



Vol . 160

## *High-tech Sector*

**Week ended Apr. 17, 2005**

### *Japan's Mobile Phone Market Maturing*

Japan's mobile phone market is expected to peak at around 100 million subscribers. With the current subscriber level at around 87 million, there is simply not much growth potential left in the market. Most future growth will therefore come from replacement demand as new functions are added with the installation of IC cards on cell phones. KDDI hopes to capture about 30% share of the market (22% at present) when the market matures. On the other hand, carriers feel that there is considerable demand in the corporate market, where cell phones can be used to access the Internet. Other applications include installation on vending machines to keep track of sales and replenish products as required.

### *Pachinko Market on the Decline*

The number of pachinko players has been declining after peaking at 29 million in 1995, falling to 17.4 million in 2003. On the other hand, players are spending more and visiting pachinko parlors more often. As a result, the ranks of ordinary players have declined and those of heavy users have increased. Average annual spending on pachinko has increased from ¥87,300 in 1995 to ¥112,800, according to the white 2004 white paper on leisure. While core customers are important, the pachinko industry needs to make efforts to expand its customer base.

### *Japan's LCD Panel Manufacturers Step Up Production of Small-size Panels*

Japan's LCD panel manufacturers are increasing the production of small and medium-size panels used mainly in mobile phones and digital cameras. Hitachi and Epson are planning to increase production by about 20% in 2005 and Toshiba is adding capacity. The shift is mainly due to falling prices of large-size panels, as competition with overseas vendors is intensifying. Japanese manufacturers hope to win a larger share of the market for smaller-size LCD panels and in doing so secure profits and prop up capacity utilization levels.

### *Global FPD Growing*

The global demand for medium- to small-size FPD panels is expected to reach 2,323 million units in 2008, up from a projected 2,053 million units in 2005. A majority of these units go into mobile phones, digital cameras and other consumer electronics items. However, competition is intense and manufacturers offering panels with advanced functions and superior specifications tend to dominate the market.



**Photo Mask Market Power  
Balance Likely to Change in  
2005**

The global photo mask expanded 9% from 2003 to ¥296.1 billion, led by increasing demand for semiconductors. The market shrank in 2003, as the price of the middle end processor crashed. While photo masks for the 120nm and 180nm design rules still dominate the market, demand for those used for the 90nm design rule is increasing rapidly. Japanese manufacturers dominate this market sector and some report that photo masks for the 90nm design rule now exceeds 40% of their total photo mask sales. The acquisition of Du Pont's photo mask business by Toppan is expected to boost its market share to 28%, making it the leading supplier, leapfrogging beyond Nippon Printing. Nippon Printing is investing heavily in the new state-of-the-art facilities in a bid to recapture the top position. Hoya is also stepping up R&D to build a strong position in next-generation photo masks.

**China's Software Market  
Expanding Rapidly**

China's software market in 2005 is expected to increase 40% from the previous year to an estimated four trillion yen. The market expanded by 34.7% in 2004. Services represent 45.6% of the total, while software product account for 43.5%. Exports are growing at an annual average rate of 10%. Animation, game soft, e-government systems and e-commerce systems are expected to drive the market in the foreseeable future. Foreign investment is also increasing in China's software sector.

**Earnings Roundup**

**CCI (TSE Mothers 4788) to Report  
Strong Profit**

Cyber Communications, an Internet ad agency, is expected to see its consolidated ordinary income for the fiscal year ended March 2005 to rise 86% from the previous fiscal year to ¥940 million, exceeding the former forecast, which saw ordinary income coming in at ¥820 million. Consolidated sales are likely to be up 60% to ¥24,100 million, an increase of ¥3,500 million compared to the previous forecast. Strong ad billings, particularly for large portals like Yahoo, and Microsoft, pushed up sales. With web advertising winning recognition as an effective advertising media, advertisements from the telecommunications, automobile and the financial sectors are increasing.

**DAC Reports 48% Increase in  
Quarterly Operating Income**

DAC, an Internet advertising firm, reported 48% year-on-year increase in its consolidated operating income to ¥229 million on sales of ¥4,935 million, up 61%. However, net income slipped 35% to ¥58 million as the company took charge for non-operating losses at an affiliate. The company is benefiting from an expanding market.

**Koito (TSE1 7276) Likely to Post  
Solid Profit Gains**

Koito is likely to report a 30% increase in consolidated ordinary income for the fiscal year ended March 2005 to ¥20,000 million on a sales gain of 8% to ¥360,000 million. This will be the third consecutive sale and profit gain for the company. Sales have increased due to rising demand for headlamps, reflecting increasing auto output and growing demand for value-added lamps, such as high-luminosity lamps. Although the cost of raw materials has increased, the company managed to offset the higher costs through economies of scale and operational streamlining.



**Nidec Corp (TSE1 6594) to See Solid Profit Gain**

Nihon Densan's consolidated operating income for the fiscal year ended March 2005 is likely to have increased 2.4 times compared to the previous fiscal year to approximately ¥53,000 million on a sales gain of 57% to ¥485,000 million, exceeding the previous forecast by ¥5,000 million. Sales were driven by strong demand for precision motors used in hard disk drives. Net income is likely to be up 2.1 times from the previous fiscal year to ¥33,000 million, as profit margins expanded, benefiting from economies of scale. The company is expected to increase dividend by ¥15 per common share to ¥45.

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

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

**Reicof (8941 Hercules)**

Reicof Co., a real estate management firm, will list on the Hercules market of the Osaka Securities Exchange on May 24. The company will offer 2,000 shares to the public in its initial public offering. Of those, 1,000 are newly issued shares and 1,000 are shares currently held in private. The tentative price range will be announced on April 26. The fixed offering price will be announced on May 12. Shinko Securities 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)
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	252
Dec.	99.0	106.0	79.1	78.3	2,250	1,422	15,471	2,022	6,046	7,403	3,306	330
Jan.	101.0	107.2	79.3	71.8	2,098		14,138	1,509	5,549	7,080	3,135	301
Feb	96.5	102.3	80.5									204
YoY	0.8	3.3	0.5	-5.9	5.1	-7.3	-9.0	-0.5	-8.6	-10.9	-13.6	4.6

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

