

(Translation)

March 10, 2006

**PALTEK CORPORATION**

2-3-12 Shin-Yokohama, Kohoku-ku, Yokohama, Kanagawa

**Notice of the 24<sup>th</sup> Annual General Meeting of Shareholders**

Dear Shareholders,

We cordially invite you to attend the 24<sup>th</sup> Annual General Meeting of Shareholders of PALTEK CORPORATION, to be held as per the schedule below.

If you are unable to attend the Meeting, please use one of the following methods to exercise your voting rights.

**Voting by Postal Mail:**

After reviewing the Reference Materials presented herein, please record your vote by marking “for” or “against” for each agenda item on the enclosed Form for Exercising Voting Rights, then sign and return it by postal mail.

**Voting by the Internet:**

Please use the voting code and temporary password provided on the enclosed Form for Exercising Voting Rights to access the Company’s voting rights website (<http://www.evotep.jp/>) from your personal computer or cell phone. After reviewing the Reference Materials presented herein or on the website, please follow the instructions given on the website to indicate your vote “for” or “against” for each agenda item shown. Before exercising your voting rights via the Internet, we ask you to refer to the Points to Note Regarding Online Voting by Shareholders on pages 12 to 13 of the enclosed materials.

*\* The online voting site is only available in Japanese.*

Sincerely,

Tadahito Takahashi

President

## Meeting Details

- 1) **Date and Time:** 1:00 p.m. on Saturday, March 25, 2006
- 2) **Location:** PALTEK CORPORATION Head Office, Seminar Room, 3<sup>rd</sup> Floor, Shin-Yokohama Mineta Bldg., 2-3-19 Shin-Yokohama, Kohoku-ku, Yokohama, Kanagawa
- 3) **Meeting Agenda:**

### Items to be reported:

1. The Balance Sheet and Statement of Income, on a consolidated basis, for the Company's 24<sup>th</sup> business term (from January 1 to December 31, 2005), in addition to audit reports on all consolidated financial statements by independent accountants and by the Board of Corporate Auditors of PALTEK CORPORATION.
2. Business Report, Balance Sheet, and Statement of Income for the Company's 24<sup>th</sup> business term (from January 1, to December 31, 2005), and acquisition of Company's own shares for inclusion in treasury stock by a resolution of the Board of Directors as authorized by the Articles of Incorporation.

### Items to be resolved:

- Item 1:** Approval of proposal for the appropriation of retained earnings for the 24<sup>th</sup> business term
- Item 2:** Appointment of five directors
- Item 3:** Provision of retirement benefits to retiring directors and corporate auditors
- Item 4:** Grant of new share subscription rights as stock options, as outlined in the enclosed document "Reference Materials for Exercising Voting Rights" (pages 5 to 8).

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**Please submit your Form for Exercising Voting Rights at the reception on the day of the Annual General Meeting of Shareholders.**

*(This English translation is an abridged version of the original invitation notice in Japanese. In event of any discrepancies, the Japanese version shall prevail.)*

## REFERENCE MATERIALS FOR EXERCISING VOTING RIGHTS

1. Total number of voting rights held by all shareholders: 116,329

2. Agenda items and reference materials

**Item 1: Approval of proposal for the appropriation of retained earnings for the 24<sup>th</sup> business term**

	Yen
<b>Unappropriated retained earnings at term end</b> .....	<b>317,047,956</b>
Appropriation of retained earnings:	
Cash dividends (¥10 per share) .....	116,614,840
Retained earnings carried forward .....	200,433,116

The proposed appropriation of retained earnings is as portrayed in the table stated above.

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

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

We propose to pay a dividend of ¥10 per share in the current term.

**Item 2: Appointment of five directors**

As the term of office for all six of the Company's directors will expire at the conclusion of this Annual General Meeting of Shareholders, we request approval for the reappointment of five directors.

Brief information on the candidates to be appointed is listed below:

Number	Name and date of birth	Brief background and representative status with other companies	Number of shares owned in the Company
1	Tadahito Takahashi October 24, 1948	Oct. 1982 Established PALTEK CORPORATION and appointed President Oct. 1998 Appointed Chairman and Representative Director of Alpha Electronics, Inc. Dec. 1999 Appointed Chairman of Alpha Electronics, Inc. (incumbent) Feb. 2006 President and Representative Director of PALTEK CORPORATION and in charge of Network Solution Division and Silicon Solution Business Division (incumbent)	2,650,940
2	Hiroyuki Takasaki September 25, 1946	Sep. 1971 Joined Texas Instruments Japan Ltd. Apr. 1988 Appointed General Manager of Marketing Oct. 1993 Joined Applied Materials Japan, Inc. as Manager of Marketing and Service Aug. 1997 Appointed President of Xilinx Japan, Inc. Feb. 2000 Joined S.C.G. Japan, Inc. as Director Jun. 2000 Joined PALTEK CORPORATION Jan. 2001 Appointed General Manager of Sales Division Mar. 2001 Appointed Director Jan. 2003 Appointed Executive Vice President and Representative Director of PALTEK CORPORATION, and General Manager of PLD Business Division Feb. 2006 Executive Vice President and Representative Director of PALTEK CORPORATION and in charge of PLD Business Division (incumbent)	18,700
3	Tadashi Ito October 5, 1949	Apr. 1973 Joined Japan Automobile Research Institute Jul. 1982 Joined Texas Instruments Japan Ltd. Jul. 1990 Appointed Accounting Manager of ASP Business Dept. Mar. 1995 Appointed Controller of ASP Business Dept. Nov. 1998 Appointed Japan Office Manager of Vivid Semiconductor Co., Ltd. Apr. 2000 Appointed Administration Manager of Mattson Technology Center Inc. Jun. 2001 Joined PALTEK CORPORATION Jan. 2002 Appointed Manager of Finance & Legal Group, Operational Service Division Mar. 2003 Appointed Director and General Manager of Operational Service Division, and in charge of Environment (incumbent) Mar. 2005 Appointed Corporate Auditor of Spinnaker Systems, Inc. (incumbent)	12,500
4	Hajime Yamazaki July 15, 1941	Apr. 1964 Joined Takachiho Koheki Co., Ltd. Feb. 1975 Joined Tokyo Electron Ltd. Apr. 1984 Appointed General Manager of Semiconductor Sales Division Apr. 1986 Appointed Managing Director of newly established Dia Semiconductor Systems Co., Ltd. Feb. 1995 Appointed President Jan. 2002 Appointed Deputy President of Unidux Inc., which absorbed Dia Semiconductor Nov. 2002 Joined Takebishi Electric Sales Corp. Jun. 2003 Appointed Managing Director Feb. 2004 Joined PALTEK CORPORATION Sep. 2004 Appointed General Manager of Digital Consumer Division (incumbent) Mar. 2005 Appointed Director of PALTEK CORPORATION (incumbent)	5,000
5	Masahiko Hirata February 1, 1931	Apr. 1954 Joined Matsushita Electric Industrial Co., Ltd. Nov. 1970 Appointed Director of Victor Company of Japan, Ltd. Jun. 1978 Appointed Managing Director Jun. 1980 Appointed Senior Managing Director Feb. 1985 Appointed Director of Matsushita Electric Industrial Co., Ltd. Feb. 1986 Appointed Managing Director Jun. 1987 Appointed Senior Managing Director Jun. 1988 Appointed Executive Vice President Jun. 1993 Appointed Standing Corporate Auditor Mar. 2001 Appointed Director of PALTEK CORPORATION (incumbent)	16,240

None of the candidates above has any substantial business interest in the Company that may conflict with the performance of his duties.

**Item 3: Provision of retirement benefits to retiring directors and corporate auditors**

We propose to provide retirement benefits to Mr. Masanori Kanamori, who is to retire as director at the conclusion of this Annual General Meeting of Shareholders, and Mr. Kazutaka Muraguchi, who is to resign as corporate auditor at the conclusion of this Annual General Meeting of Shareholders, to provide a reasonable reward to them in recognition of their contributions to the Company during their tenures, based on the predefined guideline.

We request that the specific amount, time and method of provision, etc. for the retiring director be left entirely to the discretion of the Board of Directors and that for the retiring corporate auditor be left entirely to the discretion of the Board of Corporate Auditors.

A brief profile of the retiring director and corporate auditor is provided below:

Name	Brief background	
Masanori Kanamori	Mar. 1999	Appointed Director of PALTEK CORPORATION (incumbent)
Kazutaka Muraguchi	Mar. 2000	Appointed Corporate Auditor of PALTEK CORPORATION (incumbent)

**Item 4: Grant of new share subscription rights as stock options**

The Company will terminate its distribution agreement with Altera Corporation, a manufacturer of PLD, which the Company has been handling for approximately 20 years as a core product, on March 31, 2006. Leveraging its experience and expertise in system proposals and technical support with PLD as a core strength, the Company entered into a distribution agreement with Xilinx, Inc., a worldwide PLD solution leader, as of January 25, 2006.

As the Company regards the change of the supplier of its mainstay product PLD as a significant turning point for future growth, the Board of Directors requests the approval of a grant of new share subscription rights (stock options) to the employees of the Company and its subsidiaries in accordance with the provisions of Paragraphs 20 and 21 of Article 280 of the Commercial Code, to provide them with greater incentive to improve medium-term earnings and to boost morale.

Outline of issuance of new share subscription rights

(1) Persons eligible for grant of new share subscription rights

Employees of the Company as well as employees of the Company's subsidiaries, including an employee of the Company who concurrently holds the position of an officer at a subsidiary.

- (2) Class and maximum number of shares to be issued upon exercise of the subscription rights  
Ordinary shares of common stock in the Company, up to a maximum of 300,000 shares
- (3) Total number of subscription rights to be issued  
A maximum of 3,000 subscription rights in aggregate (each subscription right shall entitle a holder to purchase 100 ordinary shares of common stock)
- (4) Issuance price of share subscription rights  
Gratis
- (5) Payment due upon exercise of share subscription rights  
The amount payable to the Company upon the exercise of subscription rights shall be the price of each underlying common stock as described below multiplied by the number of shares represented by each subscription right (100 shares) in (3) above.  
The exercise price per share shall be the amount of shareholders' equity per share on the consolidated financial statements as of December 31, 2005, rounded up to the nearest yen. If the value calculated as above falls below either (1) the average closing price for ordinary shares of common stock of the Company published by Jasdaq Securities Exchange, Inc. during the month prior to the issue date of the subscription rights (hereinafter "issue date"), excluding days on which no closing price is quoted, multiplied by 1.05 and rounded up to the nearest yen or (2) the closing price on the issue date published by Jasdaq Securities Exchange, Inc. (in the event that no quotation is available for the closing price in question, then the last relevant price shall be adopted), the higher of the two amounts shall be deemed the exercise price.  
In case the Company carries out a stock split or reverse stock split, and issues new shares, or disposes of its treasury shares at a price less than the market price (excluding cases of exercise of new share subscription rights or share purchase rights stipulated in Article 280-19 of the Commercial Code before enforcement of the amendment law (Law No. 128, 2001), hereinafter the same), the payment shall be subject to adjustment in accordance with the following formula, and fractions less than 1 yen shall be rounded up to the nearest yen. Moreover, in the event

of a reduction of capital, merger, or split-up of the Company, the management may adjust the payment per share as deemed necessary.

1. In the event of a stock split or reverse stock split

$$\text{Exercising price per share after adjustment} = \text{Exercising price per share before adjustment} \times \frac{1}{\text{Ratio of split}}$$

2. In the event of the issue of new shares or the disposal of treasury shares below market price

$$\text{Exercising price per share after adjustment} = \text{Exercising price per share before adjustment} \times \frac{\text{Number of shares issued and outstanding} + \frac{\text{Number of shares to be issued (or disposed of)} \times \text{Exercise price per share}}{\text{Market price per share}}}{\text{Number of shares issued and outstanding} + \text{Number of shares to be issued (or disposed of)}}$$

- (6) Exercise period of new share subscription rights

April 1, 2009 to March 31, 2012 (Three years)

- (7) Conditions for the exercise of new share subscription rights

1. Holders of the new share subscription rights (hereinafter rights holders) shall be directors, corporate auditors, or employees of the Company or its subsidiaries or affiliates under the equity accounting methods (including persons terminating those positions within three months), when they exercise their subscription rights in part or in whole.
2. Subscription rights may not be pledged, or otherwise disposed of, nor may they be inherited.
3. The details of other provisions will be stipulated in the share subscription rights allotment agreement to be concluded between the Company and the rights holders, after determined by resolutions of this Annual General Meeting of Shareholders and of the subsequent meetings of the Board of Directors.

- (8) Reasons and conditions for cancellation of new share subscription rights

1. In the event where a merger is agreed upon in which the Company becomes an absorbed company or where a stock swap contract or share-to-share transfer agreement is completed under which the Company becomes a wholly owned subsidiary of the other corporation, by a resolution of the General Meeting of Shareholders,

the Company reserves the right to cancel the subscription rights without compensation.

2. In the event where a rights holder becomes deceased or loses his or her qualification necessary to exercise the subscription rights described in (7) above prior to exercising his or her subscription rights, the Company may reserve the right to cancel such subscription rights without compensation.
3. The Company shall be allowed to cancel subscription rights without compensation in the event where a rights holder does not exercise those within the period stipulated in (6) above.

(9) Limitations on transfer of new share subscription rights

An approval of the Board of Directors is required for the transfer of new share subscription rights.

## CONSOLIDATED BALANCE SHEET (Supplemental Information)

PALTEK CORPORATION

As of December 31, 2005

(Thousands of yen)

<b>ASSETS</b>	
<b>Current assets:</b>	<b>12,552,004</b>
Cash and bank deposits	3,049,169
Notes and accounts receivable	4,058,171
Inventories	4,273,456
Consumption tax receivable	1,026,014
Deferred tax assets	71,154
Others	78,301
Allowance for doubtful accounts	(4,262)
<b>Fixed assets:</b>	<b>935,851</b>
Tangible fixed assets:	134,390
Buildings	50,332
Vehicle equipment	46
Furniture and fixtures	69,276
Land	14,736
Intangible fixed assets	59,534
Investments and other assets:	741,926
Investment securities	268,022
Deferred tax assets	139,367
Others	334,536
<b>Total assets</b>	<b>13,487,856</b>

Figures of less than one thousand yen have been omitted.

## CONSOLIDATED BALANCE SHEET (Supplemental Information)

PALTEK CORPORATION

As of December 31, 2005

(Thousands of yen)

### LIABILITIES

**Current liabilities:** **4,210,073**

Notes and accounts payable	1,970,953
Short-term bank loans	1,738,350
Income taxes payable	52,010
Accrued bonuses	42,156
Others	406,602

**Long-term liabilities:** **441,126**

Long-term bank loans	5,820
Liability for employees' retirement benefits	42,309
Liability for directors' and corporate auditors' retirement benefits	288,776
Goodwill	1,914
Others	102,306

Total liabilities 4,651,199

**Minority interests** **67,619**

### SHAREHOLDERS' EQUITY

Capital stock	1,339,634
Capital surplus	2,698,526
Retained earnings	4,829,522
Net - unrealized gains on securities	31,515
Treasury stock	(130,161)

Total shareholders' equity 8,769,037

**Total liabilities, minority interests and shareholders' equity** **13,487,856**

## CONSOLIDATED STATEMENT OF INCOME (Supplemental Information)

PALTEK CORPORATION

Year ended December 31, 2005

(Thousands of yen)

<b>Net sales</b>	<b>17,946,928</b>
<b>Cost of sales</b>	<b>14,585,245</b>
<b>Selling, general and administrative expenses</b>	<b>2,820,132</b>
Operating income	541,549
<b>Non-operating income:</b>	<b>9,396</b>
Interest income	765
Dividend income	206
Gain on sale of investment securities	2,136
Interest on refund of consumption tax, etc.	2,163
Amortization of consolidation adjustments	1,276
Others	2,847
<b>Non-operating expenses:</b>	<b>177,584</b>
Interest expenses	17,312
Commission paid	13,747
Bad debt expense	6,195
Foreign exchange loss	114,239
Loss on assignment of receivables	16,440
Others	9,648
Ordinary income	373,361
<b>Extraordinary income:</b>	<b>47,308</b>
Gain on sale of fixed assets	1,292
Reversal of liability for directors' and corporate auditors' retirement benefit	1,664
Gain on sale of investment securities	41,558
Gain on redemption of investment securities	2,041
Reversal of guarantee of obligation	752
<b>Extraordinary losses:</b>	<b>10,771</b>
Loss on sale of fixed assets	1,295
Loss on disposal of fixed assets	1,201
Loss on valuation of fixed assets	2,972
Loss on valuation of investment securities	5,302
<b>Income before income taxes and minority interests</b>	<b>409,899</b>
Income taxes – current	163,951
Income taxes – deferred	(3,504)
Minority interests in net income of consolidated subsidiaries	5,957
<b>Net income</b>	<b>243,494</b>

Figures of less than one thousand yen have been omitted.

## Points to Note Regarding Online Voting by Shareholders

If you intend to vote (exercise your voting rights) online, please be aware of the following points.

If you plan to attend the General Meeting of Shareholders, it is not necessary to complete the voting procedure by post (via a voting form) or online.

If you do not plan to attend the General Meeting of Shareholders, you need to complete the voting procedure either by post or online. It is not necessary to complete voting procedure via both methods.

### 1. Online voting site and exercising your voting rights

- (1) To exercise your voting rights online, please access the following dedicated website either via your PC or cell phone (i-mode, EZweb or Vodafone live!): <http://www.evotep.jp/>  
This address may also be accessed via the Company's website (<http://www.paltek.co.jp>).  
(i-mode, EZweb and Vodafone live! are registered trademarks of NTT DoCoMo Inc., KDDI Corporation and Vodafone Group Plc respectively.)
- (2) Please be aware that, depending on your internet connection and PC environment, you may not be able to use your PC to exercise your voting rights via the online voting site (e.g. if you connect to the internet via a firewall, have anti-virus software installed or use a proxy server).
- (3) To exercise your voting rights via your cell phone, please use one of the following services: i-mode, EZweb or Vodafone live! Please be aware that, depending on the model of cell phone used, you may not be able to exercise your voting rights via your cell phone using the aforementioned services. For security reasons, voting is only possible using internet-enabled cell phones capable of SSL (encrypted) communication.
- (4) Online votes may be cast up to midnight on Friday, March 24, 2006, the day immediately prior to the General Meeting of Shareholders. However, we respectfully request that shareholders exercise their voting rights at their earliest convenience.

If you have any questions, please contact the following help desk.

Online Voting Help Desk (telephone inquiries)

Corporate Agency Division

Mitsubishi UFJ Trust and Banking Corporation (transfer agent)

0120-173-027 (available 9:00 – 21:00)

\*Please note that this is not the number to call for inquiries regarding shares.

### 2. Exercising your voting rights online

- (1) On the aforementioned voting site, you will be required to input the "Code No. for Exercise of Voting Rights" and the temporary password assigned to you. These are shown on the enclosed voting form. Please follow the instructions on both sides when voting.

- (2) Please be aware that, in order to prevent illegal online access by non-shareholders (spoofing) and vote tampering, you will be asked to change your temporary password or obtain dedicated electronic authentication (or send data from your cell phone) via the aforementioned voting site.
- (3) You will be notified of a new “Code No. for Exercise of Voting Rights” every time a General Meeting of Shareholders is convened. If you have agreed to receive notice of General Meeting of Shareholders via email, you will retain the same password unless you change it yourself. Please take sufficient care to ensure that your password is not disclosed to anyone.

3. Voting rights in the event of duplicated voting

- (1) Please be aware that, in the event that voting is duplicated (i.e. a vote is cast both by post and online), the online vote shall prevail.
- (2) Although it is possible to vote (i.e. amend your vote) any number of times via the online voting site, your last vote shall prevail. Similarly, if you vote more than once via your PC and cell phone, your last vote via either method shall prevail.

4. Fees incurred when accessing the online voting site

You shall be responsible for any fees incurred when accessing the online voting site (dialup connection charges, telephone charges, etc.). Similarly, if voting via cell phone, you will be responsible for any connection charges or other fees arising from the use of your cell phone.

5. Receiving notice of General Meeting of Shareholders

If you wish to receive notice of General Meeting of Shareholders via email in the future, please use your PC to complete the procedure on the online voting site. (Please note that it is not possible to complete this procedure via your cell phone, nor is it possible to have notice emails sent to a cell phone email address.)