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High-tech Sector

Week ended August 28, 2005

KDDI(9433TSE1) and TEPCO(9501TSE1) to Enter in to a Comprehensive Tie-up in Telecommunications

KDDI (Stock code: 9433) and TEPCO (Stock code: 9501) reached a basic agreement concerning a comprehensive-tie-up in the area of telecommunication. Under the agreement, KDDI will acquire TEPCO's telecom subsidiary, Powered Co. As the first step, the two companies will start marketing their optical fiber-based services to the consumer market under a single brand.

Shakeout Already Underway in Portable Digital Audio Players

As has been the case in many other sectors in recent years, a shakeout has started in the portable digital audio player (DAP) in spite of the prevailing high-growth phase. The intensifying competition in the field of portable music player resulted in the D&M Holdings'-the manufacturer of the Rio brand of portable digital audio players, decision to withdraw from the market by the end of this month, meaning that the two major players, Sony (Stock code: 6758) and Apple Computer, will dominate the market.

July Consumer Electronic Sales

Total consumer electronics sales in July fell 0.3% year-on-year to ¥186,540 million, according to NEBA, an association of large consumer electronic chains. Television sales rose 6.9% to ¥20,759 million and digital camera sales were up 7.1% to ¥5,074 million and the sales of electronic ranges rose 22.1% to ¥1,578 million. But sales in most other categories were below their previous-year levels. NEBA is expected to split up by August.

Shipments of Consumer Electronics Suffer First Decline in Twenty Months

After twenty months of consecutive growth, shipments of consumer electronic products suffered a YoY decline of 1.8% to ¥213.4 billion for the first time in July. Lower sales of plasma televisions and DVD decks due mainly to relatively high level of sales in July 2004 reflecting Athens Olympic-related demand was the primary factor driving down total sales. While sales of video equipment fell 9.2% to ¥128.2 billion, brisk sales of digital audio devices pushed up total audio equipment sales by 25.4% to ¥19.7 billion. Shipments of car navigation systems were up 8.6% to ¥65.4 billion, registering their 14th consecutive gain.

Vehicles Installing ETC Devices Top 8 Million

Vehicles installing ETC devices (electronic traffic control) topped 8 million vehicles as of the end of June, according to the data released by ORS, an association promoting the use of ETC devices. The number of vehicles installing ETC devices by more than one million in approximately one and half months from May 1, when 6 million vehicles had installed the system.

Machine Tool Orders Up in July

Machine tool orders in July rose 8.1% to ¥111.9 billion, according to the Japan Machine Tool Builders Association. This was the 34th year-on-year increase in monthly orders. Domestic orders were up 11.0% to ¥59.5 billion and overseas orders rose 5.1% to ¥52.3 billion. The association revised its forecast for 2005 upward by 5% - 10% to ¥1.2 trillion.

LCD Panel Production Picks Up in Taiwan

Although production gains are not uniform, overall production of LCD panels in Taiwan has picked up from April, after suffering a decline due to sharply lower prices in the first three months of 2005. LCD panel production is expected to increase 70% in 2005, 51% in 2006 and 38% in 2007. However, in the three -year period prices are expected to drop of 20%, 25% and 26%, respectively.

Mass Production with Immersion Lithography to Start in 2007

The three major stepper manufacturers, ASML, Nikon and Canon, are gearing up to start introducing immersion lithography devices. ASML announced the TWINSCAN XT: 1700i, an ArF immersion lithography device for the 45nm process. The shipment of the first unit will be in the first quarter of 2006 and the company claims that it already has firm orders for three units. Nikon announced the NSR-S609B in June. Canon, the third major market player is yet to announce a lithography device; though the development is progressing and its plans envision launching a mass production model in 2007. Market experts forecast that immersion lithography will start being used for mass production starting in 2007 (with the 45nm process).

Earnings Roundup

Trend Macro(4704 TSE1) Likely to Hike Dividend

Trend Macro (Stock code: 4704) is expected to see its consolidated net income for the current fiscal year increase by 13% to ¥16 billion to December 2005, which is roughly ¥500 million higher than previous forecast. In par with the above increase and the company' plan to raise the dividend payout ratio from 30% to 40% it is expected to increase dividend by ¥16 to ¥52.

First-quarter Profit Surges at Oricon(4800 HRLS)

Oricon's (Stock code: 4800) first-quarter consolidated ordinary income is likely to have increased 3.5 times compared to the same period a year earlier to slightly more than ¥110 million on sales of ¥13,550, a gain of 1%. Successful reduction of costs, including design and printing costs, and a rise in gross profit margin of 6 percentage points to 45% lifted profit.

Electronic Component Manufacturers 1Q Results – Many Post Lower Sales and Profit

In addition to a reactionary decline from last year's high levels and continuing inventory adjustment in consumer electronics that started in the second half of 2004 continues to hurt electronic component manufacturers. However, the second half of the current fiscal year that starts in October is expected to be a fortune brightener. But higher material prices, including oil, steel and copper, may cloud the picture. Of the 42 major electronic component manufacturers, 26 reported lower ordinary income and 25-posted lower sales in the first quarter, twenty-three posted lower net income, while more than half reported lower sales and profit. Three were in the red (Mitsumi Electric (Stock code: 6767), Taiyo Yuden (Stock code: 6976) and FDK (Stock code: 6955).

Semiconductor Traders Report Lackluster 1Q Earnings

Weak demand for semiconductors due to sluggish sales of digital consumer electronic products and the relatively high level of sales last summer led to a 3% YoY decline in combined first quarter sales (major 27 semiconductor traders). It was also a mixed picture. There were double-digit sales gains at seven firms and double-digit sales decline at eight firms, with sixty percent of the total, suffering earnings decline. Despite the poor performance, none of the 27

semiconductor traders have revised their full-year projections downward. Always an optimistic lot, they are betting on a recovery in the second half. While Kaga Electronics (Stock code: 8154) and Innotech (Stock code: 9880) were the only firms reporting sales and earnings gains, four firms reported fall in both sales and earnings.

Initial Public Offerings (For detailed information, go to:

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

IFIS Japan (7833 MTH)

IFIS Japan Co., Ltd, a company engaged in the distribution of securities research reports and consensus data and the preparation and printing of financial documents, will list on the Mothers market of the Tokyo Stock on September 21. The company will offer 1,500 shares to the public in its initial public offering. Of those 1,000 are newly issued shares and 500 are shares currently held in private. The tentative price range will be announced on September 1. The fixed offering price will be announced on September 9. HS Securities is the underwriter of the offer.

Cosmo Bio (3386 JAQ)

Cosmo Bio Co., Ltd, an importer and distributor of chemicals agents used in R&D testing, and devices and reagents used in clinical testing, will list on the JASDAQ Securities Exchange on September 27. The company will offer 6,632 shares to the public in its initial public offering. Of those 4,800 are newly issued shares and 1,832 are shares currently held in private. The company plans to use the funds to finance M&A deals for business expansion when opportunities arise. Until such time the funds will be managed through relatively low-risk financial instruments. The tentative price range will be announced on September 6. The fixed offering price will be announced on September 14. Nomura Securities is the lead underwriter of the offer.

Noel (8947 JAQ)

Noel Co., Ltd, a real estate firm engaged in real estate purchase, sale, development, rental and brokerage services, will list on the JASDAQ Securities Exchange on September 27. The company will offer 1,400 shares to the public in its initial public offering. Of those 1,200 are newly issued shares and 200 are shares currently held in private. The company plans to use the proceeds from its IPO for financing working capital requirements. The tentative price range will be announced on September 5. The fixed offering price will be announced on September 14. Daiwa Securities SMBC is the lead underwriter of the offer.

Create Restaurant (3387 MTH)

Create Restaurant Co., Ltd, a restaurant and food court development and management company, will list on the Mothers market of the Tokyo Stock on September 28. The company will offer 1,292,000 shares to the public in its initial public offering. Of those 646,000 are newly issued shares and 646,000 are shares currently held in private. The tentative price range will be announced on September 6. The fixed offering price will be announced on September 15. Daiwa Securities SMBC 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	5.6	5.5	9.5	0.6	1.3	-7.7	-4.2	-4.0	-11.3	-10.6	-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