

August 11, 2005



PALTEK CORPORATION

Summary of Financial Statements

for the interim term ended June 30, 2005

(UNAUDITED)

NOTES:

All information has been prepared in accordance with generally accepted accounting principles in Japan. Amounts shown in this accounting report and in the attached material have been rounded down to omit fractions less than one thousand yen. This document is an English translation of the Japanese Financial Statement (Kessan Tanshin) which was filed at stock exchange in Japan on August 11, 2005.

Company Name : PALTEK CORPORATION Head Office : Kanagawa, JAPAN
Security Code No : 7587 URL : <http://www.paltek.co.jp/>
Representative : Tadahito Takahashi, President
Contact : Tadashi Ito, Director, General Manager of Operational Service
 Division and Environment
Telephone : +81-45-477-2000
Date of Board of Directors' Meeting: August 11, 2005
US GAAP : Not adopted

Summary of Consolidated Financial Statements
Interim term ended June 30, 2005
(UNAUDITED)

August 11, 2005

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
 Phone: +81-45-477-2000

Date of Board of Directors' meeting for approval
 of financial results: August 11, 2005
 Adoption of U.S. accounting standards: None

1. Consolidated operating results (From January 1, 2005 to June 30, 2005)**(1) Consolidated 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)	%
Interim 2005	8,289	(10.2)	239	(46.8)	105	(79.6)
Interim 2004	9,230	4.7	450	(26.6)	515	(17.7)
Fiscal 2004	19,355		798		935	

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
Interim 2005	82	(70.1)	7.01	-
Interim 2004	274	(15.2)	23.20	23.08
Fiscal 2004	483		39.16	39.06

(Notes)

- Equity in earnings (losses) of affiliated companies:
 June 2005 interim term: - June 2004 interim term: -
 December 2004 term: -
- Average number of shares outstanding during term (consolidated basis):
 June 2005 interim term: 11,716,212 shares June 2004 interim term: 11,834,425 shares
 December 2004 term: 11,825,029 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) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2005	13,158	8,587	65.3	736.35
June 30, 2004	13,358	8,571	64.2	723.71
December 31, 2004	12,744	8,711	68.4	740.13

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

June 2005 interim term: 11,661,996 shares June 2004 interim term: 11,843,320 shares
 December 2004 term: 11,742,332 shares

(3) Consolidated cash flows

	Net cash from operating activities	Net cash from investing activities	Net cash from financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Interim 2005	497	77	(329)	2,658
Interim 2004	2,410	(39)	(1,040)	2,510
Fiscal 2004	1,273	(22)	(18)	2,412

(4) Scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 2

Number of unconsolidated subsidiaries accounted for by the equity method: —

Number of affiliated companies accounted for by the equity method: —

(5) Changes in scope of consolidation and in application of the equity method

Consolidation (new) : — (elimination): —

Equity method (new): — (elimination): —

2. Consolidated forecasts for December 2005 term

(From January 1, 2005 to December 31, 2005)

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Fiscal 2005	19,500	770	600	417

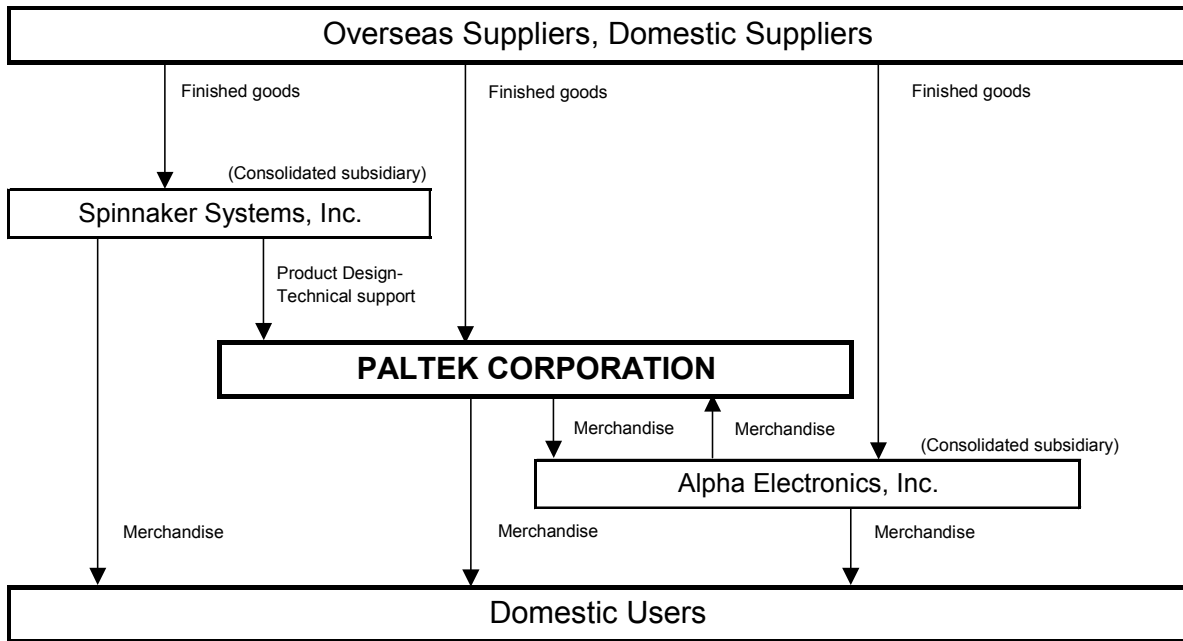
(N.b.) Projected net income per share for fiscal 2005: 35.76 yen

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 15 for information regarding the preparation of the forecasts.

Group organization

The PALTEK group’s primary business activities are the distribution of semiconductors and design software used in electronics equipment, as well as design support services. The structure of the group and the business relationships among the group companies are illustrated in the diagram below.

Business segment	Business description	Main companies
Semiconductors and related business	Design, development and sales of semiconductor-related products; design-technology support	PALTEK Corporation (PALTEK) Alpha Electronics, Inc. (Alpha Electronics) Spinnaker Systems, Inc. (Spinnaker Systems)



Management policy and operating results

Management policy

1. Basic management policies

The PALTEK group's management philosophy is "cooperative growth with diverse partners." Guided by this philosophy, it aims to create significant social value for all its stakeholders, including customers, suppliers, employees, shareholders, and local communities.

As part of the continually evolving and growing electronics industry, the PALTEK group searches and discovers innovative semiconductors, software and other products being developed around the world and provides them to those who develop and sell a variety of electronic devices and systems. In this search, it is guided by an understanding of leading-edge technologies and market needs. Beyond being simply a distributor, the PALTEK group endeavors to provide best possible solutions to its customers by supporting their development activities with a high level of technology and by proposing system-based solutions that take into consideration the entire architecture of each customer's electronic equipment.

Through such activities, the PALTEK group contributes to the development of the electronics industry and is endeavoring to generate "cooperative growth" with all of its stakeholders.

2. Basic policy regarding the distribution of profits

The PALTEK group recognizes that providing value to shareholders is one of management's primary concerns. Accordingly, its basic policy on dividends will be to continue to make payouts that are appropriate in light of its needs to build a strong operating foundation and to finance future business initiatives. It will do so while endeavoring to enhance financial performance and operating efficiency.

With respect to dividend payouts, the Company will maintain a dividend rate of 10 yen per share. With this as a baseline, it will decide on any future changes by considering the appropriateness of its dividend payout ratio in relation to consolidated and parent company earnings.

3. Targeted financial ratios and medium-term management strategies

The PALTEK group's medium-term goal is to achieve consolidated sales of 50 billion yen and an operating margin of 10%. To realize these targets, the group will implement the following three management strategies.

a. Strengthening its mainstay PLD solutions business

The ability to respond flexibly and timely to changes in the market environment is the hallmark of programmable logic devices. By offering the flexibility that enables development engineers to alter designs they are working on in response to each situation, PLDs make it possible for companies to bring high-value-added products quickly to the market without large initial

investment risks. Because of relatively high prices, PLDs were once used principally in the development of prototypes. But with technological innovation bringing about high-performance and price-competitive PLD products, PLDs are now poised for rapid expansion as companies increasingly incorporate them into digital consumer appliances and other high-volume items. The PALTEK group has cultivated an ability to provide prompt and knowledgeable technical support to its customers and to respond to the detailed needs of a wide variety of projects. By utilizing these abilities, it will continue to promote the expansion of the PLD market.

b. Expanding our offerings of analog solutions

Advances in digital technology have made analog semiconductors more important than ever. By providing solutions that meet the needs of the expanding analog functionalities and capabilities to our customers, the PALTEK group will expand sales in the digital consumer appliance and industrial equipment segments.

c. Developing a wider range of system solutions for newly emerging markets

The growing dissemination of broadband networks is prompting the development of new markets that arise from convergence of communications, broadcasting, and consumer appliances. To meet the needs in these emerging markets, PALTEK will provide solutions built primarily around application-specific standard products (ASSP*). This will require that it provide not only high levels of knowledge on individual semiconductors to support design activities but also “system-based solutions” that support development of entire electronic equipment. This shift will entail that technologies be edited into optimal forms for customers—that they be provided, for example, as modules that combine multiple semiconductors or as system-based solutions that are closer to the shape of the final product.

ASSP (Application Specific Standard Product): high-performance semiconductors that are dedicated to specific applications.*

4. Issues requiring action

As new markets come into existence through the fusion of different electronics product segments (communications, broadcasting, consumer appliances, etc.), customers of the PALTEK group are striving to accelerate the development of high-value-added products and to bring products rapidly to market. To meet their needs, the group is aiming to provide “high-value-added solutions based on a highly efficient operational structure.”

The group has traditionally provided solutions for prototype development, where large numbers of products are manufactured in limited quantities. Now that it is moving increasingly toward solutions required for high-volume items such as digital consumer appliances, it will aim to establish a highly efficient structure of profitability that can support this activity. In addition to providing technical support for each semiconductor device, the group will further strengthen

creative solutions to support both design- and system-engineers who face more complex and advanced design tasks.

To make this a reality, the group will have to deal with the following issues.

- a. Establishing a highly efficient operational foundation: expanding scale of operations and enhancing management efficiencies

To establish a highly efficient operational structure that will support the growth of its business, the PALTEK group intends to expand its operational scale and improves its management efficiency. It will use operating profit ratio and return on asset (ROA) ratio as measuring indices to monitor progress toward these goals.

Achieving these goals will require the group to make progress in the following four areas:

- (1) Reducing operating costs
- (2) Enhancing the efficiency of sales activities by adding products that generate greater synergy with PLDs, which are now poised for rapid market expansion
- (3) Shortening collection period for receivables and increasing liquidity
- (4) Maintaining optimum inventory levels

- b. Providing high-value-added solutions: evolving from design support to system development support

The level of engineering support our customers seek is changing and advancing from the design support of individual semiconductor devices to more system-based solutions, which vary from offering a combination of multiple semiconductors to the extent of board-level solutions.

The enhanced performance and higher speeds of the electronic devices developed in recent years have further complicated the tasks of design and development, forcing development engineers to deal with issues such as intricate power supply controls and heat generated by components. In light of this situation, the group believes that it must widen the support coverage toward supporting development at the level of printed circuit board and equipment, in addition to providing support services for individual semiconductor devices.

Toward this end, the group will endeavor to broaden and deepen its coverage of technologies which have the potentials of creating new markets. And, to continue to offer total solutions based on this expanded technology range, it will focus on hiring and training engineering talent that enable to offer high-value-added solutions to increasing needs of our customers.

5. Basic philosophy regarding corporate governance and corporate governance-related policies

- a. Basic philosophy regarding corporate governance

The PALTEK group views corporate governance as a managerial control aimed at maximizing corporate value for all stakeholders and to realize the group's philosophy of "*kyosei* -

cooperative growth.” The PALTEK group’s basic policy regarding corporate governance is to “enhance the transparency of management in order to respond quickly to changes in the market environment.” Toward this end, it is endeavoring to enhance its corporate governance-related capabilities in the following specific ways.

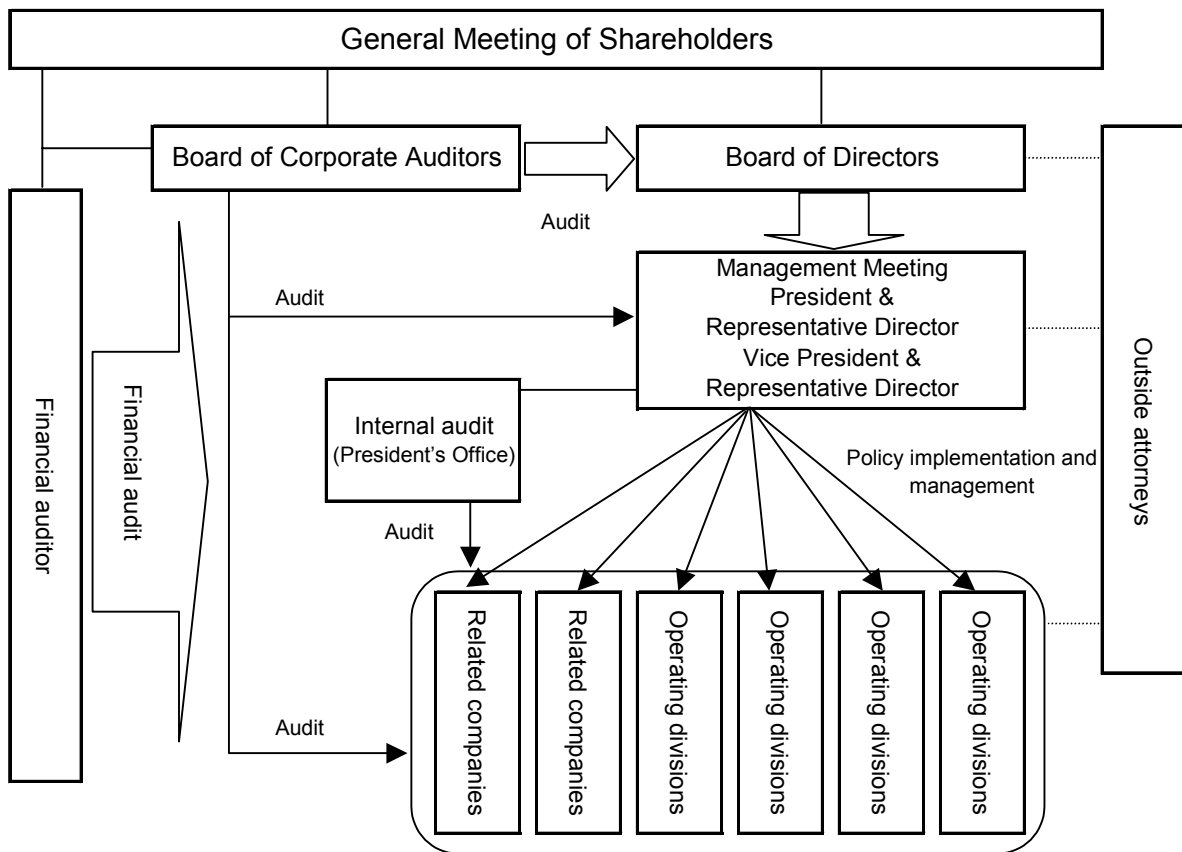
Basic policies	Specific measures
Responding quickly to changes in the market environment	- Expediting decision making by holding management meetings and Board of Directors’ meetings on the same days
Enhancing the transparency of management	- Establishing greater objectivity through the appointment of outside directors and corporate auditors - Improving the quality of information disclosure to employees (through internal IR meetings; intranet-based information disclosure; communicating information through meetings in which all employees can participate)

b. Corporate governance-related policies

Each month, the companies in the PALTEK group hold management meetings attended by directors, the heads of the respective divisions, and the chief executives of group companies. The purpose of the meetings is to provide a means for quickly resolving the issues faced by each division and for making management decisions from a more all-embracing standpoint. Both corporate auditors and outside corporate auditors participate in these meetings, where they express opinions and issue reports in a timely manner on the appropriateness of the decisions being made and on management’s abidance with relevant laws. Object-based management is employed to assure that policies adopted at management meetings are implemented throughout the organization. And by holding Board of Directors’ meetings on the same day as management meetings, the system is set up to encourage rapid judgments on important managerial issues.

In addition to these regularly scheduled meetings, the Company convenes meetings on an ad hoc basis, whenever required. The ability to meet in this way enables the Company to digest information rapidly and to link this information to timely decision-making and action. In this way, the PALTEK group is endeavoring to respond flexibly to a rapidly and continuously changing market situation.

Based on these policies, the PALTEK group has established the following structure of corporate governance.



(1) Composition of Board of Directors

The Board of Directors is composed of six directors (of whom one is an outside director). The board's organization facilitates the provision of optimum solutions to its customers. Accordingly, each director brings not only a high level of expertise to his position but also a depth and breadth of experience that will contribute to enhancing the transparency and efficiency of management.

(2) Composition of Board of Corporate Auditors

The Company uses a system of corporate auditors. The composition of highly experienced outside auditors is recognition of the importance that the Board of Corporate Auditors attaches to independence from the Board of Directors. The current members of auditors will contribute toward enhancing the health of management.

The Board of Corporate Auditors is composed of four auditors (of whom three are outside auditors). Corporate auditors participate in all important management meetings, including Board of Directors' meetings and management meetings, where they endeavor to grasp the decision-making process and all details of operational execution, and where they receive reports necessary for them to perform their jobs.

(3) Internal controls

With authority delegated to them by the president, the President's Office with one full-time officer conducts internal audits as part of the Company's system of internal control.

The internal auditing office endeavors continually to improve all activities and systems of the Company, including its day-to-day operations. Viewing such activities and systems from the perspective of management objectives, Company regulations and compliance with the relevant laws, the auditing office impartially evaluates, cites, and guides each group being audited on the appropriateness and efficiency of its activities, etc. On an as-needed basis, it mutually shares information with the Company's corporate and financial auditors to enhance the efficiency of its audits.

(4) Involvement of attorneys and CPAs

The Company receives timely advice from outside attorneys regarding compliance of its overall operations with relevant laws and regulations. The Company's financial audits are carried out by Tohmatsu & Co., which evaluates the Company's financial statements in accordance with provisions of the Law for Special Exceptions to the Commercial Code and the Securities and Exchange Law.

(5) Directors' compensation

During the consolidated interim period under review, the Company paid the following amounts of compensation for directors and corporate auditors.

Directors:	61,020 thousand yen
Corporate Auditors:	18,382 thousand yen

The above amounts do not include directors' bonuses (which amounted to 10,730 thousand yen).

- c. Relationships between the Company and its outside directors and outside corporate auditors, including relationships based on personal ties, shareholdings, business relationships, etc.

There are no family relationships among our directors and outside directors and corporate auditors. There is no significant shareholdings and commercial relationships between the Company and its outside directors and corporate auditors.

- d. Specific actions taken during the 2005 interim term to improve corporate governance

During the consolidated interim period under review, the Company held twelve Board of Directors' meetings, where directors made decisions and examined important issues related to management direction and policy. In addition, the Company's management meeting, which comprises the heads of the Company's divisions and chief executives of group companies, met on six occasions on the days when Board of Directors meetings were being held. This enabled the Company to integrate all of its actions—discussions, decision-making and execution—on

important operating matters.

The Board of Corporate Auditors held meetings on a timely basis. With outside auditors bringing substantial experience in various areas of operation, the board was able to monitor directors' execution of operations and other aspects of management from an independent perspective, while taking into consideration the group's overall operations.

In addition, during the interim period, the internal auditing office conducted ten internal audits on the basis of an annual plan that encompassed the group's overall operations. These audits were aimed at enhancing the Company's ability to operate in compliance with the relevant laws and regulations, to act in accordance with its own operational regulations, and to carry out operations in an effective manner.

In terms of information disclosure and control, the Board of Directors adopted a resolution that established the position of director in charge of information disclosure, who was given responsibility for managing internal information. The Company assigned this role to the director of its Operational Services Division. In this way, the Company is endeavoring to the extent possible to clear away all procedural barriers to the prompt disclosure of important information.

By resolution of the Board of Directors, the Company also established the position of director in charge of investor relations, assigning this role to the president and chief executive officer of the Company. The day-to-day tasks of investor relations are being actively carried out by the Relations Group.

6. Matters related to the parent company, etc.

The Company has no parent company.

7. Development of system of internal control; operational status of this system

a. Internal checks and other internal controls

As stated above in section 5-b, item (3), "Internal controls," the Company has established, as a part of the PALTEK group's system of internal controls, an internal audit department that implements internal checks over the entire PALTEK group.

Organizationally, the Company's administrative division is divided distinctly from business divisions, and encompasses operations which includes legal affairs, human resources, accounting and finance, corporate communications and investor relations, facilities and services, and information systems. This administrative division not only supports the business divisions; they also carry out internal checks and implement risk-control measures.

While all of its necessary internal regulations and rule books have already been established, the Company continues to upgrade and develop other regulations in response to need. This occurs when laws and regulations governing the Company's operations are amended or when a given

operation requires the implementation of new regulations to tighten internal control.

b. Measures adopted during the interim period under review to improve and enhance internal controls

(1) Annual review of internal regulations in light of changes in the environment and in operational conditions; also carried out to confirm compliance with laws and regulations

(2) ISMS audit, aimed at ensuring the protection of personal information, confidential information and other informational assets

For commentary on other measures adopted during the period, please refer to section 5-d. above.

8. Other important issues related to company management

There are no other important issues to report related to the Company's management.

Financial Performance

1. Overview of the period to June 30, 2005

a. Operating results

Despite fears of adverse impacts from high oil prices and fluctuations in exchange rates, the Japanese economy performed steadily during the interim period under review, benefiting from increased capital investments by corporations experiencing improved profitability, from expanding personal consumption, and other factors. In the electronics industry, however, conditions remained weak through the first quarter. The decline in capital investments, which was touched off by the sudden cooling of the market from the middle of last year continued, and inventory adjustments were prolonged. In the second quarter, inventories were pared down to more appropriate levels and the market for digital consumer appliances (flat-panel TVs, HDD players, portable digital audio players, etc.) began to grow. The industry has thus been showing signs of turning around, but falling unit prices resulting from unrelenting competition appear to be obstructing a smooth recovery in market conditions. In addition, there is now a clear division within the industry between the well-performed companies and the group of the companies at the opposite end. While the former group of manufacturers reports rising revenues and profits and increased market share, the latter group suffers deficits caused by large declines in unit prices and depressed sales.

In this market environment, the PALTEK group took steps to increase sales of its mainstay PLDs (programmable logic devices) and other existing products, to launch new products that were added to the Company's operations during the previous fiscal year, and to cultivate and bring in new customers. The group also sought to add new product lines and to implement measures aimed at creating enhanced levels of efficiency by lowering the costs of operations.

In this environment, while net sales in the industrial segment generally trended well as initial forecast, some segments, namely the communications and consumer segments, were weak, reflecting across-the-board cutbacks in production. As a result, net sales during the interim period declined by 10.2% to 8,289 million yen.

Operating income decreased by 46.8% to 239 million yen. In addition to the year-on-year decline in sales, gross profit margins fell as a result of aggressive pricing strategies aimed at expanding the Company's market coverage. However, reflecting active efforts to reduce costs, this amount was slightly higher than planned at the beginning of the year.

Ordinary income fell by 79.6% to 105 million yen, reflecting larger than projected foreign exchange loss that arose because of the rapidly weakening of the yen toward the end of the interim period.

Consequently, interim net income declined by 70.1% to 82 million yen.

b. Cash flow

Cash and cash equivalents increased by 246 million yen compared to the balance at the beginning of the interim term to stand at 2,658 million yen as of the end of the interim term.

The various components of cash flow during the period and factors affecting increases or decreases are summarized below.

(Net cash from operating activities)

Cash provided by operating activities amounted to 497 million yen (a 79.4% decline year-on-year) due to early collections of notes and accounts receivables and a temporary increase in notes and accounts payables, which offset an increase in inventories.

(Net cash from investing activities)

As a result of the sale of investment securities, cash provided by investing activities amounted to 77 million yen (compared to cash used in the year-earlier period of 39 million yen).

(Net cash from financing activities)

Cash used in financing activities amounted to 329 million yen (a 68.3% decline year-on-year), reflecting repayments of debt, purchases of treasury stock, and payments of cash dividends.

Trends in cash flow-related indices for the corporate group are shown below.

	June 30, 2003	June 30, 2004	June 30, 2005	December 31, 2003	December 31, 2004
Equity ratio	67.7%	64.2%	65.3%	70.3%	68.4%
Equity ratio based on market prices	72.4%	82.7%	63.0%	106.6%	59.0%
Years required to redeem liabilities	3.9 years	0.2 years	1.8 years	7.1 years	1.5 years
Interest-coverage ratio	21.3	251.0	59.1	12.3	69.4

(Notes)

1. *Equity ratio: Shareholders' equity/total assets*

2. *Equity ratio based on market prices: Market capitalization/total assets*

3. *Years required to redeem liabilities: Interest-bearing liabilities/operating cash flow*

4. *Interest-coverage ratio: Operating cash flow/interest payments*

(1) *Each of the foregoing ratios is calculated on the basis of consolidated financial data.*

(2) *"Market capitalization" is calculated by multiplying the share price on the final day of the fiscal year by the number of shares outstanding on the same day.*

(3) *For "operating cash flow," we use the figure for "cash flow from operating activities" in the consolidated statement of cash flows. "Interest-bearing liabilities" refers to all liabilities on the consolidated balance sheet on which interest payments are made. For "interest payments," we use the figure for "interest paid" in the consolidated statement of cash flows.*

2. Outlook for the year ending December 2005

Despite signs of strength in personal consumption and employment, the outlook for the Japanese economy for the third quarter and beyond remains difficult to assess because of continued uncertainties in many areas, which include the impacts of high oil prices and sharply rising costs of raw materials on corporate profits and of fluctuations in exchange rates resulting from the upward revaluation of the Chinese yuan. In the electronics industry, despite continuing improvements in inventory levels and the possibility of a moderate recovery in demand, fierce global competition for market share and declines in unit prices caused by price competition are likely to continue in consumer markets and other segments, and this will impact corporate profitability.

In such an environment, the PALTEK group will focus on expanding its base of customers and on making proposals in rapidly growing areas by taking advantage of new PLD products that, as a result of technological innovation, now offer both high performance and price competitiveness. In the area of analog semiconductors, the group will take steps to further strengthen sales in the stronghold of Kansai region to manufacturers of mobile phones, digital consumer appliances (digital cameras, etc.) and industrial machinery while endeavoring at the same time to expand its base of customers in the Kanto region. With respect to memory, ASSPs and other new products which were added last year and during the interim period under review, the group will endeavor to develop new customers by establishing synergies between such products and PLDs.

Based on the activities noted above, our forecast for the full term calls for net sales of 19,500 million yen, operating income of 770 million yen, ordinary income of 600 million yen and net income of 417 million yen. For PALTEK Corporation itself, we are estimating net sales of 16,150 million yen, operating income of 606 million yen, ordinary income of 473 million yen and net income of 348 million yen.

3. Risk-related factors

The following is a list of issues that could affect the financial performance and financial standing of the PALTEK group. Recognizing the reality of such risks, the group intends to take steps to prevent their occurrence and to develop effective countermeasures if such events come to pass. This section includes forward-looking statements, which are based on judgments made as of the date of the announcement of the group's preliminary financial results for the interim term ended June 2005.

a. Risk factors resulting from a dependence on semiconductor business

The customers of the PALTEK group comprise principally companies in the Japanese electronic industry. The financial performance of the group, therefore, is affected by demand for products in its customers' industries and by capital investment trends, as well as by cyclical economic fluctuations that occur in the semiconductor industry as a whole. In response to these risks, the group is implementing changes in its structure of earnings which will allow it to deal effectively with such fluctuations. Notwithstanding such efforts, however, sharp and sudden changes in

business conditions in the Japanese electronics industry and changes in demand patterns in the electronics industry could have an impact on the group's financial results.

b. Dependence on specific suppliers

The group's principal suppliers are Altera International Ltd. and National Semiconductor Japan, Ltd., with which it has entered into distribution agreements. In the interim term ended June 2005, these companies accounted for 78.1% and 10.3%, respectively, of the group's total procurements. Although the group's relationships with these suppliers have been stable, any change in their distribution policies or reorganization of their distribution channels could make it difficult to continue the relationships. In that event, the group's financial results could be affected.

c. Regarding security breaches that result in the loss of informational assets

The PALTEK group possesses informational assets that are an important tool deploying its sales strategies. The Company has endeavored to prevent breaches in the security surrounding this information through a variety of "soft" and "hard" measures, including strengthening its control over information security through ISMS certification*, increasing employees' awareness of the importance of protecting information, and limiting the number of persons authorized to access these assets. If, however, despite the Company's best efforts, information falls into other hands due to unforeseen events, the Company's financial performance could suffer from the resulting loss of public trust in the PALTEK group or from other factors such as the need to pay indemnification for damages.

(ISMS Certification: Accredited by the Japan Information Processing Development Corporation in accordance with ISO standards)*

d. Impact on profitability from fluctuations in exchange rates

In the interim term ended June 2005, the PALTEK group relied on overseas sources for 84.2% of its procurements. Hence, fluctuations in exchange rates could have an impact on transactions conducted in foreign currencies. The group has adopted a variety of measures to minimize these risks and to avoid such impacts. However, such measures cannot guarantee the elimination of all foreign exchange risks. Consequently, sudden and rapid fluctuations in foreign exchange markets could have an impact on the group's financial performance and financial standing.

Consolidated balance sheet

Thousands of yen	June 30, 2004	%	June 30, 2005	%	December 31, 2004	%
Current assets						
Cash and bank deposits	2,542,099		2,702,401		2,444,243	
Notes and accounts receivable	4,083,083		3,511,289		3,983,536	
Inventories	4,910,575		5,357,678		4,111,324	
Others	648,911		599,787		1,075,177	
Allowance for doubtful accounts	(3,197)		(862)		(6,706)	
	<u>12,181,472</u>	91.2	<u>12,170,294</u>	92.5	<u>11,607,573</u>	91.1
Fixed assets						
Tangible fixed assets						
	164,789	1.2	152,765	1.2	150,374	1.2
Intangible fixed assets						
Goodwill	2,391		-		-	
Others	156,790		85,551		117,924	
	<u>159,181</u>	1.2	<u>85,551</u>	0.6	<u>117,924</u>	0.9
Investments and other assets						
Investment securities	348,219		259,413		413,389	
Others	505,099		490,165		454,786	
	<u>853,318</u>	6.4	<u>749,578</u>	5.7	<u>868,175</u>	6.8
Total fixed assets	<u>1,177,289</u>	8.8	<u>987,894</u>	7.5	<u>1,136,474</u>	8.9
Total assets	<u>13,358,761</u>	100.0	<u>13,158,189</u>	100.0	<u>12,744,048</u>	100.0

PALTEK CORPORATION

Thousands of yen	June 30, 2004	%	June 30, 2005	%	December 31, 2004	%
Current liabilities						
Notes and accounts payable	2,989,393		1,820,357		1,071,794	
Short-term bank loans	733,240		1,683,152		1,763,152	
Accrued bonuses	63,677		60,520		51,344	
Others	507,250		469,968		555,834	
	<u>4,293,561</u>	32.1	<u>4,033,999</u>	30.6	<u>3,442,125</u>	27.0
Long-term liabilities						
Long-term bank loans	52,910		40,664		114,170	
Liability for employees' retirement benefits	37,372		52,131		46,592	
Liability for directors' and corporate auditors' retirement benefits	261,331		284,186		276,651	
Goodwill	-		2,552		3,190	
Others	83,468		94,262		85,343	
	<u>435,082</u>	3.3	<u>473,796</u>	3.6	<u>525,947</u>	4.1
Total liabilities	<u>4,728,643</u>	35.4	<u>4,507,795</u>	34.2	<u>3,968,073</u>	31.1
Minority interests	58,987	0.4	63,052	0.5	64,567	0.5
Shareholders' equity						
Capital stock	1,339,634	10.0	1,339,634	10.2	1,339,634	10.5
Capital surplus	2,698,526	20.2	2,698,526	20.5	2,698,526	21.2
Retained earnings	4,514,877	33.8	4,668,194	35.5	4,723,951	37.1
Net - unrealized gains (losses) on securities	23,099	0.2	10,813	0.1	22,173	0.2
Treasury stock	(5,007)	(0.0)	(129,827)	(1.0)	(72,877)	(0.6)
	<u>8,571,129</u>	64.2	<u>8,587,341</u>	65.3	<u>8,711,407</u>	68.4
Total liabilities, minority interests and shareholders' equity	<u>13,358,761</u>	100.0	<u>13,158,189</u>	100.0	<u>12,744,048</u>	100.0

Consolidated statement of income

Thousands of yen	June 30, 2004	%	June 30, 2005	%	December 31, 2004	%
Net sales	9,230,898	100.0	8,289,020	100.0	19,355,863	100.0
Cost of sales	7,307,969	79.2	6,629,507	80.0	15,551,144	80.3
Gross profit	1,922,928	20.8	1,659,513	20.0	3,804,719	19.7
Selling, general and administrative expenses						
Salary	463,474		464,284		934,578	
Provision for bonuses	52,890		59,608		50,258	
Provision for directors' and corporate auditors' retirement benefits	12,934		9,021		28,253	
Rent expenses	205,673		202,291		410,327	
Others	737,470		684,837		1,582,840	
	1,472,443	15.9	1,420,043	17.1	3,006,260	15.5
Operating income	450,484	4.9	239,470	2.9	798,459	4.2
Nonoperating income						
Interest income	661		627		857	
Dividend income	116		130		235	
Foreign exchange gain	75,979		-		184,908	
Gain on sale of investment securities	-		2,136		3,516	
Amortization of goodwill	-		638		-	
Interest on refunds of consumption taxes	-		2,163		-	
Others	15,423		1,654		18,945	
	92,181	1.0	7,350	0.1	208,462	1.0
Nonoperating expenses						
Interest expenses	9,364		8,529		19,099	
Commissions paid	7,490		10,218		11,453	
Foreign exchange loss	-		103,131		-	
Losses on assignment of accounts receivables	6,636		8,745		15,748	
Others	4,086		11,115		25,418	
	27,576	0.3	141,740	1.7	71,720	0.4
Ordinary income	515,089	5.6	105,080	1.3	935,201	4.8
Extraordinary income						
Gain on sales of fixed assets	-		1,292		-	
Reversal of allowance for doubtful accounts	3,621		3,072		112	
Gain on reversal of directors' and corporate auditors' retirement benefits	900		1,092		900	
Gain on sale of investment securities	-		29,558		-	
Others	-		759		-	
	4,521	0.0	35,775	0.4	1,012	0.0

PALTEK CORPORATION

Thousands of yen	June 30, 2004	%	June 30, 2005	%	December 31, 2004	%
Extraordinary losses						
Loss on sales of fixed assets	-		1,295		-	
Loss on disposal of fixed assets	584		508		8,038	
Loss on devaluation of investment securities	-		5,302		-	
	<u>584</u>	0.0	<u>7,105</u>	0.1	<u>8,038</u>	0.0
Income before income taxes and minority interests	519,026	5.6	133,749	1.6	928,175	4.8
Income taxes - current	62,540		28,427		251,487	
Income taxes - deferred	175,783		21,518		181,237	
	<u>238,324</u>	2.6	<u>49,945</u>	0.6	<u>432,724</u>	2.2
Minority interest in income of consolidated subsidiaries	6,190	0.0	1,636	0.0	11,865	0.1
Net income	<u>274,511</u>	3.0	<u>82,167</u>	1.0	<u>483,584</u>	2.5

Consolidated statement of retained earnings

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Capital surplus			
Balance, beginning of period	2,694,389	2,698,526	2,694,389
Increase			
New shares issued due to exercise of subscription rights	4,137	-	4,137
	4,137	-	4,137
Balance, end of period	2,698,526	2,698,526	2,698,526
Retained earnings			
Balance, beginning of period	4,391,414	4,723,951	4,391,414
Increase			
Net income	274,511	82,167	483,584
	274,511	82,167	483,584
Decrease			
Cash dividends	118,338	117,423	118,338
Directors' bonuses	32,709	20,500	32,709
	151,047	137,923	151,047
Balance, end of period	4,514,877	4,668,194	4,723,951

Consolidated statement of cash flows

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Net cash from operating activities			
Income before taxes and minority interests	519,026	133,749	928,175
Depreciation	57,928	54,168	117,104
Amortization of goodwill	5,581	(638)	11,163
Loss on devaluation of investment securities	-	5,302	-
Decrease in allowance for doubtful accounts	(11,569)	(5,844)	(8,060)
Increase in accrued bonuses	7,926	9,176	(4,406)
Increase in liability for employees' retirement benefits	3,660	5,539	12,880
Increase in liability for directors' and corporate auditors' retirement benefits	1,284	7,535	16,603
Interest and dividends income	(778)	(757)	(1,092)
Interest expense	9,364	8,529	19,099
Gain on sales of investment securities	-	(31,694)	(3,516)
Gain on sales of tangible fixed assets	-	(1,292)	-
Loss on sales of tangible fixed assets	-	1,295	-
Loss on disposal of tangible fixed assets	584	508	2,373
Loss on disposal of intangible fixed assets	-	-	5,664
Decrease in accounts receivable - trade	177,582	472,013	277,223
Increase in inventories	(802,749)	(1,249,157)	(3,498)
Increase in accounts payable - trade	2,060,134	748,562	142,536
(Increase) decrease in advance payments	(2,500)	25,369	56,630
Increase (decrease) in accounts payable - other	87,597	61,311	(2,386)
(Increase) decrease in advances	4,177	18,788	(4,914)
Decrease (increase) in consumption tax receivable	166,272	437,976	(326,320)
Bonus paid to directors and corporate auditors	(33,715)	(21,730)	(33,715)
Others	37,195	40,689	(1,998)
	2,287,003	719,399	1,199,547
Interest and dividends received	125	158	398
Interest paid	(9,603)	(8,415)	(18,354)
Tax refunds	214,245	-	214,245
Income taxes paid	(81,231)	(213,570)	(122,047)
	2,410,538	497,572	1,273,789

PALTEK CORPORATION

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Net cash from investing activities			
Increase in time deposits	(32,000)	(32,000)	(44,001)
Decrease in time deposits	37,000	20,000	49,001
Purchases of investment securities	(376)	(3,927)	(376)
Proceeds from sales of investment securities	-	134,250	-
Purchases of tangible fixed assets	(11,826)	(22,261)	(19,400)
Proceeds from sales of tangible fixed assets	-	2,600	-
Purchases of intangible fixed assets	(16,049)	(2,126)	(25,464)
Increase in investment in partnership	(4,385)	-	(9,335)
Proceeds from sale of investment in partnership	-	-	4,903
Payments for loans	-	(315)	-
Increase in other investments	(19,186)	(18,947)	(21,943)
Decrease in other investments	7,544	150	44,244
	(39,278)	77,423	(22,371)
Net cash from financing activities			
Net decrease in short-term bank loans	(1,000,000)	(80,000)	(70,000)
Proceeds from long-term bank loans	100,000	-	300,000
Repayment of long-term bank loans	(30,520)	(73,506)	(69,348)
Purchases of treasury stock	(1,072)	(56,949)	(68,942)
Proceeds from issuance of common stock	8,284	-	8,284
Cash dividends paid to minority shareholders	(665)	(1,995)	(665)
Cash dividends paid	(116,684)	(117,122)	(118,024)
	(1,040,657)	(329,573)	(18,695)
Effect of exchange rate changes on cash and cash equivalents	(240)	735	(215)
Net increase in cash and cash equivalents	1,330,362	246,158	1,232,506
Cash and cash equivalents at beginning of period	1,179,737	2,412,243	1,179,737
Cash and cash equivalents at end of period	2,510,099	2,658,401	2,412,243

Material information regarding preparation of consolidated financial statements

Item	June 30, 2004	June 30, 2005	December 31, 2004
1. Scope of consolidation	(1) Number of consolidated subsidiaries: 2 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc. axelec corporation treated as a consolidated subsidiary in the previous interim term, was excluded from consolidation results starting with the end of previous year as liquidation procedures have progressed and the Company became insignificant for the purpose of consolidation.	(1) Number of consolidated subsidiaries: 2 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc.	(1) Number of consolidated subsidiaries: 2 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc.
	(2) Name of unconsolidated subsidiary: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Scale of operations of these unconsolidated subsidiaries are small and their total assets, net sales, interim net income (as calculated by the equity method) and retained earnings (as calculated by the equity method) have no significant impact on the consolidated interim financial statements.	(2) Name of unconsolidated subsidiary: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Same as June 30, 2004	(2) Names of unconsolidated subsidiary: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Scale of operations of these unconsolidated subsidiaries are small and their total assets, net sales, net income (as calculated by the equity method) and retained earnings (as calculated by the equity method) have no significant impact on the consolidated financial statements.
2. Application of equity method	(1) Number of affiliated companies to which the equity method is applicable: -	(1) Number of affiliated companies to which the equity method is applicable: -	(1) Number of affiliated companies to which the equity method is applicable: -
	(2) Name of unconsolidated subsidiary to which the equity method is not applicable: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Unconsolidated subsidiaries to which the equity method is not applicable have no significant impact on the consolidated interim net income and consolidated retained earnings. In addition, unconsolidated subsidiaries all combined do not have a significant impact on the consolidated results.	(2) Name of unconsolidated subsidiary to which the equity method is not applicable: Same as June 30, 2004 (Reasons for exclusion from consolidation) Same as June 30, 2004	(2) Name of unconsolidated subsidiary to which the equity method is not applicable: Same as June 30, 2004 (Reasons for exclusion from consolidation) Unconsolidated subsidiaries to which the equity method is not applicable have no significant impact on the consolidated net income and consolidated retained earnings. In addition, unconsolidated subsidiaries all combined do not have a significant impact on the consolidated results.
3. Accounting period of consolidated subsidiaries	All subsidiaries have interim term ends that are the same as the day of consolidated interim closing.	Same as June 30, 2004	All subsidiaries have fiscal-year ends that are the same as the day of consolidated closing.

PALTEK CORPORATION

Item	June 30, 2004	June 30, 2005	December 31, 2004
4. Significant accounting policies			
(A) Valuation of material assets	<p>(1) Securities:</p> <p>Available-for-sale securities:</p> <p>Available-for-sale securities with market values: Stated at fair market value as of the balance sheet date. (Unrealized gains and losses are reported in the shareholders' equity section of the consolidated balance sheet. Sales cost is calculated using the moving average method)</p> <p>Available-for-sale securities without market values: Stated at moving average cost.</p>	<p>(1) Securities:</p> <p>Available-for-sale securities:</p> <p>Available-for-sale securities with market values: Same as June 30, 2004</p> <p>Available-for-sale securities without market values: Same as June 30, 2004</p>	<p>(1) Securities:</p> <p>Available-for-sale securities:</p> <p>Available-for-sale securities with market values: Same as June 30, 2004</p> <p>Available-for-sale securities without market values: Same as June 30, 2004</p>
	<p>(2) Derivatives: As a principle, derivatives are stated at fair market value.</p>	<p>(2) Derivatives: Stated at fair market value</p>	<p>(2) Derivatives: Same as June 30, 2005</p>
	<p>(3) Inventories:</p> <p>(a) Merchandise: Stated by moving average cost (Changes in accounting method) During the interim period, a number of subsidiaries changed their inventory valuation methods from the last purchased price to the moving-average cost method. This change eliminates the impact on valuations of momentary monthly fluctuations and allows a more appropriate calculation of periodic income. The change had only a very small impact on the period's interim financial statements.</p>	<p>(3) Inventories:</p> <p>(a) Merchandise: Stated by moving average cost</p>	<p>(3) Inventories:</p> <p>(a) Merchandise: Stated by moving average cost (Changes in accounting method) During the period, a number of subsidiaries changed their inventory valuation methods from the last purchased price to the moving-average cost method. This change eliminates the impact on valuations of momentary monthly fluctuations and allows a more appropriate calculation of periodic income. The change had only a very small impact on the period's financial statements.</p>
	<p>(b) Supplies: Stated by last purchased price method</p>	<p>(b) Supplies: Same as June 30, 2004</p>	<p>(b) Supplies: Same as June 30, 2004</p>
(B) Depreciation of fixed assets	<p>(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 Vehicle equipment: 6 years Furniture and fixtures: 5 - 15 years</p>	<p>(1) Tangible fixed assets: Same as June 30, 2004</p>	<p>(1) Tangible fixed assets: Same as June 30, 2004</p>
	<p>(2) Intangible fixed assets: The straight-line method. Useful life of the software for internal use is 5 years.</p>	<p>(2) Intangible fixed assets: Same as June 30, 2004</p>	<p>(2) Intangible fixed assets: Same as June 30, 2004</p>

PALTEK CORPORATION

Item	June 30, 2004	June 30, 2005	December 31, 2004
(C) 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 and its domestic consolidated subsidiaries states an amount deemed to be unrecoverable based on the prospect of recovery of individual loans/receivables.	(1) Allowance for doubtful accounts: Same as June 30, 2004	(1) Allowance for doubtful accounts: Same as June 30, 2004
	(2) Accrued bonuses: Reserves are provided to cover the estimated amount of bonuses payable to employees.	(2) Accrued bonuses: Same as June 30, 2004	(2) Accrued bonuses: Same as June 30, 2004
	(3) Liability for employees' retirement benefits: The amount estimated to represent the potential liability, as of the end of this consolidated accounting period, is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration.	(3) Liability for employees' retirement benefits: Same as June 30, 2004	(3) Liability for employees' retirement benefits: Same as June 30, 2004
	(4) Liability for directors' and corporate auditors' retirement benefits: An allowance is provided by the Company and a subsidiary to cover the estimated amount of retirement benefits payable to directors and corporate auditors.	(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. In addition, the Board of Directors, at a meeting held on February 14, 2005, resolved to freeze the system of retirement bonuses for directors and corporate auditors as of the end of the 23rd Regular General Meeting of Shareholders held on March 26, 2005. Consequently, there has been no new provisioning of retirement bonuses for directors since that day.	(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.
(D) Translation 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 consolidated balance sheet date. Translation 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 June 30, 2004	Same as June 30, 2004
(E) Lease transactions	Finance leases for which ownership does not transfer to the lessees are not capitalized, and are accounted for in the same manner as operating leases.	Same as June 30, 2004	Same as June 30, 2004

PALTEK CORPORATION

Item	June 30, 2004	June 30, 2005	December 31, 2004
(F) Hedge accounting	(1) Hedge accounting method: The Company adopts deferred hedge accounting. Foreign exchange contracts for foreign currency demonstrated monetary liabilities are accounted for using the allocation method.	(1) Hedge accounting method: Same as June 30, 2004	(1) Hedge accounting method: Same as June 30, 2004
	(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.	(2) Hedging instruments and targets: Hedging instruments: Same as June 30, 2004 Hedging targets: Same as June 30, 2004	(2) Hedging instruments and targets: Hedging instruments: Same as June 30, 2004 Hedging targets: Same as June 30, 2004
	(3) Hedging policies: Derivative transactions are used only by the Company. Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the import plan.	(3) Hedging policies: Same as June 30, 2004	(3) Hedging policies: Same as June 30, 2004
	(4) Method for 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.	(4) Method for assessing effectiveness of hedges: Same as June 30, 2004	(4) Method for assessing effectiveness of hedges: Same as June 30, 2004
(G) Other	Treatment of consumption tax: Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.	Treatment of consumption tax: Same as June 30, 2004	Treatment of consumption tax: Same as June 30, 2004
5. Cash and cash equivalents	Included in "cash and cash equivalents" in the statements of cash flows are cash in hand, demand deposits, and short-term investments with maturities arriving in three months from the date of acquisition that are readily convertible to cash and are subject to minimum risk of price fluctuations.	Same as June 30, 2004	Same as June 30, 2004

Changes in method of presentation

Thousands of yen	
June 30, 2004	June 30, 2005
(Consolidated balance sheet)	(Consolidated balance sheet)
In the year-earlier interim period, the Company identified "deferred tax assets" as a separate category of current assets. However, because these assets declined to less than 5 percent of total assets, they have been included in the "others" category of current assets (amounting to ¥81,071 thousand).	Based on a revision passed in 2004 ("Law Revising a Part of the Securities and Exchange Law"; Law no. 97, 2004), Article 2-2 of the Securities and Exchange Law now considers investments in limited partnerships and similar associations to be investment securities. Consequently, investments recorded in the year-earlier interim period in the "other" category of "investments and other assets" (in the amount of ¥63,540 thousand) are included this year in the "investment securities" category. As of the end of the period under review, investments in limited partnerships (which are included under "investment securities") amounted to ¥67,857 thousand.
(Consolidated statement of income)	(Consolidated statement of income)
In the year-earlier interim period, "losses on assignment of receivables" 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 "losses on assignment of receivables" amounted to ¥3,866 thousand in the interim term ended June 30, 2003.	In the year-earlier interim period, "interest on refunds of consumption taxes" had been included in the "others" category of nonoperating income. But because such expenses exceeded 10 percent of all nonoperating income during the current report period, they are shown as a separate category. For comparison purposes "interest on refunds of consumption taxes" amounted to ¥3,705 thousand in the interim term ended June 30, 2004.
-	(Consolidated statement of cash flows)
	Based on a revision passed in 2004 ("Law Revising a Part of the Securities and Exchange Law"; Law no. 97, 2004), Article 2-2 of the Securities and Exchange Law now considers investments in limited partnerships and similar associations to be investment securities. Consequently, investments recorded in the year-earlier term under "net cash from investing activities" as "investment in partnership" (the payment of ¥4,385 thousand) are included this year under "purchases of investment securities." Payments for such investments during the period under review (which are included under "purchases of investment securities") amounted to ¥3,927 thousand (shown in the cash flow statement as a negative number).

Additional information

June 2005 term

(Introduction of system of pro forma standard taxation for corporate enterprise taxes)

With the promulgation of the "Law for Partial Amendment of the Local Taxes Law" (Law no. 9, 2003) on March 31, 2003, a system of pro forma standard taxation came into force starting in the fiscal year beginning April 1, 2004. Therefore, in accordance with guidelines contained in the "Practical Treatment of Pro Forma Standard Local Taxes on the Income Statement" (Report of Practical Issues No. 12, Accounting Standards Board of Japan, February 13, 2004), the Company began recognizing enterprise tax levies for added value and capital in the "other" category of sales, general and administrative expenses beginning in the interim period under review.

Consequently, SG&A expenses increased by ¥6,959 thousand, and operating income, ordinary income, and income before income taxes and minority interests all decreased by the same amount.

Notes (Consolidated balance sheet)

Thousands of yen	June 30, 2004		June 30, 2005		December 31, 2004
*1. Aggregate amount of depreciation on fixed assets	375,698	*1. Aggregate amount of depreciation on fixed assets	396,158	*1. Aggregate amount of depreciation on fixed assets	388,142
2. Amount of notes receivable discounted	146,662	2. -		2. Amount of notes receivable discounted	39,255
3. Retroactive liability due to securitization	234,809	3. Retroactive liability due to securitization	311,813	3. Retroactive liability due to securitization	325,221
4. Amount of accounts receivable-trade offered as collateral	7,835	4. Amount of accounts receivable-trade offered as collateral	4,019	4. Amount of accounts receivable-trade offered as collateral	7,017
5. For more efficient financing of working capital, the Company and a subsidiary have entered into overdraft and loan commitment agreements with four banks. As of the end of the interim term, it had the following unused lines of credit on these loan facilities.		5. For more efficient financing of working capital, the Company and a subsidiary have entered into overdraft and loan commitment agreements with four banks. As of the end of the interim term, it had the following unused lines of credit on these loan facilities.		5. For more efficient financing of working capital, the Company and a subsidiary have entered into overdraft and loan commitment agreements with four banks. 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	8,150,000	Overdraft and loan commitment agreements	8,150,000	Overdraft and loan commitment agreements	8,150,000
Amounts drawn down	500,000	Amounts drawn down	1,350,000	Amounts drawn down	1,430,000
Unused lines of credit	7,650,000	Unused lines of credit	6,800,000	Unused lines of credit	6,720,000

(Consolidated statement of income)

Thousands of yen	June 30, 2004		June 30, 2005		December 31, 2004
*1.		*1. Breakdown of gains on sale of fixed assets		*1.	-
		Furniture and fixtures	1,292		
*2.	-	*2. Breakdown of loss on sale of fixed assets		*2.	-
		Furniture and fixtures	1,295		
*3. Breakdown of loss on disposal of fixed assets		*3. Breakdown of loss on disposal of fixed assets		*3. Breakdown of loss on disposal of fixed assets	
Buildings	49	Furniture and fixtures	508	Buildings	49
Vehicles and delivery equipment	33			Vehicles and delivery equipment	33
Furniture and fixtures	501			Furniture and fixtures	2,290
				Software	5,664

(Consolidated statement of cash flows)

“Cash and bank deposits” on the consolidated balance sheet and “cash and cash equivalents” on the consolidated statement of cash flows are reconciled as follows:

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Cash and deposit	2,542,099	2,702,401	2,444,243
Time deposits with maturities longer than 3 months	(32,000)	(44,000)	(32,000)
Cash and cash equivalents	2,510,099	2,658,401	2,412,243

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 this consolidated accounting period.

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Furniture and fixtures			
Acquisition cost equivalent	38,834	38,834	38,834
Accumulated depreciation equivalent	20,384	28,174	24,279
Book value equivalent	18,450	10,660	14,555
Vehicles and delivery equipment			
Acquisition cost equivalent	-	29,880	29,880
Accumulated depreciation equivalent	-	3,937	1,447
Book value equivalent	-	25,943	28,433
Software			
Acquisition cost equivalent	560,391	206,723	560,391
Accumulated depreciation equivalent	434,260	192,670	490,299
Book value equivalent	126,130	14,052	70,091
Total			
Acquisition cost equivalent	599,226	275,438	629,106
Accumulated depreciation equivalent	454,644	224,782	516,025
Book value equivalent	144,581	50,656	113,081

(2) Future minimum lease payments

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Within one year	123,770	24,454	80,060
Over one year	25,642	27,427	36,300
	149,413	51,882	116,360

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

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Lease payments	62,766	65,490	127,116
Depreciation equivalent	59,934	62,424	121,315
Interest expense equivalent	1,724	1,012	3,141

(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 payment and acquisition cost equivalent of the leased property, and amortizing it over the lease period based on the interest method.

2. Operating leases - future minimum lease payments

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Within one year	1,035	1,074	1,055
Over one year	3,842	2,767	3,309
	4,877	3,842	4,364

Securities

June 2004 term

1. Available-for-sale securities with market values

Thousands of yen	Acquisition cost	Book value	Difference
Stocks	20,462	53,327	32,865
Bonds			
JGB, Local government bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	81,378	92,307	10,929
	101,841	145,635	43,794

(Note):

None of the listed investments included under "other" investment securities required the application of impairment accounting.

Except when it is reasonably clear that the possibility of a recovery in market prices exists, the Company recognizes impairment charges in the following instances: when the market price of a security has declined to less than 50% of its purchase price as of the final day of the interim term; or when the market price of a security has declined by between 30% and 50% of its purchase price as of the final day of the interim term and has remained at these levels for the past two years—and, when the Company determines in such cases that there is no possibility of a recovery in market prices.

2. Major components of debt and equity securities without market values

Thousands of yen	
Available-for-sale securities	
Unlisted securities (excluding OTC-traded stocks)	200,788

June 2005 term

1. Available-for-sale securities with market values

Thousands of yen	Acquisition cost	Book value	Difference
Stocks	11,890	16,897	5,006
Bonds			
JGB, Local government bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	81,725	98,073	16,348
	93,616	114,971	21,354

(Note):

During the term ended June 30, 2005, an impairment loss in the amount of ¥302 thousand was recognized for available-for-sale securities with market values.

Except when it is reasonably clear that the possibility of a recovery in market prices exists, the Company recognizes impairment charges in the following instances: when the market price of a security has declined to less than 50% of its purchase price as of the final day of the interim term; or when the market price of a security has declined by between 30% and 50% of its purchase price as of the final day of the interim term and has remained at these levels for the past two years—and, when the Company determines in such cases that there is no possibility of a recovery in market prices.

2. Major components of debt and equity securities without market values

Thousands of yen	June 30, 2005
Available-for sale securities	
Unlisted securities (excluding OTC-traded stocks)	74,788
Investment in limited partnerships, etc.	67,857

December 2004 term

1. Available-for-sale securities with market values

Thousands of yen	Acquisition cost	Book value	Difference
Stocks	20,462	54,251	33,788
Bonds			
JGB, Local government bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	81,378	93,307	11,928
	101,841	147,558	45,717

(Note):

Except when it is reasonably clear that the possibility of a recovery in market prices exists, the Company recognizes impairment charges in the following instances: when the market price of a security has declined to less than 50% of its purchase price as of the final day of the interim term; or when the market price of a security has declined by between 30% and 50% of its purchase price as of the final day of the interim term and has remained at these levels for the past two years—and, when the Company determines in such cases that there is no possibility of a recovery in market prices.

2. Major components of debt and equity securities without market values

Thousands of yen	December 31, 2004
Available-for sale securities	
Unlisted securities (excluding OTC-traded stocks)	200,788
Investment in limited partnerships, etc.	63,247

Derivative transactions

No details are provided herein as these transactions are for hedging purpose only.

Segment information**Business segment information**

The PALTEK group has operated in only one segment, the semiconductor-related segment (semiconductor-related sales and semiconductor-related design). Consequently, there is no information to report in this section.

Geographic segment information

The PALTEK group was left with no subsidiaries operating outside of Japan and no significant overseas branches. Consequently, this section is no longer applicable.

Overseas sales

Overseas sales information is omitted as it accounts for less than 10% of the total sales.

Per share-related financial information

Yen	June 30, 2004	June 30, 2005	December 31, 2004
Net assets per share	723.71	736.35	740.13
Net income per share	23.20	7.01	39.16
Net income per share, fully diluted	23.08		39.06

There is no entry of net income per share, fully diluted for the interim term ended June 30, 2005 because the Company had no residual securities capable of diluting earnings.

(Note) The following standards apply to calculations of net interim period (and full-year) income per share and net interim period (and full-year) income per share after adjustment for residual securities.

Thousands of yen	June 30, 2004	June 30, 2005	December 31, 2004
Net income per share			
Net income	274,511	82,167	483,584
Amount not attributable to common shareholders	-	-	20,500
(Of which, amount paid out as bonuses to directors pursuant to Statement of Appropriation of Net Income)	[-]	[-]	[20,500]
Net income related to common stock	274,511	82,167	463,084
Average number of shares outstanding during term (sharers)	11,834,425	11,716,212	11,825,029
Net income per share, fully diluted			
Increase in common stock	58,581	-	29,757
(Warrants)	[39,180]	[-]	[17,973]
(New share subscription rights)	[19,401]	[-]	[11,784]
Residual securities which were not included in calculations of net income per share after adjustment for residual securities because they had no dilutive effect.	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 252,100 shares)	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 319,000 shares)	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 246,900 shares)
	(Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 1 type, 1,200 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 120,000 shares)	(Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 3 types, 2,650 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 265,000 shares)	(Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 1 type, 1,200 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 120,000 shares)

Significant subsequent events

December 2004 term

(Freeze on system of retirement benefits for directors and corporate auditors)

At its Board of Directors Meeting held on February 14, 2005, the Company resolved to freeze its system of retirement benefits for directors and corporate auditors as of the end of the Regular General Meeting of Shareholders held on March 26, 2005.

For payments covering periods of service up to the date of the suspension of the system (i.e., up to the conclusion of said Regular General Meeting of Shareholders), the Company shall propose such payments at the General Shareholders Meetings convened for the periods in which each director retires or resigns and shall receive the approval of shareholders for such payments.

(Acquisition of treasury stock)

In accordance with Article 211-3-1 of the Commercial Code and with provisions of the Company's Articles of Incorporation, the Board of Directors at its meeting on February 14, 2005 approved the acquisition of treasury stock in the manner detailed below.

1. Type of stock to be acquired: common stock
2. Total number of shares to be acquired: 100,000 shares (maximum)
3. Total value of shares to be acquired: ¥100,000,000 (maximum)
4. Period in which purchases will be made: From February 15, 2005 to June 30, 2005
5. Method of purchasing shares

On the market, through the Nasdaq Securities Exchange

Purchases, Orders Received and Sales

1. Purchases

Purchases made during the interim term ended June 30, 2005 are as follows:

Thousands of yen	June 30, 2004		June 30, 2005		December 31, 2004	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Semiconductor business	8,087,220	100.0	7,835,864	100.0	15,461,671	100.0
	8,087,220	100.0	7,835,864	100.0	15,461,671	100.0

(Note)

Consumption tax is not included in the above figures.

2. Orders received

Orders received during the interim term ended June 30, 2005 as follows:

Thousands of yen	June 30, 2004		June 30, 2005		December 31, 2004	
	Orders received	Backlog	Orders received	Backlog	Orders received	Backlog
Semiconductor business	10,381,288	2,363,966	8,246,497	1,239,671	19,424,481	1,282,193
	10,381,288	2,363,966	8,246,497	1,239,671	19,424,481	1,282,193

(Note)

Consumption tax is not included in the above figures.

3. Sales

Sales during the interim term ended June 30, 2005 as follows:

Thousands of yen	June 30, 2004		June 30, 2005		December 31, 2004	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Semiconductor business	9,230,898	100.0	8,289,020	100.0	19,355,863	100.0
	9,230,898	100.0	8,289,020	100.0	19,355,863	100.0

(Note)

Consumption tax is not included in the above figures.