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High-tech Sector

Week ended Nov. 14, 2004

KDDI (9433 TSE1) to Tie-up with BT

KDDI and BT have agreed to cooperate in international data services for the corporate sector. Under an agreement signed between the two companies, KDDI will exclusively market BT's services in Japan. The two also plan to set up a joint venture that will construct, operate and maintain information communications systems. By tying up with BT, a company with strong presence in this area, KDDI hopes to expand its customer base.

Dispute Over Frequency Allocations Heats Up

The debate over allocation of existing wavebands to new carriers entering the mobile phone market is intensifying. The two major players, NTT and KDDI, are seeking to defend their allocated bands in the 800Mzt frequency, while newcomers like Softbank try to gain allocations in this waveband. In addition to the 800Mzt, two more frequency bands, 1.2Ghzt and 1.5Hzt, are available for mobile phones, and the government is considering adding the 1.7Hzt waveband. However, the 800Mzt band is more attractive than any of these alternatives, as the lower the frequency the deeper the wave can penetrate interior of buildings.

Toshiba (6502 TSE1) Sues Hynix for Alleged Patent Violations

Toshiba has sued Hynix in the Tokyo District Court, claiming violation of its flash memory patents. Toshiba and South Korean companies dominate the global market for this type of memory. However, the recent market entry of Hynix has intensified competition and caused a price crash. Toshiba wants to protect its intellectual property rights in order to secure pioneer profits in a market that is perceived to have excellent growth potential.

Personal Computer Shipments Up in First Half

Domestic shipment of personal computers in the first half of the current fiscal year ended September 2004 rose 4% year-on-year to 5.79 million units, according to MM Research, a research firm. This was the third consecutive gain in semi-annual shipments. Dell, Toshiba and HP Japan recorded double-digit gains. Shipments to the consumer market were down 3.3% to 2.46 million units but those to the corporate sector rose 10.3% to 3.33 million units. The value of shipments was down 0.2% to ¥838 billion. Shipments for the current fiscal year are likely to be up some 5%, a slowdown from the 8.9% growth recorded in the previous fiscal year.



Nintendo (7974 TSE1) to Hike Production of Its New Game Machine

Nintendo plans to sharply hike production of its new portable game player, the Nintendo DS. Although not due for launch until December 2, advance orders in Japan are already double (2 million units) the projected levels. The success of game machine is determined by early sales, since this is the key parameter that game producers use to make decisions about developing games for the machine. Since Sony is also ready to launch a mobile game player in December, Nintendo wants to capture market ahead of the competition.

Machine Tool Orders Shows Strong Growth in October

Orders for machine tools in October were up 51.1% year-on-year to ¥109.7 billion, according to Japan Machine Tool Builders Association. This was the 25th straight year-on-year gain in monthly machine tool orders. Moreover, machine tool orders have been above the ¥100-billion mark for six months. As a result, total machine tool orders for the first ten months topped one trillion yen. Toyota Machine Tools posted the highest growth in October orders, with orders up 2.3 times. It was followed by Mori Seiki, which saw orders grow 58.3%.

First Half Machinery Orders Down

Machinery orders for the first half of the current fiscal year ended September 2004 were down 8.1% to 2.36 trillion. Orders in September were down 17.3% to ¥600.5 billion. In the first half, domestic orders rose 6.7% to ¥1.54 trillion but overseas orders fell 27.2% to ¥816.6 billion. In Japan, orders for fans, compressors, boilers and power sources showed particularly strong growth. Overseas orders were down for all types of machinery, except tanks, pumps, transportation equipment and gears.

Earnings Roundup

Electronic Devices Manufacturers May be at a Turning Point

Although all major electronic computer manufacturers reported higher interim net income, they remain cautious about the outlook for the second half, mainly because demand for mobile phones and digital consumer electronics seem to have peaked. Moreover, Rohm and two other electronic components makers have revised down their full-year projections, suggesting that earnings of electronic components manufacturers are at a turning point. Kyocera pointed out that orders for the coming Christmas season are not rising as much as expected and inventory adjustment is underway in mobile phones in the Chinese market. On a more positive note, Nitto Denko expects orders for LCD parts to increase.

Internet-related Firms Post Strong Growth

Internet-related firms, including Yahoo, Rakuten and Excite, have been reporting strong earnings growth. In the nine months ended September 2004, Rakuten saw its interim consolidated ordinary income increase 3.9 times to ¥10,700 million on a sales gain of 2.6 times to ¥31,600 million. Newly acquired sites and an online securities firm also contributed to profit. The company is also likely to report record full-year profit.



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

Paraca (4809 TSE Mothers)

Paraca Co., Ltd., a Japanese real estate firm specializing in parking-lot management, will list on the Mothers market of the Tokyo Stock Exchange on December 9. 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 privately held in private. The tentative price range will be announced on November 18. The fixed offering price will be announced on November 29. H. S. Securities is the lead underwriter of the offer.

FJ NEXT (8935 JASDAQ)

FJ NEXT Co., Ltd., a real estate firm with mainstay operations in real-estate development, marketing and brokerage, will list on the JASDAQ market on December 15. The company will offer 1,350,000 shares to the public in its initial public offering. Of those 1,050,000 are newly issued shares and 300,000 are shares currently held in private. The tentative price range will be announced on November 24. The fixed offering price will be announced on December 3. Daiwa Securities SMBC is the lead underwriter of the offer.

OUTSOURCING (2427 JASDAQ)

OUTSOURCING Co., Ltd., a staffing services firm focusing on job subcontracting, will list on the JASDAQ market on December 15. The company will offer 3,000 shares to the public in its initial public offering. Of those 2,000 are newly issued shares and 1,000 are shares currently held in private. The tentative price range will be set on November 24. The fixed offering price will be announced on December 3. Nomura Securities is the lead underwriter of the offer.

GMB (7214 OSE 2)

GMB Co., Ltd., an automobile parts manufacturer, will list on the second section of the Osaka Securities Exchange on December 17. The company will offer 900,000 shares to the public in its initial public offering. Of those 450,000 are newly issued shares and 450,000 are existing shares currently held in private. The tentative price range will be set on November 26. The fixed offering price will be announced on December 7.



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)
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	3,629	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	89.6	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	10,950	1,502	1,927	7,521	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
Sep.	98.0	101.3	82.4									217
YoY	4.1	3.5	-0.8	30.7	19.2	25.5	5.7	18.9	-3.0	9.6	11.1	4.2

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

