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High-tech Sector

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Japan's Cell Phone Manufacturers Losing Out

The operating environment for Japan's cell phone manufacturers is turning severe as KDDI (Stock code: 9431) announced that it will start purchasing more cell phones from foreign suppliers. NTT DoCoMo (Stock code: 9437) and Vodafone have already started doing so. The policy changes at Japan's telecom carriers signals the beginning of full-fledged global competition. The change in policy at telecom carriers started with the launching of 3G phones, which are based on the global communications standard. For 2G phones, Japan used the PDC standard, a telecommunications format unique to Japan. This had secured a dominating position for Japan's cell phone manufacturers in Japan's 2G market. Major players in the 674-million unit global cell phone market are Nokia, Motorola, Samsung and LG.

HDD Demand Rising Worldwide – Hitachi (6501 TSE1) is the Only Laggard

The global demand for hard disk drives is expected to reach 389.74 million units in 2007, up from an estimated 326.47 million units in 2005. The increase in demand is due mainly to an expanding range of applications to digital consumer electronics and notebook PCs. Seagate Technologies, the largest HDD manufacturer reported a 60% year-on-year increase in sales the quarter ended June 30. Amid the rising demand, the only company reporting sluggish growth is Hitachi (Stock code: 6501). Its HDD subsidiary, Hitachi Global Storage Technologies, reported only 10% YoY growth in the April-June quarter. Hitachi Global Storage Technologies, a company formed by absorbing IBM's HDD business, is having teething problems. New product launchings are behind schedule and yields are short of targeted levels.

Outlook for Display Devices

The supply-demand balance of LCD displays is likely to be better balanced in the third quarter of 2005, according to Display Research, a high-tech research firm. Supplies fell short of demand in the second quarter. The situation will change in 2006, with supplies exceeding demand, according to the company. However, for this scenario to materialize, production capacity at parts suppliers will also have to grow in tandem with the planned increase in panel output. Capacity of certain parts is not increasing as fast as necessary.

Semiconductor Manufacturers Operating at Full Capacity

Major Japanese semiconductor manufacturers have cancelled their summer vacations (August 12-17) as they gear up for deliveries for the year-end buying season. Most semiconductor producers are planning to raise capacity utilization above 90% in the second half.

Japan's Digital Content Market to Continue to Expand in FY2005

Japan's digital contents market in 2004 expanded 11.1% year-on-year to ¥2.46 trillion,

according to the Digital Contents Association. The market is projected to continue to expand, reaching ¥2.7 trillion in fiscal 2005, the year ending March 2006. The association predicted growth in all four major sectors--package software, Internet, cell phones, and digital broadcasting--but pointed out that growth will be led by the Internet, including video, audio, and game distribution.

Machinery Orders Up in June

Machinery orders in June rose 27.9% year-on-year to ¥500.2 billion. Domestic orders were up 7.8% to ¥217.7 billion and overseas orders increased 64.5% to ¥228.4 billion. Of particular note is the 73.5% increase in overseas orders for mining machinery to ¥73.7 billion. In addition, overseas orders for metal working machines were up 7.4 fold and those for compressors rose 5.3 fold. On the other hand, orders for tanks were lower due to cancellation of existing orders.

Machine Tool Orders Up in July

Machine tool orders in July (8 major manufacturer) rose 3.9% year-on-year to ¥42.3 billion. Monthly orders have stayed above the previous-year level for 34 months in a row. Domestic orders were up 1.3% while export orders rose 7.1%. Orders were down 23.8% at Mori Seiki (Stock code: 6141) due a reactionary decline from a particularly high level in the same month a year earlier. Domestic orders fell sharply at the Toshiba Machine Group (Stock code: 6104) and Tsugami (Stock code: 6101), but both posted strong gains in export orders.

First-half IT Service Orders Up Marginally

Orders received in the first half by Japan's IT service industry were up 0.2% from the same period a year earlier to ¥5,051.5 billion. Orders for the mainstay custom software were largely flat, rising only 0.7%, to ¥3,067 billion. On the other hand, orders for system management and operation outsourcing services were up 9.4%.

Earnings Roundup

Review of IT Service Sector's 1Q Business Results

The first-quarter earnings at IT service firms were clearly under pressure, although a few reported sales and earnings growth. Of the 19 firms with annual sales of more than ¥100 billion, only four, such as Otsuka Shokai (Stock code: 4768), posted year-on-year sales and earnings growth. On the other hand, eight firms reported lower sales and earnings. Although corporate IT investment is increasing, service prices are coming down amid increasing intense competition and growing emphasis on cost performance by customers.

Electronic Component Manufacturers 1Q Results – A Mixed Picture

Overall earnings at Japan's major electronic manufacturers in the first quarter were relatively sluggish, due to relatively high level of earnings in the same period a year ago when the Athens Olympic Games lifted earnings. Electronic component orders started to look up from spring as inventory adjustment at set manufacturers came to an end. In view of the brighter outlook, electronic component manufacturers have left their annual forecasts unchanged.

Initial Public Offerings (For detailed information, go to:

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

All About (2454 JAQ)

All About Inc, an Internet information service provider, will list on the JASDAQ Securities Exchange on September 13. The company will offer 7,200 shares to the public in its initial public offering. All shares are newly issued. The company expects to net ¥1.78 billion from the

IPO. The proceeds will be used for financing working capital requirements. For the current fiscal year ending March 2006, the Company forecasts non-consolidated pre-tax profit of ¥357 million, up from ¥300 million in the previous fiscal year, on revenue of ¥3.39 billion, an increase from ¥2.21 billion in the previous fiscal year. Earnings per share are projected at ¥5,587.75. The tentative price range will be announced on August 24. The fixed offering price will be announced on September 2. Daiwa SMBC Securities is the underwriter of the offer.

ArkCore (3384 NSE)

ArkCore Co., Ltd, Japan's largest Internet-based used motorcycle trading firm, will list on the Nagoya Stock Exchange on September 15. The company will offer 2,100 shares to the public in its initial public offering. Of those 1,300 are newly issued shares and 800 are shares currently held in private. The tentative price range will be announced on August 26. The fixed offering price will be announced on September 6. E*Trade Securities is the underwriter of the offer.

Asahi Industries (5456 JAQ)

Asahi Industries Co., Ltd, a manufacturer of construction-use steel products, will list on the JASDAQ Securities Exchange on September 13. The company will offer 4,000 to the public in its initial public offering. All shares are newly issued. The company expects to net ¥2.6 billion from the IPO. The proceeds will be used to repay loans. For the current fiscal year through March 2006, the company is forecasting consolidated pre-tax profit of ¥6.40 billion on sales of ¥47.1 billion. Net income is projected at ¥3.8 billion and earnings per share at ¥158,333.33. The tentative price range will be announced on August 25. The fixed offering price will be announced on September 5. Shinko 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	4.4	5.5	-1.7	9.0	0.6	-0.3	-10.0	-0.1	7.7	-13.9	-14.0	-6.9

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