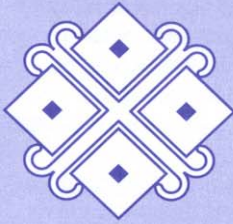


THE JAPAN TECHNOLOGY



ALERT



Special Edition

THE JOURNAL THAT TRANSLATES TECHNOLOGY INTO EFFECTIVE BUSINESS

March 2002

JAPAN Small Company Investment Conference

Opportunities Amass: Dissolving Japan's Conglomerates

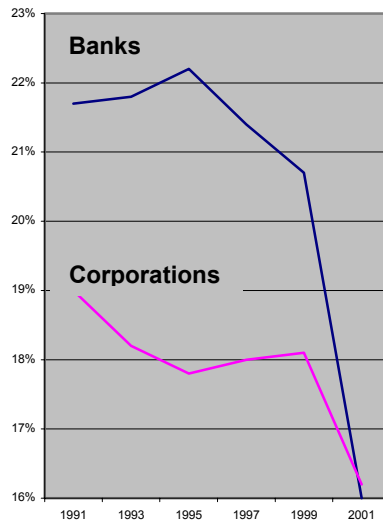
- Japanese firms are undervalued for three major reasons:
1. Capital efficiency will improve because firms are divesting large holdings of underutilized assets
 2. The chronic sell-off of Japanese equities is has created excellent investment opportunities among smaller, more specialized businesses
 3. The Koizumi administration is being forced to implement sweeping economic reform

Unwinding cross shareholdings

The relationship of mutual dependence between Japanese companies and banks is unfeasible in the post-bubble economy. Banks are under pressure to reduce their shareholdings to improve operational health. Moreover, corporations have shifted to mark-to-market accounting and have seen the devaluation of investments destroy earnings (companies whose operations they cannot control). The outcome is an environment in which attractive businesses that have been poorly managed are being spun off at extremely low valuations as corporations direct more of their efforts toward core assets. As a result, there is a trend toward specialization that is creating smaller independent companies focusing on single lines of business - companies that utilize their assets more efficiently to achieve higher returns for shareholders.

Section continues on page 2

Reduction of cross shareholdings by banks and corporations



Source: Ministry of Finance

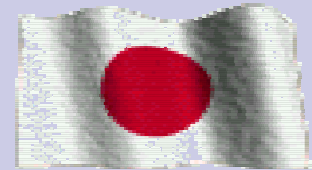
CONTENTS

INVESTMENT LANDSCAPE

Japan's IPO Market	2
Structural Reform	3

SECTOR HIGHLIGHTS

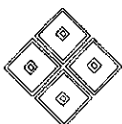
Specialized Software	4
ADOS	
Knowledge Automation	4
Aries	4
Specialty Retail	5
inSeason	5
ThanksNature	5
Semiconductor	6
ACT	6
FOI	6
PI R&D	6



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Publisher
Mark J. Lerner

Editors
Jean-Jacques Mondoloni
Elisa Garafano

Contributing Editors
Adam D. Helfman
Daniel T. Perry

Marketing Director
Stephanie M. Lerner

Design
Halcyon Endeavors

LayOut
Sofia Zetterman

Published By
Chelsae International Communications, Ltd.
63 Wall Street, New York, NY 10005
Telephone: (212) 480-4516
Fax: (212) 483-9160

Sanshi-Kaikan Building 9-4,
Yurakucho 1-Chome
Chiyoda-ku,
Tokyo 100-0006
Telephone: (03) 3211-4711
Fax: (03) 3211-4712

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Japan's IPO Market

Market receptiveness to small IPOs

Despite the mounting sell-off of large cap Japanese corporate stock, investors have placed confidence in the ability of smaller Japanese firms to generate business and thrive in a more specialized economy. Japanese stock exchanges handled 169 IPOs in 2001, while US markets saw just 98 IPOs. This large disparity is the result of Japanese banks' reluctance to engage in small business lending. Accordingly, Japanese IPOs are marked by relatively small funding and thin share issues. In the US, if the deal is under \$50 million, underwriters are hesitant to distribute an offering, whereas in Japan, these issues are dominant. In 2001, 97 companies went public on the JASDAQ OTC market and 43 companies went public on NASDAQ Japan with average opening price increases of 31% and 74%, respectively. 2002 is poised to be no exception with approximately 150 to 160 smaller IPOs prompted to take place.

According to Tokyo IPO, "the fact is that the Japanese economy is going through a very drastic change and while many of the major companies are facing mounting problems, new venture companies are cropping up with new and exciting business ideas and doing a tremendous amount of business." Subsequently, as massively sluggish conglomerates exit businesses that they cannot manage profitably, this trend will accelerate at an unprecedented pace and we will see a large number of small companies being either spun-off or going public.

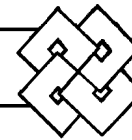
This translates into a high degree of liquidity for investors who fund the private placements of small businesses while they continue to gain market share and operate at a level of profitability much greater than their large conglomerate counterparts.

Koizumi is initiating fiscal policies to spur long-term corporate growth

The macroeconomic imbalance between savings and investment is the root of Japan's current recession. Currently a climate exists in which Japanese consumers have a large amount of excess savings, interest rates are extremely low and widespread consumer skepticism has led to a liquidity trap. The Koizumi administration has taken strides to induce additional investment by the private sector, the most important of which is to stabilize the financial system by removing life-support channels for effectively bankrupt corporations.

Koizumi has dedicated attention to Japan's need to repair its bad loan problem. The most likely route will be a policy in which the Resolution and Collection Corporation (RCC) buys problem loans from banks at book value and lays the foundation for establishing a market for selling these loans to investors. The process is aimed toward accelerating corporate bankruptcies and spreads losses to both moribund banks and tax-payers. While the transition will be laborious, it will create a more secure environment for future corporate growth.

This translates into a high degree of liquidity for investors who fund the private placements of small businesses while they continue to gain market share and operate at a level of profitability much greater than their large conglomerate counterparts.



Structural Reform Measures

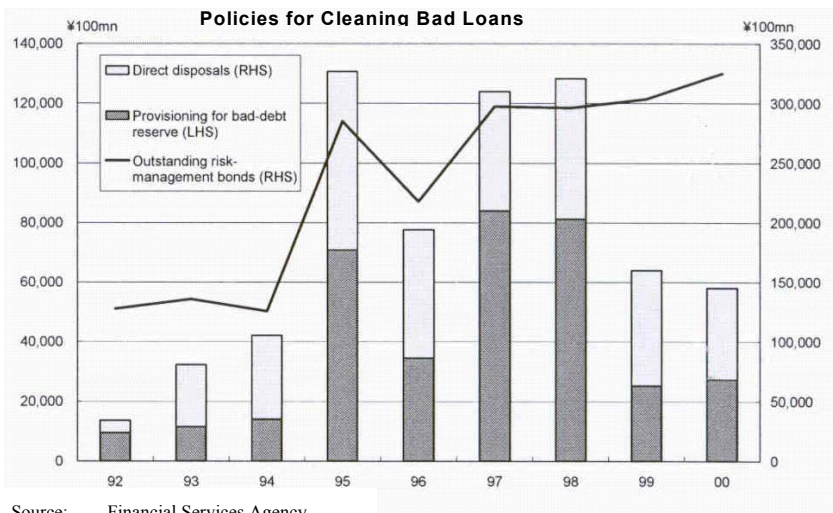
The road to long term growth in Japan is no doubt a very arduous one. Western style restructuring will inevitably take place as unprofitable government funded industries will be forced into dissolution and banks will have to call in dud loans. Subsequently, a large question looms over the heads of investors: if the Koizumi administration pushes banks to cut off bad debtors, what happens to small and mid-sized businesses, of which the Japanese economy is dominated? Many will fail...but which ones?

Logically, an end to pork-barrel spending will induce large-scale bankruptcies, especially in sectors such as construction, which employs approximately 10% of Japan's workforce. However, this is a necessary component of healthy restructuring because the construction industry has never faced unsubsidized market forces and is chronically inefficient. According to *Asia Week*, "even though the construction market has shrunk since the peak of the speculative 'Bubble Economy' 1980s, the number of construction workers has gone up, to around 6.5 million recently compared with 5.9 million in 1990."

The industry has raised its productivity by a mere 7% over the past 18 years with costs rising 61%. Meanwhile, Japanese manufacturers raised productivity 69% while cutting costs 3.4% for the same period.

An end to pork-barrel spending will induce large-scale bankruptcies, primarily in the construction industry which employs approximately 10% of Japan's workforce

The outcome is nothing revolutionary. When the government supports failing industries the economy as a whole suffers.



Source: Financial Services Agency

Japan is breaking away from regulatory forbearance to promote a more stable financial system

The LDP can no longer afford to prop up inefficient sectors of the economy (especially in response to recent pressure by the EU and the Bush administration).

As a byproduct there exist very profitable and specialized small and mid-sized firms that generate income unsubsidized by the government and that are critical to the vitality of the Japanese economy.

We have identified a few key areas, which we believe are indicative of the current breed of small companies that are benefiting from the necessary changes underway in Japan's economic, political and social landscape. The sample which we are presenting today includes IT businesses focusing on a very narrow niche, as well as specialty consumer retail firms having the branding potential and product mix to meet the developing needs of modern Japanese consumers.

Presenting Companies

Specialized Software

ADOS Co., Inc.

Knowledge Automation, Inc.

Aries, Inc.

Semiconductor

ACT LSI, Inc.

FOI Corporation

PI R&D Corp

Specialty Retail

In Season, Inc.

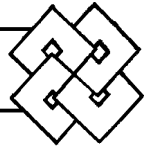
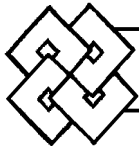
Thanks Nature Inc.

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Sector Overview

CAD software products for the desktop PC first entered the market through the introduction of Windows 95 and Windows NT platforms. The emergence of powerful, desktop PCs with high functional capabilities certainly opened up this market to consumers who previously could not justify the expense of a UNIX product. The impact was also felt in the distribution channels as CAD software reached the consumer through distributors, resellers, and retailers. This software exhibited little need for highly technical support, in contrast to UNIX products, which were often procured through the systems integrator (SI) or value-added reseller (VAR). AMI (Access Media International) projects strong growth of electrical CAD applications commensurate to the levels currently enjoyed by the mechanical CAD software products. The market should continue to grow as falling unit prices make this product available to a broader range of consumers and as developers add more functions to facilitate data transfer between CAD and other types of applications. Subsequently, some of the most innovative CAD technology is developing in Japan.

Emerging Pure Plays



ADOS Co., with 34 employees, develops computer software (XML Solution) for the B2B and B2C markets. The company leads the industry as a manufacturer of RosettaNet based procurement systems having development agreements with SONY to complete the RosettaNet compatible XML server, a tool used in a parts procurement system. In addition, the company is forming alliances with companies such as Kyocera, TDK and Hitachi, as well as in other industries, including logistics and finance through its ability to offer solutions that are compatible with a wide range of divergent standards.

Kazuhiko Muratsubaki, Director



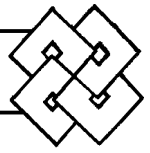
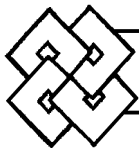
Knowledge Automation, Inc., with 30 employees, is a CAD software developer. The Company has cultivated graphics technology, data compression technology, and data editing technology and utilizes this technology base in the development of a state-of-the-art multi-contents databases. In addition, the company develops and sells knowledge management related software products, such as contents DB, editors, etc. The company offers customized development and service in connection with its software products. Specifically, Knowledge Automation facilitates medical information, document management and technology information management. The company plans to develop, distribute, and offer software to various industries using products, including a technical information management system for manufacturing and construction industries, and a medical information system including patient charts. The company will also develop B2B middleware components for SI vendors. In addition, it will utilize these tools to market other software solutions.

Tsukasa Takehara, CEO



ARIES, Inc., with 14 employees, develops virtual factory integration equipment and open factory automation equipment, as well as, concurrent engineering related software and hardware products for the CAD market. Clients include auto parts manufacturers, semiconductor companies and robot and machine tool companies. In this market, the company competes with products including robot simulators, such as "IGRIP" of Delmia, or "ROBCAD" of Tecnomatix Technologies. In addition to the CAD market, Aries competes in the robot, semiconductor equipment and liquid crystal manufacturing equipment markets, having clients such as Fuji Machine Mfg, Matsushita Electric, Innotech, Advantest, Dai Nippon Screen, Fuji Photo Film, Hitachi, Fuji Machine and Sugino Machine. As the world's first 3D-direct simulator, the company plans to enter into a partnership with Auto CAD or Unigraphics to exploit CAD market for 4D-mechanism design.

Shigeru Ohba, CEO



Sector Overview

Financial and political trends shaping income equity between Japanese males and females are beginning to emerge at a faster pace in the world's second largest economy. Even today, the wealth disparity between genders is strikingly wider than most western nations. Traditionally, pay scales were separate for men and women but the double standard rampant among larger Japanese corporations is being revised. For example, a Tokyo court recently ordered Nomura Securities Co. to pay \$420,000 in compensation to 13 women who accused the brokerage of sexual discrimination in promotion and pay. Similar events are translating into an economy in which Japanese families experience dual incomes, which will slowly converge on a nominal basis. The result is greater purchasing power for Japanese women and immense profit potential for firms catering to that demographic.

An illustration of small companies that we feel will benefit from these socio-economic trends are:

Emerging Pure Plays



The basic concepts incorporated into inSeason, Inc.'s business model are *Safety*, *Beauty* and *Health*. With 77 employees, inSeason targets a female demographic offering foods made from vegetables grown with organic compost and having no chemicals, preservatives and synthetic seasonings. The company has opened 14 specialty distribution outlets and has begun to sell products wholesale to premium supermarket vendors and organically-oriented foreign coffee shop chains. In addition, inSeason plans to develop a franchise chain as well as joint shop businesses with major food companies such as Kibun and FANCL, with which the company presently has sales agreements.

The company's main competitors in the market sector are Rock Field and Kakiyasu. Both of these companies have made names for themselves because of their croquettes and fried cakes made of premium-brand beef such as Kobe Beef and Matsuzaka Beef. As a result, they have been adversely affected by the recent Mad Cow disease (BSE) turmoil in Japan. inSeason is immune from these issues.

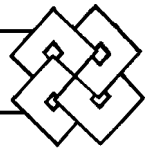
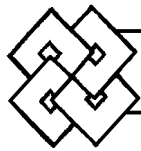
Over the past two fiscal years, the company has secured food material and developed the volume production systems necessary to implement its business model. This has resulted in sales growth to over 4 billion yen. With its niche market inSeason has experienced a 7% increase YoY sales while aggregate food sales in Japan have increased by only 2%. inSeason has the advantage in this environment, as it is easier for a new company to build within the system and offer safe food products to consumers.

Terumi Takimiya, Director



ThanksNature Inc., with 26 employees, targets women ages 25-38 years old and sells products that are nature oriented. These include planning, construction and maintenance services, as well as commercial and residential gardening accessories. The demand for nature-oriented products is becoming more lucrative over time. There are plans to open more than 10 shops over the next 2-3 years to meet the requests of developers. The current competition includes Kowa Sogyo Co. and Daiichi Engei Co. but management believes its specialization and consumer appeal far exceed that of the company's competitors.

Kiyoshi Okuda, President



Sector Overview

Brutal year for the semis...

Our portrayal of Japan's small business investment opportunities would not be complete without a discussion of the laggard semiconductor industry. Global chip sales have declined approximately 31% to \$141 billion for the fiscal year ended 2001. Prior to 2001, the worst year for the chip industry had been 1985 when sales fell 17%. Total sales of chips in Japan for 2001 decreased by 26% to \$35 billion, while total capital expenditures by Japanese semiconductor manufacturers was down 47%. The only exception were cell phone handsets, where chip orders increased late in the summer.

Regional Markets	2001	2000	YoY %
Japan	34,628.8	46,749.3	-26%
The Americas	36,417.0	64,071.4	-43%
Europe	30,161.4	42,308.9	-29%
Asia Pacific	39,469.9	51,264.0	-23%
Total Semiconductors	140,667.1	204,393.6	-31%

Product Summary	2001	2000	YoY %
IC's	119720.1	176945.4	-32%
Dis cretes	12334.7	16922.5	-27%
Optoelectronics	7696.2	9804.7	-22%
Sensors	916.1	721	27%
Total Semiconductors	140,667.1	204,393.6	-31%

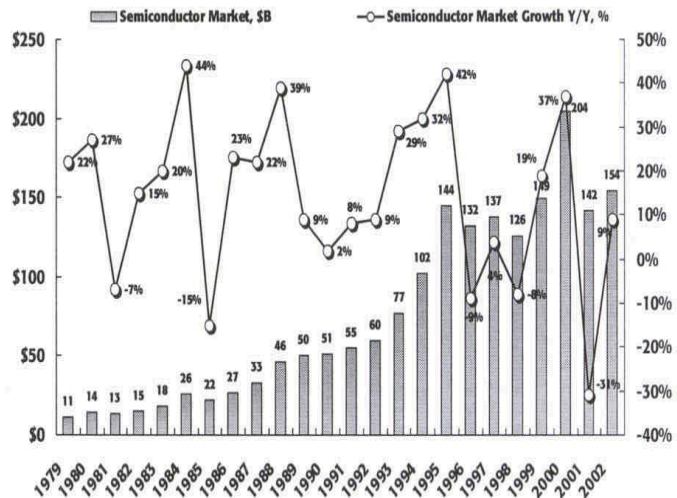
Source: Semiconductor Industry Association

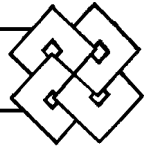
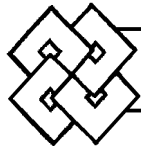
The Semiconductor Industry Association expects Japan and the Asia Pacific region to be the fastest growing markets over the coming 3-year period. Modest forecasts for Japan see shipments reaching \$52 billion by 2004, which, in the short term, have been solidified by recent deflation of the Yen. Furthermore, Japan's ability to reduce manufacturing costs by moving production to cheaper facilities in China will likely widen severely lean margins.

The global semiconductor industry has historically grown at an average annual rate of 17%, however, the growth rate rarely coincides with this multiyear average. The industry is prone to highly fluctuating expansion cycles. It is clear that 2001 was a trough year and that a recovery is advancing.

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Historical Growth





Emerging Pure Plays



ACT LSI, Inc., with 30 employees, designs, develops and markets analog-digital hybrid LSI and electronics equipment. As the usage of digital electronics equipment becomes more prevalent, the demand for analog LSI equipment is poised for large-scale growth. Domestic demand in Japan for analog LSI technology is currently satisfied primarily by foreign suppliers because so few companies have sufficient expertise in this area to meet the needs. Concurrently, demand is rising as many Japanese research institutions and companies develop sensors by micro machining technologies for incorporation into a wide range of commercial products. These companies require analog-digital hybrid LSI for the sensors to function properly. The company's area of strength lies within its design and implementation of LSI technology. This product uses a unique analog technology, such as a sense amplifier system LSI for next-generation sensors, both high-voltage and laser diode drivers, and its application electronic equipment. The company aims to gain a dominant position in the domestic market with its unique analog-digital hybrid LSI technologies.

Hiroshi Abe, Founder & CEO



FOI, with 26 employees, specializes in the R&D, manufacturing, sale and maintenance of semiconductor production equipment. The company's primary business is the production of oxide film etching systems for 300-mm wafers and it is currently developing a next-generation CVD system. In addition, FOI is seeking to promote the development of etching systems and CVD systems for LCDs and CVD systems for solar batteries by using polycrystal silicon TFTs combined with the technology for large substrates. It is also moving to establish sales and service centers in Taiwan to cover the Asia/Pacific region and in the United States to cover North America and Europe. FOI targets both domestic and foreign semiconductor manufacturers. However, primary sales targets for the dealer side of the company are foundries in Taiwan.

Masakazu Uehata, CEO



PI R&D Corporation Limited, with 30 employees, specializes in the sale and manufacturing of block co-polyimide materials and related electronics devices. Its product offerings encompass super high resolution photosensitive polyimide for LSI and Assembly Process (Positive and Negative), fine pitch printing polyimide ink for LCD, FPD and EL devices, electro deposited systems, flexible copper foil for mobile devices and super heat resistance films. The company services primarily serves the semiconductor, electronics, assembly and printer markets in East Asia, the EU and North America.

Hiroshi Hayakawa, President