

Summary of Financial Statements
for the Interim Term Ended June 30, 2008
(Translation)

August 11, 2008

PALTEK CORPORATION

Security Code No.: 7587

Shares Traded: JASDAQ

URL: <http://www.paltek.co.jp>

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Scheduled filing date for half-year financial report: September 19, 2008

1. Consolidated operating results (From January 1, 2008 to June 30, 2008)**(1) Consolidated financial results**(Fractional amounts discarded)
(Percentage figures show year-on-year changes)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Interim 2008	10,171	11.5	58	-	139	-
Interim 2007	9,125	53.4	(311)	-	(267)	-
Fiscal 2007	20,655	40.2	(300)	-	(222)	-

	Net income		Net income per share		Net income per share, fully diluted	
	(Millions of yen)	%	(Yen)		(Yen)	
Interim 2008	56	-	4.81		-	
Interim 2007	(291)	-	(24.98)		-	
Fiscal 2007	(258)	-	(22.13)		-	

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

June 2008 interim term: -

June 2007 interim term: -

December 2007 fiscal term: -

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio		Net assets per share	
	(Millions of yen)		(Millions of yen)		%		(Yen)	
June 30, 2008	11,460		8,148		71.1		698.85	
June 30, 2007	11,273		8,210		72.8		704.07	
December 31, 2007	11,013		8,211		74.6		704.24	

(N.B.) Total equity:

June 30, 2008: 8,148 million yen

June 30, 2007: 8,210 million yen

December 31, 2007: 8,211 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 2008	76	(101)	74	2,280
Interim 2007	(799)	35	787	2,134
Fiscal 2007	(548)	101	566	2,231

2. Dividends

(Record date)	Annual dividend per share				
	First quarter	Interim	Third quarter	End of term	Annual
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal 2007	-	-	-	10.00	10.00
Fiscal 2008	-	-	-	-	
Fiscal 2008 (Forecast)	-	-	-	10.00	10.00

3. Consolidated forecasts for fiscal year to December 2008

(From January 1, 2008 to December 31, 2008)

(Percentage 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)	%	
Fiscal 2008	21,000	1.7	100	-	155	-	60	-	5.14

4. Others

(1) Significant changes in major subsidiary status during period under review (changes in specific subsidiaries affecting changes in scope of consolidation): None

New: — Elimination: —

(Note) Please refer to page 11 ("Group organization") for further details.

(2) Changes in principles/methods of accounting treatment, presentation method or other items related to preparation of consolidated interim financial statements (changes to basis of presentation and significant accounting policies)

1) Changes related to revision of accounting standards: None

2) Changes other than those included in 1) above: None

(3) Number of issued shares (common stock)

1) Number of issued shares at end of term (including treasury stock):

June 2008 interim term: 11,849,899

June 2007 interim term: 11,849,899

December 2007 fiscal term: 11,849,899

2) Number of treasury stock at end of term:

June 2008 interim term: 189,515

June 2007 interim term: 189,067

December 2007 fiscal term: 189,347

(Reference) Summary of nonconsolidated operating results

1. Nonconsolidated operating results (From January 1, 2008 to June 30, 2008)

(1) Nonconsolidated financial results

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

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Interim 2008	6,169	44.2	39	-	217	-
Interim 2007	4,278	18.4	(383)	-	(351)	-
Fiscal 2007	10,079	54.1	(461)	-	(334)	-

	Net income		Net income per share
	(Millions of yen)	%	(Yen)
Interim 2008	121	-	10.39
Interim 2007	(310)	-	(26.61)
Fiscal 2007	(282)	-	(24.23)

(2) Nonconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2008	10,400	7,912	76.1	678.59
June 30, 2007	9,894	7,911	80.0	678.51
December 31, 2007	9,561	7,910	82.7	678.41

(N.B.) Total equity:

June 30, 2008: 7,912 million yen
December 31, 2007: 7,910 million yen

June 30, 2007: 7,911 million yen

2. Nonconsolidated forecasts for fiscal year to December 2008

(From January 1, 2008 to December 31, 2008)

(Percentage figures show 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 2008	12,800	27.0	80	-	242	-	135	-	11.57

*** 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 (2) Outlook for the year ending December 2008 on the attached page 6 for information regarding the forecasts.

Financial performance

1. Analysis of results

(1) Results for the interim term ended June 30, 2008

As a whole, the Japanese economy has remarkably deteriorated during the interim term ended June 30, 2008, from the effect of the subprime mortgage crisis and high prices of oil and raw materials. Corporate results weakened noticeably, and consumer spending was stagnant. The electronics market, in which the PALTEK Group operates, saw weak demand on sluggish growth in flat-panel televisions, digital cameras and other products that had driven the market, because of the uncertain economic outlook.

Given this market environment, the PALTEK Group's activities in the PLD solutions business emphasized increasing the market share of PLD products supplied by Xilinx, Inc. The analog solutions business focused on developing new projects in areas other than mobile terminals, the market that had previously driven sales but slowed in the interim term. New projects for various ASSP products were also emphasized at the rapidly growing ASSP solutions business. Faced with a delayed rebound from the drop in memory prices, the memory solutions business focused on sales to industrial equipment manufacturers and small-lot customers.

The PLD solutions and ASSP solutions businesses both recorded high sales growth on the steady expansion of their customer bases, driven by telecommunications equipment projects and broadcasting equipment projects for major customers. Sales at the analog solutions and memory solutions businesses were sluggish, however, with weak demand from several customers for mobile terminal projects in the analog solutions business, and the absence of a recovery in the supply-demand environment for memory products, which has continued since the middle of last year at the memory solutions business. As a result, consolidated net sales for the interim term rose 11.5% year-on-year to 10,171 million yen, with the large increases at the PLD solutions and ASSP solutions businesses more than offsetting the weakness at the analog solutions and memory solutions businesses.

Operating income for the interim term totaled 58 million yen (cf., a year-earlier loss of 311 million yen), as sales growth combined with an improvement in the gross margin led to an increase in gross profit, and expense reductions continued as well.

Ordinary income came to 139 million yen (cf., a year-earlier loss of 267 million yen), and included a foreign exchange gain from the yen's rapid appreciation during the first quarter and gains on sale of investment securities.

Net income totaled 56 million yen (cf., a year-earlier loss of 291 million yen), and included a 26 million yen of litigation settlement at consolidated subsidiary NS Microelectronics Co., Ltd.

* *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 2008

Uncertainty towards the future of the Japanese economy is expected to grow in the third quarter onwards as the mood of recession deepens due to financial instability from the subprime mortgage crisis and high prices of oil and raw materials.

Given this market environment, the main PLD solutions business intends to lift sales by increasing its market share among major customers and by expanding its customer base. The analog solutions business, which has seen sales decline on a longer replacement purchase cycle for mobile terminals, is aiming for a recovery in sales by focusing on obtaining projects in growth areas including flat-panel televisions, and telecommunications equipment and industrial equipment that represent strong demand for high-performance analog semiconductors. The ASSP solutions business is showing solid growth in sales for telecommunications equipment projects, and plans to steadily increase the number of successful projects via marketing activities that focus on projects with customers with proven track records in their fields. The PALTEK Group estimates that more time will be required for an improvement in the supply-demand environment for the memory solutions business, and will continue to emphasize sales to industrial equipment manufacturers and small-lot customers.

Based on the Group's interim term results, and taking into account the economic environment going forward with a stronger sense of recession from the second half as well as its outlook for each business's operating environments, the PALTEK Group has revised its full-year forecasts as follows.

On a consolidated basis, the Group is projecting the following: net sales, 21 billion yen (up 1.7% year on year); operating income, 100 million yen (cf., operating loss of 300 million yen in the previous year); ordinary income, 155 million yen (cf., ordinary loss of 222 million yen in the previous year); and net income, 60 million yen (cf., net loss of 258 million yen in the previous year). On a nonconsolidated basis, the Company is projecting the following: net sales, 12,800 million yen (up 27.0% year on year); operating income, 80 million yen (cf., operating loss of 461 million yen in the previous year); ordinary income, 242 million yen (cf., ordinary loss of 334 million yen in the previous year); and net income, 135 million yen (cf., net loss of 282 million yen in the previous year).

2. Financial analysis

(1) Assets, liabilities and net assets

Consolidated total assets as of June 30, 2008 totaled 11,460 million yen, increasing 187 million yen from the end of the previous interim term. The main components of the increase were cash and bank deposits, accounts receivable–trade, and inventories.

Liabilities grew by 248 million yen, to 3,312 million yen from the end of the previous interim term, primarily from an increase in notes and accounts payable.

Net assets totaled 8,148 million yen, representing a decline of 61 million yen from the end of the previous interim term. This included 116 million yen in dividend payments, and a decline in unrealized gains on securities-net due to the sale of investment securities.

(2) Cash flows

Cash and cash equivalents outstanding on a consolidated basis as of the end of the interim term totaled 2,280 million yen, for a year-on-year increase of 145 million yen.

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

(Net cash from operating activities)

Net cash provided by operating activities amounted to 76 million yen (cf., cash used of 799 million yen in the year-earlier period). Despite an increase in inventories, 112 million yen was recorded as income before income taxes and minority interests (cf., 274 million yen loss in the year-earlier period), accounts receivable–trade declined and accounts payable–trade increased.

(Net cash from investing activities)

Net cash used in investing activities amounted to 101 million yen (cf., cash provided of 35 million yen in the year-earlier period), primarily from placement of time deposits.

(Net cash from financing activities)

Net cash provided by financing activities amounted to 74 million yen (cf., cash provided of 787 million yen in the year-earlier period), mainly reflecting borrowings.

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

	December 31, 2004	December 31, 2005	December 31, 2006	December 31, 2007	June 30, 2008
Equity ratio	68.4%	65.0%	77.8%	74.6%	71.1%
Equity ratio based on market prices	59.0%	40.6%	51.0%	44.3%	35.7%
Year required to redeem liabilities	1.5	2.4	0.0	-	6.6
Interest-coverage ratio	69.4	45.5	211.0	-	10.9

(Notes)

1. Equity ratio: Total equity/total assets

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

3. Year 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 closing price on the final day of the term by the number of issued shares on the same day.

(3) For "operating cash flow," we use the figure for "net cash 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.

Based on the forecasts for both consolidated and nonconsolidated results for the fiscal year ending December 31, 2008, the Company intends to pay a year-end dividend of 10 yen per share.

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 end of the interim term under review.

(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, Inc. and National Semiconductor Corporation and products from these two companies accounted for approximately 22% and 35% 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 various information assets that are important tools for deploying its sales strategies. The Company has for some time positioned information security as a priority task, establishing a privacy policy and introducing various technological measures for information security. In addition, to set up a more robust information management system, the Company obtained ISMS certification* in December 2004 and upgraded to the ISO27001 (JIS Q 27001) standard in November 2007 along with the conversion of the ISMS certification to an ISO standard. Through these activities, the Company has endeavored to prevent breaches in the security surrounding this information through a variety of "soft" and "hard" measures, including introducing encryption software for notebook computers and regular information securities education to heighten employees' awareness of the appropriate ways to handle information assets. If, however, despite the Company's best efforts, information were to fall into other hands due to an unintended disruption of systems, mistaken processing, an external intrusion or other unforeseen events, the PALTEK Group's financial performance could suffer from the resulting loss of public trust in the Group or from other such factors as the need to pay indemnification for damages.

* *ISMS (information security management system) Certification: A private sector-driven third-party certification system started by Japan Information Processing Development Corporation (JIPDEC) based on the "Introduction of International Standards for Information Security Management and the Reform of the Secure Information Systems Accreditation Scheme for Information-Processing Service Companies" announced in July 2000 by the Ministry of Economy, Trade and Industry (METI).*

(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 engineering support capabilities and the marketing prowess that enables it to tailor its services to individual customers. The Group intends to maintain this policy going ahead and further develop our businesses.

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 new 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 its shortened 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 products of new suppliers up and running.

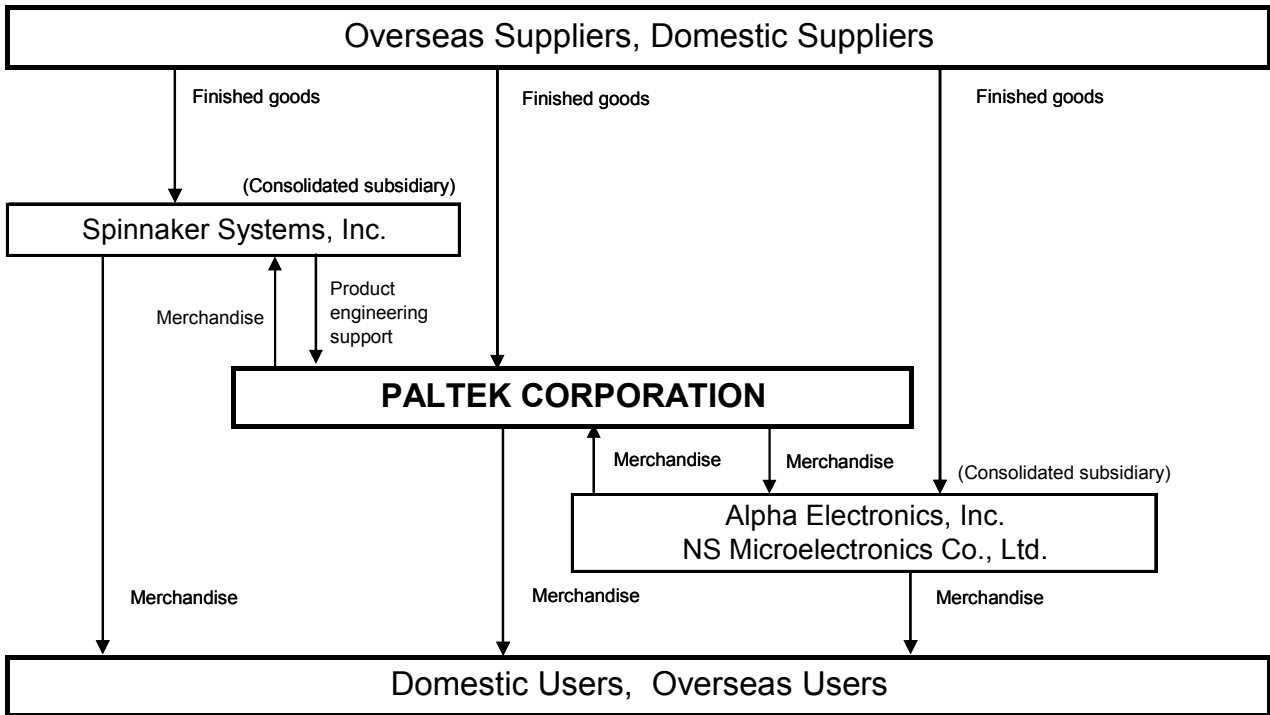
(6) Impact of the shift of production facilities overseas

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 to provide these customers with products and engineering support, the PALTEK Group established Alpha Electron (HK) Co., Ltd. in Hong Kong 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 uses 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 an 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, 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 optimal solutions by supporting the development activities with a high level of technology and by proposing system-based solutions that take into consideration the entire architecture of each customer's electronic equipment.

Through such 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

There has been a notable emergence of the electronics industry, which the PALTEK Group is part of, in Korea, China, and India of course, but also particularly in other Asian countries. As a result, global competition in the industry is intensifying in such aspects as product ideas, design and production technology and in pricing. In response to this business environment, the PALTEK Group will pursue high-value-added sales based on a firm technological understanding of all the devices of its customers, which develop or sell electronics products that are evolving on a daily basis. The Group will not merely sell the semiconductor products or software it handles, it will make proposals covering component selection to development methods and provide related development support.

The PALTEK Group possesses a deep level of knowledge and experience regarding digital semiconductors, centered on PLDs, accumulated over the years. The Group also has strong engineering support capabilities for analog semiconductors. By combining these capabilities, it

will carry out sales activities based on a firm technological background. The Group will concentrate especially on the industrial equipment market, which Japanese electronic manufacturers specialize in and hold a large market share of, as well as the communications infrastructure market. The industrial equipment market features medical, broadcasting, and measurement equipment that require high performance and high speed.

4. Issues requiring action

To ensure the sustainable growth of the PALTEK Group, the Group is first focusing on achieving a recovery of the PLD solutions business to the level previous to the temporary but substantial decline in the scope of the business following its switch in suppliers at the start of 2006. Based on PLD selling know-how and engineering support experience accumulated over the years, the Group will work toward a recovery in sales by increasing its contractual orders, expanding its share of the PLD business of its current customer base, and promoting the building of a new customer base from the as yet undeveloped segments of the market and the expansion of application coverage.

In addition, because continuing to provide solid engineering support and system proposals for high-speed and high-performance products is linked to the maintenance and improvement of the PALTEK Group's competitiveness, the Group will endeavor to nurture and acquire personnel with a high level of knowledge and engineering support capabilities regarding the market.

5. Establishment and operation of internal control system

Because of the duplication of items reported in "Basic Policies Regarding Internal Control Systems and their Operation" in the Corporate Governance Report stipulated in Article 8-3 of the Securities Listing Regulations and in Article 10, Paragraph 3 of the Timely Disclosure Regulations, those items have been omitted in this document.

6. 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, 2007	%	June 30, 2008	%	December 31, 2007	%
Current assets						
Cash and bank deposits	2,186,963		2,426,335		2,295,984	
Notes and accounts receivable	4,287,689		4,418,336		5,070,103	
Inventories	2,591,185		3,138,835		1,992,042	
Other accounts receivable	842,287		245,457		374,761	
Others	117,663		178,668		166,630	
Allowance for doubtful accounts	(392)		(568)		(540)	
	<u>10,025,397</u>	88.9	<u>10,407,064</u>	90.8	<u>9,898,982</u>	89.9
Fixed assets						
Tangible fixed assets	101,220	0.9	84,759	0.8	86,202	0.8
Intangible fixed assets						
Goodwill	62,893		47,194		55,044	
Others	51,510		45,650		54,693	
	<u>114,404</u>	1.0	<u>92,845</u>	0.8	<u>109,737</u>	1.0
Investments and other assets						
Investment securities	177,710		85,064		92,876	
Others	862,086		798,080		832,282	
Allowance for doubtful accounts	(7,495)		(6,922)		(7,012)	
	<u>1,032,302</u>	9.2	<u>876,221</u>	7.6	<u>918,146</u>	8.3
Total fixed assets	<u>1,247,927</u>	11.1	<u>1,053,827</u>	9.2	<u>1,114,087</u>	10.1
Total assets	<u>11,273,324</u>	100.0	<u>11,460,891</u>	100.0	<u>11,013,070</u>	100.0

PALTEK CORPORATION

Thousands of yen	June 30, 2007	%	June 30, 2008	%	December 31, 2007	%
Current liabilities						
Notes and accounts payable	1,192,362		1,467,182		1,280,221	
Short-term bank loans	1,000,000		970,000		780,000	
Accrued bonuses	71,515		74,829		55,047	
Accrued bonuses for directors and corporate auditors	4,900		-		-	
Others	460,359		452,432		344,785	
	<u>2,729,136</u>	24.2	<u>2,964,444</u>	25.9	<u>2,460,053</u>	22.3
Long-term liabilities						
Negative goodwill	649		485		566	
Liability for employees' retirement benefits	47,694		61,099		54,700	
Liability for directors' and corporate auditors' retirement benefits	247,453		247,453		247,453	
Others	38,366		38,557		38,462	
	<u>334,164</u>	3.0	<u>347,595</u>	3.0	<u>341,182</u>	3.1
Total liabilities	<u>3,063,301</u>	27.2	<u>3,312,039</u>	28.9	<u>2,801,235</u>	25.4
Net assets						
Shareholders' equity						
Common stock	1,339,634	11.9	1,339,634	11.7	1,339,634	12.2
Capital surplus	2,698,526	24.0	2,698,526	23.5	2,698,526	24.5
Retained earnings	4,264,364	37.8	4,237,110	37.0	4,297,642	39.0
Treasury stock	(130,480)	(1.2)	(130,657)	(1.1)	(130,599)	(1.2)
	<u>8,172,044</u>	72.5	<u>8,144,613</u>	71.1	<u>8,205,203</u>	74.5
Valuation/translation gains (losses)						
Unrealized gains (losses) on securities - net	34,225	0.3	3,663	0.0	6,471	0.1
Deferred hedging gains (losses)	3,752	0.0	575	0.0	159	0.0
	<u>37,978</u>	0.3	<u>4,239</u>	0.0	<u>6,631</u>	0.1
Total net assets	<u>8,210,023</u>	72.8	<u>8,148,852</u>	71.1	<u>8,211,834</u>	74.6
Total liabilities and net assets	<u>11,273,324</u>	100.0	<u>11,460,891</u>	100.0	<u>11,013,070</u>	100.0

Consolidated statement of income

Thousands of yen	Interim term ended June 30, 2007	%	Interim term ended June 30, 2008	%	Year ended December 31, 2007	%
Net sales	9,125,829	100.0	10,171,032	100.0	20,655,287	100.0
Cost of sales	7,899,530	86.6	8,631,195	84.9	17,938,774	86.8
Gross profit	1,226,298	13.4	1,539,837	15.1	2,716,513	13.2
Selling, general and administrative expenses						
Provision for doubtful accounts	-		524		199	
Salary	530,444		533,242		1,055,615	
Provision for bonuses	64,370		73,765		54,428	
Provision for directors' and corporate auditors' bonuses	4,900		-		-	
Provision for directors' and corporate auditors' retirement benefits	1,563		-		1,563	
Rent expenses	158,259		156,252		316,547	
Amortization of goodwill	7,849		7,849		15,699	
Others	770,682		710,139		1,572,978	
	<u>1,538,068</u>	16.8	<u>1,481,773</u>	14.5	<u>3,017,032</u>	14.7
Operating income (loss)	(311,769)	(3.4)	58,063	0.6	(300,518)	(1.5)
Nonoperating income						
Interest income	6,360		2,438		9,040	
Dividend income	89		106		185	
Foreign exchange gain	44,347		69,766		85,541	
Gain on sale of investment securities	-		14,759		1,335	
Interest on refunds of consumption taxes	483		872		483	
Amortization of negative goodwill	715		80		799	
Others	16,944		10,626		29,844	
	<u>68,940</u>	0.8	<u>98,650</u>	1.0	<u>127,229</u>	0.6
Nonoperating expenses						
Interest expenses	5,461		6,158		12,880	
Commissions paid	9,471		441		16,942	
Losses on assignment of promissory notes	1,549		1,504		2,633	
Losses on assignment of accounts receivable	6,430		6,907		13,211	
Others	1,725		2,167		3,277	
	<u>24,637</u>	0.3	<u>17,180</u>	0.2	<u>48,945</u>	0.2
Ordinary income (loss)	(267,466)	(2.9)	139,533	1.4	(222,235)	(1.1)

PALTEK CORPORATION

Thousands of yen	Interim term ended June 30, 2007	%	Interim term ended June 30, 2008	%	Year ended December 31, 2007	%
Extraordinary income						
Gain on sale of fixed assets	50		-		50	
Gain on reversal of directors' and corporate auditors' retirement benefits	75		-		75	
Reversal of allowance for doubtful accounts	111		-		-	
Gain on sale of investment securities	15,782		-		48,932	
Gain on cancellation of derivatives	4,741		-		4,741	
Others	5		1		7	
	20,767	0.2	1	0.0	53,807	0.3
Extraordinary losses						
Loss on revision of earnings from previous period	3,030		-		3,030	
Loss on disposal of fixed assets	1,154		432		2,273	
Impairment losses	-		-		1,691	
Loss on sale of investment securities	2,718		450		2,734	
Loss on devaluation of investment securities	20,733		-		21,015	
Litigation settlement	-		26,188		-	
	27,636	0.3	27,070	0.3	30,746	0.2
Income (loss) before income taxes and minority interests	(274,335)	(3.0)	112,465	1.1	(199,173)	(1.0)
Income taxes-current	28,690		9,667		41,852	
Income taxes-deferred	(11,774)		46,724		16,947	
	16,915	0.2	56,392	0.5	58,799	0.2
Minority interest in income of consolidated subsidiaries	33	0.0	-	-	33	0.0
Net income (loss)	(291,285)	(3.2)	56,073	0.6	(258,007)	(1.2)

Consolidated statement of changes in net assets

Interim term ended June 30, 2007

Thousands of yen	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	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

PALTEK CORPORATION

Interim term ended June 30, 2008

Thousands of yen	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Dec. 31, 2007	1,339,634	2,698,526	4,297,642	(130,599)	8,205,203
Changes during the term					
Dividends			(116,605)		(116,605)
Net income (loss)			56,073		56,073
Acquisition of treasury stock				(58)	(58)
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	-	(60,532)	(58)	(60,590)
Balance as of June 30, 2008	1,339,634	2,698,526	4,237,110	(130,657)	8,144,613

Thousands of yen	Valuation/translation gains (losses)			Total net assets
	Unrealized gains (losses) on securities - net	Deferred hedging gains (losses)	Total valuation/translation gains (losses)	
Balance as of Dec. 31, 2007	6,471	159	6,631	8,211,834
Changes during the term				
Dividends				(116,605)
Net income (loss)				56,073
Acquisition of treasury stock				(58)
Other changes in non-shareholders' equity items during the term (net)	(2,808)	416	(2,391)	(2,391)
Total changes during the term	(2,808)	416	(2,391)	(62,982)
Balance as of June 30, 2008	3,663	575	4,239	8,148,852

PALTEK CORPORATION

Year ended December 31, 2007

Thousands of yen	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)			(258,007)		(258,007)
Acquisition of treasury stock				(177)	(177)
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	-	(374,617)	(177)	(374,794)
Balance as of Dec. 31, 2007	1,339,634	2,698,526	4,297,642	(130,599)	8,205,203

Thousands of yen	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)					(258,007)
Acquisition of treasury stock					(177)
Other changes in non-shareholders' equity items during the term (net)	(29,560)	159	(29,401)	(64,705)	(94,107)
Total changes during the term	(29,560)	159	(29,401)	(64,705)	(468,901)
Balance as of Dec. 31, 2007	6,471	159	6,631	-	8,211,834

Consolidated statement of cash flows

Thousands of yen	Interim term ended June 30, 2007	Interim term ended June 30, 2008	Year ended December 31, 2007
Net cash from operating activities			
Income (loss) before income taxes and minority interests	(274,335)	112,465	(199,173)
Depreciation	25,317	23,914	52,081
Amortization of goodwill	7,849	7,849	15,699
Amortization of negative goodwill	(715)	(80)	(799)
Impairment losses	-	-	1,691
Loss on valuation of investment securities	20,733	-	21,015
Increase (decrease) in allowance for doubtful accounts	(111)	403	101
Increase (decrease) in accrued bonuses	14,302	19,782	(2,165)
Increase in accrued bonuses for directors and corporate auditors	4,900	-	-
Increase in liability for employees' retirement benefits	2,842	6,399	9,847
Decrease in liability for directors' and corporate auditors' retirement benefits	(42,734)	-	(42,734)
Interest and dividends income	(6,450)	(2,544)	(9,225)
Interest expenses	5,461	6,158	12,880
Gain on sale of investment securities	(15,782)	(14,759)	(50,267)
Loss on sale of investment securities	2,718	450	2,734
Gain on sale of tangible fixed assets	(50)	-	(50)
Loss on disposal of tangible fixed assets	1,038	432	2,158
Loss on disposal of intangible fixed assets	115	-	115
Gain on cancellation of insurance policies	(5,840)	(4,364)	(11,720)
Gain on cancellation of derivatives	(4,741)	-	(4,741)
Litigation settlement	-	26,188	-
Decrease (increase) in accounts receivable—trade	(320,918)	646,397	(1,098,406)
Decrease (increase) in inventories	653,335	(1,147,434)	1,246,046
Increase (decrease) in accounts payable—trade	(237,981)	186,961	(150,100)
Decrease (increase) in consumption tax receivable	28,806	156,016	(90,857)
Decrease (increase) in other accounts receivable	(700,259)	38,339	(85,637)
Increase (decreases) in accounts payable—other	102,873	77,457	8,679
Decrease (increase) in advance payments	8,218	(26,748)	9,964
Increase (decrease) in advances	21,273	(7,449)	12,257
Others	(25,294)	(50,114)	(29,044)
	(735,429)	55,720	(379,652)
Interest and dividends received	6,269	2,636	8,611
Interest paid	(5,202)	(6,981)	(13,178)
Litigation settlement paid	-	(26,188)	-
Tax refunds	61,998	64,690	61,998
Income taxes paid	(127,601)	(13,691)	(226,609)
	(799,964)	76,186	(548,829)

PALTEK CORPORATION

Thousands of yen	Interim term ended June 30, 2007	Interim term ended June 30, 2008	Year ended December 31, 2007
Net cash from investing activities			
Increase in time deposits	(12,000)	(122,024)	(24,098)
Decrease in time deposits	-	40,070	-
Purchases of investment securities	(2,230)	-	(2,230)
Proceeds from sale of investment securities	75,490	16,293	146,755
Payments for acquisition of affiliate's equity	(64,546)	-	(64,546)
Purchases of tangible fixed assets	(8,152)	(11,166)	(8,075)
Proceeds from sale of tangible fixed assets	137	-	137
Purchases of intangible fixed assets	(8,048)	(1,277)	(27,490)
Payments for loans	(150)	(372)	(959)
Proceeds from collection of loans	226	-	914
Increase in other investments	(31,406)	(30,862)	(37,585)
Decrease in other investments	86,492	7,394	118,896
	35,811	(101,944)	101,717
Net cash from financing activities			
Net increase in short-term bank loans	910,000	190,000	690,000
Repayment of long-term bank loans	(5,820)	-	(5,820)
Acquisition of treasury stock	(58)	(58)	(177)
Cash dividends paid to minority shareholders	(555)	-	(555)
Cash dividends paid	(116,332)	(115,634)	(117,270)
	787,233	74,306	566,176
Effect of exchange rate changes on cash and cash equivalents	3,261	(152)	4,199
Net increase in cash and cash equivalents	26,341	48,396	123,263
Cash and cash equivalents at beginning of term	2,108,616	2,231,879	2,108,616
Cash and cash equivalents at end of term	2,134,957	2,280,276	2,231,879

Nonconsolidated financial statements**Nonconsolidated balance sheet**

Thousands of yen	June 30, 2007	%	June 30, 2008	%	December 31, 2007	%
Current assets						
Cash and bank deposits	1,147,956		1,199,399		1,166,662	
Notes receivable	42,588		51,467		173,141	
Accounts receivable	1,748,540		2,666,983		2,503,841	
Inventories	1,208,490		1,904,071		848,306	
Short-term loans	2,700,000		2,300,000		2,400,000	
Other accounts receivable	702,490		224,174		357,482	
Others	211,955		127,008		81,354	
Allowance for doubtful accounts	(298)		(488)		(431)	
	<u>7,761,723</u>	78.4	<u>8,472,614</u>	81.5	<u>7,530,356</u>	78.8
Fixed assets						
Tangible fixed assets	80,993	0.8	66,968	0.6	68,718	0.7
Intangible fixed assets	43,308	0.5	32,115	0.3	40,338	0.4
Investments and other assets						
Investment securities	1,333,590		1,249,071		1,256,991	
Others	674,522		579,699		665,581	
Allowance for doubtful accounts	-		(459)		(161)	
	<u>2,008,112</u>	20.3	<u>1,828,311</u>	17.6	<u>1,922,412</u>	20.1
Total fixed assets	<u>2,132,415</u>	21.6	<u>1,927,395</u>	18.5	<u>2,031,469</u>	21.2
Total assets	<u>9,894,138</u>	100.0	<u>10,400,010</u>	100.0	<u>9,561,826</u>	100.0

PALTEK CORPORATION

Thousands of yen	June 30, 2007	%	June 30, 2008	%	December 31, 2007	%
Current liabilities						
Accounts payable	454,886		964,346		400,356	
Short-term bank loans	930,000		930,000		730,000	
Income taxes payable	6,617		9,279		10,747	
Accrued bonuses	51,483		49,952		36,793	
Others	285,511		271,023		214,230	
	<u>1,728,498</u>	17.5	<u>2,224,601</u>	21.4	<u>1,392,128</u>	14.6
Long-term liabilities						
Liability for employees' retirement benefits	19,304		28,178		24,627	
Liability for directors' and corporate auditors' retirement benefits	196,022		196,022		196,022	
Others	38,366		38,557		38,462	
	<u>253,693</u>	2.5	<u>262,757</u>	2.5	<u>259,111</u>	2.7
Total liabilities	<u>1,982,191</u>	20.0	<u>2,487,359</u>	23.9	<u>1,651,240</u>	17.3
Net assets						
Shareholders' equity						
Common stock	1,339,634	13.5	1,339,634	12.9	1,339,634	14.0
Capital surplus						
Capital reserve	1,678,512		1,678,512		1,678,512	
	<u>1,678,512</u>	17.0	<u>1,678,512</u>	16.1	<u>1,678,512</u>	17.6
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	(451,003)		(418,645)		(423,224)	
	<u>4,995,096</u>	50.5	<u>5,027,454</u>	48.3	<u>5,022,875</u>	52.5
Treasury stock	(130,480)	(1.3)	(130,657)	(1.2)	(130,599)	(1.4)
	<u>7,882,763</u>	79.7	<u>7,914,943</u>	76.1	<u>7,910,423</u>	82.7
Valuation/translation gains (losses)						
Unrealized gains (losses) on securities - net	25,431	0.3	(2,868)	(0.0)	3	0.0
Deferred hedging gains (losses)	3,752	0.0	575	0.0	159	0.0
	<u>29,184</u>	0.3	<u>(2,292)</u>	(0.0)	<u>162</u>	0.0
Total net assets	<u>7,911,947</u>	80.0	<u>7,912,650</u>	76.1	<u>7,910,586</u>	82.7
Total liabilities and net assets	<u>9,894,138</u>	100.0	<u>10,400,010</u>	100.0	<u>9,561,826</u>	100.0

Nonconsolidated statement of income

Thousands of yen	Interim term ended		Interim term ended		Year ended	
	June 30, 2007	%	June 30, 2008	%	December 31, 2007	%
Net sales	4,278,052	100.0	6,169,681	100.0	10,079,733	100.0
Cost of sales	3,684,443	86.1	5,183,583	84.0	8,610,692	85.4
Gross profit	593,609	13.9	986,098	16.0	1,469,040	14.6
Selling, general and administrative expenses	977,159	22.9	946,127	15.4	1,931,008	19.2
Operating income (loss)	(383,550)	(9.0)	39,970	0.6	(461,968)	(4.6)
Nonoperating income	52,812	1.3	189,967	3.1	167,600	1.7
Nonoperating expenses	20,321	0.5	12,651	0.2	40,389	0.4
Ordinary income (loss)	(351,059)	(8.2)	217,286	3.5	(334,757)	(3.3)
Extraordinary income	15,959	0.4	1	0.0	49,015	0.5
Extraordinary losses	23,093	0.6	728	0.0	25,735	0.3
Income (loss) before income taxes	(358,194)	(8.4)	216,559	3.5	(311,476)	(3.1)
Income taxes - current	2,365		2,365		4,730	
Income taxes - deferred	(50,281)		93,010		(33,708)	
	(47,916)	(1.1)	95,375	1.5	(28,978)	(0.3)
Net income (loss)	(310,277)	(7.3)	121,183	2.0	(282,498)	(2.8)

Nonconsolidated statement of changes in net assets

Interim term ended June 30, 2007

Thousands of yen	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, 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	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

Interim term ended June 30, 2008

Thousands of yen	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, 2007	1,339,634	1,678,512	46,100	5,400,000	(423,224)	5,022,875	(130,599)	7,910,423	
Changes during the term									
Dividends					(116,605)	(116,605)		(116,605)	
Net income (loss)					121,183	121,183		121,183	
Acquisition of treasury stock							(58)	(58)	
Other changes in non-shareholders' equity items during the term (net)									
Total changes during the term	-	-	-	-	4,578	4,578	(58)	4,519	
Balance as of June 30, 2008	1,339,634	1,678,512	46,100	5,400,000	(418,645)	5,027,454	(130,657)	7,914,943	

Thousands of yen	Valuation/translation gains (losses)			Total net assets
	Unrealized gains (losses) on securities - net	Deferred hedging gains (losses)	Total valuation/translation gains (losses)	
Balance as of Dec. 31, 2007	3	159	162	7,910,586
Changes during the term				
Dividends				(116,605)
Net income (loss)				121,183
Acquisition of treasury stock				(58)
Other changes in non-shareholders' equity items during the term (net)	(2,871)	416	(2,455)	(2,455)
Total changes during the term	(2,871)	416	(2,455)	2,064
Balance as of June 30, 2008	(2,868)	575	(2,292)	7,912,650

PALTEK CORPORATION

Year ended December 31, 2007

Thousands of yen	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)					(282,498)	(282,498)		(282,498)	
Acquisition of treasury stock							(177)	(177)	
Other changes in non-shareholders' equity items during the term (net)									
Total changes during the term	-	-	-	-	(399,107)	(399,107)	(177)	(399,285)	
Balance as of Dec. 31, 2007	1,339,634	1,678,512	46,100	5,400,000	(423,224)	5,022,875	(130,599)	7,910,423	
Thousands of yen	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)						(282,498)			
Acquisition of treasury stock						(177)			
Other changes in non-shareholders' equity items during the term (net)	(30,189)	159			(30,030)	(30,030)			
Total changes during the term	(30,189)	159			(30,030)	(429,315)			
Balance as of Dec. 31, 2007	3	159			162	7,910,586			