



To Our Shareholders
PALTEK REPORT
Half-year Ended June 30, 2007

JASDAQ
Code : 7587



PALTEK CORPORATION
Tadahito Takahashi
 President

Financial Highlights

(millions of yen)

	2006/6	2006/12	2007/6	2007/12(E)
Net sales	5,948	14,729	9,125	21,400
Operating income (loss)	(150)	(412)	(311)	(280)
Ordinary income (loss)	(43)	(42)	(267)	(262)
Net income (loss)	(37)	(36)	(291)	(271)

(E): Estimated figure

I would like to extend my warmest thanks to all our shareholders for your continued support.

I am pleased to present the results of the interim term of our 26th fiscal year. (January 1, 2007–June 30, 2007).

Business Conditions of this Interim Term

During this interim term under review, the Japanese economy remained stable, led by bullish exports and consumer spending. In the electronics industry, where PALTEK operates, although steep price competition continued, demand for digital household electronics such as flat televisions was robust, and we were able to maintain a stable business.

In January of last year the Group switched its mainstay PLD products supplier to Xilinx. It has been seventeen months from the time this arrangement began operations last February up to the end of this interim term, while approximately fourteen months have passed since NS Microelectronics Co., Ltd. (NSM) joined the PALTEK Group in the middle of May 2006. In the

Programmable Logic Device (PLD) business, during the last fiscal year we finally completed our key tasks of transferring customers and upgrading our business structure. Starting this interim term, revenues have begun to recover noticeably. Also, by adding NSM to the Group, revenues of the analog semiconductor business have grown to the 10 billion-yen scale, and are playing a major role in bolstering our business base. Also, while our mainstay PLD business and analog semiconductor business are adapting to major changes, the performance of the system solution business, the third pillar of the Group, improved in both major divisions (memory and ASSP products), with revenues for fiscal 2006 up 66% over the previous fiscal year. In this interim period, system solutions has grown into one of our major business areas, now accounting for a full third of total Group revenue.

As a result, in terms of consolidated performance for the interim period under review, revenues are steadily climbing back up to the level they were at before we changed PLD suppliers, thanks to the growth of the analog semiconductor business and the systems solutions business. In profit terms,

however, we were unable to avoid a dip into the red as a result of the significant decrease in sales in the PLD business, and so we have recorded a loss.

In the second half of the fiscal year, the Group's foremost objectives are to accelerate the recovery of the PLD business and achieve a return to profitability. Our executives and employees are working together to restore our business performance and profitability. Going forward, we request your continued understanding and further guidance and support.

Full-year forecast

Looking toward the outlook for the Japanese economy in the third quarter and beyond, while there are still some uncertainties, such as the price of crude oil and exchange rates, it appears that the business environment overall will continue to improve steadily. We also anticipate mild growth, since capital investment in the electronics industry is increasing.

In this environment, we are committed to rebuilding revenue in our mainstay PLD business area. Through participation in trade shows and the hosting of many technology seminars, actively providing technology information on our website and issuing newsletters that include introductions of our new products, we are steadily expanding our customer base and increasing the adoption of Xilinx products. By providing high value-added technical support based on the PLD sales experience and knowledge we have gained over many years in business, and by offering "system-based proposals" whereby we include many suggestions not limited from the perspectives of semiconductor ICs themselves but more with our comprehensive understanding of the entire equipment that

customers design, the PALTEK Group will win even more business opportunities. We especially intend to promote our services in promising areas of growth and strive to achieve an early recovery in business performance.

In the analog semiconductor business, two Group companies, Alpha Electronics, Inc. and NSM have mutually complementary strengths in regional and customer bases, as well as application coverage and aspire to continuously strengthen their businesses using the products of National Semiconductor. Also, our supplier National Semiconductor is stepping up its focus of the high performance analog semiconductors that it is strategically introducing to the communications and industrial fields. We are aiming to generate synergies between PLD, ASSP and memory products, pushing forward with our strong system-based proposals as we expand the customer base and find new applications.

In the systems solutions business, memory product sales performed well, but given fluctuating price trends of the memory products, we are aiming to expand sales while balancing procurement and inventory risks. In ASSP products, our sales activities will focus on projects of our important clients, boosting the number of design-win projects.

Through the above activities, in terms of performance for the full 2007 fiscal year, the PALTEK Group is forecasting full-year sales of 21.4 billion yen (a 45.3% increase over the previous fiscal year), an operating loss of 280 million yen (compared with a consolidated operating loss of 412 million yen for the previous fiscal year), an ordinary loss of 262 million yen (compared with a consolidated ordinary loss of 42 billion yen for the previous fiscal year), and a net loss of 271 million yen (compared with a consolidated net loss of 36 billion yen for the previous fiscal year).

We asked the President Tadahito Takahashi about the current state of Xilinx business, the effects of adding NSM to the PALTEK Group, approach to new business, and the Company's growth strategy.



Q It has been a year since PALTEK began the Xilinx business. How has it started out? Did things go as you anticipated?

A Regarding the transfer of customers from the previous distributors, in February 2006 when we had just started sales activities, we thought we would have it completed by around the end of September that year. In reality, however, it took until around March 2007 to transfer our major customers, so that we were about half a year behind our initial expectations. I deeply regret our rather optimistic predictions for the customer transfer and causing concerns for the delay among our shareholders. On the other hand, in terms of developing new customers and winning designs with Xilinx products, we capitalized on our many years of experience in PLD sales. Our employees, with their high level of know-how, are really making rapid strides, and we expect this business to start contributing steadily to sales from the second half of the fiscal year. Xilinx, our supplier, has announced an advanced 65 nanometer process technology product, which it has already begun shipping. At PALTEK, we have already made progress in incorporating these products into many prototypes of customer designs, and we aim to strengthen sales centered around this latest offering. Our first goal is to bolster our foundation so that we can return sales to the 10 billion yen scale.

Q It has been a year since the addition of NSM to the Group. Have the synergies become apparent?

A To achieve the synergies, we are taking two approaches: expanding the business and improving efficiency. First, as an initiative to improve efficiency, in February of this year we integrated NSM's distribution operations, which had previously been outsourced, into our own distribution center. As a result, we did incur some initial deployment costs in this fiscal year, but we expect that this tactic will provide a major cost-savings from the next period. As a result of the integration, the transaction volume at the distribution center has increased dramatically, so we are aiming to achieve even greater efficiency going forward. In terms of business expansion, we have been conducting mutual technical trainings for PALTEK engineers working on digital semiconductors, such as PLD and ASSP products, and for NSM engineers working on analog semiconductors, and we are narrowing down the highly synergistic functions and application areas. Focusing on customers working with communication and industrial applications, we are already making proposals that optimize both digital and analog semiconductors, and some of these have already been adopted.

What are the new business areas that the Company is currently involved in?

A..... The new business areas that we have been focusing on since last year include the WiMAX business and the CMOS image sensor. The WiMAX business situation and expansion are featured on another page of this report. CMOS image sensor market is growing, primarily in the mobile phone market due to its strengths in low energy consumption and the smaller size and package availability. Our supplier, Micron Technology, is the market leader in CMOS image sensors, with a market share of nearly 40%, and is number one in the industry globally in terms of supply capacity. Recently Micron is expanding its scope of applications to include security cameras and medical devices where PALTEK has much experience. From now on, the PALTEK Group, taking advantage of the opportunities offered in this type of market expansion, will be concentrating on winning CMOS image sensor design opportunities.

Please describe your thoughts on compliance at PALTEK.

A..... Since the time of the Company's founding, based on the corporate philosophy of "*kyo-sei (to create cooperative growth)*," our business operations have always sought out win-win relationships with our business partners, such as clients and suppliers, and we are also deeply committed to an open corporate culture that involves regular and candid conversations with shareholders and employees. We also practice harmonious coexistence with the communities where we operate our businesses. That spirit and those values are featured in the "Philosophy Handbook" that we issue to all our employees, and are discussed repeatedly in new employee training and company-

wide meetings. In this way, we demonstrate our management policy concerning corporate philosophy and compliance. To make them come even more alive in our day-to-day operations and to adhere to them continuously, we have established a PALTEK standard of behaviors and governance and compliance standards. In order for these values and mechanisms to be deeply rooted and put into practice in the organization, we are continually conducting employee education and training.



Philosophy Handbook

Please describe us about how PALTEK will expand its business in the future.

A..... The PALTEK Group will aim to expand its business by continuing to provide system-based solutions while providing PLDs, analog semiconductor products and other products, and distinguish itself through the high level and fine tuning of its technical support capabilities. Particularly in the communication and industrial application areas, where high functionality and high performance are required, we will concentrate on system-based proposals that stand apart with their high added value, while securing profits by expanding sales through the adoption of multiple products and efficient management. To accomplish this, we will recruit engineers who specialize in the necessary technology fields, conduct training with the objective of continuously improving their skills, and boldly take up the new technologies and products.

Meet some of vibrant and talented employees at the PALTEK Group

Talent-1 Seminar instructors: Very popular and highly appreciated trainers

At PALTEK we conduct a wide range of technology support for our customers. In particular, we consider technology training and seminars to be some of the most critical functions. This is because customers need to learn how to use our products and development tools as a prerequisite for employing our products in their designs, and also because such training enables customers to develop their designs more efficiently and with less problems. That is why every year PALTEK hosts over 100 seminars and training sessions on a broad range of themes geared toward customers at all levels, from pure beginners to experts who are already designing on their own. Our courses have proved popular with many customers.



Friendly smiles and support
Our high-performing seminar instructors



Participants actually use computers in
this hands-on seminar

Most of the employees in the PALTEK engineering group that conducts these seminars and training sessions have been hired right out of university, but they have an insatiable desire to learn about new technologies by working to support the development of a wide range of customer designs. The members of the engineering group are proud that the key reason why the PALTEK Group stands above the rest is the reliability of its technical support and its ability to provide system-based solutions, and they work hard at their detailed technology support and skill improvement.

Talent-2 The engineers and sales

To facilitate a strategic shift to high performance analog semiconductor products at National Semiconductor Japan (NSJ), one of the PALTEK Group's key suppliers, improving the skills of salespersons and engineers of distributors is an important strategy. As a part of this initiative, NSJ established the Field Application Engineer (FAE) certification, which has high accreditation criteria. The FAE accreditation standards are so rigorous that out of all the distributors in Japan, only four individuals have earned the certification. Three of these four came from the PALTEK Group (one from Alpha Electronics, two from NSM).

In June 2007, prizes were awarded to the top sales people.

Talent-3 The QRA Group, on the frontlines of quality assurance

In a very unusual move for a trading company, PALTEK has organized its own specialized Quality Reliability Assurance (QRA) Group. This was done with the objective of delivering high-quality services in speedy manner to Japanese customers, who demand the world's highest standards. Through periodic meetings with customers and suppliers, the QRA Group actively conducts information sharing on quality issues, prevents problems, and responds immediately when a product issue is discovered, enabling continuous quality improvement. The Group also provides a wide array of other services, such as responding to environmental standards, which have drawn increasing attention in recent years.



The QRA Group's mission is to support Japanese customers, the world's most demanding in terms of quality.

team that lead our analog semiconductor business

PALTEK Group employees dominated the top 3 positions (with one from Alpha Electronics and two from NSM). The award is decided not solely in terms of revenue size, but takes into account many items, including whether the sales people have a firm grasp of how customers' projects are progressing and whether appropriate proposals were made, as well as evaluating their forward-looking actions for future design opportunities.



NSM (left) and Alpha (below) accredited FAEs and top sales people. (If you're looking for analog semiconductors, you have come to the right place!)

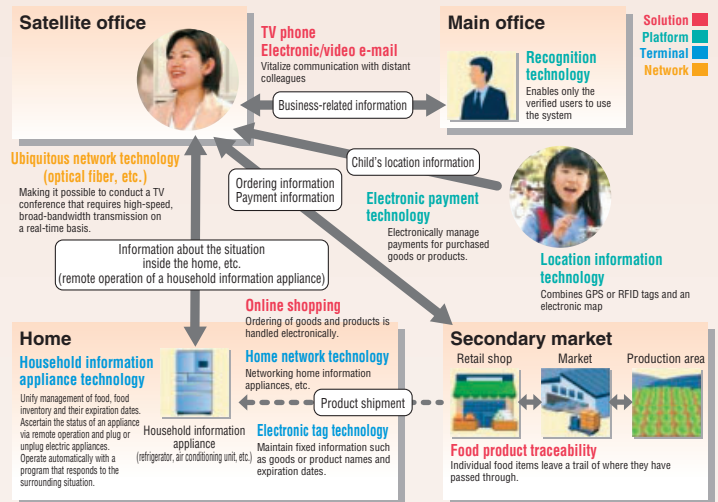


Field Application Engineers (FAE): Engineers who specialize in applications

Progress of the WiMAX business

What is WiMAX?

WiMAX (Worldwide Interoperability for Microwave Access) is one of the standards for next-generation wireless broadband. Its particular strength is that it can cover a broader area than wireless LAN and it enables high-speed transmission faster than that provided by a mobile phone. If WiMAX is deployed, Internet use and high-speed data transmission will become easier than ever, and it will open up wide areas of use.



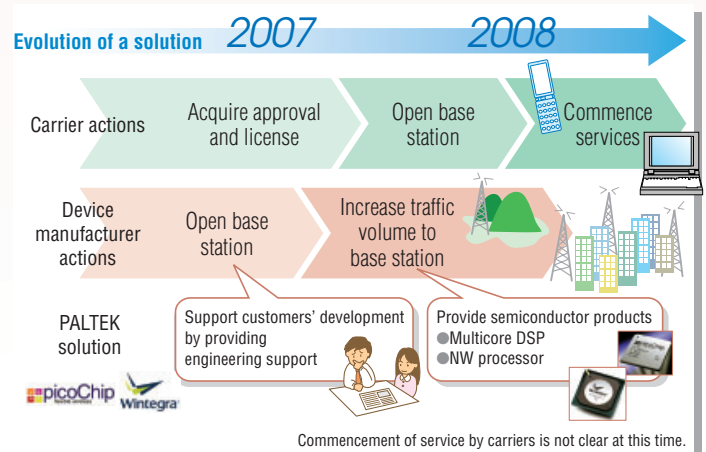
Source: Ministry of Internal Affairs and Communication
u-Japan policy homepage

The background to the interest

The “Next Generation Broadband Strategy 2010,” by the Ministry of Internal Affairs and Communications explains that WiMAX will enable the development of a broadband environment similar to that of urban areas, even in regions lacking broadband infrastructure. Moreover, since deploying WiMAX will enable high-speed, wireless transmission covering a wide area, it is likely to find application in a range of capacities designed for improving quality of life, such as enabling long-distance medical care and detecting locations in emergencies, or providing traceability to ensure food safety by tracking a product from origin to point of sale.

The upcoming schedule and efforts at PALTEK

- The Ministry of Internal Affairs and Communications decided on a policy of licensing the 2.5GHz band in July 2007, and will accept applications for base station development plans for a period of about one month starting September 2007. Afterwards, when licenses have been assigned to communications providers, communications providers will be able to expand WiMAX base stations in 2008.
- PALTEK is providing development boards, software, semiconductors, and technical support to WiMAX base station manufacturers in partnership with two suppliers, UK company picoChip and US company Wintegra.



Commencement of service by carriers is not clear at this time.

Annual general meeting of shareholders for the 25th term

The annual general meeting of shareholders for the 25th term was held on Saturday, March 24, 2007 at the Seminar Room at the Head Office. At this year's general meeting of shareholders, taking into consideration the fact that the PALTEK Group has undergone major changes such as the rebuilding the PLD business in fiscal 2006 and the addition of NSM to the Group, we attempted a new way of better explaining the business situation to shareholders, and we spent a great deal of time explaining in detail PALTEK operations and progress. As a result, the meeting was somewhat long at 59 minutes, but it met with the approval of the shareholders who attended.

The number of shareholders who exercised their rights via Internet proxy at this meeting, the fifth year that this was available, accounted for 3.6% of the total.

PALTEK runs our general meetings of shareholders with the goal of making it easy for shareholders to participate in the meetings and understand the Company. We strongly encourage you to let us know if you have any requests in this regard.

Report on shareholder survey

The questionnaire conducted at the time of the PALTEK Report for the 25th Term was answered by about the same number of people as last time, with over 200 returned. This year's questionnaire solicited a large number of opinions, including advice to management, criticism about the continued weakness of the share price, and warm support toward the Company.

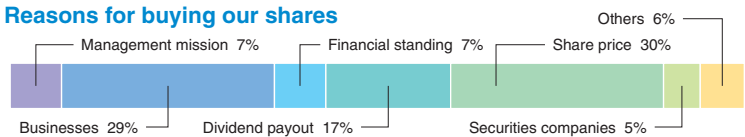
Each and every PALTEK Group's employee recognizes the fact that our sluggish share price has caused all of our shareholders anxiety and trouble. We have shared the results of the questionnaire with the management team, and everyone in the Group is determined to work hard to achieve a rapid recovery so that we can respond in some way to our shareholders' expectations and encouragement. Thank you very much for cooperating in our questionnaire.

● Results of Survey for the 25th PALTEK Report ●

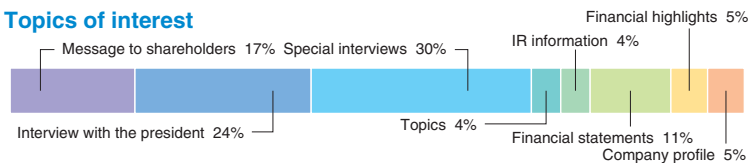
■ Key interests



■ Reasons for buying our shares



■ Topics of interest



● IR Events ●

Date	Events
February 9 (Friday)	Explanatory Meeting on Fiscal Year 2006
March 24 (Saturday)	Shareholders' Meeting and Company Explanation Session
May 10 (Thursday)	Explanatory Meeting on Q1 2007
August 9 (Thursday)	Explanatory Meeting on Results for First Half 2007
August 22 (Wednesday)	JASDAQ Conference
August 25 (Saturday)	Company Explanation Session for Individual Shareholders
October 30 (Tuesday)	Explanatory Meeting on Q3 2007

We have listed only events that are currently scheduled. Events in rows with colored backgrounds have already taken place.

Consolidated balance sheet

(Thousands of yen)

	June 30, 2007	June 30, 2006	December 31, 2006
●Assets			
Current assets	10,025,397	10,859,543	9,700,542
Cash and bank deposits	2,186,963	1,739,190	2,148,622
Notes and accounts receivable	4,287,689	3,661,953	3,966,758
Inventories	2,591,185	2,688,008	3,246,472
Other accounts receivable	842,287	2,644,736	158,035
Others	117,663	125,981	181,157
Allowance for doubtful accounts	(392)	(325)	(504)
Fixed assets	1,247,927	1,233,209	1,373,764
Tangible fixed assets	101,220	123,022	105,759
Intangible fixed assets	114,404	125,617	116,529
Goodwill	62,893	75,450	68,415
Others	51,510	50,167	48,113
Investments and other assets	1,032,302	984,569	1,151,475
Investment securities	177,710	231,476	263,658
Others	862,086	754,439	895,062
Allowance for doubtful accounts	(7,495)	(1,347)	(7,244)
Total assets	11,273,324	12,092,752	11,074,307
●Liabilities			
Current liabilities	2,729,136	2,320,476	2,020,257
Notes and accounts payable	1,192,362	1,163,969	1,430,343
Short-term bank loans	1,000,000	508,664	95,820
Accrued bonuses	71,515	47,821	57,212
Accrued bonuses for directors and corporate auditors	4,900	3,500	—
Others	460,359	596,522	436,881
Long-term liabilities	334,164	1,102,771	373,312
Long-term bank loans	—	115,000	—
Bonds	—	600,000	—
Negative goodwill	649	—	—
Liability for employees' retirement benefits	47,694	42,113	44,852
Liability for directors' and corporate auditors' retirement benefits	247,453	307,480	290,187
Others	38,366	38,176	38,272
Total liabilities	3,063,301	3,423,247	2,393,570
●Net assets			
Shareholders' equity	8,172,044	8,579,390	8,579,998
Common stock	1,339,634	1,339,634	1,339,634
Capital surplus	2,698,526	2,698,526	2,698,526
Retained earnings	4,264,364	4,671,633	4,672,259
Treasury stock	(130,480)	(130,403)	(130,421)
Valuation/translation gains (losses)	37,978	29,075	36,032
Unrealized gains (losses) on securities - net	34,225	27,710	36,032
Deferred hedging gains (losses)	3,752	1,365	—
Minority interests	—	61,039	64,705
Total net assets	8,210,023	8,669,505	8,680,736
Total liabilities and net assets	11,273,324	12,092,752	11,074,307

Consolidated statement of income

(Thousands of yen)

	Six months ended June 30, 2007	Six months ended June 30, 2006	Year ended December 31, 2006
Net sales	9,125,829	5,948,184	14,729,321
Cost of sales	7,899,530	4,869,207	12,284,141
Gross profit	1,226,298	1,078,977	2,445,179
Selling, general and administrative expenses	1,538,068	1,229,947	2,857,500
Salary	530,444	424,654	961,297
Provision for bonuses	64,370	47,043	46,272
Provision for directors' and corporate auditors' bonuses	4,900	3,500	—
Provision for directors' and corporate auditors' retirement benefits	1,563	4,484	8,726
Rent expenses	158,259	143,988	308,228
Amortization of goodwill	7,849	—	7,751
Others	770,682	606,276	1,525,222
Operating loss	311,769	150,970	412,320
Nonoperating income	68,940	137,768	433,958
Interest income	6,360	948	8,022
Dividend income	89	77	157
Commissions received	—	112,896	219,866
Foreign exchange gain	44,347	16,218	118,753
Gain on valuation of derivatives	—	—	59,517
Gain on sale of investment securities	—	81	81
Interest on refunds of consumption taxes	483	3,457	3,457
Amortization of negative goodwill	715	638	1,355
Others	16,944	3,449	22,747
Nonoperating expenses	24,637	30,023	63,909
Interest expenses	5,461	7,467	16,523
Provision for doubtful accounts	—	—	7,147
Commissions paid	9,471	9,471	17,913
Losses on assignment of promissory notes	1,549	3,456	4,468
Losses on assignment of accounts receivables	6,430	8,175	13,921
Others	1,725	1,452	3,936
Ordinary losses	267,466	43,225	42,271
Extraordinary income	20,767	20,782	21,940
Gain on sale of fixed assets	50	28	28
Gain on reversal of directors' and corporate auditors' retirement benefits	75	75	75
Reversal of allowance for doubtful accounts	111	2,589	3,660
Gain on sale of investment securities	15,782	18,000	18,000
Gain on cancellation of derivatives	4,741	—	—
Others	5	89	176
Extraordinary losses	27,636	21,012	35,058
Loss on revision of earnings from previous period	3,030	—	10,389
Loss on disposal of fixed assets	1,154	3,900	4,731
Impairment losses	—	17,111	17,111
Loss on sale of investment securities	2,718	—	—
Loss on devaluation of investment securities	20,733	—	2,826
Loss before income taxes and minority interests	274,335	43,455	55,389
Income taxes - current	28,690	48,649	146,482
Income taxes - deferred	(11,774)	(61,794)	(175,643)
Minority interests in income of consolidated subsidiaries	33	6,788	10,243
Net loss	291,285	37,099	36,472

Consolidated statement of changes in net assets

(Thousands of yen)

June 30, 2007	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Dec. 31, 2006	1,339,634	2,698,526	4,672,259	(130,421)	8,579,998
Changes during the term					
Dividends			(116,609)		(116,609)
Net income (loss)			(291,285)		(291,285)
Acquisition of treasury stock				(58)	(58)
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	—	—	(407,895)	(58)	(407,953)
Balance as of June 30, 2007	1,339,634	2,698,526	4,264,364	(130,480)	8,172,044

June 30, 2007	Valuation/translation gains (losses)			Minority interests	Total net assets
	Unrealized gains (losses) on securities - net	Deferred hedging gains (losses)	Total valuation/translation gains (losses)		
Balance as of Dec. 31, 2006	36,032	—	36,032	64,705	8,680,736
Changes during the term					
Dividends					(116,609)
Net income (loss)					(291,285)
Acquisition of treasury stock					(58)
Other changes in non-shareholders' equity items during the term (net)	(1,806)	3,752	1,946	(64,705)	(62,759)
Total changes during the term	(1,806)	3,752	1,946	(64,705)	(470,713)
Balance as of June 30, 2007	34,225	3,752	37,978	—	8,210,023

Consolidated statement of cash flows

(Thousands of yen)

	Six months ended June 30, 2007	Six months ended June 30, 2006	Year ended December 31, 2006
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	(274,335)	(43,455)	(55,389)
Depreciation	25,317	34,592	64,664
Amortization of goodwill	7,849	—	6,396
Amortization of negative goodwill	(715)	(638)	—
Loss on valuation of investment securities	20,733	—	2,826
Increase (decrease) in allowance for doubtful accounts	(111)	(2,589)	3,486
Increase (decrease) in accrued bonuses	14,302	5,664	15,056
Increase in accrued bonuses for directors and corporate auditors	4,900	3,500	—
Increase (decrease) in liability for employees' retirement benefits	2,842	(1,590)	1,148
Increase (decrease) in liability for directors' and corporate auditors' retirement benefits	(42,734)	(32,319)	(49,611)
Interest and dividends income	(6,450)	(1,026)	(8,179)
Interest expenses	5,461	7,467	16,523
Gain on sale of investment securities	(15,782)	(18,081)	(18,081)
Loss on sale of investment securities	2,718	—	—
Gain on sale of tangible fixed assets	(50)	(28)	(28)
Impairment losses	—	17,111	17,111
Loss on disposal of tangible fixed assets	1,038	3,251	4,081
Loss on disposal of intangible fixed assets	115	649	649
Commissions received	—	(112,896)	(219,866)
Gain on cancellation of insurance policies	(5,840)	—	—
Gain on cancellation of derivatives	(4,741)	—	—
Gain on valuation of derivatives	—	—	(59,517)
Decrease (increase) in accounts receivable - trade	(320,918)	2,456,810	2,152,004
Decrease (increase) in inventories	653,335	3,203,547	2,645,082
Increase (decrease) in payable - trade	(237,981)	(1,424,441)	(1,158,067)
Decrease (increase) in consumption tax receivable	28,806	742,207	808,849
Decrease (increase) in other accounts receivable	(700,259)	(2,450,250)	2,371
Increase (decrease) in accounts payable - other	102,873	62,347	(43,382)
Decrease (increase) in advance payments	8,218	(4,571)	(6,322)
Increase (decrease) in advances	21,273	1,555	(989)
Bonuses paid to directors and corporate auditors	—	(4,700)	(4,700)
Others	(25,294)	(114,928)	(97,026)
Sub total	(735,429)	2,327,187	4,019,089
Interest and dividends received	6,269	370	7,512
Interest paid	(5,202)	(8,355)	(19,031)
Commissions received	—	112,896	219,866
Tax refunds	61,998	—	—
Income taxes paid	(127,601)	(37,388)	(210,915)
Net cash from operating activities	(799,964)	2,394,709	4,016,521
Cash flows from investing activities			
Increase in time deposits	(12,000)	(32,000)	(44,005)
Decrease in time deposits	—	20,000	40,000
Purchases of investment securities	(2,230)	(2,272)	(23,915)
Proceeds from sale of investment securities	75,490	49,641	49,641
Payments for acquisition of affiliate's equity	(64,546)	(11,220)	(11,220)
Proceeds received from inclusion of NS Microelectronics Co., Ltd. as a subsidiary	—	106,041	99,953
Purchases of tangible fixed assets	(8,152)	(13,179)	(19,183)
Proceeds from sale of tangible fixed assets	137	304	4,804
Purchases of intangible fixed assets	(8,048)	(6,451)	(15,988)
Proceeds from sale of investment in partnership	—	—	18
Payments for loans	(150)	(500)	(500)
Proceeds from collection of loans	226	58	235
Increase in other investments	(31,406)	(19,260)	(25,864)
Decrease in other investments	86,492	175	61,016
Net cash from investing activities	35,811	91,336	114,992
Cash flows from financing activities			
Net increase (decrease) in short-term bank loans	910,000	(2,814,000)	(3,124,000)
Repayment of long-term bank loans	(5,820)	(827,886)	(1,045,730)
Payments for redemption of bonds	—	(50,000)	(750,000)
Purchases of treasury stock	(58)	(242)	(260)
Cash dividends paid to minority shareholders	(555)	(665)	(665)
Cash dividends paid	(116,332)	(116,202)	(116,746)
Net cash from financing activities	787,233	(3,808,995)	(5,037,402)
Effect of exchange rate changes on cash and cash equivalents	3,261	969	1,336
Net increase in cash and cash equivalents	26,341	(1,321,978)	(904,552)
Cash and cash equivalents at beginning of period	2,108,616	3,013,168	3,013,168
Cash and cash equivalents at end of period	2,134,957	1,691,189	2,108,616

Notes to consolidated financial statements (June 30, 2007)

Material information regarding preparation of consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 3

Names of consolidated subsidiaries:

Alpha Electronics, Inc.
Spinnaker Systems, Inc.
NS Microelectronics Co., Ltd.

(2) Names of unconsolidated subsidiaries:

Alpha Electron (HK) Co. Ltd.

(Reasons for exclusion from consolidation)

The scale of operations of this unconsolidated subsidiary is small, and its 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 interim financial statements.

2. Application of equity method

(1) Number of affiliated companies to which the equity method is applicable: -

(2) Names of unconsolidated subsidiaries 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 net income or consolidated retained earnings. In addition, all the unconsolidated subsidiaries combined do not have a significant impact on the consolidated interim results.

3. Accounting period of consolidated subsidiaries

All subsidiaries have interim period-ends that are the same as the day of consolidated interim closing.

4. Significant accounting policies

(A) Valuation of material assets

(1) Securities:

Available-for-sale securities:

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 costs are calculated using the moving-average method)

Available-for-sale securities without market value:

Stated as moving-average cost.

(2) Derivatives:

Stated at fair market value.

(3) Inventories:

(a) Merchandise:

Stated as moving-average cost.

(b) Supplies:

Stated by last purchased price method.

(B) Depreciation of fixed assets

(1) Tangible fixed assets:

Declining balance method (Note: Buildings, excluding ancillary

facilities, acquired on or after April 1, 1998 are depreciated based on the straight-line method)

Useful lives are as follows:

Buildings: 10 - 45 years

Vehicle equipment: 6 years

Furniture and fixtures: 5 - 15 years

(Change in accounting policy)

With the revision of the Corporation Tax Law, depreciation expenses for fixed assets acquired on or after April 1, 2007, will, from the interim period under review, be accounted for using the depreciation method stipulated in the revised law.

The effect of this change on profit and loss is seen as negligible.

(2) Intangible fixed assets:

Straight-line method.

The useful life of the software for internal use is 5 years.

(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.

(2) Accrued bonuses:

Reserves are provided to cover the estimated amount of bonuses payable to employees.

(3) Accrued directors' and corporate auditors' bonuses:

The Company recognizes as allowances for directors' and corporate auditors' bonuses amounts that are estimated to be allocable to the interim period under review.

(4) Liability for employees' retirement benefits:

The amount estimated to represent the potential liability as of the end of interim period is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration.

(5) Liability for directors' and corporate auditors' retirement benefits:

An allowance is provided by the Company to cover the estimated amount of retirement benefits payable to directors and corporate auditors.

The Company and all its consolidated subsidiaries 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 and corporate auditors since that date at the Company and its consolidated subsidiaries.

(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.

(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.

(F) Hedge accounting

(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. Forward foreign exchange contracts that are effective hedges are accounted for using the allocation method, which requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates.

(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.

(3) Hedging policies:

Derivative transactions are used by the Company and its several consolidated subsidiaries. Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the business plan.

(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.

(G) Other

Treatment of consumption tax:

Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.

5. Cash and cash equivalents

The "cash and cash equivalents" in the statements of cash flows include cash in hand, demand deposits, and short-term investments with maturities arriving three months from the date of acquisition that are readily convertible to cash and subject to minimum risk of price fluctuations.

(Consolidated statement of changes in net assets)

June 2007 term

1. Types of shares issued; types of treasury stock owned; items related to number of shares

(Thousands of yen)

Shares	No. of shares outstanding at end of previous fiscal year	Increase in No. of shares outstanding during interim term	Decrease in No. of shares outstanding during interim term	No. of shares outstanding at end of interim term
Shares outstanding				
Common stock	11,849,899	—	—	11,849,899
	11,849,899	—	—	11,849,899
Treasury stock				
Common stock	188,947	120	—	189,067
	188,947	120	—	189,067

Note: The increase of 120 shares of treasury stock reflects the Company's purchase of shares from shareholders holding less than one unit.

Changes in material information regarding preparation of consolidated financial statements

(Accounting standards for corporate mergers)

The "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan; October 31, 2003), the "Accounting Standard for Business Divestitures" (ASBJ; December 27, 2005), and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ; final revision December 22, 2006 (ASBJ Guidance No. 10) are being applied from the interim period under review.

Changes in presentation in the interim period consolidated financial statements resulting from these changes in regulations governing interim period consolidated financial statements are as follows.

Notes

(Consolidated balance sheet)

(Thousands of yen)

1. Aggregate amount of depreciation on fixed assets	450,703
2. Retroactive liability due to securitization	78,800
3. Amount of accounts receivable-trade offered as collateral	14,995
4. Contingent liabilities	

On May 25, 2006, NS Microelectronics Co., Ltd. was sued by Toshiba Corporation, which claimed that NS Microelectronics Co., Ltd. defaulted on its obligations and owed it damages with respect to semiconductor products that it sold to Toshiba. Toshiba is claiming damages in the amount of 252,274 thousand yen.

In the trial, NS Microelectronics Co., Ltd. is refuting and contesting any obligation to pay compensatory damages.

5. For more efficient financing of working capital, the Company and a subsidiary have entered into overdraft and loan commitment agreements with three banks. As of the end of the interim term, it had the following unused lines of credit on these loan facilities.

Overdraft and loan commitment agreements	6,350,000
Amounts drawn down	1,000,000
Unused lines of credit	5,350,000

(Consolidated statement of income)

(Thousands of yen)

1. Breakdown of gains on sale of fixed assets	
Furniture and fixtures	50
2. Breakdown of loss on disposal of fixed assets	
Buildings	778
Furniture and fixtures	260
Software	115

Notes to Consolidated Financial Statements

2. Items related to dividends

(1) Payment of dividends

Resolution	Type of shares	Total amount of dividends (Thousands of yen)	Dividend per share (yen)	Date of record	Effective date
Regular General Meeting of Shareholders on March 24, 2007	Common stock	116,609	10	December 31, 2006	March 26, 2007

(2) Dividends with record date in current interim term for which payment date falls after current interim term-end.
Not applicable.

(Consolidated statement of cash flows)

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

	(Thousands of yen)
Cash and bank deposits	2,186,963
Time deposits with maturities longer than 3 months	(52,006)
Cash and cash equivalents	2,134,957

Lease transactions

1. Finance leases where ownership does not transfer to 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)
Furniture and fixtures	
Acquisition cost equivalent	3,500
Accumulated depreciation equivalent	3,135
Book value equivalent	364
Vehicles and delivery equipment	
Acquisition cost equivalent	36,252
Accumulated depreciation equivalent	14,948
Book value equivalent	21,304
Software	
Acquisition cost equivalent	18,894
Accumulated depreciation equivalent	15,548
Book value equivalent	3,345
Total	
Acquisition cost equivalent	58,647
Accumulated depreciation equivalent	33,632
Book value equivalent	25,014

(2) Future minimum lease payments

	(Thousands of yen)
Within one year	9,452
Over one year	16,440
	25,893

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

	(Thousands of yen)
Lease payments	6,388
Depreciation equivalent	5,878
Interest expense equivalent	459

(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 amortizing the difference between the total amount of the lease payment and acquisition cost equivalent of the leased property over the lease period based on the interest method.

2. Operating leases - future minimum lease payments

	(Thousands of yen)
Within one year	1,157
Over one year	494
	1,652

Securities

1. Available-for-sale securities with market values

	(Thousands of yen)		
	Acquisition cost	Book value	Difference
Stocks	8,762	24,882	16,120
Bonds			
JGB, local government bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Others	31,177	67,980	36,802
	39,939	92,862	52,922

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	5,142
Investment in limited partnerships, etc.	77,909

Derivative transactions

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

Stock option plan

Type and number of stock options

Not applicable.

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). There is consequently no information to report in this section.

Geographic segment information

The PALTEK Group has no subsidiaries operating outside Japan and no significant overseas branches. This section is consequently not applicable.

June 2006 and 2007 interim terms

Geographic segment information for the period are omitted as domestic net sales and assets account for over 90% total amount of net sales and assets from every geographic segment, respectively.

Overseas sales

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

Corporate merger

Making Alpha Electronics Inc. a full subsidiary

PALTEK acquired the shares of consolidated subsidiary Alpha Electronics Inc. on February 20, 2007, making it a full subsidiary of PALTEK. These interim period financial statements were prepared as if the additional shares were acquired at the beginning of the period under review.

(1) Name and business of acquired company, legal method of corporate merger, and transaction overview including purpose

1) Name and business of acquired company

Name: Alpha Electronics Inc.

Business: Semiconductor sales

2) Legal method of corporate merger

Acquisition of shares

3) Transaction overview including purpose

PALTEK made the company a full subsidiary primarily to strengthen both its sales capabilities in the Kansai region and its analog semiconductor business.

(2) Acquired company's acquisition cost and details

1) Acquisition cost of acquired company

64,546 thousand yen

2) Details of acquisition cost

Cost of shares – 64,546 thousand yen

Paid entirely in cash

(3) Overview of accounting treatment applied

Accounting treatment based on the "Accounting Standard for Business Combinations, Article 3.4, Accounting treatment for transactions, etc. under joint control."

(4) Goodwill, etc. arising from transaction

1) Goodwill

978 thousand yen

2) Reason

The amount of market value of net assets to be returned to minority shareholders at the time of the corporate merger was less than the acquisition cost, and that difference was recognized as goodwill.

3) Amortization method and period

Goodwill will be amortized using the straight-line method over five years.

Per share-related financial information

	(Yen)
Net assets per share	704.07
Net loss per share	24.98

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 following standards apply to calculations of net income (loss) per share.

	(Thousands of yen)
Net income per share	
Net income (loss)	(291,285)
Amount not attributable to common shareholders	—
Net income (loss) related to common stock	(291,285)
Average number of shares outstanding during term (shares)	11,660,858

Residual securities which were not included in calculations of net income (loss) 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: 272,900 shares)

(Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code)

4 types, 5,118 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 511,800 shares)

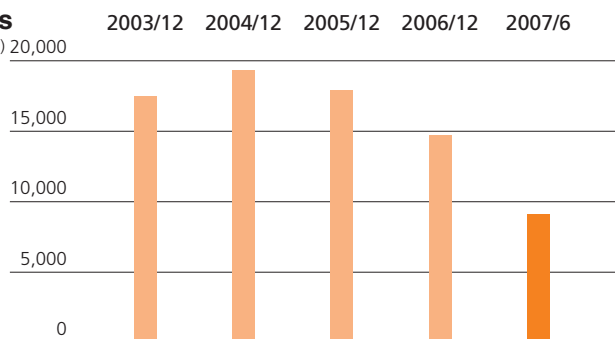
Significant subsequent events

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

Financial Highlights

Net sales

(Millions of yen) 20,000

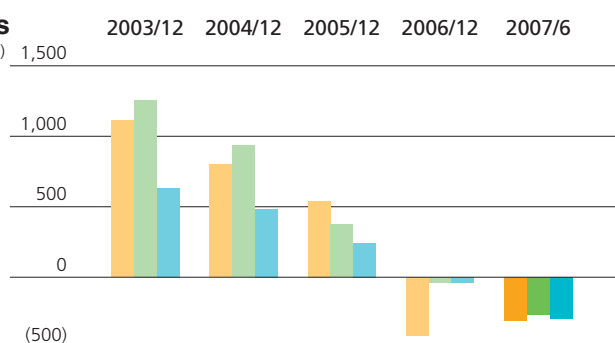


Net Sales

17,502 19,355 17,946 14,729 9,125

Earnings

(Millions of yen) 1,500



Operating income (loss)

1,111 798 541 (412) (311)

Ordinary income (loss)

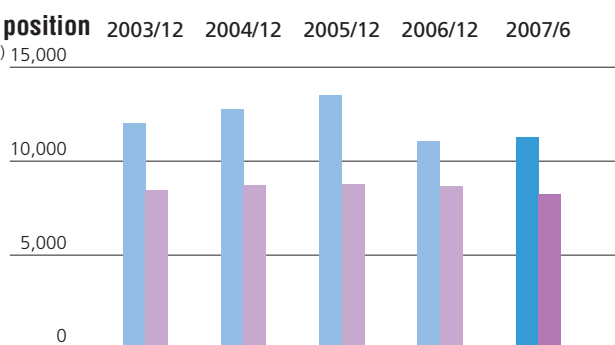
1,258 935 373 (42) (267)

Net income (loss)

632 483 243 (36) (291)

Financial position

(Millions of yen) 15,000



Total assets

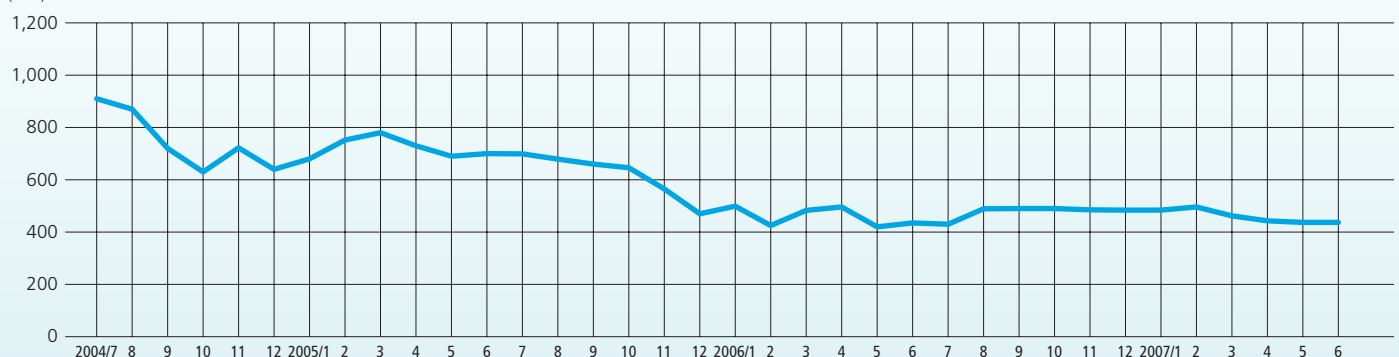
11,987 12,744 13,487 11,074 11,273

Net assets

8,429 8,711 8,769 8,680 8,210

Stock quotes

(Yen)



PLD Solution Business: We completed the transfer of major customers by the end of the first quarter. We recorded steady sales increase in the second quarter, but still have not returned to the level we were at before our supplier change.

Analog Solution Business: We posted a major increase on factors such as a mass production order in May 2006 from a major client of NSM, which had become part of the Group.

System Solution Business: Memory and ASSP products are increasing steadily.

As a result, revenues came to 9,125 million yen (up 53.4% compared to the same period the previous year).

Regarding our operating loss, although the significant increase in the analog solutions business has positive implications for sales, because sales of low-margin products was relatively high, the gross profit margin ratio was weak. We were unable to fully offset this with action to reduce selling, general and administrative expenses, and we consequently recorded an operating loss of 311 million yen (the operating loss for the previous consolidated interim term was 150 million yen). We also posted an ordinary loss of 267 million yen (against an ordinary loss for the previous consolidated interim term of 43 million yen), and recorded a net interim loss of 291 million yen (against a net loss for the previous consolidated interim term of 37 million yen).

Total assets increased slightly, to 11,273 million yen, largely as a result of the increases in notes and accounts receivable.

Liabilities increased 669 million yen from the end of the previous consolidated fiscal year, which resulted in total liabilities of 3,063 million yen, primarily due to the taking out of short-term bank loans.

Given the payment of dividends and the posting of a net interim term operating loss, net assets decreased by 470 million yen from the end of the previous consolidated fiscal year, taking total net assets to 821 million yen.

Company Profile (as of June 30, 2007)

- **Company Name** PALTEK CORPORATION
- **Established** October 1982
- **President** Tadahito Takahashi
- **Employees** Parent basis: 162
Consolidated basis: 234
- **Capital** 1,339,634 thousand yen
- **Subsidiaries** Alpha Electronics, Inc.,
NS Microelectronics Co., Ltd.,
Spinnaker Systems, Inc.,
Alpha Electron (HK), Co., Ltd.
- **Main Banks** Sumitomo Mitsui Banking Corporation,
The Bank of Tokyo-Mitsubishi UFJ, Ltd.,
Mizuho Bank, Ltd.,
Mitsubishi UFJ Trust and Banking Corporation,
Yokohama Bank, Ltd.
- **Main Customers** NEC Corporation,
Sony Corporation,
Anritsu Corporation,
Oki Electric Industry Co., Ltd.,
Olympus Corporation,
Fujitsu Limited,
Yokogawa Electric Corporation
- **Main Suppliers** Xilinx, Inc. (U.S.A.),
National Semiconductor Corporation (U.S.A.),
AudioCodes Ltd. (ISRAEL),
Gennum Corporation (Canada),
GSI Technology, Inc. (U.S.A.),
Micron Technology, Inc. (U.S.A.),
PLX Technology, Inc. (U.S.A.), etc.

- **Directors and Corporate Auditors**

President	Tadahito Takahashi
Vice President	Hiroyuki Takasaki
Director	Tadashi Ito
Director	Hajime Yamazaki
Director	Masahiko Hirata
Standing Corporate Auditor	Yukio Miura
Corporate Auditor	Isao Tsubaki
Corporate Auditor	Teruhiko Kyogoku
Corporate Auditor	Kazuhiko Nishimura

- **Offices**
 - **Head Office**
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222-0033, Kanagawa, Japan
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(Programming Center) TEL : +81-42-788-5561
FAX : +81-42-788-5562
 - **PALTEK CORPORATION Shanghai Office**
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No. 808, Hongqiao Road, Shanghai 200030 China
TEL : +86-21-64480145 FAX : +86-21-64480146

Stock Information (as of June 30, 2007)

- Total number of authorized shares 23,562,000 shares
 - Total number of shares issued 11,849,899 shares
 - Number of shares per lot 100 shares
 - Number of shareholders 3,356
 - Breakdown of shareholders by owned volume
-
- | | |
|--------------------|---------------------|
| 1,000 lots or more | 5,000 lots or more |
| 11 | 2 |
| 500 lots or more | 10,000 lots or more |
| 7 | 2 |
| 100 lots or more | Less than 1 lot |
| 60 | 233 |
| 50 lots or more | 1 lot or more |
| 86 | 1,701 |
| 10 lots or more | 5 lots or more |
| 821 | 433 |

- Breakdown of ownership by shareholders type
-
- | | |
|--------------------------|------------------------|
| Treasury stock | Financial institutions |
| 1 / 191,067 Shares | 10 / 872,200 Shares |
| Individuals and others | Securities companies |
| 3,289 / 7,239,430 Shares | 12 / 123,832 Shares |
| | Other corporations |
| | 26 / 800,879 Shares |
| | Foreign institutions |
| | 18 / 2,622,491 Shares |

Principal shareholders

Name	Number of shares held (thousand)	Equity ownership (%)
Tadahito Takahashi	2,562.1	21.62
The Bank of New York Europe Limited Luxembourg 131800	1,165.0	9.83
Dave Brauer	775.2	6.54
Endeavor Corporation	593.2	5.00
Japan Trustee Services Bank, Ltd. (Trust Account)	348.1	2.98
HSBC Fund Services SPARX Asset Management Corporated	332.4	2.80
NikkoCiti Trust and Banking Corporation (Investment Trust Account)	300.0	2.53
Narie Ogawa	264.7	2.23
Kyoko Mizuno	264.7	2.23
Keiko Takahashi	222.8	1.88

Note: The above list shows actual possession situation.

Shareholder Memo

Business Year	From January 1 to December 31
Annual general meeting of shareholders	End of March each year
Date of record for annual general meeting of shareholders	December 31 each year If necessary, the dates will be determined otherwise by a prior announcement.
Register closing date for dividend receivable	Term end dividend December 31 Interim dividend June 30
Transfer agent (Mailing address of the above)	Mitsubishi UFJ Trust and Banking Corporation Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation 10-11 Higashisuna 7-chome, Koto-ku, Tokyo 137-8081 Tel. 0120-232-711 (Toll free number)
Distributing agent	All nationwide branch offices of Mitsubishi UFJ Trust and Banking Corporation
Method of public notice	Nihon Keizai Shimbun In place of a public notice of account settlement, balance sheets and statements of income are posted on the Company's Website (http://www.paltek.co.jp).

Editor's Note

Yoshinori Shibasaki, Corporate Communication Group

In this issue of the PALTEK Report, we also feature the Company's compliance efforts.

I assume all of our shareholders are aware of the corporate misconduct reported frequently on television and in newspapers. When this type of incident occurs and indeed at every opportunity, our President Tadahito Takahashi speaks to all employees about the importance of the management philosophy, repeatedly emphasizing that even as the Company pursues profit, each and every officer and employee must behave responsibly with a sense of ethics as a member of society. In the future, we will continue to conduct our business in the spirit of the corporate philosophy of coexisting in a mutually beneficial way with all stakeholders. Going forward, we will continue to deliver improved and easy-to-understand PALTEK Reports to all of our shareholders, and we sincerely welcome any opinions or thoughts that you may have.

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