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High-tech Sector

Week ended May.1, 2005

Game Consoles, Software Sales Revive

Sales of video games rose 3% in 2004, their first increase in three years. Game consoles and software pulled in a combined ¥433.7 billion, according to Enbrain Inc., a game-related publisher. Game sales have been affected by the growing popularity of mobile phones, but the introduction of two new game consoles and hit titles underpinned sales. Console sales in 2004 increased 6.9% to ¥127 billion. Sales of game software totaled ¥306.6 billion, a 1.4% increase. Unit sales of the DS reached ¥1.8 million, while those of PSP stood at ¥1.09 million.

China's Semiconductor Demand Set for Explosive Growth

China's semiconductor market, already the third largest in the world, is expected to reach \$45 billion in 2008, from an estimated \$26 billion in 2004, according to IDC a high-tech market research firm. Overseas direct investment in the semiconductor sector in China in 2005 is likely to be around \$4.5 billion.

Injection Molding Machine Orders Slip in March

Orders for injection molding machines in March declined by 298 units (15.0%) from the same month a year ago to 1,693 units. This is the ninth consecutive year-on-year decline in machine toll orders. However, orders rose 24.7% month-on-month in March, reflecting a seasonal jump. Orders usually rise in March as manufacturers make extra effort to boost sales to meet annual targets before closing their books. Domestic orders rose 7.2% but overseas orders were down 23.8%. Orders for precision molding machines used in the manufacture of electrical components and precision machinery rose for two months in a row. Orders from the automotive sector were also strong.

FY 2005 Capital Investment Plans – Japan's Major Semiconductor Manufacturers

In a trend carried over from the previous fiscal year, Japan's semiconductor manufacturers are expected to continue to invest in facilities for 300-mm wafer and for deep sub-micron (90-nm design rule) semiconductors. This is particularly true for Toshiba and Elpida Memory, the two Japanese semiconductor producers facing increasing competition from South Korea that is driving down prices.



Company	Capital investment (¥100 million)
Lunecence Technology	800 (900)
Toshiba	1,510 (2,030)
NEC Electronics	1,000 (1,632)
Matsushita	860 (810)
Sony	1,600 (1,500)
Fujitsu	1,100 (761)
Sharp	100 (179)
Sanyo	137 (211)
Elpida Memory	1,436 (1,245)
Ok Electric	180 (21)
Seiko Epson	75 (120)

SPE Orders Up in March

Sales of Japan-made semiconductor production equipment rose 3.5% year-on-year in March to ¥159.9 billion, according to SEAJ, the sector's trade body. This was the first year-on-year gain in monthly orders in seven months and the figure was the second highest compared to the fiscal year's high of ¥164.5 billion recorded in June 2004. The value of orders also recovered to the level of the first half of last year when investment by semiconductor manufacturers was strong. Orders were up 89.7% from the previous month. Continuing strong orders from overseas markets combined with a recovery in orders in Japan lifted total orders. Although orders have turned around, it will be premature to declare a recovery, SEAJ warned. Sales declined 8.7% to ¥203.9 billion, a second consecutive decline in YoY sales. The sales drop in March is blamed on the slowdown in capital investment by semiconductor manufacturers from last autumn and is not representative of the current market condition.

SPE Orders Up Sharply in FY2004

Orders for Japan-made semiconductor production equipment in FY2004, the year ended March 2005, rose 36.9% year-on-year to ¥1.6 trillion, a level about 90% of the record ¥1.8 trillion posted in FY2000, according to SEAJ.

Consumer Electronic Sales

Sales of consumer electronic products in March increased 1.1 to ¥166.6 billion, according to NEBA, an association of major electronics retailers. Sales of television sets were up 19.6% and those of DVD decks rose 16.2%. Air conditioner sales increased 11.7%.

Earnings Roundup**Advantest More than Doubles Net**

Consolidated net income (SEC basis) at Advantage for the fiscal year ended March 2005 increased 2.2 times from the previous fiscal year to ¥38,000 million. Advantest benefited from brisk investment by overseas semiconductor manufacturers, particularly in Taiwan and South Korea. The company is forecasting an operating income decline of 1% to ¥60,000 million for the fiscal year ending March 2006. Net income is likely to be down 3% to ¥37,000 million.



Battle of Attrition Continues in the Digital Home Electronics Sector

Financial results of Japan's ten major consumer electronics firms for fiscal 2004, the year ended March 2005, show that here are large differences in their performances. Operating profit, a key parameter for measuring operating result shows that Matsushita, Hitachi and Mitsubishi Electric were the winners in the previous fiscal year, followed by Sharp. Matsushita's operating profit increased 58%, lifted by plasma television sets and other digital consumer electronics. Although lower prices weighed heavily on profit at Hitachi, strong profit growth at its subsidiaries more than offset the setbacks and as a result group profit rose 51%. Sharp reported a 24% increase in operating income to a record high ¥151 billion. All major electronics manufacturers are forecasting operating profit gains for fiscal 2006. They are betting on boosting profit in the second half, expecting demand for digital consumer electronics to revive later in the year.

	Sales	Operating income	Net income
Sony	71,596 (-4.5)	1,139 (15.2)	1,638 (85.1)
	74,500 (4.1)	1,600 (40.5)	800 (-51.2)
NEC	48,551 (-1.1)	1,311 (-28.2)	678 (65.2)
	50,000 (3.0)	1,500 (14.4)	600 (-11.6)
Hitachi	90,270 (4.6)	2,790 (51.0)	514 (3.2X)
	92,500 (2.5)	3,000 (7.5)	550 (6.8)
Matsushita	87,136 (16.5)	3,084 (57.8)	584 (38.8)
	87,200 (0.1)	3,300 (7.0)	1,100 (88.1)
Toshiba	58,361 (4.6)	1,548 (-11.3)	460 (59.7)
	60,000 (2.8)	1,700 (9.8)	550 (19.6)
Fujitsu	47,627 (0.1)	1,601 (6.6)	319 (-35.8)
	48,550 (1.8)	1,750 (9.2)	500 (56.7)
Mitsubishi	34,106 (3.2)	1,206 (30.1)	711 (58.7)
	34,500 (1.2)	1,300 (7.8)	750 (5.4)
Sanyo	24,846 (-0.9)	423 (-55.7)	-1,371 (-)
	24,900 (0.2)	650 (53.6)	-920 (-)
Sharp	25,398 (12.5)	1,510 (24.1)	768 (26.6)
	27,500 (8.3)	1,600 (5.9)	870 (3.2)
Victor	8,405 (-9)	103 (-59)	-18 (-)
	9,300 (11)	250 (2.4X)	70 (-)
Pioneer	7,336 (5)	25 (-95)	-87 (-)
	8,100 (10)	80 (3.1X)	10 (-)

Note: Upper line: Year ended March 2005, Lower line: Forecast for year ending March 2006, Parentheses: YoY change

Internet-based securities firms Report Strong Profit

The four Internet-based securities firms (Matsui, eTrade, MBH, Kabito.com) reported strong growth revenue and earnings in the fiscal year ended March 2005 as more individual investors returned to the market and showed preference for trading through the Internet-based securities firms to take advantage of lower commission rates they offered. The total number of accounts with Internet-based securities firms increased 56% to 1.78 million as of the end of March 2005. With major securities firms like Daiwa Securities planning to cut commission rates on Internet-based trading, more commission cuts may be in the offing.



	Operating revenue	Ordinary income	Assets under management	Number of accounts
Matsui	369 (47.5)	226 (61.0)	11,304 (19.7)	269,471 (88.1)
eTrade	271 (84.0)	112 (2.3X)	23,400 (92.2)	592,743 (68.4)
MBH	217 (44.0)	91 (67.4)	15,050 (18.2)	439,514 (26.9)
Kabuto.com	117 (78.5)	58 (2.3X)	5,757 (44.7)	233,165 (66.2)

Terumo (4543 TSE1) Posts Record-high Profit

Terumo's consolidated net income for the fiscal year ended March 2005 rose 37% from the previous fiscal year to ¥27,100 million on sales of ¥230,000 million, up 7%. This was the third year in a row that the company renewed its profit record. Sales were driven by a rising demand for catheters, artificial lung systems and artificial arteries, that is, products related to the circulatory system. Operating income increased 29% to ¥47,100 million. The company plans to increase its annual dividend by ¥4 to ¥20 per common share.

Net Up 7% at TDK (6762 TSE1)

Consolidated net income for the fiscal year ended March 2005 rose 7% year-on-year to ¥44,900 million on a sales gain of 0.3% to ¥657,800 million, according to the financial results released by the company on April 27. Rising sales of value-added items, including HDD heads and capacitors, combined with operational streamlining brightened the company's financial results. The company plans to increase its annual dividends by ¥15 from the previous fiscal year to ¥70 per common share.

Profit Drops at Ricoh (7752 TSE1)

Consolidated net income for the fiscal year ended March 2005 fell 9% compared to the previous fiscal year to ¥83,100 million despite a sales increase of 2% to ¥1.8 trillion, according to the figures released by Ricoh on April 27. Operating income plunged 10% to ¥135,500 million. This was the first drop in consolidated net income in 12 years. Profit was marred by costs, related to the withdrawal from the optical disk drive unit business and higher sales promotion and advertising expenses, mainly for color copying machines and printers.



Initial Public Offerings News (For detailed information, go to:<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>**Simplex Investment Advisors
(8942 TSE Mothers)**

Simplex Investment Advisors Co., Ltd., a Japanese real estate fund advisor also involved in real estate development and solution services, will list on the Mothers market of the Tokyo Stock Exchange on June 7. The company will offer 3,500 newly issued shares to the public in its initial public offering. The tentative price range will be announced on May 18. The fixed offering price will be announced on May 27. Mizuho Securities is the lead underwriter of the offer.

Kanmonkai (3372 TSE Mothers)

Kanmonkai Co., Ltd., a Japanese operator of restaurants specializing in blowfish cuisine that developed using its proprietary technique, will list on the Mothers market of the Tokyo Stock Exchange on June 2. Blowfish is poisonous and special techniques are required for cooking the fish. The company will offer 3,500 shares to the public in its initial public offering. Of those 2,500 are shares currently held in private? The tentative price range will be announced on May 16. The fixed offering price will be announced on May 24. Mitsubishi 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)
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	87.5	2,310		15,537	1,823	6,497	7,216	3,249	204
YoY	0.8	3.3	0.5	3.2	7.3	-7.3	-6.3	-0.6	-3.7	-10.0	-9.1	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

