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High-tech Sector

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Government Does Not Approve 800MGz Band Width for New Entrants

The government on February 3 said it will not allocate a part of the 800MGz frequency band to Softbank Corporation. The allocation will be limited to existing carriers NTT DoCoMo and KDDI. The government says that allocation of the 800MGz bandwidth to Softbank will mean that some of the existing mobile phone users will have to buy new mobile phones. Instead, the government said it will allocate the 1.7GHz bandwidth to new entrants.

DoCoMo's (9437 TSE1) W-CDMA Well Positioned to Become Global Standard

The W-CDMA format developed by NTT DoCoMo is well positioned to become a global standard as it was already introduced in Europe from the end of last year, in addition to its adoption by Singular Wireless in the U. S. The system was also introduced in South Africa and Mauritius at the end of December and is expected to be in use in China, Russia and Brazil in 2005. As a result, KDDI's CDMA-2000 could find itself in a difficult situation.

Japan's Mobile Phone Makers in an Attrition Battle

With NTT DoCoMo slashing prices of its 3G phones, prices of even the state-of-the-art mobile phones are on the skids, hurting profit of mobile phone manufacturers, including Fujitsu, NEC and Sharp. With the global demand growth also slowing down, Japanese manufacturers are on the verge of launching price wars in a bid to increase market share. NTT DoCoMo is hoping that the lower prices should attract more mobile phone users to 3G phones, which in the long run could benefit terminal manufacturers. But in the short run, just like digital consumer electronics, lower prices will erode profit.

Japan's Wireless LAN Market Continues to Expand

Japan's wireless LAN market, including access points and wireless LAN cards (NIC) is estimated at 4.85 million units, with end-user sales of about ¥43,000 million, according to IDC, a high-tech market research firm. The company projects an average annual growth rate (CAGR) of 22.6% on a shipment basis between 2003 and 2008. Growth on end-user basis is forecast at 6.0%.



SPE Orders Decline in December

Orders for Japanese-made semiconductor production equipment (SPE) in December suffered a fourth consecutive decline of 15.6% year-on-year to ¥116,200 million, but were still above the ¥100,000 level for 17 months in a row. On the other hand, orders have been declining for four consecutive months. Most SPE manufacturers are, however, bullish, expecting orders to start rising again in the first quarter of 2005. Orders in Japan rose 0.4%, reflecting aggressive capital investment by Japanese semiconductor producers, a recovery from November when YoY order growth plunged sharply. Orders for wafer processing equipment were down 13.3% and those for testing devices fell 11%. Orders for assembly equipment were down 6.1%. The BB ratio for orders stood at 1.05 and that for sales at 1.02.

Digital Electronics Prices on the Skids

Prices of major digital electronics items have started to decline rapidly and are squeezing profit at manufacturers. This is evidenced by downward revisions of March 2005 term business forecasts by Sony and Elpida Memory. Although shipment volume is increasing rapidly, prices are declining faster. However, sales of personal computers, software and services are still strong, assuring that the high-tech market is unlikely to crash anytime soon. The volume of shipments of DVD recorders is up but prices are falling (down 40% YoY) sharply. The situation is the same for flat panel televisions, with prices falling 20%-30%. Shipments of digital video cameras are flat, but so is the volume. On the other hand, shipments of mobile phones are slowing down but prices are generally stable and shipments of personal computers are up and prices are holding up relatively well, a welcome situation from the standpoint of profit.

Single-crystal Silicon Production Up Sharply in 2004

Production of single-crystal silicon, the material used in the production of silicon wafers, in 2004 rose 24% to 6,027 tons while sales were up 31% to 6,751 tons, a new record after the IT bubble burst in 2000. Forecasts for 2005 see production of single crystal silicon rising 5% to 6,330 tons and sales increasing 5% to 7,090 tons. Demand for wafers smaller than 200mm is rising in addition to the strong growth being experienced in the 300-mm wafer.

Computer Virus Reports Stay at High Levels in January

Computer virus reports received by IPA/ISEC, a trade body, totaled 4,880 in January, staying at a high level since April 2004. The cases of virus detection were 3.3 million, up 28.5% from the 2.65 million recorded in December. The W32/Netsky virus was involved in 1,179 cases.



Earnings Roundup**Trend Macro (4704 TSE1) Solid Earnings Growth**

Trend Macro reported a 72% increase in consolidated net income to ¥15,800 million on a sales gain of 29% to ¥62,000 million for the accounting period ended December 2004. The company raised its dividend to ¥36 per common share, an increase of ¥26. Increasing awareness of the need for virus protection software among both corporations and individuals drove sales and profit. Exports of security software to Europe were up 35% and to the U. S., 23%. Sales in Japan increased 27%. The trend is expected to continue, with net income in the first quarter of 2005 increasing an estimated 21% to ¥3,800.

Precision/Control Equipment Manufacturers' 3Q Results

Among the three major precision equipment manufacturers in Japan, Yokogawa reported higher third-quarter ordinary income, up 3.1-fold to ¥9,400 million, on a sales gain of 5.6% to ¥260,600 million. Ordinary income at Anritsu was just ¥100 million on sales of ¥56,700 million, an increase of 11.7% compared to the same period a year earlier. Yamatake reported ordinary income of ¥900 million on sales of ¥115,300 million, up 5.1% year-on-year.

Profit Under Pressure at Digital Electronics Manufacturers

With profits being squeezed sharply, the ability to cope with the changing market environment is creating clear differences between digital electronics manufacturers. While Sony and Pioneer revised their March 2005 term forecasts downward, Sharp and Nihon Densan raised theirs. The ability to withstand steadily declining prices seems to be the decisive factor. Unlike manufacturers that concentrated their resources in digital electronics, those diversifying in other areas seem to have fared better. Manufacturers with higher level of in-house production also seem to be doing better compared to those more dependent on outside sources for components. Finally, manufacturers with niche products and high market shares seem to be doing better than those with general-purpose items.

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

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

Narumiya International (3364 JASDAQ)

Narumiya International Co., Ltd., a Japanese apparel manufacturer focusing on apparel for toddlers, juniors and girls in their teens, will list on the JASDAQ Securities Exchange on March 9. The company will offer 27,660 shares in its initial public offering. Of those, 5,300 are newly issued shares and 22,360 are shares currently held in private. The tentative price range will be announced on February 18. The fixed offering price will be will be announced on February 28. Funds raised through the IPO will be used for new store openings in department stores and shopping malls. Nomura Securities is the lead underwriter of the offer.



System Design (3766 JASDAQ)

System Design Co., Ltd., a Japanese company specializing in system development and information processing services, will list on the JASDAQ Securities Exchange on March 9. The company will offer 700,000 shares in its initial public offering. Of those, 300,000 are newly issued shares and 400,000 are shares currently held in private. The tentative price range will be announced on February 17. The fixed offering price will be will be announced on February 28. Funds raised through the IPO will be used for capital investment, increasing system development staff and for employee training. Daiwa Securities SMBC is the lead underwriter of the offer.

Logicom (8938 Hercules)

Logicom Co., Ltd., a Japanese company specializing in the leasing of warehouses, stores and other business facilities mainly in Western Tokyo and Southern Saitama Prefecture, will list on the Hercules market of the Osaka Securities Exchange on March 3. The company will offer 2,500 newly issued shares in its initial public offering. The tentative price range will be announced on February 14. The fixed offering price will be announced on February 22. HS Securities is the lead underwriter of the offer.

Acca Networks (3764 JASDAQ)

Acca Networks Co., Ltd., a broadband communications service company, will list on the JASDAQ Securities Exchange on March 4. The company will offer 37,000 shares in its initial public offering. Of those, 19,000 are newly issued shares and 18,000 are shares currently held in private. The tentative price range will be announced on February 14. The fixed offering price will be will be announced on February 23. Funds raised through the IPO will be used for capital investment (strengthening its network to assure reliable service and expanding the service area), system development for expanding the range of services offered and for partial repayment of debt. Daiwa Securities SMBC is the lead underwriter of the offer.

**GungHo Online Entertainment
(3765 Hercules)**

GungHo Online Entertainment Co., Ltd., an online game service firm also engaged in the planning, development and management of mobile content and the planning and marketing of character goods, will list on the Hercules market of the Osaka Securities Exchange on March 9. The company will offer 1,000 shares in its initial public offering. Of those, 300 are newly issued shares and 700 are shares currently held in private. The tentative price range will be announced on February 17. The fixed offering price will be will be announced on February 28. HSBC Securities is the lead underwriter of 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)
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	2,369	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	251
Dec.	99.1	106.0	79.1									
YoY	-1.1	3.5	-2.7	9.3	16.3	6.0	-3.1	7.9	-4.8	-4.9	1.7	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

