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High-tech Sector

Week ended May.29, 2005

KDDI (9433 TSE1) Leads in Net Growth of New Subscribers for Two Years in a Row

In the fiscal year ended March 2005, KDDI reported a net 2.58 million increase in subscribers, surpassing NTT DoCoMo where the net increase is estimated at 2.5 million and Vodafone, which subscriber growth of only 90,000. This trend is reflected in the business results of the three major carriers. Operating income rose at KDDI, while NTT DoCoMo and Vodafone suffered declines. KDDI's market share in the mainstay 3G phones was 59.1% as of the end of March 2005. NTT DoCoMo had a market share of 37.9% and Vodafone a share of 3.0%.

Televisions: Market Shares to Change

A significant change is expected in the share of large-screen PDP televisions by 2007. At present, projection televisions account for 88% of all televisions with screen sizes of 50" and larger, while PDP panel TVs represent just 12%. However, by 2007, the share of PDP panel televisions is likely to increase to 54% with that of the projection-type falling to 40%. LCD panel TVs will account for just 6% of the total. In smaller size televisions (30") CRT will lose its market share to LCD panel TVs. The share of CRT in this category is likely to fall from 85% to 33% while that of LCD panels will increase from 12% to 67%. Projection television is expected to lose its share in the mid-size (40") televisions also, where its share is projected to decline from 41% to 13%.

Injection Molding Machine Orders Plunge in April

Orders for injection molding machines declined 22.2% from the same month a year earlier to 1,544 units. This was the tenth consecutive year-on-year decline in monthly orders. Orders were also 8.8% lower from March. Orders for 20-ton-99-ton machines fell 45.2% to 534 units while those for 100-ton-199-ton models were down 4.0% to 606 units. Orders for larger machines rose substantially, but they represent a small percentage of total orders.

Printed Circuit Board Market Expanding

Driven by strong demand for built-up and flexible PCBs, the aggregate demand for printed circuit boards is rising steadily. Japan's printed circuit board production in 2005 is forecast at ¥849.5 billion, up 6.2% from the previous year, according to JPCA, the sector's trade association. The production of flexible printed circuit boards is expected to rise 9.9% to ¥225.6 billion and its share of total PCB production. Output of built-up PCBs is forecast to increase 14.2% to ¥132.9 billion. As a result, the combined share of the two printed circuit boards in aggregate PCB production should rise by two percentage points to 42.2%.

Car Navigation System Market Outlook

Japan's car navigation system market is forecast at 3.72 million units in fiscal 2005, rising to 3.91 million units in fiscal 2006. In fiscal 2006, original equipment and dealer options will account for 1.34 and 1.47 million units respectively, with the after market representing 1.1 million units. The HDD-type car navigation system increased its market share from 18.8% in 2003 to 26.1% in 2004.

Outlook for Principal Consumer Electronic Products

The total production of televisions in 2005 is expected to increase 4.2%, with that of LCD TVs rising 78.9% and that of PDP TVs going up 51.1%, according to JEITA, the sector's trade body. The output of DVD recorders is projected to increase 70.5% and that of DVD players 1.4%. Production of car navigation systems is likely to be up 13.4%, according to the trade body. Other gainers include notebook PCs (up 15.5%) and hard disk drives (up 40.0%). On the other hand, production of VTRs is expected to drop 25.3%.

Earnings Roundup

Telecommunications Construction Contractors Report Business Results

Benefiting from stepped up investment in 3G ground stations and expansion of optical fiber networks, five of the six telecommunications construction contractors posted higher sales and earnings. Investment in telecommunications infrastructure is expected to continue at a brisk pace in the current fiscal year to March 2006. However, price pressures will build up as carriers try to slash cost. The prices for optical network construction work are expected to decline about 30% in the next few years. Since all telecommunications construction firms (except NTT Systems) depend on NTT for a majority of orders, they are likely to be hurt unless they can find ways to slash cost

	Net sales	Operating income	Ordinary income	Net income
Comsys HD	2,936 (-)	150 (-)	171 (-)	83 (-)
(1721 TSE1)	2,930 (-)	145 (0)	163 (-)	85
Kyowa Exio	2,476 (21.5)	119 (31.6)	123 (35.9)	64 (88.5)
(1951 TSE1)	2,600 (5.0)	125 (4.3)	133 (7.5)	70 (9.0)
NEC System	1,986 (2.4)	48 (8.9)	47 (8.6)	12 (2.4X)
(1973 TSE1)	2,100 (5.7)	48 (-0.2)	47 (-1.1)	18 (50.6)
Daimei	1,011 (10.8)	61 (28.6)	61 (29.5)	29 (60.8)
(1943 TSE1)	1,025 (1.4)	63 (1.6)	62 (0.6)	31 (4.1)
Commuture	856 (0.2)	56 (-1.8)	58 (1.7)	32 (5.9)
(1932 TSE1)	920 (7.4)	52 (-6.9)	53 (-9.9)	31 (-4.6)
Nihon Denwa Shise.	679 (-1.4)	23 (-13.7)	25 (-17.6)	-6 (-)
(1956 TSE1)	700 (3.1)	26 (9.2)	28 (9.8)	12 (-)

Upper line: March 2005 (actual), Lower line: March 2006 (Forecast), Unit: ¥100 million, Parentheses: YoY change

MCJ (6670 TSE Mothers) To Report Strong Profit Growth

MCJ, a made-on-order personal computer manufacturer, is likely to see its non-consolidated operating income for the fiscal year ended March 2005 to rise by 41% to ¥680 million on a sales gain of 30% to ¥10,700 million. Sales increased on rising shipments of computers to individuals and corporate clients while cost declined due to sharply lower component prices.

Internet Firms hit the Growth Track

Internet-based firms, including portal operators (Yahoo, livedoor, Rakuten, Cyber Agent and Excite), ad agencies (Cyber Communications, Digital Advertising), e-commerce service firms (Golf Digest Online) and staffing service firms (En Japan), reported strong sales and earnings growth in the first quarter of 2005. livedoor saw its sales jump 3.6 times to ¥17,927 million and operating profit surge by 55% to ¥2,557 million. Operating income at Excite tripled to ¥242 million on revenues of ¥1,793 million. En Japan reported an operating income gain of 86% to ¥1,012 million on revenue of ¥2,495 million, up 95%.

Cybird (4823 JASDAQ)Forecasts Strong Profit Growth

Cybird expects consolidated ordinary income in the current fiscal year to increase by 87% to ¥1.35 billion on sales of ¥17.1 billion, up 37%. However, net income is likely to drop 48% to ¥790 million, due to the absence of extraordinary profit that lifted net income in the previous fiscal year.

Trend Micro's (4704 TSE1)Second-quarter Profit Likely to be Lower

Trend Micro's consolidated net income in the second quarter (April-June) is likely to decline 11% to ¥3.4 billion, against a forecast of ¥4.2 billion. Sales in Japan, affected by a problem with its Virus Buster software that caused users' computers to shut down, have slowed. Overseas business is likely to be unaffected. Now consolidated net sales are projected at ¥16 billion, up 8%, but still ¥1.5 billion short of forecast.

Initial Public Offerings (For detailed information, go to:

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

Sanko Techno (3435 JASDAQ)

Sanko Techno Co., Ltd., a Japanese manufacturer of construction materials also involved in the manufacture and marketing of printed circuit boards, will list on the JASDAQ Securities Exchange on June 22. The company will offer 210,000 shares in its initial public offering. Of those, 100,000 are newly issued shares and 110,000 are shares currently held in private. The company plans to use the funds from the IPO for capital investment. The tentative price range will be announced on June 3. The fixed offering price will be announced on June 14. Nikko Citigroup is the lead underwriter of the offer.

Advanced Media (3773 TSE Mothers)

Advanced Media Co., Ltd., a Japanese firm specializing in the development and marketing of voice recognition systems, will list on the Mothers market of the Tokyo Stock Exchange on June 27. The company will offer 15,000 new shares in its initial public offering. The tentative price range will be announced on June 6. The fixed offering price will be announced on June 15. Nomura Securities is the lead underwriter of the offer.

Internet Initiative Japan (3774 TSE Mothers)

Internet Initiative Japan Inc. will list on the Mothers market of the Tokyo Stock Exchange on June 23. The company will offer 3,400 shares in its initial public offering. Of those, 2,500 are newly issued shares and 900 are shares currently held in private. The tentative price range will be announced on June XX. The fixed offering price will be announced on June XX. Daiwa SMBC Securities is the lead underwriter of the offer.

Medikit (7749 JASDAQ)

Midikit Co., Ltd., a Japanese manufacturer of medical equipment, will list on the JASDAQ Securities Exchange on June 28. The company will offer 90,000 shares in its initial public offering. Of those, 50,000 are newly issued shares and 40,000 are shares currently held in private. Nomura Securities, the lead underwriter, also has a green shoe option, allowing it to offer up to an additional 10,000 shares in the event of exceptional demand. The company plans to net two billion yen from its initial public offering. The tentative price range will be announced on June 9. The fixed offering price will be announced on June 17. Nomura Securities is the lead underwriter of the offer.

Micron Machinery (6159 JASDAQ)

Micron Machinery Co., Ltd., a Japanese machinery manufacturer, will list on the JASDAQ Securities Exchange on June 27. The company will offer 300,000 shares in its initial public offering. Of those, 250,000 are newly issued shares and 50,000 are shares currently held in private. The company executed a ten-for-one stock split on February 23. The company plans to net 390 million yen from its initial public offering. It plans to use the proceeds for capital investment and for working capital. The tentative price range will be announced on June 7. The fixed offering price will be announced on June 16. Mitsubishi Securities is the lead underwriter of the offer.

Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
April	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
Sept	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	2,369	5,014	7,705	3,721	253
Nov	102.3	107.1	81.8	81.0	2,223	1,553	15,872	2,496	5,625	7,751	3,674	252
Dec	99.0	106.0	79.1	78.3	2,250	1,422	15,471	2,022	6,046	7,403	3,306	330
Jan	101.0	107.2	79.3	71.4	2,098	1,169	14,138	1,509	5,549	7,080	3,135	301
Feb	96.5	102.3	80.5	87.5	2,310	1,424	15,537	1,823	6,497	7,216	3,249	204
Mar	93.1	98.5	80.9	99.7		1,534	19,039	2,191	8,688	8,160	3,636	234
YoY	-1.2	3.6	-0.4	-7.9	7.3	-12.1	-7.9	-6.3	-7.9	-10.0	-9.6	-3.3

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