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High-tech Sector

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Mobile Phone Sales Decline in First Quarter

Sales of mobile phones in Japan in the first quarter of the current fiscal year ended June 2005 declined 3.2% from the same period a year earlier to 10.65 million units. The primary factor affecting the market was slow sales of NTT DoCoMo's 3G FOMA phones. Matsushita led the market with a share of 18.3% as NEC slipped to third place with a share of 14.4%. Toshiba's cell phones with TV functionality pushed up its market share to 12.7%.

LCD Panel Production Equipment Market Outlook

Demand for Japanese made LCD panel production equipment will decline an estimated 11% in fiscal 2005, an upward revision from the previous forecast of a 28% decline, according to the Semiconductor Equipment Association of Japan. The upward revision reflects a pickup in investment in Taiwan as LCD panel prices have recovered and investment for upgrading existing facilities is on the rise. The association, however, projected a much brighter picture for fiscal 2006 onward, when it expects annual growth rates to return to the double-digit level, with total sales in fiscal 2008 estimated at ¥782.1 billion. Sales of LCD panel production equipment in Japan (including imports) in fiscal 2005 are expected to increase by 5%, the association said, adding that, the growth rate will accelerate to the double-digit level for the next three years. Sales in the Japanese market in fiscal 2008 should reach ¥165.5 billion, renewing the most recent record of ¥130.9 billion set in 2000.

E.Book Market Expands

The e.book market in Japan increase 2.5-fold in 2004 to ¥4,500 million, according to Impress, a e-book publisher. Distribution of comics and novels over the cell phone network increased as telecom rates came down.

Japan's Server Market – Foreign Vendors Raise Profile

Foreign vendors are increasing their share of the server market in Japan, according to IDC Japan, a high-tech research firm. Japan's server market in the second quarter ended June 2005 shrank 5.9% to ¥139.1 billion, mainly because of lower shipments of mainframe computers. However, the market continues to grow on a volume basis, with shipments increasing 16.4% to 123,000 units. IBM Japan was the largest vendor with a market share of 22.8% and was followed by HP Japan with a share of 18.8%, based on the value of shipments. In terms of the number of units shipped, Dell led the market. Fujitsu, the market leader in the previous quarter, fell to the fourth place.

Access to Acquire Palm (4700 JAQ)

Access (Stock code: 4700), a Japanese developer of software for mobile phones, has reached a basic agreement to acquire Palm Source, a U. S. firm. The move aims at strengthening Access's capabilities in the development of multi-functional software. The company feels that demand for mobile phone software will expand rapidly as mobile phone-based Internet services are introduced in the U. S., Europe and

China.

July Machinery Orders

Machinery orders in July rose 15.6% to 385.1 billion, according to the Japan Industrial Machinery Association. Domestic demand was up 11.4% to ¥250.6 billion and overseas orders rose 24.4% to 134.5 billion. At home, orders from the manufacturing sector, the chemical and steel sectors in particular, rose 50.5%. Total orders for chemical machinery increased 94.5% from the same period a year earlier. Machinery exports in July were up 26.2% to 129.1 billion.

Injection Molding Machine Orders Slip in July

Orders for injection molding machines in July declined 2.9% from the same month in 2004 to 1,532 units, according to industry sources. Although this was the 13th consecutive year-on-year decline in monthly orders, the rate of decline has been narrowing as the effect of the decline in molding machines for disks is nearing an end. Domestic demand was down 0.5% to 600 units and export orders fell 4.4% to 932 units.

Machine Tool Orders Rise in August

Combined machine tool orders in August at Japan's eight major machine tool manufacturers rose 6.2% to ¥41.4 billion, according to a major industrial daily. Monthly machinery orders have been above their previous year levels for 35 months in a row. Domestic orders were up 22.9% to ¥26.1 billion. However, export orders fell by 13.7% year-on-year and were 2.2% lower than the previous month. Export orders were lower at Mori Seki (Stock code: 6141), Toshiba Machine (Stock code: 6104) and Toyoda Machine Works (Stock code: 6206). Total orders were also lower at Mori Seki and Toshiba Machine. Total machinery orders rose 5.2% to ¥109.6 billion, according to the Japan Machine Tool Builders Association. Total orders have been above the ¥100 billion mark for 16 months.

Earnings Roundup

E-Commerce Firms Post Strong First Quarter profit

Publicly traded e-commerce firms reported strong sales growth in the first quarter of the current fiscal year ended June 2005. However, profit was mixed due mainly to rising expenses. Rakuten's (Stock code: 4755) consolidated net sales were up 88% year-on-year to ¥20.3 billion as the number of tenants on its web mall climbed 41% to 12,409 and sales through the mall rose 54%. Ordinary income was up 80% to ¥6.84 billion. Kakaku.com (Stock code: 2371), affected by a securities breach, saw its non-consolidated ordinary income plunge by 71% to ¥49 million as it had to spend heavily to bolster data security. E-net Japan (Stock code 3334) reported a non-consolidated ordinary loss of ¥29 million although sales rose by 3% to ¥2.13 billion. Golf Digest Online (Stock code: 3319) suffered an ordinary loss of ¥26 million despite a 32% year-on-year increase in sales to ¥1.66 billion. Consolidated first-quarter sales at DeNA Co. (Stock code: 2432) jumped 151% to 1.21 billion as sales in both of its core businesses, cellular phone and e-commerce sales rose. Ordinary income was up 262% to ¥207 million. Netprice Ltd.'s (Stock code:3328) consolidated ordinary income fell 29% to ¥67 million despite a 55% jump in sales to ¥2.94 billion.

Initial Public Offerings (For detailed information, go to:

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

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) |
|-------------|-------|-------|------|----------------------|--------------------|------------------|--------------------|-------------------|------------------------|--------------------|----------------------|------------------------------|
| 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 | 214 |
| May | 101.3 | 106.2 | 85.7 | 103.3 | 1,977 | 1,723 | 13,948 | 1,969 | 4,965 | 7,014 | 3,226 | 208 |
| YoY | 4.4 | 5.5 | -1.7 | 9.0 | 0.6 | -0.3 | -10.0 | -0.1 | 7.7 | -13.9 | -14.0 | -6.9 |

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