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High-tech Sector

Week ended Sep. 5, 2004

Competition in Telecom Services Spreads to Basic Monthly Charges

With Softbank set to commence a fixed line service with the basic monthly charge set at ¥200/month lower than NTT East and West, the two largest fixed line telephone service providers in Japan. Softbank also announced sharp reductions in phone rates for limited periods in a bid to lure current NTT subscribers. So far, NTT has dictated the basic monthly charge but with telecom deregulation, competition has arrived in this area also. If successful, Softbank could affect NTT's profitability.

Japan's Mobile Phone Market Close to Saturation

Japan's mobile phone market is maturing and as a result mobile phone shipments in the current fiscal year to March 2005 are likely to decline about 8% to 46.4 million, according to Yano Research Institute, a think tank. Subscriber growth is also likely to slow down to 5.85% from the 7.3% recorded in the previous fiscal year. Another factor affecting shipments is the ongoing switch from 2G to 3G models and the end of the replacement cycle from regular models to camera-equipped models. Competition will heat up in 2006, when consumers will have number portability--that is, they will be able to keep their current numbers even if they change the carrier.

Government to Standardize Interface Protocol for Internet-linked Consumer Electronics

The government is expected to launch a project to standardize the interface protocols for Internet-linked home electronics now that the market is entering the growth phase. Sales of the new type of home electronic items are expected to reach some ¥1 trillion in 2010. At present, manufacturers use four different protocols, causing compatibility problems. A standardized protocol will assure smooth growth of this emerging market.

Consumer Electronics Shipments Surge in July

Shipments of consumer electronics in July rose 26.9% compared to July 2003 to ¥217.2 billion to record a second consecutive double-digit year-on-year gain in monthly shipments, according to JEITA, a trade body. Shipment growth reflects strong demand for digital consumer devices, including flat-panel TVs and DVD recorders, in addition to rising consumer confidence backed by an economic recovery. Shipments are expected to stay at high levels for the foreseeable future.



**Surveillance Camera System
Demand Rising**

The demand for surveillance camera systems in 2006 is expected to reach 1.35 million units, up from an estimated 1.18 million in 2004. The demand for both major systems—network camera systems and HDD camera systems—is likely to be strong, underpinned by growing security concerns in both corporate and consumer sectors.

Semiconductor Production Plans

Japan's 37 major semiconductor manufacturers expect to boost production in fiscal 2004, the year ending March 2005, by 14.7% to ¥7.23 trillion, according a survey by a leading industry daily. The highest production gain is planned by Sony, which expects semiconductor production to rise 37.5% from the previous fiscal year. Nichia Kagaku is planning for a 29.9% increase. Among the major players, Sanyo Electric is likely to see only a 3.3% increase in production.

**Machine Tool Orders Rise
Sharply in July**

Combined orders for machine tools at Japan's 11 major machine tool builders in July were up 56.0% year-on-year to ¥54.2 billion. This was the twenty-first consecutive year-on-year gain in monthly machine tool orders. Although orders were marginally lower than the previous month, they were still at the ¥50-billion level for three months in a row. The highest gain was recorded by OKK, where orders more than doubled. Orders were up 85.9% at Mori Seiki.

**Production of Digital AV Devices
Up Sharply in First Half**

Production of digital AV devices in the first six months of 2004 increased 16.3% to ¥1. 2 trillion and exports rose 12.0% to ¥880 billion, according to government statistics. Both production and exports should stay strong for the foreseeable future.



Initial Public Offerings News (For detailed information, go to: <http://www.ipotokyo.com>)

IBJ Leasing (8425 TSE)

IBJ Leasing Co., Ltd., a firm engaged in leasing and financing purchases of general machinery and equipment, aircraft, computers etc., will list on the Tokyo Stock Exchange market on October 7. The company will offer 6,000,000 shares to the public in its initial public offering. Of those 2,500,000 are newly issued shares and 3,500,000 are existing shares currently held in private. The tentative price range will be set on September 14. The fixed offering price will be announced on September 27. Shinko Securities is the lead underwriter for the offer.

Human Holdings (2415 Jasdaq)

Human Holdings Co., Ltd., a firm engaged in a diverse range of businesses from educational services to executive placement and staffing, will list on the JASDAQ market on October 7. The company will offer 5,400 existing shares to the public in its initial public offering. Of those 2,400 are newly issued shares and 3,000 are existing shares currently held in private. The tentative price range will be set on September 15. The fixed offering price will be announced on September 28. Nomura Securities is the lead underwriter for the offer.

VeriTrans (3749 Hercules)

VeriTrans Co., Ltd., an Internet-based bill settlement services firm specializing in the consumer market, will list on the Hercules market on October 5. The company will offer 2,000 existing shares to the public in its initial public offering. Of those 1,300 are newly issued shares and 700 are existing shares currently held in private. The tentative price range will be set on September 10. The fixed offering price will be announced on September 22. HS Securities is the lead underwriter for the offer.

**Career Design Center
(2410 Hercules)**

Career Design Center Co., Ltd., an executive placement firm offering employment information on the web and through job magazines, will list on the Hercules market on October 1. The company will offer 2,748 existing shares to the public in its initial public offering. Of those 1,500 are newly issued shares and 1,248 are existing shares currently held in private. The tentative price range will be set on September 9. The fixed offering price will be announced on September 21. HS Securities is the lead underwriter for the offer.



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)
Aug.	91.2	95.8	87.0	60.5	1,771	1,165	14,332	1,577	5,593	7,362	3,388	230
Sept	94.1	96.4	82.7	74.3	2,495	1,313	18,078	2,314	7,335	8,430	3,761	209
Oct.	98.6	104.9	80.8	75.2	2,005	1,397	16,942	2,473	6,100	8,370	3,698	228
Nov.	99.4	99.8	81.8	74.1	1,913	1,465	16,360	2,310	5,897	8,153	3,611	244
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									296
YoY	12.0	17.8	-12.5	-3.3	14.6	-1.5	9.3	18.1	-0.9	15.7	14.2	19.8

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

