

August 9, 2007



PALTEK CORPORATION

Summary of Financial Statements for the Interim Term Ended June 30, 2007 (Translation)

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) filed with the stock exchange in Japan on August 9, 2007.

Company Name: PALTEK CORPORATION Head Office: Kanagawa, JAPAN
Shares Traded: JASDAQ URL: <http://www.paltek.co.jp>
Security Code No: 7587
Representative: Tadahito Takahashi, President
Contact: Tadashi Ito, Director, General Manager of Operational Service
 Division and in charge of Environment
Telephone: +81-45-477-2000
Scheduled filing date for half-year financial report: September 26, 2007

Summary of Consolidated Financial Statements
Interim term ended June 30, 2007
(Translation)

August 9, 2007

PALTEK CORPORATION

Security code number: 7587 (URL <http://www.paltek.co.jp>)
 Shares traded: JASDAQ
 Location of headquarters: Kanagawa, JAPAN
 Name & position of legal representative: Tadahito Takahashi
 President
 Please address all communications to: Tadashi Ito, Director, General Manager of
 Operational Service Division and in charge of
 Environment
 Phone: +81-45-477-2000

Scheduled filing date for half-year financial report: September 26, 2007

1. Consolidated operating results (From January 1, 2007 to June 30, 2007)**(1) Consolidated financial results**

(Fractional amounts discarded)
(Percent figures show year-on-year changes)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Interim 2007	9,125	53.4	(311)	-	(267)	-
Interim 2006	5,948	(28.2)	(150)	-	(43)	-
Fiscal 2006	14,729		(412)		(42)	

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
Interim 2007	(291)	-	(24.98)	-
Interim 2006	(37)	-	(3.18)	-
Fiscal 2006	(36)		(3.13)	-

(N.B.) Equity in earnings (losses) of affiliated companies:

June 2007 interim term: -
December 2006 term: -

June 2006 interim term: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2007	11,273	8,210	72.8	704.07
June 30, 2006	12,092	8,669	71.2	743.46
December 31, 2006	11,074	8,680	77.8	738.88

(N.B.) Total equity:

June 2007 interim term: 8,210 million yen
December 2006 term: 8,616 million yen

June 2006 interim term: 8,608 million yen

(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 2007	(799)	35	787	2,134
Interim 2006	2,394	91	(3,808)	1,691
Fiscal 2006	4,016	114	(5,037)	2,108

2. Dividends

(Record date)	Annual dividend per share				
	First quarter	Interim	Third quarter	End of term	Annual
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal 2006	-	-	-	10.00	10.00
Fiscal 2007	-	-	-	-	
Fiscal 2007 (Forecast)	-	-	-	10.00	10.00

3. Consolidated forecasts for fiscal year to December 2007

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

(Percent figures show projected year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Fiscal 2007	21,400	45.3	(280)	-	(262)	-	(271)	-	(23.24)

(Reference) Summary of Nonconsolidated operating results

1. Nonconsolidated operating results (From January 1, 2007 to June 30, 2007)

(1) Nonconsolidated financial results

(Fractional amounts discarded)
(Percentages figures show year-on-year changes)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Interim 2007	4,278	18.4	(383)	-	(351)	-
Interim 2006	3,613	(48.0)	(280)	-	(155)	-
Fiscal 2006	6,541		(724)		(405)	

	Net income		Net income per share
	(Millions of yen)	%	(Yen)
Interim 2007	(310)	-	(26.61)
Interim 2006	(96)	-	(8.23)
Fiscal 2006	(224)		(19.26)

(2) Nonconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2007	9,894	7,911	80.0	678.51
June 30, 2006	9,543	8,463	88.7	725.80
December 31, 2006	9,642	8,339	86.5	715.20

(N.B.) Total equity:

June 2007 interim term: 7,911 million yen

June 2006 interim term: 8,463 million yen

December 2006 term: 8,339 million yen

2. Nonconsolidated forecasts for fiscal year to December 2007

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

(Percent figures show projected year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Fiscal 2007	10,600	62.0	(500)	-	(485)	-	(370)	-	(31.73)

*** Disclaimer regarding appropriate use of forecasts and related points of note**

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 changes in business conditions. Please refer to the attached page 6 to 7 for information regarding the preparation of the forecasts.

Financial Performance

1. Analysis of results

(1) Results for the period to June 30, 2007

The Japanese economy remained stable during the interim period under review, driven by strong exports and consumer spending. Although the electronics industry, in which the PALTEK Group operates, experienced continued intense price competition, industry conditions were generally stable.

Following a change of supplier at the main PLD (Programmable Logic Device) solutions business in April 2006, marketing activities including transfers of customer accounts were emphasized during the interim period to June 2007 in order to quickly regain sales. The work to transfer a major customer was fully completed during the first quarter, and this made a solid contribution to sales towards the end of the second quarter. Sales have not yet recovered to the level prior to the change of supplier, however.

Concerning the second main business of analog solutions, NS Microelectronics Co., Ltd., which was acquired and became part of the PALTEK Group in May 2006, saw significant sales growth thanks to large-scale mass production which started at one of main customers. The systems solutions business was also solid, with growth in memory products and strength in ASSP products.

As a result, consolidated sales for the six months to June 2007 rose 53.4% year-on-year to 9,125 million yen.

With regard to the operating loss, sales showed solid growth as noted above, primarily from a large increase from analog solutions, but with the change of supplier, sales from PLD solutions are still in the recovery phase and the gross margin remained low, and this led to a lower consolidated gross margin. As a result, although efforts were made to reduce SG&A expenses, this could not absorb an overall increase in expenses, and the interim period ended with a 311 million yen operating loss (from a year-earlier loss of 150 million yen).

Given this operating loss, the Company recorded a 267 million yen ordinary loss (from a year-earlier loss of 43 million yen) and a net loss of 291 million yen (from a year-earlier loss of 37 million yen).

* *PLD (Programmable Logic Device): customized products for specified functions.*

ASSP (Application Specific Standard Product): a high-performance semiconductor that is dedicated to specific applications.

(2) Outlook for the year ending December 2007

Looking ahead at the Japanese economy from the third quarter, the PALTEK Group expects

overall conditions to remain sound even though elements of uncertainty, including high crude oil prices and exchange rate fluctuations, remain. As for the electronics industry, gradual growth is expected thanks to a backdrop of growth in capital investment.

Given this environment, the main PLD solutions business is working toward a rapid sales recovery by emphasizing sales of products from Xilinx, the world leader in PLD solutions. As a result of marketing efforts begun last year, the number of design wins to adopt Xilinx products is showing steady growth. The Group has also held exhibitions and many technological seminars and is using its Internet site to distribute news via e-mail, including technological information and new product announcements, and its customer base is expanding as a result.

The PALTEK Group provides technological support based on its experience and knowledge of PLD sales cultivated over many years. System-based proposals are made after gaining an understanding of the customer's overall equipment design, enabling the Group to provide high value-added service. In addition to acquiring even more business opportunities, PALTEK intends to gain a rapid recovery in results by pursuing design opportunities with customers in sectors poised for high growth.

The analog solutions business continues to strengthen its marketing capabilities, focusing on National Semiconductor products. Two group companies – Alpha Electronics Inc. and NS Microelectronics Co., Ltd. – have mutually complementary strengths in terms of regional and customer bases, as well as the equipment sectors for which their products are used. In addition, taking advantage of the opportunity presented by supplier National Semiconductor's strategic strengthening of its high-performance analog semiconductor business, the Group is strengthening its sales to the telecommunications equipment and industrial equipment sectors, working toward synergies between PLD, memory and ASSP products, making proposals in its strong area of systems, and working to expand its customer base and develop new applications for its products.

The systems solutions business is expanding its customer base for memory products and sales are growing nicely. Nevertheless, price trends in the memory market are unstable, and the business is aiming for sales growth while emphasizing the balance between procurement and sales. Marketing activities for ASSP products are focusing on design opportunities with customers that are established in their field, and the Group anticipates steady growth in the number of successful design wins.

Based on these activities, the PALTEK Group is projecting for the fiscal year consolidated sales of 21,400 million yen (a 45.3% increase from the previous year), with operating loss of 280 million yen (cf. operating loss of 412 million yen in the previous year), ordinary loss of 262 million yen (cf. ordinary loss of 42 million yen in the previous year), and net loss of 271

million yen (cf. net loss of 36 million yen in the previous year). On a parent (nonconsolidated) basis, the Company is forecasting 10,600 million yen in sales (a 62.0% increase), operating loss of 500 million yen (cf. operating loss of 724 million yen in the previous year), ordinary loss of 485 million yen (cf. ordinary loss of 405 million yen in the previous year), and net loss of 370 million yen (cf. net loss of 224 million yen in the previous year).

These projected ordinary and net losses on both a consolidated and parent basis have been slightly revised from the forecasts announced on July 9, 2007 (“PALTEK Issues Revised Forecast for FY2007 (ending December 31, 2007)”). These revisions are primarily due to the recording of impairment losses on equity holdings during the interim period under review.

Reference:

Consolidated forecast for fiscal year to December 2007
(from January 1, 2007 to December 31, 2007)

Millions of yen	Net sales	Operating income	Ordinary income	Net income
Previous forecast (A)	21,400	(280)	(275)	(230)
Revised forecast (B)	21,400	(280)	(262)	(271)
Change (B – A)	-	-	13	(41)
Change (%)	-	-	4.7	(17.8)

Nonconsolidated forecast for fiscal year to December 2007
(from January 1, 2007 to December 31, 2007)

Millions of yen	Net sales	Operating income	Ordinary income	Net income
Previous forecast (A)	10,600	(500)	(495)	(350)
Revised forecast (B)	10,600	(500)	(485)	(370)
Change (B – A)	-	-	10	(20)
Change (%)	-	-	2.0	(5.7)

2. Financial analysis

(1) Assets, liabilities and net assets

Total assets as of the end of the interim term under review grew by 199 million yen from the end of the previous fiscal year, to 11,273 million yen. This came primarily from growth in accounts receivable - trade and in other accounts receivable.

Liabilities grew by 669 million yen from the end of the previous fiscal year, to 3,063 million yen mainly due to short-term bank loans.

As a result, net assets declined by 470 million yen to 8,210 million yen, which included dividend payments totaling 116 million yen and the recording of a net loss for the interim period.

(2) Cash flows

Cash and cash equivalents outstanding on a consolidated basis as of the end of the interim period under review grew by 26 million yen from the end of the previous fiscal year, to 2,134 million yen.

The respective cash flows and primary factors affecting them are as follows:

(Net cash from operating activities)

Cash used in operating activities amounted to 799 million yen (compared with a 2,394 million yen net inflow in the year-earlier period). This included the recording of a 274 million yen loss before taxes and minority interests (cf. 43 million yen loss in the year-earlier period) and increases in accounts receivable - trade, inventories and other accounts receivable.

(Net cash from investing activities)

Cash provided by investing activities amounted to 35 million yen (cf. cash provided by 91 million yen in the year-earlier period), which included sales of investment securities.

(Net cash from financing activities)

Cash provided by financing activities amounted to 787 million yen (cf. cash used in 3,808 million yen in the year-earlier period), which included borrowings.

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

	June 30, 2005	June 30, 2006	June 30, 2007	December 31, 2005	December 31, 2006
Equity ratio	65.3%	71.2%	72.8%	65.0%	77.8%
Equity ratio based on market prices	63.0%	42.6%	45.9%	40.6%	51.0%
Years required to redeem liabilities	1.8 years	0.3 year	-	2.4 years	0.0 year
Interest-coverage ratio	59.1	286.6	-	45.5	211.0

(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 period 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.*

3. Fundamental policy regarding dividends and dividends for the term

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, and maintain continuous earnings. 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.

Its projections for consolidated and parent company results for the fiscal year ending in December 2007 are as outlined above, and it is the Company's intention to pay a year-end dividend of 10 yen per share this year.

4. 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 countermeasure if such events should 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 2007.

(1) Risk factors resulting from a dependence on the semiconductor business

The customers of the PALTEK Group principally comprise companies in the Japanese electronics industry. The financial performance of the Group is therefore 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 earnings structure 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.

(2) Dependence on specific suppliers

The PALTEK Group's main suppliers are Xilinx and National Semiconductor, and products from these two companies accounted for approximately 18% and 54% of sales respectively for the interim term under review. The Group currently enjoys stable relations with both Xilinx and National Semiconductor, but there is a possibility that Group results would be impacted if it became difficult to maintain these relationships because of a review of agency policies, restructuring, etc. at those companies.

(3) Regarding security breaches resulting in the loss of informational assets

The PALTEK Group possesses information assets that are important tools for 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 of 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 were to fall 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 such factors as the need to pay indemnification for damages.

* *ISMS (information security management system) Certification: Accreditation by the Japan Information Processing Development Corporation in accordance with ISO standards*

(4) Impact of fluctuation in exchange rates

The PALTEK Group’s primary business is the selling of semiconductors and related products, the bulk of which are procured from overseas suppliers. Because currency transactions are a regular part of the Group’s operations, fluctuations in foreign exchange rates could have an impact on the Group’s financial performance. The Group has adopted a variety of measures to minimize these risks and to avoid such impacts. Such measures cannot, however, guarantee the elimination of all foreign exchange risks. Consequently, sudden and rapid fluctuations in the foreign exchange markets could have an impact on the Group’s financial performance and financial standing.

(5) Recruitment of new suppliers and the advancement of business

The PALTEK Group has endeavored to “increase its areas of competitive advantage” and “broaden its base of customers” by procuring the most competitive products in the industry and by expanding and deepening its product offerings. To stay ahead in terms of products and product offerings, the Group has effectively utilized its highly proficient technical support capabilities and the marketing prowess that enables it to tailor its services to individual customers.

The semiconductor industry is, however, characterized by rapid technological innovation and intense competition. In such an environment, it is becoming increasingly difficult to prevail over the competition in the battle to win influential suppliers. Even if agreements can be reached with such suppliers and their products begin to be supplied to customers, there is no guarantee that the PALTEK Group’s business will unfold as planned. This is because business is affected by factors such as the competitiveness of the customer’s final product and by shortened product life cycles. Consequently, while the PALTEK Group will continue to keep a close eye on market and technology trends and endeavor to achieve the targets set in its projections by acquiring

competitive new products, its financial performance could be affected by delays in getting the businesses that use these new products up and running.

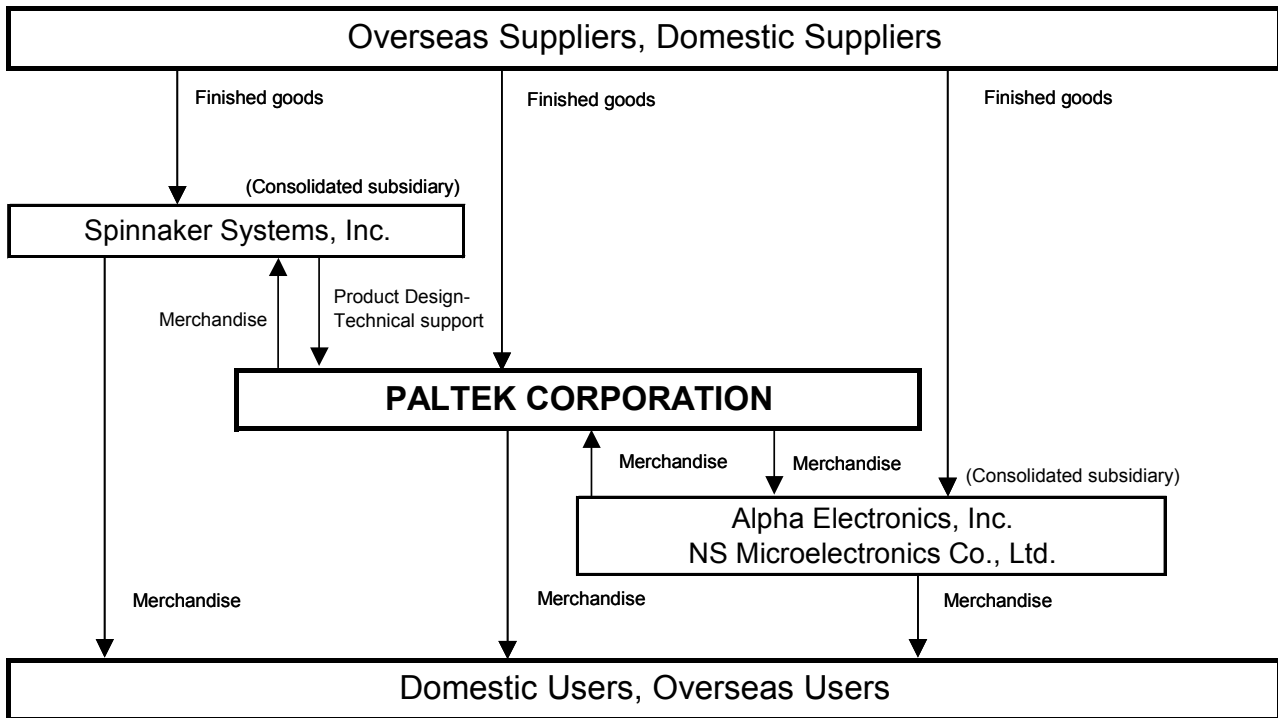
(6) Impact of the shift of production facilities overseas

The PALTEK Group sells semiconductors and other products to domestic electronic manufacturers, who, motivated by lower costs and rapidly growing markets, are increasingly shifting their manufacturing plants to overseas locations, principally in China and other parts of Asia.

In order to continue provide these customers with products and technical support, the PALTEK Group established Alpha Electron (HK) Co., Ltd. in March 2002 and a representative office in Shanghai in October 2004. NS Microelectronics Co., Ltd., which the Company acquired on May 16, 2006, and made a Group company, has a branch office in Singapore. The PALTEK Group intends to use this branch office as its sales and distribution base for Southeast Asia. Should there be a further shift overseas of the product development of the Group's customers in Japan, however, and should this shift be to regions beyond the reach of the PALTEK Group's sales operations, it could have a negative impact on the Group's financial performance.

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.



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 its customers, suppliers, employees, and shareholders, and the local communities in which it operates.

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. More than just a distributor, the PALTEK Group endeavors to provide its customers with the best possible solutions by supporting their development activities with a high level of technology and by proposing systems-based solutions that take into consideration the entire architecture of each customer's electronic equipment.

Through such actions, the PALTEK Group will continue to work diligently to develop the electronics industry and to contribute to a more convenient and dynamic ubiquitous network society—and, on that basis, to coexist in a mutually beneficial way with all its stakeholders.

2. Targeted financial ratios

The PALTEK Group's medium-term goal is to achieve consolidated sales of 50 billion yen and an operating margin of 10%.

3. Medium- to long-term management strategies and issues requiring action

The Group will undertake the following five management strategies to achieve these medium-term goals.

(1) Rebuilding and strengthening the mainstay PLD solutions business

PLDs are customized products for specific functions with the ability to respond flexibly and speedily to changes in the market environment. The PALTEK Group has been marketing them as core products for more than 20 years. In the previous fiscal year, the Company changed its supplier of PLDs, signing a distribution agreement with Xilinx, Inc., a worldwide leader in PLD solutions, on January 25, 2006 and began marketing Xilinx's products.

The Group has recommitted itself to supporting its existing customer base by proposing system-based solutions which utilize the know-how and experience in technical support it has accumulated over the years. In these proposals, the Group will continue to rely on its strengths, which include an ability to provide technical support that meets each customer's specific needs and an approach to sales based on a thorough understanding of the customer's products. In

addition, by taking advantage of Xilinx's broad array of product groups and the strengths of each of these groups, the PALTEK Group will seek to make inroads into previously under-served market segments and to expand the application coverage.

(2) Expanding and strengthening analog solutions

Analog semiconductors are an essential part of the accelerating shift toward digitalized household equipment and appliances. Strong demand for analog technology is likely to continue hereafter because of the essential role played by this technology in complex power control for advanced devices and in power management for mobile phones, digital cameras and other hand-held applications.

The PALTEK Group's operations in the field of analog solutions have been led by Alpha Electronics, Inc., a subsidiary whose customer base is centered in Western Japan and whose principal business is the distribution of products manufactured by National Semiconductor Corporation, a worldwide leader in high performance analog devices and subsystems. On May 16, 2006, the PALTEK Group strengthened its position in this field further with the acquisition of NS Microelectronics Co., Ltd., the top distributor of National Semiconductor's products in the Japanese market whose customers include major electric manufacturers with operations centered in the Kanto region.

Taking this opportunity, the PALTEK Group will bring to bear the knowledge and experience it has accumulated in this field in an endeavor to increase its sales and its base of customers for analog semiconductors. It will do so by selling not only to manufacturers of consumer products such as mobile phones and digital cameras, but also to the extensive universe of industrial equipment manufacturers.

(3) Developing a wider range of system solutions for newly emerging markets

The increasing proliferation of broadband networks and rapidly advancing technological innovation aimed at enhancing the speed and capacity of these networks are prompting the development of new markets driven by the convergence of communications, broadcasting and consumer appliances. To meet the needs of these markets, the PALTEK Group will provide solutions built around application-specific standard products (ASSP). Its primary focus will be in the following areas, where it can exploit the knowledge, experience and customer networks it has developed in the field of communications:

- 1) Solutions related to next-generation wireless communications
- 2) Solutions related to the high-speed transfer of large volumes of data
- 3) Solutions related to image processing

The Group's focus will not be limited to supplying individual semiconductors to manufacturers in these markets. Rather, it will endeavor to provide "system-based solutions" that respond to a wide variety of customer needs, including those for high-speed memory and power management ICs used at the periphery of the ASSP, for modules and packaged products that combine semiconductors with software, and for system-level proposals on near-final products.

(4) Development of new sources of products and the provision of advanced technical support

In the electronics industry, rapid and unpredictable technological progress and increasingly severe international competition are the rule. In this environment, the PALTEK Group believes it is absolutely necessary to constantly tune in to the latest products and technological trends and stay capable of developing methods and products that assist in the solution of its customers' problems.

It realizes, more over that it must continue to provide technical support regarding these new and increasingly complex products. Toward this end, the PALTEK Group will endeavor to attract and nurture engineers and sales personnel who are highly knowledgeable about markets and technologies and capable of providing proficient technical support.

(5) Strengthening the Group management

Effective May 16, 2006, the Company acquired NS Microelectronics Co., Ltd., a leading Japanese distributor of National Semiconductor's products, and made it a Group company. The PALTEK Group now comprises four companies.

The logistic and distribution operations outsourced by NS Microelectronics Co., Ltd. were consolidated with PALTEK's distribution centers during the interim term under review in order to improve operational efficiency.

The four group companies have different characteristics based on the products they handle and their customer bases. Going forward, PALTEK will continue to pursue efficient Group operations utilizing the respective strengths of Group companies, by working to increase business opportunities through cooperation among Group companies, reorganizing and consolidating operations, and through exchanges of personnel.

4. Other important issues related to company management

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

Consolidated financial statements**Consolidated balance sheet**

Thousands of yen	June 30, 2006	%	June 30, 2007	%	December 31, 2006	%
Current assets						
Cash and bank deposits	1,739,190		2,186,963		2,148,622	
Notes and accounts receivable	3,661,953		4,287,689		3,966,758	
Inventories	2,688,008		2,591,185		3,246,472	
Other accounts receivable	2,644,736		842,287		158,035	
Others	125,981		117,663		181,157	
Allowance for doubtful accounts	(325)		(392)		(504)	
	10,859,543	89.8	10,025,397	88.9	9,700,542	87.6
Fixed assets						
Tangible fixed assets						
	123,022	1.0	101,220	0.9	105,759	1.0
Intangible fixed assets						
Goodwill	75,450		62,893		68,415	
Others	50,167		51,510		48,113	
	125,617	1.0	114,404	1.0	116,529	1.0
Investments and other assets						
Investment securities	231,476		177,710		263,658	
Others	754,439		862,086		895,062	
Allowance for doubtful accounts	(1,347)		(7,495)		(7,244)	
	984,569	8.2	1,032,302	9.2	1,151,475	10.4
Total fixed assets	1,233,209	10.2	1,247,927	11.1	1,373,764	12.4
Total assets	12,092,752	100.0	11,273,324	100.0	11,074,307	100.0

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Thousands of yen	June 30, 2006	%	June 30, 2007	%	December 31, 2006	%
Current liabilities						
Notes and accounts payable	1,163,969		1,192,362		1,430,343	
Short-term bank loans	508,664		1,000,000		95,820	
Accrued bonuses	47,821		71,515		57,212	
Accrued bonuses for directors and corporate auditors	3,500		4,900		-	
Others	596,522		460,359		436,881	
	<u>2,320,476</u>	19.2	<u>2,729,136</u>	24.2	<u>2,020,257</u>	18.2
Long-term liabilities						
Long-term bank loans	115,000		-		-	
Bonds	600,000		-		-	
Negative goodwill	-		649		-	
Liability for employees' retirement benefits	42,113		47,694		44,852	
Liability for directors' and corporate auditors' retirement benefits	307,480		247,453		290,187	
Others	38,176		38,366		38,272	
	<u>1,102,771</u>	9.1	<u>334,164</u>	3.0	<u>373,312</u>	3.4
Total liabilities	<u>3,423,247</u>	28.3	<u>3,063,301</u>	27.2	<u>2,393,570</u>	21.6
Net assets						
Shareholders' equity						
Common stock	1,339,634	11.1	1,339,634	11.9	1,339,634	12.1
Capital surplus	2,698,526	22.3	2,698,526	24.0	2,698,526	24.4
Retained earnings	4,671,633	38.6	4,264,364	37.8	4,672,259	42.2
Treasury stock	(130,403)	(1.1)	(130,480)	(1.2)	(130,421)	(1.2)
	<u>8,579,390</u>	70.9	<u>8,172,044</u>	72.5	<u>8,579,998</u>	77.5
Valuation/translation gains (losses)						
Unrealized gains (losses) on securities - net	27,710	0.3	34,225	0.3	36,032	0.3
Deferred hedging gains (losses)	1,365	0.0	3,752	0.0	-	-
	<u>29,075</u>	0.3	<u>37,978</u>	0.3	<u>36,032</u>	0.3
Minority interests	61,039	0.5	-	-	64,705	0.6
Total net assets	<u>8,669,505</u>	71.7	<u>8,210,023</u>	72.8	<u>8,680,736</u>	78.4
Total liabilities and net assets	<u>12,092,752</u>	100.0	<u>11,273,324</u>	100.0	<u>11,074,307</u>	100.0

Consolidated statement of income

Thousands of yen	June 30, 2006	%	June 30, 2007	%	December 31, 2006	%
Net sales	5,948,184	100.0	9,125,829	100.0	14,729,321	100.0
Cost of sales	4,869,207	81.9	7,899,530	86.6	12,284,141	83.4
Gross profit	1,078,977	18.1	1,226,298	13.4	2,445,179	16.6
Selling, general and administrative expenses						
Salary	424,654		530,444		961,297	
Provision for bonuses	47,043		64,370		46,272	
Provision for directors' and corporate auditors' bonuses	3,500		4,900		-	
Provision for directors' and corporate auditors' retirement benefits	4,484		1,563		8,726	
Rent expenses	143,988		158,259		308,228	
Amortization of goodwill	-		7,849		7,751	
Others	606,276		770,682		1,525,222	
	1,229,947	20.6	1,538,068	16.8	2,857,500	19.4
Operating loss	150,970	(2.5)	311,769	(3.4)	412,320	(2.8)
Nonoperating income						
Interest income	948		6,360		8,022	
Dividend income	77		89		157	
Commissions received	112,896		-		219,866	
Foreign exchange gain	16,218		44,347		118,753	
Gain on valuation of derivatives	-		-		59,517	
Gain on sale of investment securities	81		-		81	
Interest on refunds of consumption taxes	3,457		483		3,457	
Amortization of negative goodwill	638		715		1,355	
Others	3,449		16,944		22,747	
	137,768	2.3	68,940	0.8	433,958	2.9
Nonoperating expenses						
Interest expenses	7,467		5,461		16,523	
Provision for doubtful accounts	-		-		7,147	
Commissions paid	9,471		9,471		17,913	
Losses on assignment of promissory notes	3,456		1,549		4,468	
Losses on assignment of accounts receivables	8,175		6,430		13,921	
Others	1,452		1,725		3,936	
	30,023	0.5	24,637	0.3	63,909	0.4
Ordinary losses	43,225	(0.7)	267,466	(2.9)	42,271	(0.3)

PALTEK CORPORATION

Thousands of yen	June 30, 2006	%	June 30, 2007	%	December 31, 2006	%
Extraordinary income						
Gain on sale of fixed assets	28		50		28	
Gain on reversal of directors' and corporate auditors' retirement benefits	75		75		75	
Reversal of allowance for doubtful accounts	2,589		111		3,660	
Gain on sale of investment securities	18,000		15,782		18,000	
Gain on cancellation of derivatives	-		4,741		-	
Others	89		5		176	
	<u>20,782</u>	0.3	<u>20,767</u>	0.2	<u>21,940</u>	0.1
Extraordinary losses						
Loss on revision of earnings from previous period	-		3,030		10,389	
Loss on disposal of fixed assets	3,900		1,154		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	
	<u>21,012</u>	0.3	<u>27,636</u>	0.3	<u>35,058</u>	0.2
Loss before income taxes and minority interests	43,455	(0.7)	274,335	(3.0)	55,389	(0.4)
Income taxes - current	48,649		28,690		146,482	
Income taxes - deferred	(61,794)		(11,774)		(175,643)	
	<u>(13,144)</u>	(0.2)	<u>16,915</u>	0.2	<u>(29,160)</u>	(0.2)
Minority interests in income of consolidated subsidiaries	6,788	0.1	33	0.0	10,243	0.0
Net loss	<u>37,099</u>	(0.6)	<u>291,285</u>	(3.2)	<u>36,472</u>	(0.2)

Consolidated statement of changes in net assets*June 2006 term*

Thousands of yen; June 30, 2006	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Dec. 31, 2005	1,339,634	2,698,526	4,829,522	(130,161)	8,737,521
Changes during the term					
Dividends			(116,614)		(116,614)
Directors' and corporate auditors' bonuses			(4,174)		(4,174)
Net income (loss)			(37,099)		(37,099)
Acquisition of treasury stock				(242)	(242)
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	-	(157,888)	(242)	(158,131)
Balance as of June 30, 2006	1,339,634	2,698,526	4,671,633	(130,403)	8,579,390

Thousands of yen; June 30, 2006	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, 2005	31,515	-	31,515	67,619	8,836,656
Changes during the term					
Dividends					(116,614)
Directors' and corporate auditors' bonuses					(4,174)
Net income (loss)					(37,099)
Acquisition of treasury stock					(242)
Other changes in non-shareholders' equity items during the term (net)	(3,805)	1,365	(2,440)	(6,580)	(9,020)
Total changes during the term	(3,805)	1,365	(2,440)	(6,580)	(167,151)
Balance as of June 30, 2006	27,710	1,365	29,075	61,039	8,669,505

PALTEK CORPORATION

June 2007 term

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

Thousands of yen; 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

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December 2006 term

Thousands of yen; December 31, 2006	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Dec. 31, 2005	1,339,634	2,698,526	4,829,522	(130,161)	8,737,521
Changes during the term					
Dividends			(116,614)		(116,614)
Directors' and corporate auditors' bonuses			(4,174)		(4,174)
Net income (loss)			(36,472)		(36,472)
Acquisition of treasury stock				(260)	(260)
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	-	(157,262)	(260)	(157,522)
Balance as of Dec. 31, 2006	1,339,634	2,698,526	4,672,259	(130,421)	8,579,998

Thousands of yen; December 31, 2006	Valuation/translation gains (losses)		Minority interests	Total net assets
	Unrealized gains (losses) on securities - net	Total valuation//translation gains (losses)		
Balance as of Dec. 31, 2005	31,515	31,515	67,619	8,836,656
Changes during the term				
Dividends				(116,614)
Directors' and corporate auditors' bonuses				(4,174)
Net income (loss)				(36,472)
Acquisition of treasury stock				(260)
Other changes in non-shareholders' equity items during the term (net)	4,516	4,516	(2,913)	1,602
Total changes during the term	4,516	4,516	(2,913)	(155,920)
Balance as of Dec. 31, 2006	36,032	36,032	64,705	8,680,736

Consolidated statement of cash flows

Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006
Net cash from operating activities			
Income (loss) before income taxes and minority interests	(43,455)	(274,335)	(55,389)
Depreciation	34,592	25,317	64,664
Amortization of goodwill	-	7,849	6,396
Amortization of negative goodwill	(638)	(715)	-
Loss on valuation of investment securities	-	20,733	2,826
Increase (decrease) in allowance for doubtful accounts	(2,589)	(111)	3,486
Increase (decrease) in accrued bonuses	5,664	14,302	15,056
Increase in accrued bonuses for directors and corporate auditors	3,500	4,900	-
Increase (decrease) in liability for employees' retirement benefits	(1,590)	2,842	1,148
Increase (decrease) in liability for directors' and corporate auditors' retirement benefits	(32,319)	(42,734)	(49,611)
Interest and dividends income	(1,026)	(6,450)	(8,179)
Interest expenses	7,467	5,461	16,523
Gain on sale of investment securities	(18,081)	(15,782)	(18,081)
Loss on sale of investment securities	-	2,718	-
Gain on sale of tangible fixed assets	(28)	(50)	(28)
Impairment losses	17,111	-	17,111
Loss on disposal of tangible fixed assets	3,251	1,038	4,081
Loss on disposal of intangible fixed assets	649	115	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	2,456,810	(320,918)	2,152,004
Decrease (increase) in inventories	3,203,547	653,335	2,645,082
Increase (decrease) in payable - trade	(1,424,441)	(237,981)	(1,158,067)
Decrease (increase) in consumption tax receivable	742,207	28,806	808,849
Decrease (increase) in other accounts receivable	(2,450,250)	(700,259)	2,371
Increase (decreases) in accounts payable - other	62,347	102,873	(43,382)
Decrease (increase) in advance payments	(4,571)	8,218	(6,322)
Increase (decrease) in advances	1,555	21,273	(989)
Bonuses paid to directors and corporate auditors	(4,700)	-	(4,700)
Others	(114,928)	(25,294)	(97,026)
	<u>2,327,187</u>	<u>(735,429)</u>	<u>4,019,089</u>
Interest and dividends received	370	6,269	7,512
Interest paid	(8,355)	(5,202)	(19,031)
Commissions received	112,896	-	219,866
Tax refunds	-	61,998	-
Income taxes paid	(37,388)	(127,601)	(210,915)
	<u>2,394,709</u>	<u>(799,964)</u>	<u>4,016,521</u>

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Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006
Net cash from investing activities			
Increase in time deposits	(32,000)	(12,000)	(44,005)
Decrease in time deposits	20,000	-	40,000
Purchases of investment securities	(2,272)	(2,230)	(23,915)
Proceeds from sale of investment securities	49,641	75,490	49,641
Payments for acquisition of affiliate's equity	(11,220)	(64,546)	(11,220)
Proceeds received from inclusion of NS Microelectronics Co., Ltd. as a subsidiary	106,041	-	99,953
Purchases of tangible fixed assets	(13,179)	(8,152)	(19,183)
Proceeds from sale of tangible fixed assets	304	137	4,804
Purchases of intangible fixed assets	(6,451)	(8,048)	(15,988)
Proceeds from sale of investment in partnership	-	-	18
Payments for loans	(500)	(150)	(500)
Proceeds from collection of loans	58	226	235
Increase in other investments	(19,260)	(31,406)	(25,864)
Decrease in other investments	175	86,492	61,016
	91,336	35,811	114,992
Net cash from financing activities			
Net increase (decrease) in short-term bank loans	(2,814,000)	910,000	(3,124,000)
Repayment of long-term bank loans	(827,886)	(5,820)	(1,045,730)
Payments for redemption of bonds	(50,000)	-	(750,000)
Purchases of treasury stock	(242)	(58)	(260)
Cash dividends paid to minority shareholders	(665)	(555)	(665)
Cash dividends paid	(116,202)	(116,332)	(116,746)
	(3,808,995)	787,233	(5,037,402)
Effect of exchange rate changes on cash and cash equivalents	969	3,261	1,336
Net increase in cash and cash equivalents	(1,321,978)	26,341	(904,552)
Cash and cash equivalents at beginning of period	3,013,168	2,108,616	3,013,168
Cash and cash equivalents at end of period	1,691,189	2,134,957	2,108,616

Material information regarding preparation of consolidated financial statements

Item	June 30, 2006	June 30, 2007	December 31, 2006
1. Scope of consolidation	(1) Number of consolidated subsidiaries: 3 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc. NS Microelectronics Co., Ltd. The newly acquired NS Microelectronics Co., Ltd. became a consolidated subsidiary as of the end of the interim period.	(1) Number of consolidated subsidiaries: 3 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc. NS Microelectronics Co., Ltd.	(1) Number of consolidated subsidiaries: 3 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc. NS Microelectronics Co., Ltd. The newly acquired NS Microelectronics Co., Ltd. became a consolidated subsidiary as of the end of the fiscal year.
	(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) Names of unconsolidated subsidiaries: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Same as June 30, 2006	(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 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) 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.	(2) Names of unconsolidated subsidiaries to which the equity method is not applicable: Same as June 30, 2006 (Reasons for exclusion from consolidation) Same as June 30, 2006	(2) Names of unconsolidated subsidiaries to which the equity method is not applicable: Same as June 30, 2006 (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 results.

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Item	June 30, 2006	June 30, 2007	December 31, 2006
3. Accounting period of consolidated subsidiaries	<p>NS Microelectronics Co., Ltd. closes its books for the interim period on November 30. In preparing its interim period financial statements, PALTEK Corporation uses interim statements based on accounts that have been provisionally closed on May 31.</p> <p>However, adjustments are made for all material transactions that arise between that date and the closing date of the interim period.</p>	<p>All subsidiaries have interim period-ends that are the same as the day of consolidated interim closing.</p>	<p>All subsidiaries have fiscal year-ends that are the same as the day of consolidated closing. Commencing with the fiscal year under review, NS Microelectronics Co., Ltd., changed its fiscal year-end from May 31 to December 31. Consequently, the company's balance sheet at December 31, 2006 and its income and cash flow statements for the 7-month period from June 1, 2006 to December 31, 2006 have been used for accounting purposes.</p>
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:</p> <p>Stated at fair market value as of the balance sheet date.</p> <p>(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)</p> <p>Available-for-sale securities without market value:</p> <p>Stated as moving-average cost.</p>	<p>(1) Securities:</p> <p>Available-for-sale securities:</p> <p>Available-for-sale securities with market values:</p> <p>Same as June 30, 2006</p> <p>Available-for-sale securities without market value:</p> <p>Same as June 30, 2006</p>	<p>(1) Securities:</p> <p>Available-for-sale securities:</p> <p>Available-for-sale securities with market values:</p> <p>Same as June 30, 2006</p> <p>Available-for-sale securities without market value:</p> <p>Same as June 30, 2006</p>
	<p>(2) Derivatives:</p> <p>Stated at fair market value</p>	<p>(2) Derivatives:</p> <p>Same as June 30, 2006</p>	<p>(2) Derivatives:</p> <p>Same as June 30, 2006</p>
	<p>(3) Inventories:</p> <p>(a) Merchandise:</p> <p>Stated as moving-average cost</p> <p>(A number of subsidiaries value their inventory at last purchased price.)</p>	<p>(3) Inventories:</p> <p>(a) Merchandise:</p> <p>Stated as moving-average cost</p>	<p>(3) Inventories:</p> <p>(a) Merchandise:</p> <p>Stated as moving-average cost</p> <p>(Additional information) During the period, one (several) subsidiary (subsidiaries) changed its (their) inventory valuation method from the last-invoice cost method 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>

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Item	June 30, 2006	June 30, 2007	December 31, 2006
	(b) Supplies: Stated by last purchased price method	(b) Supplies: Same as June 30, 2006	(b) Supplies: Same as June 30, 2006
(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	(1) Tangible fixed assets: Same as June 30, 2006 (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.	(1) Tangible fixed assets: Same as June 30, 2006
	(2) Intangible fixed assets: Straight-line method. The useful life of the software for internal use is 5 years.	(2) Intangible fixed assets: Same as June 30, 2006	(2) Intangible fixed assets: Same as June 30, 2006
(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, 2006	(1) Allowance for doubtful accounts: Same as June 30, 2006
	(2) Accrued bonuses: Reserves are provided to cover the estimated amount of bonuses payable to employees.	(2) Accrued bonuses: Same as June 30, 2006	(2) Accrued bonuses: Same as June 30, 2006

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Item	June 30, 2006	June 30, 2007	December 31, 2006
	(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. (Change in accounting policy) In the interim period to June 2006, the Company began applying "Accounting Standards Relating to Directors' Bonuses" (Accounting Standards Board of Japan, Statement 4; November 29, 2005). This change increased the loss in the operating loss, ordinary loss, and loss before income taxes and minority interests by 3,500,000 yen, respectively.	(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.	(3) -
	(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.	(4) Liability for employees' retirement benefits: Same as June 30, 2006	(4) 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.
	(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 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.	(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.	(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 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.
(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, 2006	Same as June 30, 2006

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Item	June 30, 2006	June 30, 2007	December 31, 2006
(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, 2006	Same as June 30, 2006
(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.	(1) Hedge accounting method: Same as June 30, 2006	(1) Hedge accounting method: Same as June 30, 2006
	(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, 2006 Hedging targets: Same as June 30, 2006	(2) Hedging instruments and targets: Hedging instruments: Same as June 30, 2006 Hedging targets: Same as June 30, 2006
	(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: 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.	(3) Hedging policies: Same as June 30, 2007
	(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, 2006	(4) Method for assessing effectiveness of hedges: Same as June 30, 2006
(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, 2006	Treatment of consumption tax: Same as June 30, 2006

Item	June 30, 2006	June 30, 2007	December 31, 2006
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.	Same as June 30, 2006	Same as June 30, 2006

Changes in material information regarding preparation of consolidated financial statements

June 2006 term

(Accounting standards related to impairment of fixed assets)

In the interim period to June 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 yen.

In accordance with the rules regarding the preparation of interim period consolidated 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 interim period to June 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 amount that corresponds to net assets under the previous standard is 8,607,100 thousand yen.

The Company has prepared the net assets portion of the balance sheet as of June 30, 2006 in accordance with the revised rules related to the preparation of interim consolidated financial statements.

June 2007 term

(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.

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 yen.

In accordance with the rules regarding the preparation of consolidated 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 amount that corresponds to net assets under the previous standard is 8,616,030 thousand yen.

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 consolidated financial statements.

Changes in method of presentation***June 2006 term***

(Consolidated balance sheet)

Until the previous fiscal year interim period, “other accounts receivable” had been included in the “others” category of current assets. Because these other accounts receivable exceeded 5 percent of total assets at the interim-end of this fiscal year, they were categorized in a separate account.

For comparison purposes “other accounts receivable” amounted to 490,161 thousand yen in the interim term ended June 30, 2005.

(Consolidated statement of income)

In the year-earlier interim period, “loss on assignment of promissory notes” 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 “loss on assignment of promissory notes” amounted to 2,846 thousand yen in the interim term ended June 30, 2005.

(Consolidated statement of cash flows)

In the year-earlier interim period, “decrease (increase) in other accounts receivable” had been included in the “others” category of cash flow. However, because of the increasing materiality of the amounts, they are now shown as a separate category.

For comparison purposes “decrease (increase) in other accounts receivable” amounted to 216 thousand yen in the interim term ended June 30, 2005.

Notes

(Consolidated balance sheet)

Thousands of yen	June 30, 2006		June 30, 2007		December 31, 2006
1. Aggregate amount of depreciation on fixed assets	439,548	1. Aggregate amount of depreciation on fixed assets	450,703	1. Aggregate amount of depreciation on fixed assets	442,459
2. Retroactive liability due to securitization	277,307	2. Retroactive liability due to securitization	78,800	2. Retroactive liability due to securitization	53,113
3. Amount of accounts receivable-trade offered as collateral	66,956	3. Amount of accounts receivable-trade offered as collateral	14,995	3. Amount of accounts receivable-trade offered as collateral	14,077
4. Contingent liabilities		4. Contingent liabilities		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 proceedings, NS Microelectronics Co., Ltd. has asserted that Toshiba claims are unjustified and it will fight the case in court.		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.		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 five 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 three 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	10,200,000	Overdraft and loan commitment agreements	6,350,000	Overdraft and loan commitment agreements	8,750,000
Amounts drawn down	400,000	Amounts drawn down	1,000,000	Amounts drawn down	50,000
Unused lines of credit	9,800,000	Unused lines of credit	5,350,000	Unused lines of credit	8,700,000

(Consolidated statement of income)

Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006																								
1. Breakdown of gains on sale of fixed assets		1. Breakdown of gains on sale of fixed assets	1. Breakdown of gains on sale of fixed assets																								
Furniture and fixtures	28	Furniture and fixtures	28																								
2. Breakdown of loss on disposal of fixed assets		2. Breakdown of loss on disposal of fixed assets	2. Breakdown of loss on disposal of fixed assets																								
Furniture and fixtures	3,251	Buildings	4,081																								
Software	649	Furniture and fixtures	649																								
		Software																									
3. Impairment losses	3.	-	3. Impairment losses																								
The PALTEK Group has recognized impairment losses in the following asset groups.			The PALTEK Group has recognized impairment losses in the following asset groups.																								
<table border="1"> <thead> <tr> <th>Location</th> <th>Use</th> <th>Type of asset</th> <th>Impairment loss</th> </tr> </thead> <tbody> <tr> <td>Yamato-shi, Kanagawa</td> <td>Idle</td> <td>Land</td> <td>11,194</td> </tr> <tr> <td></td> <td></td> <td>Building</td> <td>5,917</td> </tr> </tbody> </table>	Location	Use	Type of asset	Impairment loss	Yamato-shi, Kanagawa	Idle	Land	11,194			Building	5,917			<table border="1"> <thead> <tr> <th>Location</th> <th>Use</th> <th>Type of asset</th> <th>Impairment loss</th> </tr> </thead> <tbody> <tr> <td>Yamato-shi, Kanagawa</td> <td>Idle</td> <td>Land</td> <td>11,194</td> </tr> <tr> <td></td> <td></td> <td>Building</td> <td>5,917</td> </tr> </tbody> </table>	Location	Use	Type of asset	Impairment loss	Yamato-shi, Kanagawa	Idle	Land	11,194			Building	5,917
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The PALTEK Group classifies impairment losses under the categories of "operating company" and "idle assets."			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.			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.			The assessment of recoverable amounts for each classification of assets is based on projected sales value.																								

(Consolidated statement of changes in net assets)

June 2006 term

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

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	188,415	492	-	188,907
	188,415	492	-	188,907

(Note) The increase of 492 shares of treasury stock reflects the Company's purchase of shares from shareholders holding less than one unit.

2. Items related to dividends**(1) Payment of dividends**

Resolution	Type of shares	Total amount of dividends (Thousand of yen)	Dividend per share (yen)	Date of record	Effective date
Regular General Meeting of Shareholders on March 25, 2006	Common stock	116,614	10	December 31, 2005	March 25, 2006

(2) Dividends with record date in current interim term for which payment date falls after current interim term-end.

Not applicable.

June 2007 term**1. Types of shares issued; types of treasury stock owned; items related to number of shares**

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.

2. Items related to dividends**(1) Payment of dividends**

Resolution	Type of shares	Total amount of dividends (Thousand 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.

December 2006 term

1. Types of shares issued; types of treasury stock owned; 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
Shares outstanding				
Common stock	11,849,899	-	-	11,849,899
	11,849,899	-	-	11,849,899
Treasury stock				
Common stock	188,415	532	-	188,947
	188,415	532	-	188,947

(Note) The increase of 532 shares of treasury stock reflects the Company's purchase of shares from shareholders holding less than one unit.

2. Items related to dividends

(1) Payment of dividends

Resolution	Type of shares	Total amount of dividends (Thousand of yen)	Dividend per share (yen)	Date of record	Effective date
Regular General Meeting of Shareholders on March 25, 2006	Common stock	116,614	10	December 31, 2005	March 25, 2006

(2) Dividends with record date in current fiscal year for which payment date falls in the next fiscal year.

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

(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	June 30, 2006	June 30, 2007	December 31, 2006
Cash and bank deposits	1,739,190	2,186,963	2,148,622
Time deposits with maturities longer than 3 months	(48,001)	(52,006)	(40,006)
Cash and cash equivalents	1,691,189	2,134,957	2,108,616

December 2006 term

Major assets and liabilities of newly acquired consolidated subsidiary

As a result of its acquisition, NS Microelectronics Co., Ltd. was included in consolidation in the fiscal year under review.

The following is a reconciliation of the value of assets and liabilities at the beginning of the consolidated accounting period and the acquisition price of the company’s shares and the cost of acquisition (net amount).

Thousands of yen	December 31, 2006
Current assets	4,433,273
Fixed assets	179,655
Goodwill	77,517
Current liabilities	(2,971,898)
Long-term liabilities	(1,155,957)
Acquisition price of shares of NS Microelectronics Co., Ltd.	562,589
Cash and bank deposits of NS Microelectronics Co., Ltd.	(662,542)
Net gain on acquisition of NS Microelectronics Co., Ltd.	99,953

(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	June 30, 2006	June 30, 2007	December 31, 2006
Furniture and fixtures			
Acquisition cost equivalent	10,834	3,500	10,834
Accumulated depreciation equivalent	7,030	3,135	8,125
Book value equivalent	3,803	364	2,708
Vehicles and delivery equipment			
Acquisition cost equivalent	33,020	36,252	33,020
Accumulated depreciation equivalent	9,492	14,948	12,296
Book value equivalent	23,527	21,304	20,723
Software			
Acquisition cost equivalent	79,478	18,894	37,494
Accumulated depreciation equivalent	69,415	15,548	32,238
Book value equivalent	10,062	3,345	5,256
Total			
Acquisition cost equivalent	123,333	58,647	81,349
Accumulated depreciation equivalent	85,939	33,632	52,660
Book value equivalent	37,394	25,014	28,688

(2) Future minimum lease payments

Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006
Within one year	14,344	9,452	11,671
Over one year	24,132	16,440	17,988
	38,476	25,893	29,660

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

Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006
Lease payments	9,665	6,388	18,965
Depreciation equivalent	9,063	5,878	17,768
Interest expense equivalent	499	459	983

(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	June 30, 2006	June 30, 2007	December 31, 2006
Within one year	1,115	1,157	1,135
Over one year	1,652	494	1,078
	2,767	1,652	2,214

(Securities)*June 2006 term*

1. Available-for-sale securities with market values

Thousands of yen	Acquisition cost	Book value	Difference
Stocks	11,588	19,776	8,188
Bonds			
JGB, local government bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	74,691	114,050	39,358
	86,280	133,826	47,546

(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	June 30, 2006
Available-for-sale securities	
Unlisted securities	24,788
Investment in limited partnerships, etc.	71,065

June 2007 term

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
	<u>39,939</u>	<u>92,862</u>	<u>52,922</u>

(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	June 30, 2007
Available-for-sale securities	
Unlisted securities	5,142
Investment in limited partnerships, etc.	77,909

December 2006 term

1. Available-for-sale securities with market values

Thousands of yen	Acquisition cost	Book value	Difference
Stocks	8,762	20,728	11,965
Bonds			
JGB, local government bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	74,691	122,259	47,567
	<u>83,454</u>	<u>142,987</u>	<u>59,533</u>

(Note):

During the term ended December 31, 2006, an impairment loss in the amount of 2,826 thousand yen 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	December 31, 2006
Available-for-sale securities	
Unlisted securities	44,788
Investment in limited partnerships, etc.	74,086

(Derivative transactions)

June 2006 term

June 30; Thousands of yen	2006		
Category and type	Amount of contract etc.	Market value	Unrealized gain (loss)
Currency			
Option transactions			
Put option to sell (US\$)	982,537	(52,565)	(52,565)
Call option to buy (US\$)	982,537	63,105	63,105
	1,965,075	10,540	10,540

(Note) Derivative transactions for which hedge accounting is applied are not included.

June 2007 term

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

December 2006 term

December 31; Thousands of yen	2006		
Category and type	Amount of contract etc.	Market value	Unrealized gain (loss)
Currency			
Option transactions			
Put option to sell (US\$)	938,070	1,023,747	85,677
Call option to buy (US\$)	938,070	922,450	(15,619)
	1,876,140	1,946,198	70,058

(Notes)

1. Market value calculation method

Market value calculated based on prices and other information provided by financial institutions with which the PALTEK Group has a business relationship.

2. Derivative transactions for which hedge accounting is applied are not included.

(Stock option plan)***June 2006 term and December 2006 term***

Type and number of stock options

The Company granted the following stock options during the interim period under review.

Stock options in 2006	
Categories and numbers of persons to be granted rights	Employees of the Company: 146 Employees of the subsidiaries: 34
No. of stock options granted	Common stock: 277,200 shares
Date options granted	April 25, 2006
Conditions for establishment of rights	At the time of execution of rights, the person in question must have continually held the position of director, corporate auditor or employee of the Company, a subsidiary of the Company, or an equity affiliate of the Company. No one may execute a stock option after three months have passed since such person has lost the position that he/she once held. All other details of the options shall be as stipulated in the "Agreement for Allocation of Stock Purchase/Subscription Warrants" which shall be concluded between the Company and the grantee.
Period of employment covered by options	From April 25, 2006 to March 31, 2009
Execution period	From April 1, 2009 to March 31, 2012
Exercise price	752 yen
Fair valuation (as of date of granting)	-

(Note) Stated in terms of number of shares into which options may be converted.

June 2007 term

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)

June 2007 term

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	June 30, 2006	June 30, 2007	December 31, 2006
Net assets per share	743.46	704.07	738.88
Net loss per share	3.18	24.98	3.13
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		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.	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	June 30, 2006	June 30, 2007	December 31, 2006
Net income per share			
Net income (loss)	(37,099)	(291,285)	(36,472)
Amount not attributable to common shareholders	-	-	-
Net income (loss) related to common stock	(37,099)	(291,285)	(36,472)
Average number of shares outstanding during term (sharers)	11,661,206	11,660,858	11,661,101
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: 281,600 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 4 types, 5,272 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 527,200 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: 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)	(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.

Nonconsolidated financial statements**Nonconsolidated balance sheet**

Thousands of yen	June 30, 2006	%	June 30, 2007	%	December 31, 2006	%
Current assets						
Cash and bank deposits	700,240		1,147,956		1,170,180	
Notes receivable	20,669		42,588		112,239	
Accounts receivable	827,464		1,748,540		1,397,108	
Inventories	617,465		1,208,490		1,670,638	
Short-term loans	2,400,000		2,700,000		2,900,000	
Other accounts receivable	2,581,123		702,490		562	
Others	83,133		211,955		292,872	
Allowance for doubtful accounts	(221)		(298)		(394)	
	<u>7,229,874</u>	75.8	<u>7,761,723</u>	78.4	<u>7,543,207</u>	78.2
Fixed assets						
Tangible fixed assets	103,647	1.1	80,993	0.8	85,436	0.9
Intangible fixed assets	43,078	0.4	43,308	0.4	40,886	0.4
Investments and other assets						
Investment securities	1,683,348		1,333,590		1,358,275	
Others	483,985		674,522		614,338	
	<u>2,167,334</u>	22.7	<u>2,008,112</u>	20.3	<u>1,972,613</u>	20.5
Total fixed assets	<u>2,314,060</u>	24.2	<u>2,132,415</u>	21.6	<u>2,098,935</u>	21.8
Total assets	<u>9,543,935</u>	100.0	<u>9,894,138</u>	100.0	<u>9,642,143</u>	100.0

PALTEK CORPORATION

Thousands of yen	June 30, 2006	%	June 30, 2007	%	December 31, 2006	%
Current liabilities						
Accounts payable	251,385		454,886		812,930	
Short-term bank loans	350,000		930,000		-	
Income taxes payable	7,028		6,617		4,483	
Accrued bonuses	35,780		51,483		39,379	
Others	183,576		285,511		189,883	
	<u>827,770</u>	8.7	<u>1,728,498</u>	17.5	<u>1,046,676</u>	10.8
Long-term liabilities						
Liability for employees' retirement benefits	16,534		19,304		19,395	
Liability for directors' and corporate auditors' retirement benefits	197,897		196,022		197,897	
Others	38,176		38,366		38,272	
	<u>252,608</u>	2.6	<u>253,693</u>	2.6	<u>255,564</u>	2.7
Total liabilities	1,080,378	11.3	1,982,191	20.0	1,302,241	13.5
Net assets						
Shareholders' equity						
Common stock	1,339,634	14.0	1,339,634	13.5	1,339,634	13.9
Capital surplus						
Capital reserve	1,678,512		1,678,512		1,678,512	
	<u>1,678,512</u>	17.6	<u>1,678,512</u>	17.0	<u>1,678,512</u>	17.4
Retained earnings						
Legal reserve	46,100		46,100		46,100	
Other retained earnings						
Special reserves	5,400,000		5,400,000		5,400,000	
Retained earnings carried forward	104,413		(451,003)		(24,116)	
	<u>5,550,513</u>	58.2	<u>4,995,096</u>	50.5	<u>5,421,983</u>	56.3
Treasury stock	(130,403)	(1.4)	(130,480)	(1.3)	(130,421)	(1.4)
	<u>8,438,258</u>	88.4	<u>7,882,763</u>	79.7	<u>8,309,709</u>	86.2
Valuation/translation gains (losses)						
Unrealized gains (losses) on securities - net	23,933		25,431		30,192	
Deferred hedging gains (losses)	1,365		3,752		-	
	<u>25,298</u>	0.3	<u>29,184</u>	0.3	<u>30,192</u>	0.3
Total net assets	8,463,556	88.7	7,911,947	80.0	8,339,901	86.5
Total liabilities and net assets	<u>9,543,935</u>	100.0	<u>9,894,138</u>	100.0	<u>9,642,143</u>	100.0

Nonconsolidated statement of income

Thousands of yen	June 30, 2006	%	June 30, 2007	%	December 31, 2006	%
Net sales	3,613,627	100.0	4,278,052	100.0	6,541,972	100.0
Cost of sales	2,934,574	81.2	3,684,443	86.1	5,294,900	80.9
Gross profit	679,052	18.8	593,609	13.9	1,247,071	19.1
Selling, general and administrative expenses	959,390	26.6	977,159	22.8	1,971,822	30.2
Operating loss	280,338	(7.8)	383,550	(9.0)	724,750	(11.1)
Nonoperating income	151,202	4.2	52,812	1.3	358,108	5.5
Nonoperating expenses	26,603	0.7	20,321	0.5	39,142	0.6
Ordinary losses	155,738	(4.3)	351,059	(8.2)	405,784	(6.2)
Extraordinary income	22,108	0.6	15,959	0.4	22,022	0.3
Extraordinary losses	21,012	0.6	23,093	0.6	21,842	0.3
Loss before income taxes	154,641	(4.3)	358,194	(8.4)	405,605	(6.2)
Income taxes - current	1,965		2,365		4,330	
Income taxes - deferred	(60,587)		(50,281)		(185,385)	
	(58,622)	(1.6)	(47,916)	(1.1)	(181,055)	(2.8)
Net loss	96,019	(2.7)	310,277	(7.3)	224,549	(3.4)

Nonconsolidated statement of changes in net assets

June 2006 term

Thousands of yen; June 30, 2006	Shareholders' equity								
	Capital surplus		Retained earnings					Treasury stock	Total shareholders' equity
	Common stock	Capital reserve	Legal reserve	Special reserves	Other retained earnings				
					Retained earnings carried forward	Total retained earnings			
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)					(96,019)	(96,019)		(96,019)	
Acquisition of treasury stock							(242)	(242)	
Other changes in non-shareholders' equity items during the term (net)									
Total changes during the term	-	-	-	-	(212,634)	(212,634)	(242)	(212,876)	
Balance as of June 30, 2006	1,339,634	1,678,512	46,100	5,400,000	104,413	5,550,513	(130,403)	8,438,258	
Thousands of yen; June 30, 2006	Valuation/translation gains (losses)				Total valuation/translation gains (losses)	Total net assets			
	Unrealized gains (losses) on securities - net	Deferred hedging 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)						(96,019)			
Acquisition of treasury stock						(242)			
Other changes in non-shareholders' equity items during the term (net)		(3,158)		1,365	(1,793)	(1,793)			
Total changes during the term		(3,158)		1,365	(1,793)	(214,670)			
Balance as of June 30, 2006		23,933		1,365	25,298	8,463,556			

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June 2007 term

Thousands of yen; June 30, 2007	Shareholders' equity								
	Capital surplus		Retained earnings					Treasury stock	Total shareholders' equity
	Common stock	Capital reserve	Legal reserve	Other retained earnings		Total retained earnings			
				Special reserves	Retained earnings carried forward				
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	
Changes during the term									
Dividends					(116,609)	(116,609)		(116,609)	
Net income (loss)					(310,277)	(310,277)		(310,277)	
Acquisition of treasury stock							(58)	(58)	
Other changes in non-shareholders' equity items during the term (net)									
Total changes during the term	-	-	-	-	(426,887)	(426,887)	(58)	(426,945)	
Balance as of June 30, 2007	1,339,634	1,678,512	46,100	5,400,000	(451,003)	4,995,096	(130,480)	7,882,763	
Thousands of yen; June 30, 2007	Valuation/translation gains (losses)					Total valuation/translation gains (losses)	Total net assets		
	Unrealized gains (losses) on securities - net	Deferred hedging gains (losses)							
Balance as of Dec. 31, 2006	30,192	-			30,192	8,339,901			
Changes during the term									
Dividends						(116,609)			
Net income (loss)						(310,277)			
Acquisition of treasury stock						(58)			
Other changes in non-shareholders' equity items during the term (net)	(4,761)	3,752			(1,008)	(1,008)			
Total changes during the term	(4,761)	3,752			(1,008)	(427,954)			
Balance as of June 30, 2007	25,431	3,752			29,184	7,911,947			

PALTEK CORPORATION

December 2006 term

Thousands of yen; December 31, 2006	Shareholders' equity								
	Capital surplus		Retained earnings					Treasury stock	Total shareholders' equity
	Common stock	Capital reserve	Legal reserve	Other retained earnings		Total retained earnings			
				Special reserves	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)			Total valuation/translation gains (losses)	Total net assets				
	Unrealized gains (losses) on securities - net								
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	June 30, 2006	June 30, 2007	December 31, 2006
1. Valuation of material assets	(1) Available-for-sale securities: (a) 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 as moving-average cost	(1) Available-for-sale securities: (a) Available-for-sale securities with market values: Same as June 30, 2006	(1) Available-for-sale securities: (a) Available-for-sale securities with market values: Same as June 30, 2006
	(b) Securities of subsidiaries and associated companies: Stated as moving-average cost	(b) Securities of subsidiaries and associated companies: Same as June 30, 2006	(b) Securities of subsidiaries and associated companies: Same as June 30, 2006
	(2) Derivatives: Stated at fair market value.	(2) Derivatives: Same as June 30, 2006	(2) Derivatives: Same as June 30, 2006
	(3) Inventories (a) Merchandise: Stated as moving-average cost	(3) Inventories (a) Merchandise: Same as June 30, 2006	(3) Inventories (a) Merchandise: Same as June 30, 2006
	(b) Supplies: Stated by last purchased price method	(b) Supplies: Same as June 30, 2006	(b) Supplies: Same as June 30, 2006
	2. Depreciation of fixed assets	(1) Tangible fixed assets: Declining balance method (Note: Buildings, excluding ancillary facilities, acquired on or after April 1, 1998 are depreciated based on the straight line method) Useful lives are as follows: Buildings: 10 - 45 years Furniture and fixtures: 5 - 15 years	(1) Tangible fixed assets: Same as June 30, 2006
		(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.		(2) Intangible fixed assets: Same as June 30, 2006	(2) Intangible fixed assets: Same as June 30, 2006

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Item	June 30, 2006	June 30, 2007	December 31, 2006
3. Allowances	(1) Allowance for doubtful accounts: An allowance for doubtful accounts is provided to cover possible losses from bad debts. The allowance with respect to non-classified loans/receivables is calculated based on historical default rates. For classified loans/receivables, the Company states an amount deemed to be unrecoverable based on the prospect of recovery of individual loans/receivables.	(1) Allowance for doubtful accounts: Same as June 30, 2006	(1) Allowance for doubtful accounts: Same as June 30, 2006
	(2) Accrued bonuses: To provide for payments of employee bonuses, an amount attributable to the interim period is accrued on the basis of estimates made for the full year.	(2) Accrued bonuses: Same as June 30, 2006	(2) Accrued bonuses: Reserves are provided to cover the estimated amount of bonuses payable to employees.
	(3) Liability for employees' retirement benefits: The amount estimated to represent the potential liability as of the end of interim term 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, 2006	(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.
	(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.	(4) Liability for directors' and corporate auditors' retirement benefits: Same as June 30, 2006	(4) Liability for directors' and corporate auditors' retirement benefits: Same as June 30, 2006
4. Transaction of foreign currency denominated assets and liabilities into Japanese yen	Foreign currency denominated monetary rights and obligations are translated into Japanese yen using the prevailing spot exchange rate as of the balance sheet date. Transaction differences are recognized as foreign exchange gains or losses. Foreign currency denominated monetary obligations that are subject to hedging by forward foreign exchange contracts are translated into Japanese yen using the actual contracted exchange rate.	Same as June 30, 2006	Same as June 30, 2006
5. 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 June 30, 2006	Same as June 30, 2006

PALTEK CORPORATION

Item	June 30, 2006	June 30, 2007	December 31, 2006
6. 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.	(1) Hedge accounting method: Same as June 30, 2006	(1) Hedge accounting method: Same as June 30, 2006
	(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, 2006 Hedging targets: Same as June 30, 2006	(2) Hedging instruments and targets: Hedging instruments: Same as June 30, 2006 Hedging targets: Same as June 30, 2006
	(3) Hedging policies: Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the import plan.	(3) Hedging policies: Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the business plan.	(3) Hedging policies: Same as June 30, 2007
	(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.	(4) Method of assessing effectiveness of hedges: Same as June 30, 2006	(4) Method of assessing effectiveness of hedges: Same as June 30, 2006
7. 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, 2006	Treatment of consumption tax: Same as June 30, 2006

Changes in material information regarding preparation of nonconsolidated financial statements

June 2006 term

(Accounting standards related to impairment of fixed assets)

In the interim period to June 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 yen.

In accordance with the rules regarding the preparation of interim period 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 interim period to June 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 amount that corresponds to net assets under the previous standard is 8,462,191 thousand yen.

The Company has prepared the net assets portion of the balance sheet as of June 30, 2006 in accordance with the revised rules related to the preparation of interim nonconsolidated financial statements.

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

In the interim period to June 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.

June 2007 term

(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 nonconsolidated financial statements resulting from these changes in regulations governing interim period nonconsolidated financial statements are as follows.

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 yen.

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 amount that corresponds to net assets under the previous standard is 8,339,901 thousand yen.

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 nonconsolidated financial statements.

Changes in method of presentation***June 2006 term***

(Nonconsolidated balance sheet)

Until the previous interim period, “other accounts receivable” had been included in the “others” category of current assets. Because these consumption taxes receivable exceeded 5 percent of total assets during the interim period, they were categorized in a separate account.

For comparison purposes “other accounts receivable” amounted to 490,754 thousand yen in the interim term ended June 30, 2005.

Notes

(Nonconsolidated balance sheet)

Thousands of yen	June 30, 2006		June 30, 2007		December 31, 2006
1 Aggregate amount of depreciation on fixed assets	382,357	1. Aggregate amount of depreciation on fixed assets	391,441	1. Aggregate amount of depreciation on fixed assets	382,408
2 Treatment of consumption taxes, etc. After offsetting the suspense accounts for receipt and payment of consumption taxes, the Company includes the remainder in the "other accounts receivable" category of current assets.		2. Treatment of consumption taxes, etc. After offsetting the suspense accounts for receipt and payment of consumption taxes, the Company includes the remainder in the "other accounts receivable" category of current assets.		2.	-
3 Retroactive liability due to securitization	277,307	3. Retroactive liability due to securitization	78,800	3. Retroactive liability due to securitization	53,113
4 Contingent liabilities		4. Contingent liabilities		4. Contingent liabilities	
(1) Guarantee of subsidiary's borrowings from financial institutions Alfa Electronics, Inc.	228,150	(1) Guarantee of subsidiary's borrowings from financial institutions Alfa Electronics, Inc.	100,000	(1) Guarantee of subsidiary's borrowings from financial institutions Alfa Electronics, Inc.	95,820
(2) Guarantee of a subsidiary's accounts payable Alfa Electronics, Inc.	250,000	(2) Guarantee of a subsidiary's accounts payable NS Microelectronics Co., Ltd. Alfa Electronics, Inc.	549,065 250,000	(2) Guarantee of a subsidiary's accounts payable NS Microelectronics Co., Ltd. Alfa Electronics, Inc.	453,595 157,479
5 For more efficient financing of working capital, the Company has 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 Amounts drawn down Unused lines of credit	7,900,000 - 7,900,000	5. For more efficient financing of working capital, the Company has 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 Amounts drawn down Unused lines of credit	5,700,000 900,000 4,800,000	5. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with three 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 Amounts drawn down Unused lines of credit	7,900,000 - 7,900,000

(Nonconsolidated statement of income)

Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006																		
1. Primary items and amounts included under nonoperating income		1. Primary items and amounts included under nonoperating income	1. Primary items and amounts included under nonoperating income																		
Interest income	531	Interest income	19,384																		
Commissions received	112,896	Foreign exchange gain	219,866																		
Foreign exchange gain	16,623		82,928																		
2. Primary items and amounts included under nonoperating expenses		2. Primary items and amounts included under nonoperating expenses	2. Primary items and amounts included under nonoperating expenses																		
Interest expenses	7,811	Interest expenses	12,848																		
Commissions paid	9,471	Commissions paid	13,222																		
Loss on assignment of promissory notes	3,456	Loss on assignment of promissory notes	4,468																		
Losses on assignment of receivables	4,411	Losses on assignment of receivables	5,788																		
3. Primary items and amounts included under extraordinary income		3. Primary items and amounts included under extraordinary income	3. Primary items and amounts included under extraordinary income																		
Reversal of allowance for doubtful accounts	3,944	Gain on sales of investment securities	15,782																		
Gain on sales of investment securities	18,000		3,771																		
4. Primary items and amounts included under extraordinary losses		4. Primary items and amounts included under extraordinary losses	4. Primary items and amounts included under extraordinary losses																		
Loss on sales of fixed assets	3,900	Loss on devaluation of investment securities	20,000																		
Impairment losses	17,111	Loss on sale of investment securities	2,718																		
5. Impairment losses		5. -	5. Impairment losses																		
<p>The Company has recognized impairment losses in the following asset groups.</p> <table border="1"> <thead> <tr> <th>Location</th> <th>Type of Use asset</th> <th>Impairment loss</th> </tr> </thead> <tbody> <tr> <td>Yamato-shi, Kanagawa</td> <td>Idle Land Building</td> <td>11,194</td> </tr> <tr> <td></td> <td></td> <td>5,917</td> </tr> </tbody> </table> <p>The Company places impairment losses under the categories of "total 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.</p>		Location	Type of Use asset	Impairment loss	Yamato-shi, Kanagawa	Idle Land Building	11,194			5,917	<p>The Company has recognized impairment losses in the following asset groups.</p> <table border="1"> <thead> <tr> <th>Location</th> <th>Type of Use asset</th> <th>Impairment loss</th> </tr> </thead> <tbody> <tr> <td>Yamato-shi, Kanagawa</td> <td>Idle Land Building</td> <td>11,194</td> </tr> <tr> <td></td> <td></td> <td>5,917</td> </tr> </tbody> </table> <p>The Company places impairment losses under the categories of "total 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.</p>		Location	Type of Use asset	Impairment loss	Yamato-shi, Kanagawa	Idle Land Building	11,194			5,917
Location	Type of Use asset	Impairment loss																			
Yamato-shi, Kanagawa	Idle Land Building	11,194																			
		5,917																			
Location	Type of Use asset	Impairment loss																			
Yamato-shi, Kanagawa	Idle Land Building	11,194																			
		5,917																			
6. Depreciation		6. Depreciation	6. -																		
Tangible fixed assets	15,235	Tangible fixed assets	11,390																		
Intangible fixed assets	17,933	Intangible fixed assets	10,177																		

(Nonconsolidated statement of changes in net assets)

June 2006 term

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

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
Common stock	188,415	492	-	188,907
	188,415	492	-	188,907

(Note) The increase of 492 shares of treasury stock reflects the Company's purchase of shares from shareholders holding less than one unit.

June 2007 term

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

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
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.

December 2006 term

Types of shares issued; types of treasury stock owned; 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	188,415	532	-	188,947
	188,415	532	-	188,947

(Note) The increase of 532 shares of treasury stock reflects the Company's purchase of shares from shareholders holding less than one unit.

(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 accounting period.

Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006
Software			
Acquisition cost equivalent	18,600	-	18,600
Accumulated depreciation equivalent	16,740	-	18,600
Book value equivalent	1,860	-	-
Vehicles and delivery equipment			
Acquisition cost equivalent	29,880	29,880	29,880
Accumulated depreciation equivalent	8,917	13,897	11,407
Book value equivalent	20,963	15,983	18,473
Total			
Acquisition cost equivalent	48,480	29,880	48,480
Accumulated depreciation equivalent	25,657	13,897	30,007
Book value equivalent	22,823	15,983	18,473

(2) Future minimum lease payments

Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006
Within one year	6,820	5,017	4,942
Over one year	16,644	11,627	14,155
	23,464	16,644	19,097

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

Thousands of yen	June 30, 2006	June 30, 2007	December 31, 2006
Lease payments	6,181	2,724	10,868
Depreciation equivalent	5,787	2,490	10,137
Interest expense equivalent	382	265	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 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.

(Securities)

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

(Per-share-related financial information)

Yen	June 30, 2006		June 30, 2007		December 31, 2006
Net assets per share	725.80	Net assets per share	678.51	Net assets per share	715.20
Net loss per share	8.23	Net loss per share	26.61	Net loss per share	19.26
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.		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.		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	June 30, 2006	June 30, 2007	December 31, 2006
Net income per share			
Net income (loss)	(96,019)	(310,277)	(224,549)
Amount not attributable to common shareholders	-	-	-
Net income related to common stock	(96,019)	(310,277)	(224,549)
Average number of shares outstanding during term (sharers)	11,661,206	11,660,858	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 dilative 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: 281,600 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 4 types, 5,272 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 527,200 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: 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)	(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.

Others

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