



**Week ended Mar. 21, 2004**

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## *High-tech Sector*

### *Another Round of Telephone Rate Cuts*

Japan's telecom carriers are planning to sharply cut rates on calls from fixed-line phones to cell phones, with NTT East and West cutting rates by as much as 48%. Other firms are also planning to introduce similar lower rates. At present the right to set rates for calls from a fixed-line phone to a cell phone is with cell phone firms. Under revised laws fixed-line phone operators will also get the right to set rates and this is bringing down call rates.

### *Flexible PCB Supply-demand Balance Strained*

Demand for flexible printed circuit boards for use in HDDs, optical pickups, cell phones, digital cameras and LCDs is on the rise and as a result supply shortages have started to surface. The number of suppliers is limited, given the complex technology required for production of flexible printed circuit boards. The largest supplier, Nippon Mektron, is hiking production. Other suppliers are expected to follow suit. Demand for flexible printed circuit boards is expected to rise at an average annual rate of 11.9% between 2002 and 2005 and at 8.6% between 2002 and 2007. Production is expected to total ¥244.9 billion in 2007, up from ¥161.9 billion recorded in 2002.

### *Semiconductor Cycle May Turn Down as Early as 2005*

Growth rate of the semiconductor market may turn negative as early as the third quarter of 2005, according SEMICOR Research Corporation, a high-tech research firm. With many fabrication facilities coming on stream, an oversupply situation, particularly for DRAM and NOR flash memories, could develop in 2005, the company warns. However, demand for flash memories, is expected to continue to grow. NAND memories will show particularly strong growth, with demand increasing 22% to \$5 billion by 2005. Demand growth will accelerate in 2006 to 51% to \$7.6 billion. The market will have expanded to \$14.4 billion by 2007.



***S. Korea's Semiconductor Industry to Invest Record ¥900 Billion in 2004***

South Korea's semiconductor manufacturers have drawn up plans to invest a record ¥900 billion in 2004, an increase of 15.8% from 2003. Of the total, Samsung Electronics, the world's second largest producer, will account for ¥600 billion. Investment will focus on NAND flash memories and DDR type DRAMs.

***Nano Imprint Technology Attracting Attention***

Nano print technology is emerging as a powerful option for NGL, the next generation lithography technology, since it eliminates the need for expensive light sources, electron sources, and mask sets and offers higher level of throughputs compared to other technologies, such as EUV and EPL. As a result, many SPE manufacturers are getting interested and trying to develop a market by leveraging the low cost and high throughput made possible by the nano imprint technology.

***Demand for Memory Card Readers Growing***

Demand for memory card readers, used for entering digital camera pictures into personal computers, is increasing rapidly. The market, according to Multimedia Research Institute, is expected to increase to ¥15 billion in 2005, a five-fold increase from 2000. Buffalo, a Nagoya-based firm, is the largest supplier of memory cards.

***Disk Storage Market Set for Double-digit Growth***

Japan's disk storage market is expected to grow 11.5% in fiscal 2003, the year ending March 2004 to ¥303.7 billion, according to Mic Economic Research Institute. Of this, hardware will account for ¥228.3 billion, up 8.4% year-on-year. Demand for disk storage related software should grow 18.2% to ¥33.6 billion. Related consulting and other services are likely to grow 24.6% to ¥41.7 billion. The trend will continue for the foreseeable future, with aggregate demand rising to ¥369.6 billion in fiscal 2006.

***HP to Market Linux PCs in Asia***

Hewlett-Packard Co. plans to market Linux-based personal computers in 12 Asian countries. HP's decided to launch its Linux PC in Asia because Microsoft is not as dominant in this region as in other major markets. If HP is successful, it could break Microsoft's stranglehold in personal computer operating systems.

***Share of Digital Televisions Rising Rapidly in Japan***

The share of digital television sets designed for receiving terrestrial digital broadcasts is increasing and these are expected to represent one out of every four television sets sold in Japan in 2004. Japanese consumer appliance manufacturers are boosting production to meet growing demand. Major suppliers such as Matsushita (6752 TSE1), Sharp (6753 TSE1), and Toshiba (6502 TSE1) are planning to double or even triple output of digital television sets.



### *Digital Single Lens Reflex Camera Demand to Double*

The global demand for the digital single lens reflex camera is expected to double to two million units in fiscal 2004, according to Nikon. Established camera manufacturers, including Canon (7751 TSE1), Olympus and Nikon, are hiking output to meet the growing demand. At the same time Taiwanese manufacturers are also raising their profile in this market.

### *Digital Home Appliance Shipments Strong in February*

Shipments of digital home appliances in February were strong, rising 2.4% compared with February 2003 to ¥155.2 billion. This was the third consecutive year-on-year gain in monthly sales. Shipments of DVD decks were up 1.9 times and those of LCD TV sets rose 63%. PDP TV shipments were up 45%. Demand for digital consumer appliances has stayed strong even after the year-end buying season.

### *Hitachi Kasei(4217 TSE1) Increasing Market Share in PDP Panel Sheets*

Hitachi Kasei, the largest manufacturer of sheets used in PDP panels to shut out electromagnetic waves is expected to increase its global market share from the current 40% to 50%. The sheet is a must for PDP screens to meet electromagnetic wave related regulations in Japan, the U. S. and Europe.

### *Earnings Roundup*

#### *Japan's Listed Firms Boost Profitability*

The average consolidated ordinary income ratio of listed firms (1,240 firms, excluding finance and new markets) for the current fiscal year ending March 2004 is expected to rise to 4.3%, up from 3.7% recorded in the previous fiscal year, according to a leading economic daily. The level is higher than the 4.0% recorded at the peak of the bubble period. Benefits of painful restructuring have finally started to appear. Among the star performers are Yahoo Japan (4689 TSE1) (53%), Keyence (6861 TSE1) (50%), Takeda (4502 TSE1) (39%), Fanuc (6954 TSE1) (32%). The trend suggests that firms with unique products and a clear competitive advantage are the most profitable.

### *Outlook Brightens for Small and Medium-size Firms*

A recent survey of small and medium-size firms by a leading industrial daily showed that 44% expect to report higher sales and profit in the first half of fiscal 2004 that starts in April and 6% expect profit to increase despite flat sales. Only 8% expect both sales and profit to be lower. Their confidence is also reflected in their capital investment plans. Capital investment at small and medium-size firms is expected to focus on adding capacity. Many will also be boosting expenditures on research and development of new products. The results suggest that the current recovery is expanding to a broader base.

### *KDDI(9433 TSE1) to Double Year-end Dividend*

KDDI plans to double its year-end dividend to ¥2,400, bringing the annual dividend to ¥3,600. Strong growth in subscriber numbers and cost cutting is boosting profit, the company said.

### *Canon(7751 TSE1) Likely to Report Strong Jan-Mar Profit*

Canon's consolidated net income for the January – March quarter is expected to increase 26% year-on-year to ¥90,000 million. The original forecast was for a net income of ¥73,000 million. Consolidated net sales are likely to top the previous forecast by ¥33,000 million, rising to ¥770,000 million. Sales in all core product lines (digital cameras, copiers and steppers) have shown strong growth and the company is also benefiting from cost cutting that is offsetting the impact of a stronger yen



*Initial Public Offerings News (For detailed information, go to: <http://www.ipotokyo.com>)*

***Cross Plus (3320 TSE 2)***

Cross Plus Inc., a women's apparel maker, will list on Tokyo Stock Exchange's Second Section on April 14. The company will offer 1.2 million shares in its initial public offering. Of these, one million shares will be newly issued. The rest will be in the form of a secondary offering. It is also planning a green shoe option to offer 100,000 additional shares. A tentative price range will be announced on March 25.

***Ulvac (6728 TSE 1)***

Ulvac Inc., a vacuum equipment-marketing firm, will list its shares on the Tokyo Stock Exchange on April 20. The company will offer 8.71 million shares in its initial public offering. This will include 5 million newly issued shares and 3.71 million shares in a secondary offering. The company is also planning a green shoe option to offer one million shares, depending on demand.

***Message (2400 Jasdaq)***

Message, an operator of retirement homes for the elderly requiring nursing care, will go public on April 23. The company's retirement homes are reputed for high-quality service at very competitive rates. The company will offer 5,400 shares. Of these 5,000 shares will be newly issued and 400 shares will be come from existing shares. The company is also planning a green shoe option to offer 600 shares, depending on demand. The company plans to use funds raised through the IPO for capital expenditures, repayment of debt and as working capital.



**Basic Electronics Industry Statistics**

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Semicon (Production)	Electronic devices	Consumer electronics (sales)
Jan.	90.9	95.2	83.9	72.0	1,953	1,255	14,010	1,302	5,837	3,140	6,871	336
Feb.	88.8	92.8	81.6	85.2	2,091	1,439	15,026	1,420	6,573	3,192	7,033	234
Mar.	88.6	88.7	84.4	107.7	3,155	1,691	19,029	1,748	9,561	3,456	7,720	266
Apr.	86.6	92.6	82.7	96.2	1,788	1,677	14,103	1,783	5,261	3,171	7,059	216
May	92.0	96.2	81.1	97.0	1,857	1,707	14,721	1,952	5,501	3,307	7,269	205
June	92.6	96.2	81.1	115.9	2,003	2,039	16,003	1,954	6,481	3,449	7,569	229
July	91.3	90.4	92.6	106.4	2,023	1,924	15,859	1,823	6,206	3,545	7,830	247
Aug.	91.2	95.8	87.0	60.5	1,771	1,165	14,332	1,577	5,593	3,388	7,362	230
Sept	94.1	96.4	82.7	74.3	2,495	1,313	18,078	2,314	7,335	3,761	8,430	209
Oct.	98.6	104.9	80.8	75.2	2,005	1,397	16,942	2,473	6,100	3,698	8,370	228
Nov.	99.4	99.8	81.8	74.1	1,913	1,465	16,360	2,310	5,897	3,611	8,153	244
Dec.	100.2	102.4	81.3	80.9	2,123	1,529	17,484	2,289	7,034	3,596	8,160	321
YoY	11.5	11.4	-4.1	2.7	-2.4	4.6	16.0	28.4	6.5	14.2	15.6	-17.0

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

