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High-tech Sector

Foundry Sector in China Set for Recovery in 2005

After bottoming out in the second quarter of 2004, when capacity utilization peaked at 98%, China's semiconductor foundry industry is set for recovery this year, with capacity utilization likely to recover to the 90% level. Since about 90% of all orders come from overseas, production is likely to be lower in the first quarter of 2005. Nevertheless, the sector is set for growth for the foreseeable future.

Domestic AV Market Shifting to Value-added Products

Japan's audio/visual devices market is moving toward more value added products, where digital networks seem to be the emerging trend. In white goods, the focus is on environmental protection and energy conservation. Moreover manufacturers are moving to what is called Universal Design in a bid to make their appliances easy to use. Manufacturers are targeting the middle aged to the elderly for their new products.

Storage Devices Market Set for Growth

Demand for add-on storage devices supporting the ATA or SATA interfaces is expected to show strong growth through 2008, with sales increasing at an annual average rate of 28%, according to IDC Japan, a high-tech research firm. Japan's storage device market in 2003 was an estimated ¥237.8 billion, with ATA/SATA accounting for 3.6% of the total. Although the total market is expected to grow at an average annual rate of 1.8%, ATA/SATA discs should outperform the market, capturing 47% of the shipments in 2008.

Flat Panel LCD TV Prices Come Within Consumer Reach

Prices of all digital home electronics started slipping after the New Year peak demand period. The price of the most popular flat panel television model (32" model) fell 12% - 16% compared with December. With some stores pricing the 32-inch model at ¥310,000, the price-per-inch has fallen to the ¥10,000 level, considered in the industry as the take-off point. This trend is likely to affect pricing of spring models, boosting sales. The average price of plasma TVs (42" models) is down 12% and that of 400GB DVDs fell 8%. The average price of 160GB DVD plunged 26% during the same period.



Semiconductor Demand to Recover Led by Digital Home Electronics and Mobile Phones

A majority of high-tech firms expect demand for semiconductors to revive after mid-2005. Seiko Epson expects demand to revive in the second half of 2005 as inventory adjustment is completed in the first half. Texas Instruments also expects inventory adjustment to be completed by June and orders to look up later in the year. Rohm sees demand reviving in the second half, driven by an expanding digital home electronics markets.

Machine Tool Orders to Decline in 2005

Machine tool orders in 2005 are likely to decline 7% from the previous fiscal year ¥1.1 trillion, according to a recent forecast by the Japan Machine Tool Builders Association. This will be the first decline in three years. Although orders from the automotive sector will remain firm, those from the electrical machinery and precision equipment sectors will slow as the digital home electronics boom slows down. However, the association predicted a recovery in 2006, with orders increasing 4.3% year-on-year. Orders in 2004 rose 45.2% to ¥1.2 trillion, recovering to the one trillion yen level for the first time in seven years. Domestic orders increased 52.4% while overseas orders rose 37.6%. Orders in December were up 50.9% YoY to ¥116.7 billion.

Earnings Roundup

Hoya (7741 TSE1) to Report Strong Profit Growth

HOYA's consolidated net income for the current fiscal year ending March 2005 is now expected to jump 95% to a second consecutive record high of ¥63,000 million on a sales gain of 13% to ¥306,000 million. Operating income should rise 25% to ¥85,000 million. Return on equity is expected to rise to 25.6%, up from 17.8% in the previous fiscal year. Rising sales reflect growing demand for materials used in the manufacture of semiconductors and LCD devices. Glass disks for HDDs used in mobile audio players are also contributing to sales.

Initial Public Offerings News (For detailed information, go to:

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

Hakuhodo DY Holdings (2433 TSE)

Hakuhodo DY Holdings Inc. a major advertising firm established through the merger of Hakuhodo Inc., Daikyo Advertising Inc, and Yomiko Advertising Inc. in October 2003, will go public on the First Section of the Tokyo Stock Exchange on February 16. The company will offer 4,198,300 shares currently held in private to the public in its initial public offering. The company posted a consolidated net profit of ¥7.1 billion on sales of ¥906.6 billion in the fiscal year ended March 2004. The tentative price range will be set on January 28. The fixed offering price will be announced on February 7. Nikko Citigroup is the lead underwriter of the offer.



TECHMATRIX (3762 JASDAQ)

TECHMATRIX Co., Ltd., a company specializing in software development, marketing, IT consulting and maintenance, in addition to marketing IT devices, will list on the JASDAQ market on February 18. The company will offer 4,000 newly issued shares to the public in its initial public offering. Proceeds from the IPO will be used for retiring interest-bearing debt in addition to financing growing working capital needs created by rising sales and an expanding payroll. The tentative price range will be set on January 28. The fixed offering price will be announced on February 8. Daiwa Securities SMBC is the lead underwriter of the offer.

Toel (3361 JASDAQ)

Toel Co., Ltd., an LP gas firm also engaged in the home delivery of Hawaiian bottled water, will list on the JASDAQ market February 25. The company will offer 1,400,000 shares to the public in its initial public offering. Of those 1,200,000 are newly issued shares and 200,000 are existing shares currently held in private. Proceeds from the IPO will be used for retiring interest-bearing debt, capital investment and investment and loans. The tentative price range will be set on February 3. The fixed offering price will be announced on February 15. Nomura Securities is the lead underwriter of the offer.

Marusei (2434 JASDAQ)

Marusei Co., Ltd, a building services firm with core areas of operations extending from building equipment maintenance to janitorial and security services, will list on the JASDAQ market on February 18. The company will offer 1,320,000 shares to the public in its initial public offering. Of those 500,000 are newly issued shares and 820,000 are existing shares currently held in private. Proceeds from the IPO will be used for capital investment to expand its online center, and to finance working capital and capital investment needs of new businesses to be launched. The tentative price range will be set on February 2. The fixed offering price will be announced on February 9. Nikko Citigroup is the lead underwriter of the offer.

Green Hospital Supply (3360 TSE2)

Green Hospital Supply Co., Ltd., a medical equipment, systems and supplies firm, will list on the Second Section of the Tokyo Stock Exchange on February 22. The company will offer 15,000 shares to the public in its initial public offering. Of those 10,000 are newly issued shares and 5,000 are existing shares currently held in private. The tentative price range will be set on February 1. The fixed offering price will be announced on February 10. Daiwa Securities SMBC is the lead underwriter of the offer.



R. C. Core (7837 JASDAQ)

R. C. Core Co., Ltd., a company specializing in the planning, development, construction and marketing of log houses marketed under the Big Foot brand name, will list on the JASDAQ market on February 23. The company will offer 4,000 shares to the public in its initial public offering. Of those 3,500 are newly issued shares and 500 are existing shares currently held in private. Proceeds from the IPO will be used to pay off a part of its interest-bearing debt and the rest will be earmarked for financing working capital requirements. The tentative price range will be set on February 2. The fixed offering price will be announced on February 14. Daiwa Securities SMBC is the lead underwriter of the offer.

Chimney (3362 JASDAQ)

Chimney Co., Ltd., a restaurant operator engaged in direct management and franchising of three different formats of restaurants, will list on the JASDAQ market on February 24. The company will offer 1,000,000 shares to the public in its initial public offering. Of those 820,000 are newly issued shares and 180,000 are existing shares currently held in private. Proceeds from the IPO will be used for capital investment and for financing working capital requirements. The tentative price range will be set on February 3. The fixed offering price will be announced on February 15. Daiwa Securities SMBC is the lead 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)
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	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.	98.2	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	2,639	5,014	7,705	3,721	253
Nov	102.3	107.1	81.8									251
YoY	2.9	7.3	0.0	-0.9	5.7	-2.4	-10.9	-4.2	17.7	7.9	3.0	3.7

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

