

Summary of Nonconsolidated Financial Statements

Fiscal year ended December 31, 2006

(Translation)

February 9, 2007

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: February 9, 2007

Adoption of system of dividends: March 26, 2007

Date of annual general meeting of shareholders: March 24, 2007

Application of unit trading system: Yes (100 shares per unit)

1. Nonconsolidated results of operations (From January 1, 2006 to December 31, 2006)

(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 2006	6,541	(55.7)	(724)	-	(405)	-
Fiscal 2005	14,774	(5.9)	402	(40.3)	259	(69.3)

	Net income		Net income per share	Net income per share, fully diluted	Return on equity ratio	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	(Millions of yen)	%	(Yen)	(Yen)	%	%	%
Fiscal 2006	(224)	-	(19.26)	-	(2.6)	(3.6)	(6.2)
Fiscal 2005	174	(64.0)	14.94	-	2.0	2.1	1.8

(Notes)

- Average number of shares outstanding during term (nonconsolidated basis):
December 2006 term: 11,661,101 shares December 2005 term: 11,691,064 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) Nonconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2006	9,642	8,339	86.5	715.20
December 31, 2005	13,049	8,678	66.5	744.18

(Notes)

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

December 2006 term: 11,660,952 shares

December 2005 term: 11,661,484 shares

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

December 2006 term: 188,947 shares

December 2005 term: 188,415 shares

2. Nonconsolidated forecasts for December 2007 term

(From January 1, 2007 to December 31, 2007)

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Interim 2007	4,120	(430)	(440)	(270)
Fiscal 2007	10,640	(425)	(460)	(280)

(N.b.) Projected net income per share for fiscal 2006: (24.01) yen

3. Dividends

	Annual dividend per share				Total dividend paid (for the year)	Dividend payout ratio	Dividends/net assets
	Interim	End of term	Others	Annual			
	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
Fiscal 2005	-	10.00	-	10.00	116	66.9	1.3
Fiscal 2006	-	10.00	-	10.00	116	-	1.4
Fiscal 2007 (Forecast)	-	10.00	-	10.00			

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 Page 15 in the Summary of Consolidated Financial Statements for information regarding the preparation of the forecasts.

Nonconsolidated balance sheet

Thousands of yen	December 31, 2005	%	December 31, 2006	%	Year-on-year change
Current assets					
Cash and bank deposits	2,889,901		1,170,180		
Notes receivable	301,531		112,239		
Accounts receivable	3,096,519		1,397,108		
Merchandise	3,861,459		1,664,350		
Supplies	6,284		6,287		
Prepaid expenses	46,013		44,425		
Deferred tax assets	63,162		18,159		
Short-term loans	-		2,900,000		
Other accounts receivable	8,158		562		
Income tax refunds receivable	-		60,695		
Consumption taxes receivable	1,026,014		148,413		
Others	59,210		21,178		
Allowance for doubtful accounts	(4,165)		(394)		
	11,354,091	87.0	7,543,207	78.2	(3,810,883)
Fixed assets					
Tangible fixed assets					
Buildings	130,464		118,858		
Accumulated depreciation	82,216		83,735		
	48,248		35,122		
Furniture and fixtures	359,626		348,985		
Accumulated depreciation	296,859		298,672		
	62,767		50,313		
Land	14,138		-		
	125,154	1.0	85,436	0.9	(39,718)
Intangible fixed assets					
Telephone rights	2,577		2,577		
Software	54,915		38,308		
	57,493	0.4	40,886	0.4	(16,606)
Investments and other assets					
Investment securities	240,985		236,955		
Investments in subsidiaries and affiliated companies	903,709		1,121,319		
Long-term prepaid expenses	267		196		
Deferred tax assets	100,911		329,178		
Fixed leasehold deposits	130,803		131,851		
Cash value of insurance policies	135,584		152,532		
Long-term loans to employees	315		579		
	1,512,577	11.6	1,972,613	20.5	460,036
Total fixed assets	1,695,224	13.0	2,098,935	21.8	403,711
Total assets	13,049,316	100.0	9,642,143	100.0	(3,407,172)

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Thousands of yen	December 31, 2005	%	December 31, 2006	%	Year-on-year change
Current liabilities					
Accounts payable	1,788,373		812,930		
Short-term bank loans	1,800,000		-		
Other payables	278,424		125,385		
Accrued expenses	34,661		32,658		
Income taxes payable	49,500		4,483		
Deposits received	34,313		31,733		
Accrued bonuses	31,637		39,379		
Others	8,826		104		
	<u>4,025,737</u>	30.9	<u>1,046,676</u>	10.8	<u>(2,979,060)</u>
Long-term liabilities					
Liability for employees' retirement benefits	21,106		19,395		
Liability for directors' and corporate auditors' retirement benefits	221,939		197,897		
Others	102,306		38,272		
	<u>345,351</u>	2.6	<u>255,564</u>	2.7	<u>(89,786)</u>
Total liabilities	<u>4,371,089</u>	33.5	<u>1,302,241</u>	13.5	<u>(3,068,847)</u>
Shareholders' equity					
Capital stock	1,339,634	10.3	-		-
Capital surplus					
Capital reserve	1,678,512		-		-
	<u>1,678,512</u>	12.8	-		-
Retained earnings					
Legal reserve	46,100		-		-
Voluntary reserve					
General reserve	5,400,000		-		-
Unappropriated retained earnings	317,047		-		-
	<u>5,763,147</u>	44.2	-		-
Unrealized gains on securities - net	27,092	0.2	-		-
Treasury stock	(130,161)	(1.0)	-		-
	<u>8,678,226</u>	66.5	-		-
Total liabilities and shareholders' equity	<u>13,049,316</u>	100.0	-		-

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Thousands of yen	December 31, 2005	%	December 31, 2006	%	Year-on-year change
Net assets					
Shareholders' equity					
Common stock	-	-	1,339,634	13.9	-
Capital surplus					
Capital reserve	-		1,678,512		
	-	-	1,678,512	17.4	-
Retained earnings					
Legal reserve	-		46,100		
Other retained earnings					
Special reserves	-		5,400,000		
Retained earnings carried forward	-		(24,116)		
	-	-	5,421,983	56.3	-
Treasury stock	-	-	(130,421)	(1.4)	-
	-	-	8,309,709	86.2	-
Valuation/translation gains (losses)					
Unrealized gains on securities - net	-	-	30,192	0.3	-
	-	-	30,192	0.3	-
Total net assets	-	-	8,339,901	86.5	-
Total liabilities and net assets	-	-	9,642,143	100.0	-

Nonconsolidated statement of income

Thousands of yen	Year ended December 31, 2005	%	Year ended December 31, 2006	%	Year-on-year change
Net sales	14,774,182	100.0	6,541,972	100.0	(8,232,210)
Cost of sales					
Beginning inventory - Merchandise	3,688,947		3,861,459		
Purchase of merchandise	12,152,884		3,056,326		
Processing cost	97,451		48,040		
	15,939,283		6,965,827		
Transfers to other accounts	8,054		6,576		
Ending inventory - Merchandise	3,861,459		1,664,350		
	12,069,768	81.7	5,294,900	80.9	(6,774,868)
Gross profit	2,704,413	18.3	1,247,071	19.1	(1,457,341)
Selling, general and administrative expenses					
Provision for doubtful accounts	465		-		
Directors' and corporate auditors' salaries	164,698		141,429		
Salary	757,556		685,637		
Bonuses	198,931		197,861		
Employee benefit expenses	115,186		111,668		
Provision for bonuses	30,666		38,639		
Provision for directors' and corporate auditors' retirement benefits	4,733		-		
Rent expenses	298,560		228,207		
Depreciation	94,458		54,044		
Commissions paid	124,046		96,133		
Others	512,996		418,201		
	2,302,297	15.6	1,971,822	30.2	(330,475)
Operating income	402,115	2.7	(724,750)	(11.1)	(1,126,866)
Nonoperating income					
Interest income	513		19,384		
Dividend income	15,908		5,286		
Commissions received	-		219,866		
Foreign exchange gain	-		82,928		
Gain on sale of investment securities	2,136		81		
Others	5,046		30,561		
	23,605	0.2	358,108	5.5	334,502
Nonoperating expenses					
Interest expenses	16,986		12,848		
Commissions paid	13,747		13,222		
Foreign exchange loss	116,623		-		
Loss on assignment of promissory notes	5,765		4,468		
Losses on assignment of receivables	9,317		5,788		
Others	3,861		2,815		
	166,302	1.1	39,142	0.6	(127,159)
Ordinary income	259,418	1.8	(405,784)	(6.2)	(665,203)

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Thousands of yen	Year ended December 31, 2005	%	Year ended December 31, 2006	%	Year-on-year change
Extraordinary income					
Gain on sale of investment securities	41,558		18,000		
Gain on redemption of investment securities	2,041		-		
Gain on reversal of directors' and corporate auditors' retirement benefits	-		75		
Reversal of allowance for doubtful accounts	-		3,771		
Gain on reversal of guarantee liabilities	752		176		
	<u>44,351</u>	0.3	<u>22,022</u>	0.3	(22,329)
Extraordinary losses					
Loss on disposal of fixed assets	1,201		4,731		
Loss on valuation of fixed assets	2,972		-		
Impairment losses			17,111		
Loss on valuation of investment securities	302		-		
	<u>4,476</u>	0.1	<u>21,842</u>	0.3	17,366
Income before income taxes	299,294	2.0	(405,605)	(6.2)	(704,899)
Income taxes - current	125,210		4,330		
Income taxes - deferred	(633)		(185,385)		
	<u>124,577</u>	0.8	<u>(181,055)</u>	(2.8)	(305,632)
Net income	174,717	1.2	(224,549)	(3.4)	(399,266)
Retained earnings at the beginning of period	142,330		-		-
Unappropriated retained earnings	317,047		-		-

Proposed appropriation of unappropriated retained earnings

Thousands of yen	March 25, 2006
Unappropriated retained earnings	317,047
Appropriations	
Dividends	<u>116,614</u>
	116,614
Unappropriated retained earnings carried forward	<u>200,433</u>

Statement of changes in net assets

Thousands of yen; December 31, 2006	Shareholders' equity							Total shareholders' equity
	Common stock	Capital surplus		Retained earnings			Treasury stock	
		Capital reserve	Legal reserve	Other retained earnings		Total retained earnings		
				Special reserve	Retained earnings carried forward			
Balance as of Dec 31, 2005	1,339,634	1,678,512	46,100	5,400,000	317,047	5,763,147	(130,161)	8,651,134
Changes during the term								
Dividends					(116,614)	(116,614)		(116,614)
Net income (loss)					(224,549)	(224,549)		(224,549)
Acquisition of treasury stock							(260)	(260)
Other changes in non-shareholders' equity items during the term (net)								
Total changes during the term					(341,164)	(341,164)	(260)	(341,425)
Balance as of Dec 31, 2006	1,339,634	1,678,512	46,100	5,400,000	(24,116)	5,421,983	(130,421)	8,309,709

Thousands of yen; December 31, 2006	Valuation/translation gains (losses)			Net assets (total)
	Unrealized gains on securities - net)		Total valuation/translation gains (losses)	
Balance as of Dec 31, 2005		27,092	27,092	8,678,226
Changes during the term				
Dividends				(116,614)
Net income (loss)				(224,549)
Acquisition of treasury stock				(260)
Other changes in non-shareholders' equity items during the term (net)		3,100	3,100	3,100
Total changes during the term		3,100	3,100	(338,325)
Balance as of Dec 31, 2006		30,192	30,192	8,339,901

Summary of significant accounting policies

Item	December 31, 2005	December 31, 2006
1. Valuation of securities	<p>(1) Securities of subsidiaries and associated companies: Stated at moving average cost</p> <p>(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</p>	<p>(1) Securities of subsidiaries and associated companies: Same as previous year</p> <p>(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 net assets section of the consolidated balance sheet. Sales cost is calculated using the moving average method.) Available-for-sale securities without market values: Same as previous year</p>
2. Valuation of derivative instruments, etc.	<p>Derivatives: As a principle, derivatives are stated at fair market value.</p>	<p>Derivatives: Stated at fair market value</p>
3. Valuation of inventories	<p>(1) Merchandise: Stated by moving average cost</p> <p>(2) Supplies: Stated by last purchased price method</p>	<p>(1) Merchandise: Same as previous year</p> <p>(2) Supplies: Same as previous year</p>
4. 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 Furniture and fixtures: 5 - 15 years</p> <p>(2) Intangible fixed assets: The straight-line method: Useful life of the software for internal use is 5 years.</p>	<p>(1) Tangible fixed assets: Same as previous year</p> <p>(2) Intangible fixed assets: Same as previous year</p>
5. Transaction of foreign currency denominated assets and liabilities into Japanese yen	<p>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.</p>	<p>Same as previous year</p>
6. Allowances	<p>(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.</p> <p>(2) Accrued bonuses: Reserves are provided to cover the estimated amount of bonuses payable to employees.</p>	<p>(1) Allowance for doubtful accounts: Same as previous year</p> <p>(2) Accrued bonuses: Same as previous year</p>

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Item	December 31, 2005	December 31, 2006
	<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>(3) Liability for employees' retirement benefits: Same as previous year</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. The Company froze its system of retirement bonuses for directors and corporate auditors on March 26, 2005. Consequently, there has been no new provisioning of retirement bonuses for directors since that date.</p>	<p>(4) Liability for directors' and corporate auditors' retirement benefits: Same as previous year</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 assets. Foreign exchange contracts that are effective hedges are accounted for using the allocation method, which requires recognized foreign currency receivables or payable to be translated using the corresponding foreign exchange contract rates.</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>(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>(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>(1) Hedge accounting method: Same as previous year</p> <p>(2) Hedging instruments and targets: Hedging instruments: Same as previous year Hedging targets: Same as previous year</p> <p>(3) Hedging policies: Same as previous year</p> <p>(4) Method of assessing effectiveness of hedges: Same as previous year</p>
9. Other	Treatment of consumption tax: Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.	Treatment of consumption tax: Same as previous year

Changes in material information regarding preparation of nonconsolidated financial statements

December 2006 term

(Accounting standards related to impairment of fixed assets)

In the fiscal year to December 2006, the Company began applying accounting standards related to the impairment of fixed assets {"Statement of Opinion on Accounting for Impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Guidance for Accounting Standards for Impairment of Fixed Assets" (ASB, Guidance No. 6; October 31, 2003)}. As a result of this change, the net loss before taxes and other adjustments increased by ¥17,111 thousand.

In accordance with the rules regarding the preparation of nonconsolidated financial statements, the Company deducted accumulated impairment losses directly from the value of each of the affected assets.

(Accounting standard for presentation of net assets on the balance sheet)

In the fiscal year to December 2006, the Company began applying the "Accounting Standard for Presentation of Net Assets on the Balance Sheet" (Accounting Standards Board of Japan, Statement 5, December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet" (ASB Guidance No. 8, December 9, 2005). The application of these accounting standards has no impact on total shareholders' equity

The Company has prepared the net assets portion of the balance sheet as of December 31, 2006 in accordance with the revised rules related to the preparation of financial statements.

(Accounting standard related to directors' and corporate auditors' bonuses)

In the fiscal year to December 2006, the Company began applying "Accounting Standards Relating to Directors' Bonuses" (Accounting Standards Board of Japan, Statement 4; November 29, 2005). This change had no impact on earnings during the period.

Changes in method of presentation

Thousands of yen	
December 31, 2005	December 31, 2006
(Nonconsolidated balance sheet)	(Nonconsolidated balance sheet)
"Insurance reserve funds," which had heretofore been reported in the "Others" account under "Investments and other assets," are now reported separately because of greater materiality. In the previous year, these reserves amounted to ¥118,636 thousand.	"Short-term loans," which had heretofore been reported in the "Others" account under "Investments and other assets," are now reported separately because of greater materiality. In the previous year, these reserves amounted to ¥50,000 thousand.

Additional information

December 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 fiscal year under review.

Consequently, SG&A expenses increased by ¥14,062 thousand, and operating income, ordinary income, and income before income taxes and minority interests all decreased by the same amount.

Notes (Nonconsolidated balance sheet)

Thousands of yen	December 31, 2005		December 31, 2006
*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	11,849,899 shares	Common stock	11,849,899 shares
2. Retroactive liability due to securitization	303,713	2. Retroactive liability due to securitization	53,113
3. Contingent liabilities		3. Contingent liabilities	
(1) Guarantee of subsidiaries' borrowings from financial institutions		(1) Guarantee of subsidiaries' borrowings from financial institutions	
Alfa Electronics, Inc.	137,600	Alfa Electronics, Inc.	95,820
(2) Guarantee of a subsidiary's accounts payable		(2) Guarantee of a subsidiary's accounts payable	
Alfa Electronics, Inc.	142,374	NS Microelectronics Co., Ltd.	407,257
		Alfa Electronics, Inc.	157,479
4. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with a four banks. As of the end of the fiscal year, it had the following unused lines of credit on these loan facilities.		4. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with a 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	7,900,000	Overdraft and loan commitment agreements	7,900,000
Amounts drawn down	1,350,000	Amounts drawn down	-
Unused lines of credit	6,550,000	Unused lines of credit	7,900,000
*5. Number of treasury shares held		*5. Number of treasury shares held	
Common stock	188,415 shares	Common stock	188,947 shares
*6. Assets relating to affiliates		*6. Assets relating to affiliates	
Accounts receivable, etc.	172,966	Accounts receivable, etc.	2,900,000
*7. Liabilities relating to affiliates		*7. -----	
Short-term bank loans	350,000		
8. Dividend restrictions		8. -----	
Amounts whose use is restricted for dividend purposes under the provisions of Article 124-3 of the Commercial Code comprise increases in net assets due to market value appreciation totaling ¥27,092 thousand.			

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(Nonconsolidated statement of income)

Thousands of yen	December 31, 2005	December 31, 2006	
*1. Costs associated with programming inspection and sorting of merchandise purchased.		*1. Costs associated with programming inspection and sorting of merchandise purchased.	
Labor cost	33,077	Labor cost	19,065
Outsourcing cost	34,490	Outsourcing cost	8,739
Depreciation	4,708	Depreciation	5,475
Others	25,174	Others	14,759
	<u>97,451</u>		<u>48,040</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. Total research and development expenses		*3. Total research and development expenses	
Research and development expenditures included in selling, general and administrative expenses	2,912	Research and development expenditures included in selling, general and administrative expenses	1,715
*4. Transactions with affiliated companies include the following.		*4. -----	
Dividend income	15,855		
*5. Breakdown of loss on disposal of fixed assets		*5. Breakdown of loss on disposal of fixed assets	
Furniture and fixtures	1,201	Furniture and fixtures	4,081
		Software	649
*6. Loss on devaluation of fixed assets		*6. -----	
Furniture and fixtures	2,694		
Software	278		
*7.		*7. Impairment losses	
		The PALTEK group has recognized impairment losses in the following asset groups.	
		Location Use Type of asset Impairment loss	
		Yamato-shi, Idle Land	11,194
		Kanagawa Building	5,917
		The PALTEK group classifies impairment losses under the categories of "operating company" and "idle assets."	
		When market value of idle assets declines sharply, the group reduces the book value amounts cited above to levels that are recoverable, and considers the amount of such reductions to be impairment losses. These amounts are then recognized as extraordinary losses.	
		The assessment of recoverable amounts for each classification of assets is based on projected sales value.	

(Nonconsolidated statement of changes in net assets)

December 2006 term

1. Types of shares issued; items related to number of shares

Shares	No. of shares outstanding at end of previous fiscal year	Increase in no. of shares outstanding during term under review	Decrease in no. of shares outstanding during term under review	No. of shares outstanding at end of term under review
Common stock	118,415	532	-	188,947
	<u>118,415</u>	<u>532</u>	<u>-</u>	<u>188,947</u>

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 accounting period.

Thousands of yen	December 31, 2005	December 31, 2006
Software		
Acquisition cost equivalent	35,850	18,600
Accumulated depreciation equivalent	30,692	18,600
Book value equivalent	5,157	-
Vehicle equipment		
Acquisition cost equivalent	29,880	29,880
Accumulated depreciation equivalent	6,427	11,407
Book value equivalent	23,453	18,473
Total		
Acquisition cost equivalent	65,730	48,480
Accumulated depreciation equivalent	37,119	30,007
Book value equivalent	28,611	18,473

(2) Future minimum lease payments

Thousands of yen	December 31, 2005	December 31, 2006
Within one year	10,166	4,942
Over one year	19,097	14,155
	29,264	19,097

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

Thousands of yen	December 31, 2005	December 31, 2006
Lease payments	73,404	10,868
Depreciation equivalent	69,914	10,137
Interest expense equivalent	1,325	702

(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.

Securities

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

Tax effect accounting

Thousands of yen	December 31, 2005		December 31, 2006
1. A breakdown of deferred tax assets and liabilities are noted below		1. A breakdown of deferred tax assets and liabilities are noted below	
Deferred tax assets		Deferred tax assets	
Loss on valuation of inventories	36,221	Accrued bonuses in excess of tax limit	16,003
Accrued bonuses in excess of tax limit	12,857	Liability for retirement benefits to directors' and corporate auditors'	80,425
Liability for retirement benefits to directors' and corporate auditors'	90,196	Loss carry forward	261,534
Others	31,810	Others	23,865
	<u>171,085</u>		<u>381,829</u>
		Valuation allowance	(493)
			<u>381,336</u>
Deferred tax liabilities		Deferred tax liabilities	
Revaluation gain on investment securities	(7,010)	Enterprise tax refund, etc. receivables	(4,295)
	<u>(7,010)</u>	Investments in subsidiaries and affiliated companies	(20,581)
		Revaluation gain on investment securities	(9,121)
Net deferred tax assets	164,074		<u>(33,998)</u>
		Net deferred tax assets	347,337
2. Reconciliation between the statutory tax rate and the effective tax rate		2. Reconciliation between the statutory tax rate and the effective tax rate	
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.		Statutory tax rate	40.64%
		(Adjustment)	
		Entertainment expenses, etc. non deductible portion	(2.30)%
		Inhabitants tax	(1.17)%
		Dividends receivable and other income permanently excluded from taxable income	7.67%
		Effect of the increase in valuation allowances	(0.12)%
		Others	(0.08)%
		Effective income tax rate	<u>44.64%</u>

Per share-related financial information

Yen	December 31, 2005	December 31, 2006
Net assets per share	744.18	715.20
Net income per share	14.94	19.26
There is no entry for net income per share, fully diluted for the fiscal year ended December 31, 2005 because the Company had no residual securities capable of diluting earnings.		Despite the existence of residual securities, no figure for net income after adjustment for residual securities is shown because the Company reported a net loss per share.

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

Thousands of yen	December 31, 2005	December 31, 2006
Net income per share		
Net income	174,717	(224,549)
Amount not attributable to common shareholders	-	-
[Of which, amount paid out as bonuses to directors and corporate auditors pursuant to Statement of Appropriation of Net Income]	[-]	[-]
Net income related to common stock	174,717	(224,549)
Average number of shares outstanding during term (shares)	11,691,064	11,661,101
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: 315,300 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 3 types, 2,600 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 260,000 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: 275,800 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 4 types, 5,213 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 521,300 shares)

Significant subsequent events

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

Changes in Management

The following nominations were proposed and approved at the Board of Directors Meeting on February 9, 2007. This proposed change is subject to approval at the 25th Annual General Meeting of Shareholders, which is scheduled on March 24, 2007.

1. Change in representative director:

N/A

2. Other changes

(Candidate for Director)

N/A

(Candidate for Corporate Auditor)

Outside Corporate Auditor: Teruhiko Kyogoku

Outside Corporate Auditor: Kazuhiko Nishimura (Managing Director and Senior Officer,
General Manager, Hokuriku Branch Office,
KDDI CORPORATION)

(Retiring Director)

N/A

(Retiring Corporate Auditor)

Outside Corporate Auditor: Tatsuo Kawamura (Outside Corporate Auditor)