount of bonuses payable to employees.	(1) Allowance for doubtful accounts: Same as previous year (2) Accrued bonuses: Same as previous year

Item	December 31, 2002	December 31, 2003
	<p>(3) Liability for employees' retirement benefits: The amount estimated to represent the potential liability as of the end of fiscal year is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration. For the current fiscal year, prepaid pension cost in the amount of ¥7,581 thousand is recognized and included in the long-term prepaid expense account, as the plan assets exceeded the amount of retirement benefit obligations as of the end of the fiscal year.</p>	<p>(3) Liability for employees' retirement benefits: The amount estimated to represent the potential liability as of the end of fiscal year is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration.</p>
	<p>(4) Liability for directors' and corporate auditors' retirement benefits: An allowance is provided to cover the estimated amount of retirement benefits payable to directors and corporate auditors.</p>	<p>(4) Liability for directors' and corporate auditors' retirement benefits: Same as previous year</p>
	<p>(5) Allowance for operating losses of subsidiaries: An allowance is provided to cover potential losses related to business failure of subsidiaries by estimating the amount of loss incurred by the Company over and above the amount of investment.</p>	<p>(5) -</p>
7. Lease transactions	Finance leases for which ownership does not transfer to the lessee are not capitalized, and are accounted for in the same manner as operating leases.	Same as previous year
8 Hedge accounting	<p>(1) Hedge accounting method: The Company adopts deferred hedge accounting. Derivatives that meet the criteria for hedging accounting are accounted for using deferral hedge accounting, which requires unrealized gains or losses to be deferred as liabilities or assts. Foreign exchange contracts that are effective hedges are accounted for using the allocation method, which requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates.</p>	<p>(1) Hedge accounting method: Same as previous year</p>
	<p>(2) Hedging instruments and targets: Hedging instruments: Forward foreign exchange contract Hedging targets: Foreign currency denominated monetary liabilities and transactions scheduled to be denominated in a foreign currency.</p>	<p>(2) Hedging instruments and targets: Hedging instruments: Same as previous year Hedging targets: Same as previous year</p>
	<p>(3) Hedging policies: Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the import plan.</p>	<p>(3) Hedging policies: Same as previous year</p>
	<p>(4) Method of assessing effectiveness of hedges: Accumulated changes in the cash flow of hedged items are compared to the accumulated changes in the cash flow of hedging instruments on a semi-annual basis. The effectiveness of hedging is evaluated by taking the degree of changes in cash flows of the hedged item and hedging transaction into consideration.</p>	<p>(4) Method of assessing effectiveness of hedges: Same as previous year</p>

Item	December 31, 2002	December 31, 2003
9 Other	(1) Treatment of consumption tax: Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.	(1) Treatment of consumption tax: Same as previous year
	(2) -	(2) Per share information Starting on April 1, 2002, companies have been required to apply ASBJ 2, "Financial Standards Relating to Net Earnings Per Share," and ASBJ Interpretation 4, "Guidelines for Applying Financial Standards Relating to Net Earnings Per Share." Consequently, the Company's financial statements for the term ended December 2003 have been prepared in accordance with this new standard and new guideline. A comment on the impact of this change appears under "Note regarding per share information."

## Changes in method of presentation

Thousands of yen	
December 31, 2002	December 31, 2003
(Nonconsolidated balance sheets)	
<p>1. Through the year ended December 31, 2001, "consumption taxes receivable outstanding" had been reported as a part of "other accounts receivable" For purposes of comparison, "consumption taxes receivable" in the previous reporting period amounted to ¥230,781 thousand.</p>	-
<p>2. Through the year ended December 31, 2001, "claims in bankruptcy, claims in rehabilitation, and claims in reorganization" had been reported as a part of the "others" category of investments and other assets. However, because of the qualitative materiality of these claims, they are now shown separately. For purposes of comparison, "claims in bankruptcy" in the previous reporting period amounted to ¥13,518 thousand.</p>	
(Nonconsolidated statement of income)	
<p>1. Because they amounted to less than 5% of total selling, general and administrative expenses during the current reporting period, "miscellaneous salaries" (¥89,130 thousand during the year to December 2002) are no longer shown as a separate category but instead are reported as a part of "others" SG&amp;A expenses.</p>	<p>1. Through the year ended December 31, 2002, "directors' salaries" had been included in the "others" category of selling, general and administrative expenses. But because such expenses exceeded 5 percent of all selling, general and administrative expenses during the current report period, they are shown as a separate category. For comparison purposes "directors' salaries" amounted to ¥116,430 thousand in the year ended December 31, 2002.</p>
<p>2. Because they amounted to less than 5% of total selling, general and administrative expenses during the current reporting period, "employee benefit expenses" (¥109,532 thousand during the year to December 2002) are no longer shown as a separate category but instead are reported as a part of "others" SG&amp;A expenses.</p>	<p>2. Through the year ended December 31, 2002, "employee benefit expenses" had been included in the "others" category of selling, general and administrative expenses. But because such expenses exceeded 5 percent of all selling, general and administrative expenses during the current report period, they are shown as a separate category. For comparison purposes "employee benefit expenses" amounted to ¥109,532 thousand in the year ended December 31, 2002.</p>
<p>3. Through the year ended December 31, 2001, "loss on surrender of insurance policy" had been included in the "others" category of nonoperating expenses. But because such expenses exceeded 10 percent of all nonoperating expenses during the current report period, they are shown as a separate category. For comparison purposes "loss on surrender of insurance policy" amounted to ¥8,867 thousand in the year ended December 31, 2001.</p>	<p>3. Because they amounted to less than 10 percent of total nonoperating income during the current reporting period, "rent revenue" (¥3,103 thousand during the year to December 2003) are no longer shown as a separate category but instead are reported as a part of "others" nonoperating income.</p>
<p>4. Through the year ended December 31, 2001, "commissions paid" had been included in the "interest expenses" category of nonoperating expenses. But because such expenses exceeded 10 percent of all nonoperating expenses during the current report period, they are shown as a separate category. For comparison purposes "commissions paid" amounted to ¥3,742 thousand in the year ended December 31, 2001.</p>	

## Additional information

### ***December 2002 term***

(Presentation of balance sheet)

The shareholders' equity section of the balance sheets are presented in a manner consistent with the Regulations concerning Financial Statements as revised in accordance with the provisions of the second paragraph of the Supplementary Provision to the "The Cabinet Office Ordinance Regarding Partial Revision of the Regulations Concerning Terminology, Forms and Preparation of Financial Statements (The Cabinet Office Ordinance No.11 on March 26, 2002)".

(Treasury stock and reversal of legal reserves)

Effective this fiscal year, the Company has adopted the "Accounting Standard for Treasury Stock and Reduction of Legal Reserves" (Financial Accounting Standards No.1.) The change on the operating results for this fiscal year under review has no effect.

## Notes (Nonconsolidated balance sheets)

Thousands of yen	December 31, 2002		December 31, 2003
1. Total number of authorized shares		1. Total number of authorized shares	
Common stock	23,562,000 shares	Common stock	23,562,000 shares
Total number of shares issued		Total number of shares issued	
Common stock	11,839,399 shares	Common stock	11,839,399 shares
*2. Contingent liabilities		*2. Contingent liabilities	
(1) Guarantee of subsidiaries' borrowings from financial institutions		(1) Guarantee of subsidiaries' borrowings from financial institutions	
Alfa Electronics, Inc.	270,002	Alfa Electronics, Inc.	216,670
axelec corporation	10,517		
	<u>280,519</u>		
(2) Guarantee of a subsidiary's accounts payable		(2) Guarantee of a subsidiary's accounts payable	
Alfa Electronics, Inc.	136,283	Alfa Electronics, Inc.	168,497
(3) Guarantee of subsidiary's obligations under discounted promissory notes		(3) Guarantee of subsidiary's obligations under discounted promissory notes	
Alfa Electronics, Inc.	57,390	Alfa Electronics, Inc.	26,661
The above amounts represent net amounts of contingent liabilities after deducting the amount provided in the allowance for operating losses of a subsidiaries in the total amount of ¥12,482 thousand.			
3. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with a single bank. As of the end of the fiscal year, it had the following unused lines of credit on these loan facilities.		3. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with a single bank. As of the end of the fiscal year, it had the following unused lines of credit on these loan facilities.	
Overdraft and loan commitment agreements	4,000,000	Overdraft and loan commitment agreements	2,000,000
Amounts drawn down	-	Amounts drawn down	700,000
Unused lines of credit	<u>4,000,000</u>	Unused lines of credit	<u>1,300,000</u>
As of December 31, 2002, the Company had the following unused lines of credit on these loan facilities			
Overdraft and loan commitment agreements	4,000,000		
Amounts drawn down	-		
Unused lines of credit	<u>4,000,000</u>		
*4. Number of treasury shares held		*4. Number of treasury shares held	
Common stock	3,127 shares	Common stock	5,519 shares
*5.	-	*5. Assets relating to subsidiaries and associated companies	
		Accounts receivable, etc.	143,634

## (Nonconsolidated statements of income)

Thousands of yen	December 31, 2002		December 31, 2003
*1. Costs associated with programming inspection and sorting of merchandise purchased.		*1. Costs associated with programming inspection and sorting of merchandise purchased.	
Labor cost	20,774	Labor cost	32,061
Outsourcing cost	29,308	Outsourcing cost	34,929
Depreciation	3,019	Depreciation	3,191
Others	22,162	Others	26,695
	<u>75,263</u>		<u>96,878</u>
*2. "Transfer to other accounts" represents the amount transferred from the merchandise account to the advertising expense account.		*2. Same as previous year	
*3. -		*3. Total research and development expenses	
		Research and development expenditures included in selling, general and administrative expenses	68,599
*4. -		*4. Breakdown of gains on sale of fixed assets	
		Buildings	226
		Land	251
*5. -		*5. Breakdown of loss on sale of fixed assets	
		Buildings	3,218
		Land	5,482
*6. Breakdown of loss on disposal of fixed assets		*6. Breakdown of loss on disposal of fixed assets	
Buildings	2,197	Buildings	4,534
Furniture and fixtures	3,705	Furniture and fixtures	976
Software	2,322	Software	3,443
*7. Breakdown of loss on devaluation of planned sales of fixed assets whose book values have substantially declined		*7. -	
Buildings	2,347		
Land	20,238		
*8. Breakdown of loss on liquidation of subsidiaries		*8. Breakdown of loss on liquidation of subsidiaries and associated companies	
Cygnnet Technologies, Inc	137,421	axelec corporation	10,600
AlphaMetric, Inc.	5,818	HYPER-PALTEK Corporation	5,893
		Cygnnet Technologies, Inc	2,042
		AlphaMetric, Inc.	(391)

## Lease transactions

### 1. Finance lease where ownership does not transfer the lessee

(1) Acquisition cost equivalent, accumulated depreciation equivalent and book value equivalent of leased properties as of the end of fiscal year.

Thousands of yen	December 31, 2002	December 31, 2003
<b>Software</b>		
Acquisition cost equivalent	560,391	560,391
Accumulated depreciation equivalent	266,143	378,221
Book value equivalent	294,248	182,170

(2) Future minimum lease payments

Thousands of yen	December 31, 2002	December 31, 2003
Within one year	112,791	114,840
Over one year	187,634	72,794
	<u>300,426</u>	<u>187,634</u>

(3) Lease expenses and pro forma data as to depreciation expenses and interest expenses are summarized as follows

Thousands of yen	December 31, 2002	December 31, 2003
Lease payments	117,287	117,287
Depreciation equivalent	112,078	112,078
Interest expense equivalent	6,508	4,495

(4) Calculation of depreciation equivalent

Depreciation is based on the straight line method over the lease term of the leased assets with no residual value.

(5) Calculation of interest expense equivalent

The interest expense equivalent is calculated by taking the difference between the total amount of lease payments and acquisition cost equivalent of the leased property, and amortizing it over the lease period based on the interest method.

## Securities

December 2002 and 2003 term

The Company held no securities with market values issued by subsidiaries and associated companies.

## Tax effect accounting

Thousands of yen	December 31, 2002	December 31, 2003
1. A breakdown of deferred tax assets and liabilities are noted below		1. A breakdown of deferred tax assets and liabilities are noted below

PALTEK CORPORATION

<p>Deferred tax assets</p> <p>Loss on valuation of inventories 17,131</p> <p>Liability for retirement benefits to directors' and corporate auditors' 84,713</p> <p>Allowance for bad debts in excess of tax limit 27,091</p> <p>Loss on devaluation of investment securities 14,068</p> <p>Loss on liquidation of subsidiaries and associated companies 231,173</p> <p>Loss on valuation of investment in subsidiaries 438,176</p> <p>Accrued enterprise tax 17,671</p> <p>Others 49,481</p> <hr/> <p>879,508</p> <p>Deferred tax liabilities</p> <p>Reserve for the development of domestic market for imported goods (3,184)</p> <p>Revaluation gain on investment securities (2,611)</p> <hr/> <p>(5,796)</p> <hr/> <p>Net deferred tax assets 873,712</p>	<p>Deferred tax assets</p> <p>Loss on valuation of inventories 13,512</p> <p>Liability for retirement benefits to directors' and corporate auditors' 84,804</p> <p>Loss on devaluation of investment securities 25,066</p> <p>Loss on liquidation of subsidiaries and associated companies 13,414</p> <p>Loss on valuation of investment in subsidiaries 27,630</p> <p>Loss carry forward 184,201</p> <p>Others 35,898</p> <hr/> <p>384,528</p> <p>Deferred tax liabilities</p> <p>Enterprise-tax refund receivable (19,635)</p> <p>Revaluation gain on investment securities (10,312)</p> <hr/> <p>(29,948)</p> <hr/> <p>Net deferred tax assets 354,579</p>
<p>2. Reconciliation between the statutory tax rate and the effective tax rate is not provided as the difference between the two was insignificant</p> <p>Pursuant to provisions of Article 8-12-3 of the rules relating to financial statements, etc., the difference between the effective tax rate as stipulated by law and the corporate tax rate after application of interperiod tax allocation is less than 5 percent, therefore the figure is not reported in this section.</p>	<p>2. Reconciliation between the statutory tax rate and the effective tax rate</p> <p style="text-align: center;">Same as previous year</p>
<p>3. -</p>	<p>3. The normal effective statutory tax rate used in calculations of deferred tax assets and liabilities have been affected by an amendment to the Local Tax Law, which provides for the assessment of enterprise taxes based on size of business after April 1, 2004. In accordance with this amendment, the Company applies different tax rates to the temporary differences recognized as of the end of the fiscal year to December 31, 2003. For temporary differences that will be reversed during the fiscal year to December 31, 2004, it applies the tax rates in effect prior to the amendment; for temporary differences that will be reversed after January 1, 2005, it applies the new tax rates. This change in tax rates has resulted in a reduction in deferred tax assets of ¥3,849 thousand as of the end of the fiscal year to December 2003 (net of deferred tax liabilities), an increase in valuation differences on other investment securities of ¥233 thousand, and an increase in corporate tax adjustments of ¥4,082 thousand.</p>

## Per share-related financial information

Yen	December 31, 2002	December 31, 2003
Net assets per share	662.16	706.99
Net income per share	36.13	53.60
Although the Company has issued warrants as stock options, it does not provide a figure for net income per share after adjustment for residual securities because there are currently no premiums on the warrants.		There is no entry for diluted net profit per share for the six-month term ended September 30, 2003 because the Company had no residual securities capable of diluting earnings. The Company began applying ASBJ 2, "Financial Standards Relating to Net Earnings Per Share," and ASBJ Interpretation 4, "Guidelines for Applying Financial Standards Relating to Net Earnings Per Share," during the consolidated fiscal year to March 2003. If this new standard and set of guidelines had been applied to the results of the previous consolidated fiscal year, the Company would have reported the following per-share figures:
		Net assets per share 661.11
		Net income per share 35.08

(Note) The basic facts underlying calculations of net income per share are as follows..

Thousands of yen	December 31, 2002	December 31, 2003
Net income per share		
Net income	-	659,082
Amount not attributable to common shareholders	-	24,715
(Of which, amount paid out as bonuses to directors pursuant to Statement of Appropriation of Net Income)	-	[ 24,715 ]
Net income related to common stock	-	634,367
Average number of shares outstanding during term (shares)		11,835,295
Residual securities which were not included in calculations of net income per share after adjustment for residual securities because they had no dilative effect.	-	(Warrants based on Article 280-19 of the Old Commercial Code) 4 types of warrants (number of shares to be issued through exercise of warrants: 539,600 shares)  (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 1 type, 800 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 80,000 shares)

## Significant subsequent events

N/A

## Changes in Management

The following nominations were proposed and approved at the Board of Directors Meeting on February 13, 2004. This proposed change is subject to approval at the 22<sup>nd</sup> Regular Shareholders Meeting, which is scheduled on March 27, 2004.

1. Change in representative director:

N/A

2. Other changes

(Candidate for Director)

N/A

(Candidate for Corporate auditor)

Corporate auditor, Isao Tsubaki (Currently, partner in charge of the Isao Tsubaki CPA Office)

(Retiring Director)

N/A

(Retiring Corporate auditor)

Corporate auditor, Takashi Nakagami (Currently Corporate auditor)