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High-tech Sector

Week ended July 10, 2005

May Machinery Orders Down 6.7% from April

Machinery orders in May were ¥952.5 billion, down 6.7% from the previous month. This was the second consecutive decline in month-on-month machinery orders. Of particular note was the 20.6% plunge in manufacturing sector orders, the largest drop since 1987, when the government started compiling statistics. As a result, the government changed its outlook for machinery orders from last month's "Gradually Improving" to "Flat," the first downward revision to the outlook for machinery orders in seven months.

Machine Tool Orders Up in June

Orders for machine tools (eight major machine tool makers) in the first half of 2005 were up 20.2% to ¥258.3 billion. Orders were driven by strong demand from the automobile sector. Domestic orders rose 21.6% to ¥150.7 billion and export orders were up 18.3% to ¥107.5 billion. Orders increased 15.4% year-on-year at Makino Milling Machine (Stock code: 6135), with the growth driven by strong demand from automobile manufacturers. On a monthly basis, orders in June were up 10.6% year-on-year to ¥114.8 billion. Year-on-year monthly orders have been rising consecutively for 33 months and have been above the ¥100 billion mark for 14 months in a row.

Japan's Disk Storage Demand Set for Strong Growth

Japan's disk storage market is expected to grow at an average annual growth rate of 59.6% on a shipment basis between 2005 and 2009, according to IDC a research firm. However, the annual growth rate will be only 0.4% on a value basis, the research firm cautioned. In 2004, Japan's disk storage market expanded by 57.9% on a shipment basis to 96.1PB. Market growth will be driven by demand for storage of data for database, ERP and other systems, in addition to a growing demand for storage for e-mail, web applications and R&D data and text data related to compliance requirements.

Thermal Printer Head Demand Expanding Rapidly

Demand for thermal printer heads used in digital photo printers is experiencing explosive growth, as printer and DSC camera manufacturers increase production of home printers for digital still cameras. With applications expanding from POS and FAX, manufacturers now see the thermal printer head as a massive market and global demand reaching 10 million units in 2006.

JEITA Report - Highlights

According to a recent survey by JEITA, the electronic industry's trade association, shipments of hard disk drives in 2007 will rise to 390 million units. Of the total, HDD+DVD will account for about 70% of the total for video decks. Almost all HDDs for video disks in 2005 were of the 3.5-type. In 2007, 30% will be of the 2.5-type, the report forecasts.

Optical disk unit shipments in 2004 increased 10% worldwide from the previous year to 240 million units. However, shipments in Japan declined 9% to 18.8 million units. According to the report, shipments of optical disk units in 2007 will reach 251 million units, with shipments in Japan rising to 19.2 million units.

The share of DVD recording decks, as a percentage of recording decks was 22% in 2004 and is likely to reach 40% in 2006. The corresponding figures for Japan are 49% and 71%. The reports forecasts that demand for blue-laser optical disks for use in personal computers will accelerate from 2007, which means that the next 3-5 years will be decisive for the development of the blue laser.

Global Color Toner Demand Surges

Office machine manufacturers are rushing to build new plants for consumables such as toner cartridges and ink tanks, used in office machines. Demand for consumables is increasing rapidly as monochrome machines are replaced. While production in the markets in which such products are sold is the most cost competitive strategy, Japan's office machine manufacturers are adding production capacity in Japan in order to protect their advanced technology and know-how. Canon (Stock code: 7751) is investing ¥80 billion to build a cartridge/ink tank plant in Oita. Ricoh (Stock code: 7752) is building a toner plant in Shizuoka and Konica-Minolta Holdings (Stock code: 4902) is investing ¥7.5 billion for a toner plant in Nagano.

IT Market Outlook –China

Nomura Research Institute, a leading high-tech think tank, recently released a forecast of China's IT market in seven major areas: mobile phone handsets and services, mobile contents, personal computers, servers, storage devices and IT services. According to the report, China's market for mobile phones will surpass that of Japan this year, for personal computers next year and servers in 2008. The report estimates China's mobile phone terminal market in 2005 at ¥1.8 trillion, the personal computer market and the storage devices market in 2006 at ¥1.8 trillion and ¥340 billion respectively, and the server market in 2008 at ¥510 billion. In 2010, China's market for mobile contents is estimated at ¥377 billion. Demand for storage devices in 2010 is forecast at four times Japan's market. China's IT services market, though quite small at present, is expected to expand at an annual average rate of 27% and reach ¥3.8 trillion in 2008.

China's Electronic Components Market Experiencing Explosive Growth

The combined sales of the top 100 Chinese electronic component manufacturers in 2004 increased 26% to ¥978.8 billion. China now accounts for 30% of the global electronic component production. China shipped 560 billion units, up 42% YoY, of electronic devices in 2004, valued at ¥4.2 trillion, up 31%.

Earnings Roundup

Initial Public Offerings (For detailed information, go to:

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

IMV (7760 JASDAQ)

PRAP Japan, a Japanese manufacturer of industrial-use measuring instruments, will list on the JASDAQ Securities Exchange on July 20. The company will offer 1.7 million shares in its initial public offering. Of those, one million are newly issued shares and 700,000 are shares currently held in private. The lead underwriter has the option of to sell up to an additional 200,000 shares in the event of exceptional demand. The company expects to net ¥480 million from its initial public offering and plans to use the proceeds to retire debt. For the current fiscal year, the company forecasts a group pretax profit of ¥580 million, net profit of ¥379 million on sales of ¥4.75 billion. The tentative price range will be announced on June 29. The fixed offering price will be announced on July 8. 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)
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
Sept	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	71.4	2,098	1,169	14,138	1,509	5,549	7,080	3,135	301
Feb	96.5	102.3	80.5	87.5	2,310	1,424	15,537	1,823	6,497	7,216	3,249	204
Mar	93.1	98.5	80.9	99.7	3,392	1,534	19,039	2,191	8,688	8,160	3,636	234
Apr	101.8	106.0	85.3	103.6	2,136	1,707	14,671	2,087	5,449	7,135	3,178	216
YoY	-0.2	-1.1	0.2	3.2	3.7	-4.8	-6.8	-0.4	-1.5	-12.3	-11.8	-3.5

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