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High-tech Sector

Week ended July 31, 2005

KDDI (9433 TSE1) to Absorb PoweredCom

KDDI Corp. (Stock code: 9433) is expected to absorb PoweredCom Inc, the telecommunications subsidiary of Tokyo Electric Power Co. (Stock code: 9501). The combination will make KDDI the third largest telecom carrier, positioning it better to compete more effectively with Nippon Telephone and Telegraph Corp. (Stock code: 9432). KDDI was looking for a means to bolster its business as the growth in its mobile phone business is slowing down. PoweredCom, without a mobile phone network, found itself in a difficult position. On the other hand, KDDI wanted to expand its fixed-line network. Tepco plans to raise its stake in KDDI.

Consumer Electronics Shipments Rise in June

Shipments of consumer electronic items in June were up 1.7% to ¥212.7 billion, according to JEITA, the electronic sector's trade body. This was the 19th consecutive increase in year-on-year shipments, the trade body added. By product category, the value of shipments of AV devices fell 0.2% to ¥125.6 billion, the first drop in 24 months. While shipments of LCD televisions were up sharply, those of CRT color TVs and DVD decks were lower. Shipments of LCD televisions were up 43.5% to 323,000 units. Of particular note was the 2.8-fold increase in the shipments of 30" LCD TV models. Shipments of digital audio equipment were sharply up for a second month in a row, rising 6.4% to ¥16.5 billion, and those of automotive AVCs were also strong, rising 4.1% to ¥70.6 billion, registering their 13th consecutive gain.

Chip Resistor Production in Japan Recovering

Production of chip resistors in 2005 is recovering and is expected to increase 5% from a record ¥200 billion registered in 2004 to ¥210 billion in 2005. With inventory adjustment having run its course, orders are on the up-trend at chip resistor manufacturers. Domestic production is shifting increasingly to high-end resistors, such as the super-miniature type, as production of low-end resistors shifts overseas.

Online Software Market Expanding Rapidly

Japan's online software market was ¥536 billion in 2003, up 83.5% from 2000, according to government sources. The market is still relatively small, accounting for just 5% of the total content market, but its share has been increasing steadily.

Telecommunication Equipment Production Slows Down in April-May

Production of telecommunications equipment in Japan in the April-May period fell 5.3% compared to the same period a year earlier to ¥369.5 billion, according to CIAJ, the sector's trade association. On the other hand, shipments of network-related equipment rose 1.9%. Production of terminal equipment fell 7.8% to ¥269.1 billion and that of cell phones was also down 7.8% to ¥243.7 billion. But, production of PHS terminals rose 23.7% to ¥2.9 billion. Production of fixed-line network equipment increased 6.5% to ¥64.5 billion and that of network equipment was up 54.1% to ¥5.2 billion.

The shift of emphasis to automotive electronics represents a strategic move to lower dependence on consumer electronics.

Personal Computer Shipments Up in First Half

Shipments of personal computers in Japan in the first half of 2005 were up 22% to 3.06 million units, according to JEITA. Personal computers with enhanced security functions are in demand from the corporate sector and PCs with AV functions are selling well in the consumer sector, the trade association said. The value of shipments increased 12% to ¥402.1 billion as personal computer prices slipped.

Earnings Roundup

Online Securities Firms Report Strong 1Q Earnings

Japan's four online securities firms reported strong first-quarter earnings at a time when regular securities firms are suffering. Except Matsui Securities (Stock code: 8628), the other three (E*Trade (Stock code: 8701), Monex Bean Holdings (Stock code: 8698) and Kabu.Com (Stock code: 8703), posted double-digit earnings gains, with E*Trade securities reporting record-high revenues and income for the quarter. E*Trade's low commission rates are attracting individual investors. It added 90,000 new accounts in the quarter. E*Trade now accounts for 24.8% of the trading volume in the individual investor sector. It gives it a clear lead over its nearest rival Matsui Securities, which accounts for 11.2% of the share.

Company	Revenue	Ordinary Income	Net Income	Number of Accounts
e-Trade (8701)	94 (52.1)	43 (83.2)	23 (91.6)	683,696
Matsui (8628)	96 (-6.9)	56 (-14.2)	32 (-14.6)	314,216
MBH (8698)	61 (6.7)	29 (13.4)	14 (-43.4)	453,140
Rakuten	46 (32.1)	18 (21.7)	8 (33.1)	299,611
Kabu.com(8703)	35 (24.3)	19 (41.1)	10 (-16.8)	262,291

Electronic Equipment Manufacturers Report First-quarter Results

The first quarter of the current fiscal year (April-June) turned out to be challenging period for Japan's electronic equipment manufacturers as prices of digital consumer electronic products continued to slip and they faced heightened competition in electronic components such as semiconductors. As a result, seven of the eleven major electronic equipment manufacturers reported net losses. Sony was hard hit by declining TV sales, with TV sales dropping by 20%. As barriers to entry in flat panel televisions are low (product can be assembled from components purchased from third parties), prices continue to slide. As a result, companies with relatively low competitive power may be hurt even further. Most have left their full year forecasts unchanged since the April-June quarter is generally a slow period and first quarter sales represent a relatively low share of full-year sales and earnings.

Company	Sales	Operating Income	Net Income
Hitachi (6501)	20,487 (-1)	12 (376)	-240 (160)
Matsushita (6752)	20,481 (-3)	460 (434)	334 (328)
Sony (6758)	15,594 (-3)	-152 (97)	-72 (232)
Toshiba (6502)	12,988 (4)	-18 (141)	-89 (-77)
Fujitsu (6702)	10,263 ((2)	148 (-43)	24 (-118)
NEC (6701)	10,009 (-5)	-210 (165)	-109 (209)
Mitsubishi Electric (6503)	7m379 (2)	209 (262)	111 (124)
Sharp (6753)	6,163 (3)	355 (353)	194 (195)
Sanyo (6764)	5,946 (-8)	-94 (136)	-262 (23)
Pioneer (6773)	1,641 (0)	-88 (50)	-53 (14)
Victor Japan (6792)	1,641 (-10.9)	-88 (28)	-53 (10)

Internet Security Systems(4297 JASDAQ) Poised for Solid Profit Increase

Internet Securities Systems (Stock code: 4297) is likely to see its interim consolidated ordinary income jump 140% to ¥480 million on estimated sales of ¥2.6 billion, up 30% year-on-year. Sales of security devices jumped 30% as demand increased sharply from the corporate sector following the implementation of the personal information protection law and the public sector.

Initial Public Offerings (For detailed information, go to:

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

Japan Best Rescue System (2453 TSE Mothers)

Japan Best Rescue Co., Ltd, a household repair services company, will list on the Tokyo Stock Exchange's Mothers market on August 30. The company will offer 2,000 shares to the public in its initial public offering. Of those 1,800 are newly issued shares and 200 are shares currently held in private. The company conducted a three-for-one stock split in April 2005. The company expects to net ¥321 million from the IPO. The company is projecting net income of ¥139 million on revenues of ¥3.42 billion for the current fiscal year to September 2005. This translates into earnings per share of ¥9,133.26. The tentative price range will be announced on August 9. The fixed offering price will be announced on August 18. Nomura Securities is the underwriter of the offer.

OPTEX FA (6661 Hercules)

OPTEX FA Co., Ltd, a manufacturer of photoelectronic sensors, will list on the Osaka Securities Exchange's Hercules market on August 31. The company will offer 2,300 shares to the public in its initial public offering. Of those 2,000 are newly issued shares and 300 are shares currently held in private. The company conducted a 2-for-1 stock split on January 31. The company is projecting net income of ¥219.3 million on sales of ¥2.76 billion for the current fiscal year to December 2005. This translates into earnings per share of ¥45,200.44. The tentative price range will be announced on August 10. The fixed offering price will be announced on August 19. Nomura Securities is the 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)
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	3,392	1,534	19,039	2,191	8,688	8,160	3,636	234
Apr	101.8	106.0	85.3	103.6	2,136	1,707	14,671	2,087	5,449	7,135	3,178	214
May	101.3	106.2	85.7	103.3	1,977	1,723	13,948	1,969	4,965	7,014	3,226	208
YoY	-4.2	-1.3	1.7	9.0	0.6	-0.3	-10.0	-0.1	7.7	-13.9	-14.0	-5.2

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