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## *High-tech Sector*

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### ***NTT DoCoMo (9437 TSE1) Plans High-speed Mobile Phone Service***

NTT DoCoMo plans to launch a 14mb/second data communication service for mobile phones in 2006. The new service will use the HSDPA format to introduce a 3.5G service. The new service will offer data transfer speeds up to 6 times that of KDDI's 3G phones, which have realized maximum speeds of 2.4mb. Japan's mobile phone operators are competing on transmission speeds in addition to call rates.

### ***IP Telephones Spreading Rapidly in Japan***

The number of subscribers to IP telephones rose from 4.33 million as of the end of December 2003 to 7.06 million as of the end of September 2004. About 40% of all broadband users have subscribed to IP telephones. Almost all subscribers (99%) use the dedicated IP access number 050. Subscribers to high-quality service using the regular access number 0-ABC account for just one percent. Softbank BB, a dominant player in the ADSL market, has the highest market share estimated at 65%, followed by a distant second NTT, with a share of 8.3%. KDDI's market share is estimated at 5.6%. If current problems like voice quality and the fact that calls cannot be placed to emergency numbers are resolved, IP telephones will win increasing popularity.

### ***Hitachi (6501 TSE1)'s Encryption System Likely to be Become Global Standard***

Hitachi's encryption technology (MUGI, MULTI-SO1 based on Stream), developed for mobile phones, is likely to become the global standard for encryption of data. The new technology is expected to find wide-ranging applications in mobile data communication. ISO has already completed the evaluation of both technologies and are expected to win approval later this year.

### ***Consumer Electronics' Sales Largely Flat in December***

Sales of consumer electronics in December at ¥231,400 million were 0.3% lower than the same month a year earlier, according to NEBA, an association of large home electronics stores. Sales for 2004 fell 1.9% year-on-year to ¥1.9 trillion. Sales of DVD decks were up 40% and those of televisions rose 26.1%.



**Makers Boosting Production of Flexible Printed Circuit Boards**

Flexible printed circuit board manufacturers are increasing production to cope with demand for use in LCD devices, mobile phones, digital cameras, optical pickups, HDDs and other high-tech devices. Production in 2004 rose 18% year-on-year topping ¥240,000 million. JPCA, the sectors trade body, is projecting an average annual growth rate of 10.4% through 2008.

**ATA/SATA Disc Storage Systems Market Expanding**

Shipments of ATA/SATA add-on disc storage systems is expected to grow at an annual average rate of 28% (CAGR) between 2004 and 2008, according to IDC Japan, a high-tech market research firm. Japan's storage systems market in 2003 is estimated at ¥237,600 million in terms of sales value. In shipment volume, the market was 3,875TBs. ATA/SATA's market share was, however, only 3.6% in value and 19.4% in volume. Back-up and archive-related applications are expected to drive demand.

**Earnings Roundup****Internet Securities Firms Report Record Profit**

The five Internet securities firms (Matsui Securities, E\*Trade Securities, Monex Beans Holdings, Kabito.Com, and Rakuten Securities) reported strong ordinary profit growth in the first nine months of the current fiscal year ended December. With more individual investors entering the market the number of accounts was up 50%, lured by a favorable market, Internet securities firms' combined ordinary income in the first nine months of the current fiscal year exceeded that of the last fiscal year. Ordinary income at Matsui Securities rose 84% year-on-year to ¥16,400 million. Ordinary income at E\*Trade Securities rose 145% year-on-year to ¥7,300 million.

**Digital Consumer Electronics Prices on the Skids – Manufacturers' Profit Hurt**

Declining prices of digital consumer electron product prices have started to hurt vendor profits. Following Sony, Elpida Memory also slashed its current fiscal year earnings forecast. While sales are accelerating, falling prices are squeezing profit margins. Despite the increasingly difficult operating environment personal computer and software services markets remain strong. In the digital consumer electronics markets, sales of DVD recorders and flat-panel televisions are surging amid falling prices. Sales of personal computers are up only slightly and prices are slipping slowly. Sales of digital cameras are flat, with prices under pressure. Mobile phone sales are slowing down but prices remain flat.



**KDDI (9433 TSE1) to Post Record Profit – But Lower Than Previous Forecast**

KDDI's revised business forecasts for the current fiscal year ending March 2005 see consolidated net income rising 65% from the previous fiscal year to a record ¥193,000 million. However, the figure is ¥5,000 million lower than the previous forecast released in October 2004. Sales are likely to increase 2% to 2.9 trillion and operating income is likely to be ¥29,300 million, somewhat lower than the ¥309,000 million forecast earlier. Profit is being squeezed mainly because of intensifying competition with NTT DoCoMO, which is forcing the company to fork up more incentives to its dealers.

**Canon (7751 TSE1) Sales Reports Record Profit**

Canon Sales' ordinary income in the year ended December 2004 rose 73% year-on-year to a record ¥24,300 million on a sales gain of 8% to ¥815,500 million. Operating income was up 72% to ¥29,200 million and net income rose 76% to ¥12,300 million. The company renewed its profit record for the first time in eight years. Strong sales of color copiers, printers, digital cameras and SPE boosted profit.

**Profit Jumps at VeriSign (3722 TSE Mothers)**

VeriSign's non-consolidated ordinary income for the fiscal year ended December 2004 rose 84% to ¥1,270 million, surpassing the previous forecast by ¥190 million, on a sales gain of 28% to ¥ 5,450 million. Demand for authentication from corporate clients rose, reflecting rising concerns over security. Revenues from its authentication service rose 30% to approximately ¥3,400 million. Strict cost control was also a factor in boosting profit. The ordinary income margin rose seven percentage points to 23%.

**Initial Public Offerings News (For detailed information, go to:**

<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>

**AMS Life Science (2927 JASDAQ)**

AMS Life Science Co., Ltd., a Japanese health food and cosmetics maker, will list on the JASDAQ Securities Exchange on March 3. The company will offer 100,000 shares in its initial public offering. Of those, 70,000 are newly issued shares and 30,000 are shares currently held in private. The company also has a green shoe option, allowing it to offer an additional 15,000 shares in the event of exceptional demand. The tentative price range will be announced on February 14. The fixed offering price will be announced on February 23. For the current fiscal year ending August 2005, the company forecasts a group net profit of ¥397.75 million, up from ¥311.21 million posted in the previous fiscal year on sales of ¥5.03 billion, an increase from the previous fiscal year's ¥4.34 billion, and earnings per share of ¥1,039.42. Nikko Citigroup is the underwriter of the issue.



**The First Energy (9514 TSE Mothers)** The First Energy Co., Ltd., a Japanese company specializing in energy conservation support services, will list on the Mothers Market of the Tokyo Stock Exchange on March 4. The company will offer 1,600 shares in its initial public offering. Of those, 1,500 are newly issued shares and 100 are shares currently held in private. The tentative price range will be announced on February 10. The fixed offering price will be announced on February 22. Nomura Securities is the lead underwriter of the issue.

**Pro-Ship (3763 JASDAQ)** Pro-Ship Co., Ltd., a Japanese package software development and marketing firm, will list on the JASDAQ Securities Exchange on March 1. The company will offer 800,000 shares in its initial public offering. Of those, 400,000 are newly issued shares and 400,000 are shares currently held in private. The tentative price range will be announced on February 7. The fixed offering price will be announced on February 17. The funds raised through the IPO will be used for the establishment of a subsidiary in China, for capital investment and for financing working capital needs. Nomura Securities is the lead underwriter of the issue.

**Basic Electronics Industry Statistics**

	Prod	Shp.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
Dec.	100.2	102.4	81.3	80.9	2,123	1,529	17,484	2,289	7,034	8,160	3,596	321
Jan.	102.5	105.4	81.5	76.1	1,996	1,396	15,531	1,517	6,073	7,941	3,629	273
Feb.	95.7	99.0	80.1	84.9	2,153	1,554	16,577	1,812	6,774	8,022	3,575	195
Mar.	94.2	95.1	81.2	108.1	3,233	1,744	20,681	2,337	9,428	8,916	4,021	241
Apr.	102.0	107.2	85.1	100.8	2,060	1,792	15,745	2,079	5,535	8,132	3,604	224
May	105.7	107.6	84.3	95.1	1,961	1,728	15,549	1,969	5,434	8,145	3,750	219
June	102.0	107.4	82.1	112.9	2,287	2,013	17,641	2,362	6,525	8,754	3,938	248
July	102.1	106.4	81.0	114.0	2,226	2,005	16,722	2,165	6,057	8,499	3,847	296
Aug	108.4	108.8	82.0	79.2	2,101	1,435	15,383	1,860	5,455	8,068	3,761	237
Sep.	98.2	101.4	82.4	84.5	2,604	1,447	18,193	2,251	7,487	8,455	3,712	217
Oct.	99.9	106.1	81.5	74.9	2,116	1,419	15,088	2,639	5,014	7,705	3,721	253
Nov	102.3	107.1	81.8	81.0	2,223	1,553						251
YoY	2.9	7.3	0.0	9.3	16.3	6.0	-10.9	-4.2	17.7	7.9	3.0	3.7

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations

