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High-tech Sector

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Bankruptcies in Electrical Machinery Sector Decline Sharply

The number of bankruptcies in July in the electrical machinery sector fell 42.3% from the same period a year earlier. The number of bankruptcies in this sector has been declining for seven straight months. Unpaid debt left by companies going belly-up fell 85.1% to ¥5,340 million. There were no bankruptcies with unpaid debt in excess of one billion yen. Bankruptcies seem to be relatively more concentrated among small and medium-size firms.

Digital Camera Producers Expect Shipments to Slow Down

Pentax (7750 TSE 1) revised its global shipment forecast for the current fiscal year ending March 2005 downward by 11.6% to 2.24 million units. This is the first time a major Japanese digital camera manufacturer has revised shipment forecast downward.

Semiconductor Manufacturers' Production Plans

Japan's eleven major semiconductor manufacturers expect their combined production in the current fiscal year to March 2005 to increase 13% year-on-year to ¥5.78 trillion. Semiconductors used in digital home electronics are driving demand. Toshiba (6502 TSE 1) expects to report operating income of ¥110 billion, highest among the eleven and up 11.2% from the previous fiscal year, on sales of ¥980 billion, a year-on-year increase of 9.0%. Toshiba (6502 TSE 1) has a strong position in NAND flash memories for digital cameras and MCPs for mobile phones. Ranked second, sales and profit growth at NEC (6701 TSE 1) Electronics are being driven by SOCs and LCD driver ICs.

Net Content Experiencing Explosive Growth in Japan

Web content in Japan has topped 13 terra bytes, increasing 45 times in six years. The growth is expected to continue at a high pace for the foreseeable future. The weight of graphics (jpg, gif, bmp, pict, etc.) video (mpg, avi, mov), text data (pdg, txt, dos, jbw, lzh, tar, etc.) and audio (au, ra, midi, mp3 etc.) data is expected to increase sharply as higher communication speeds make it possible to quickly download large volumes of data. On the other hand, growth in HTML content will be limited.



MCP Shipments Poised for Strong Growth

Shipments of multi-chip packages (MCP) used extensively in mobile phones are expected to triple from the current level to 600 million packages by 2008, according to the Japan branch of a major high-tech market research firm. In 2003, DRAM represented just 5% of MCP shipments. The share is expected to reach 56% in 2008, according to the report. On the other hand, the NAND/NOR flash memory technology-based MCP market is likely to expand from 210 million packages in 2003 to some 600 million packages in 2008.

TV Spot Ads Up in First Half

Television spot ads in the first six months ended June 2004 were up 2.7%, according to Dentsu (4324 TSE 1), Japan's largest ad agency. Program ads also rose 2.6% and newspaper ads were up 0.8%. Magazine ads were the only media suffering a decline. Magazine ads were down 2.5%. Radio commercials were up 1.7%. Advertisement billings tend to decline when corporations are overly pessimistic or bullish about the economy and sales. However, billings tend to increase when, marketers feel that the economy is on the upturn and more ads will bring in higher sales.

Earnings Roundup**Most Electronic Component Manufacturers Report Strong First Quarter Profit Growth**

Japan's electronic component manufacturers, benefiting from strong global demand for digital consumer electronics and mobile phones and growing demand from the automotive sector, reported strong profit growth for the first quarter ended June 2004. However, most have refrained from revising their full-year forecasts upward due to concerns over the demand picture in the second half. Recently, inventories of digital cameras have been increasing. A similar trend has surfaced for mobile phones in China, a major market. Higher oil prices are also a concern. Component manufacturers reporting particularly sharp increases in ordinary income were Kyocera (6971 TSE 1), Nihon Densan (6594 TSE 1), Murata Mfg. (6981 TSE 1), Ibiden (4062 TSE 1), Taiyo Yuden (6976 TSE 1), Nihon Chemicon (6997 TSE 1), Nichicon (6996 TSE 1), Shindengen (6844 TSE 1), SMK (6798 TSE 1), Nihon Dempa Kogy (6779 TSE 1) and Foster Electric (6794 TSE 1).

Electrical Construction Contractors Report Strong Orders

Japan's four major construction companies reported strong order growth in the first quarter ended June 2004. Orders were up 43.1% to ¥63 billion at Kyowa Exio (1951 TSE 1) and 26.1% to ¥23 billion at Daimei Telecom (1943 TSE 1). Orders for the construction of networks for network access and orders for third-generation mobile phone ground stations are on the increase. While all four have refrained from revising their forecasts upward, there is a good possibility that they will do so depending on subscriber growth.

Micromill Reports Strong Profit Growth

Micromill, an Internet-based marketing research firm, saw its ordinary income in the fiscal year ended June 2004 rise 3.1-fold to ¥610 million on sales of ¥2,070 million, up 2.4 times compared with the same period a year earlier. The company's customer base expanded 84% to 2445 clients and the average project price rose by ¥115,000 to ¥485,000. The company is projecting a 64% increase in sales to ¥3,400 million increase in sales for the current fiscal year ending June 2005, with ordinary income rising by 66% to ¥1,020 million.

**First Quarter Ordinary Income
Drops at Alps**

The consolidated ordinary income for the first quarter ended June 2004 declined 16% to ¥7500 million. Consolidated net sales were, however, up 3% to ¥151,900 million. The company blamed the profit decline on a slowing of demand for lucrative magnetic devices, including magnetic heads. Net income fell 62% to ¥3,100 million, partly because first quarter profits in the previous fiscal year were inflated by extraordinary income from the return of the government-entrusted portion of the employees welfare pension fund.

**Profit Recovers at IT Service
Firms**

Profit in the first quarter recovered at IT service firms, although the recovery was relatively weak. Of the 16 major IT service firms, only two reported lower sales. Sales fell at Itochu Techno Science (4739 TSE 1) due to a change in accounting practice. Ten companies reported double-digit sales gains. Ohtsuka Shokai (4768 TSE 1) reported an 82.9% increase in operating income while CSK (9737 TSE 1) saw its ordinary income surge by 96.6%. Nomura Research Institute (4307 TSE 1) posted a 25.2% increase. Shinittesu Solutions (2327 TSE 1) posted a 560% increase in first quarter operating income. Those bullish on full-year results are Ohtuska Shokai (4768 TSE 1), CSK (9737 TSE 1) and Shinnittetsu Solutions (2327 TSE 1).

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

Gendai Agency (2411 Jasdaq)

Gendai Agency Inc., an advertisement production company, will list on the JASDAQ market on September 16. The company will offer 1,850 shares to the public in its initial public offering. Of those 1,300 are newly issued shares and 550 are existing shares currently held in private. The tentative price range will be set on August 26. The fixed offering price will be announced on September 6. Shinko Securities Co. (8606 TSE 1) is the lead underwriter for the offer. The company expects to raise ¥1.31 billion from the IPO, and plans to use the proceeds mainly to pay back loans.

Benefit One (2412 Jasdaq)

Benefit One Inc., an operator of welfare facilities, will list on the JASDAQ market on September 17. The company will offer 1,250 shares to the public in its initial public offering. Of those 1,000 are newly issued shares and 250 are existing shares currently held in private. The tentative price range will be set on August 27. The fixed offering price will be announced on September 7. Nomura Securities Co. is the lead underwriter for the offer. The company expects to raise ¥829.7 million from the IPO, and plans to use the proceeds for capital expenditure and business expansion.



INTERTRADE (3747 TSE mothers)

INTERTRADE Co., Ltd., a company specializing in financial front-end system development, marketing and maintenance services, will list on the Mothers market of the Tokyo Stock Exchange on September 16. The company will offer 4,000 shares to the public in its initial public offering. Of those 2,700 are newly issued shares and 1,300 are existing shares currently held in private. The tentative price range will be set on August 26. The fixed offering price will be announced on September 6. Nomura Securities Co. is the lead underwriter for the offer.

MARINEPOLIS (3339 Jasdaq)

MARINEPOLIS Co., Ltd, a sushi chain operator and franchiser, will list on the JASDAQ market on September 14. The company will offer 800,000 shares to the public in its initial public offering. Of those 500,000 are newly issued shares and 300,000 are existing shares currently held in private. The tentative price range will be set on August 24. The fixed offering price will be announced on September 2. Daiwa SMBC Securities Co. is the lead underwriter for the offer. The company plans to use the proceeds from its IPO to pay back debt.

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)
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
Dec.	100.2	102.4	81.3	80.9	2,123	1,529	17,484	2,289	7,034	8,160	3,596	321
Jan.	102.5	105.4	81.5	76.1	1,996	1,396	15,531	1,517	6,073	3,629	3,629	273
Feb.	95.7	99.0	80.1	84.9	2,153	1,554	16,577	1,812	6,774	8,022	3,575	195
Mar.	94.2	95.1	81.2	89.6	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	10,950	1,502	1,927	7,521	3,750	219
June	102.2	107.6	82.0									248
YoY	12.3	13.7	0.3	-2.7	6.3	1.4	10.8	13.2	4.2	15.2	13.4	8.4

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

