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High-tech Sector

Week ended Feb. 8, 2004

Mobile Phone Subscribers Top 80 Million

The number of mobile phone subscribers in Japan topped 80 million as of the end of January, pushing up the diffusion rate to 63%, according to JEITA, a trade body. The number of subscribers increased 0.4% compared to the end of December. NTT DoCoMo had the largest, 56.7%, share of the market, followed by KDDI at 20.2% and Vodafone at 18.5%. However, in 3G phones, KDDI led with subscribers totaling 12.2 million, against only 2 million for NTT DoCoMo.

Optical Fiber Transmission Speed Increased Four Times

Kansai Electric Power has developed a system to increase the transmission speed of optical fibers by four times to 40 giga bits. The company expects that its higher speed will better meet the demand for growing data volume in the years ahead without installing additional capacity.

NTT Communications to Offer International IP Telephone Service

NTT Communications will start an international IP telephone service for corporate customers in March. It will be the first common carrier in Japan to offer such a service. The company claims that customers can bring down their international telephone bills by at least 30% compared with leased lines. NTT Communications' entry is expected to put pressure on international call rates.

Japan's Game Software Producers Increase Development in China

Japan's video game software producers are expanding development facilities in China in response to a rapidly expanding market and to launch games suited to local market needs. The move also highlights declining demand in Japan, where the market has shrunk from nearly ¥400 billion in 1997 to less than ¥300 billion in 2002, according to the Computer Entertainment Association.

Modular Mounter Demand Surges

Demand for modular mounters is increasing in Japan, China and other Southeast Asian countries. Demand is shifting from rotary mounters to modular mounters reflecting increasing production of mobile phones, digital cameras and LCD televisions. The global market is estimated at ¥250 billion. Major Japanese players include Panasonic Factory Solutions and Hitachi High Technologies.



Massive Investment in Semiconductor Production to Continue in China

China is expected to invest 150 billion Yuan in semiconductor production facilities up to the year 2005 and the figure is likely to be about 300 billion Yuan up to 2010, according to the China Semiconductor Association. Production volume is likely to double to 20 billion chips per year by 2005, accounting for 2-3% of the global market.

AV Market Forecast

A shift from analog to digital AV devices is becoming clear according to a medium-term forecast to 2008 for the global AV market released by JEITA. According to the forecast, demand for flat panel televisions, including LCD and plasma televisions, will increase at an annual average rate of 52.9% between 2003 and 2008. The second best growth prospects are for car navigation systems, which are likely to see an average annual growth rate of 14.0%. DVD is ranked third in terms of growth prospects, with annual average demand growth projected at 6.5%.

Changes Surface in Digital Camera Market

The digital camera market is at a turning point and a shakeout may just be starting. Olympus and Fuji Film have revised their sales forecasts downward while Canon and Casio remain bullish. Global shipments of digital cameras rose 77% in 2003 to 43 million units. However, competition intensified as almost all optical products manufacturers entered the market. With the product cycle of even popular models now shortening to just a few months, manufacturers' ability to continually come up with attractive models will be the key to survival

Data Projector Demand Strong in December

In December, data projectors sold at a pace double that of last year in Japan and the outlook seems to be good for 2004, with unit sales expected to increase 24.5% in 2004, according to JBMIA, a trade body. Normally, data projector demand surges in February-March, that is toward the end of the fiscal year, when government agencies buy data projectors to use up any leftovers from their annual budgets.

Store Brand PCs Selling Well

Store brand personal computer (white box) sales at major consumer electronics chains are rising rapidly and accounting for a growing share of total PC sales. Yamada Denki expects sales of its store brand models to account for more than 20% of its total PC sales in the next fiscal year. The major driving force is low prices, realized through tie-ups with independent PC manufacturers like Iiyama.

Single-crystal Silicon Production to Rise

Production of single-crystal silicon in 2004 is expected to increase 15% to 5,600 tons after recording a 13% increase to 4,875 tons in 2003, according to Shinkinzo Kyokai, an industry association.



Earnings Roundup***Analysis of Third-quarter Financial Results***

A close look at the third-quarter (October-December) financial results of Japan's major electrical equipment manufacturers shows that firms concentrating their resources on digital home electronics turned out to be the winners. Winners include, Sharp, Matsushita and Pioneer. Their current fiscal year (year ending March 2004) ordinary incomes are expected to recover to the IT-bubble level three years ago. On the other hand, Sony and Hitachi did not see a strong rebound in earnings, due mainly to their late arrival in the digital home electronics market.

Sharp (67853 TSE1) Reports Strong Third Quarter Profit

Sharp reported a 25% increase in consolidated ordinary income for the third quarter to ¥30,500 million on a sales gain of 10% to ¥580,400 million. Operating income rose 12% to ¥32,700 million. Sales were driven by demand for digital home electronics-related products such as LCD panels and electronic components.

Rakuten (4755 JASDAQ) to Report Record High Profit

Rakuten, a virtual mall operator, in the term ended December 2003 is expected to report a 76% year-on-year increase in consolidated operating income to ¥4,500 million on sales of ¥18,000 million, up 82%. As of the end of December, the number of stores in its virtual mall had increased by 1,200 compared with a year earlier to 7,400. Advertising revenue from its portal site also contributed to higher sales and earnings. The company could see its consolidated operating income top the ¥10,000 million as it includes DLJ Securities and other subsidiaries in the consolidation.

Nitto Denko (6988 TSE1) Doubles Profit

Nitto Denko's third-quarter sales increased 25.2% year-on-year to ¥120,082 million and net income rose 140.3% to ¥10,770 million. Operating and ordinary incomes also more than doubled compared to the same period a year earlier.

Tokyo Electron's (8035 TSE1) Profit to Surpass Forecasts

Tokyo Electron in the current fiscal year ending March 2004 is expected to report consolidated ordinary income of ¥14,000 million, up 75% compared to previous forecast on sales of ¥520,000, about 13% higher than earlier expectations. The company reported an ordinary loss of ¥200 million loss. Sales are rising and the company is starting to benefit from operational streamlining.

Initial Public Offerings News

(For detailed information, go to: <http://www.ipotokyo.com>)



Pasona Tech (2396 JASDAQ)**Activities**

Provision of human resources, outsourcing services and employment services for IT engineers

M.P. Technologies (3734 TSE)**Activities**

Provision of original middleware licenses and system development for the construction of broadband service infrastructures as well as operational support and other services

JIMOS (3310 JASDAQ)**Activities**

Catalog-order sales of cosmetics

Up-Garage (3311 TSE)**Activities**

Purchase and sale of used car parts; motorcycle parts and other used parts.

Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices	Semicon (Production)	Consumer electronics (sales)
Jan.	90.9	95.2	83.9	72.0	1,953	1,255	14,010	1,302	5,837	6,871	3,140	336
Feb.	88.8	92.8	81.6	85.2	2,091	1,439	15,026	1,420	6,573	7,033	3,192	234
Mar.	88.6	88.7	84.4	107.7	3,155	1,691	19,029	1,748	9,561	7,720	3,456	266
Apr.	86.6	92.6	82.7	96.2	1,788	1,677	14,103	1,783	5,261	7,059	3,171	216
May	92.0	96.2	81.1	97.0	1,857	1,707	14,721	1,952	5,501	7,269	3,307	205
June	92.6	96.2	81.1	115.9	2,003	2,039	16,003	1,954	6,481	7,569	3,449	229
July	91.3	90.4	92.6	106.4	2,023	1,924	15,859	1,823	6,206	7,830	3,545	247
Aug.	91.2	95.8	87.0	60.5	1,771	1,165	14,332	1,577	5,593	7,362	3,388	230
Sept	94.1	96.4	82.7	74.3	2,495	1,313	18,078	2,314	7,335	8,430	3,761	209
Oct.	98.6	104.9	80.8	75.2	2,005	1,397	16,942	2,473	6,100	8,370	3,698	228
Nov.	99.4	99.8	81.8	74.1	1,913	1,465	16,360	2,310	5,897	8,153	3,611	244
YoY	10.4	7.2	-4.4	-5.1	-4.4	-5.3	8.0	6.4	6.5	9.7	8.5	-24.3

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

