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High-tech Sector

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Software Service Sector's Sales Up in August

The software service sector's sales in August rose 4.8% year-on-year, restoring the sector to a renewed growth phase as mainstay software development-related sales rebounded. Concerns were rising in the sector over the outlook for the future since sales in July dipped 8.6%, with software development off 12.5%. Software development-related sales rebounded, increasing 4.1% in August. Sales growth in all nine sub-sectors, except database services, was positive.

LCD Panel Prices Plunge

LCD panel prices (TFT panels for PC monitors) to large users fell 13% in September, although the market is entering the peak demand period of the year. Prices in the past three months have come down by about 40%. Some manufacturers are complaining that the current price level is below the breakeven point. In September, the price of the 17" monitor panel for PCs fell US\$30, or 13%, to US\$200.

Personal Computers: Corporate Demand is Peaking

Although personal computer sales to the corporate sector are forging ahead, they lack power and concerns are rising among manufacturers that demand might be peaking. Personal computer sales in the April-June quarter were up 2.0% and the trend seems to have continued in the July-September quarter as weak sales to the consumer sector were offset by strong corporate demand. Having introduced competitively priced models, Dell was the biggest gainer, with sales up 20%.

Manufacturers Accelerating Development of GPS Receiver Modules

With the government planning to make GPS modules mandatory on mobile phones, market experts predict that sales of mobile phones with GPS modules will pick up in 2007 and 50% of all mobile phones will have GPS modules in 2009 and the diffusion rate will top 90% by 2011. Moves to make GPS a standard feature are also underway in Europe.

Multi-chip Package Demand to Stay Strong

Demand for multi-chip packages, particularly for 5- to 6-layer packages, for use in mobile phones is strong. Since flash memory is the main device for making multi-chip packages, flash memory manufacturers are trying to strengthen their market positions. Multi-chip packages combining flash memories and mobile DRAM are expected to become the mainstay. Major suppliers are Intel, Spansion and Samsung. Japanese manufacturers Sharp and Toshiba each have a 15% share of the market.



**Sharp (6753 TSE 1) Develops
65" LCD TV**

Sharp has developed a 65" LCD television, the largest in the world. Samsung Electric's 57" LCD television is the largest on the market now. Elsewhere, Matsushita Electric is planning to introduce a 65" plasma TV in October. It was generally believed that 62" LCD television was the largest possible with current technology.

**Machine Tool Orders Surge in
September**

Orders for machine tools in September rose 54.1% compared to the same month a year earlier to ¥111.3 billion, according to the Japan Machine Tool Builders Association. This is the first time for monthly orders to top the ¥100-billion mark since March 2001. A rush of orders before the close of the first half of the current fiscal year and a growing demand from small- to medium-size businesses is driving orders.

**Mori Seiki (6141 TSE 1) to Boost
Machine Tool Production**

Mori Seiki, a leading machine tool manufacturer, is planning to boost production by 30% from the current level. Plans see production rising to the higher level by 2007. Much of the increase will come from production streamlining and other efficiency-boosting measures.

**China's EMS and ODM Markets Set
to Grow**

China's EMS and ODM markets (combined) are expected to reach US\$153.5 billion by 2008, according to a recent report from a high-tech research firm. ODM sales are expected to increase at an annual average rate of 22% to US\$108 billion.

Earnings Roundup**NEC Electronics (6723 TSE 1)
Reports Strong Profit**

Consolidated net income for the first quarter ended September have likely risen 44% year-on-year to ¥17,500 million on an estimated sales gain of 8% to ¥376,000 million. Sales were driven by rising orders for LSI used in digital electronics, ICS and devices for car electronics. The EMS market in 2008 is projected at US\$45.5 billion. The gains will come as electronics equipment manufacturers from around the world shift more production to China.

**Orders Plunge at Tokyo Electron
(8035 TSE 2)**

Orders for semiconductor production equipment at Tokyo Electron in the July-September quarter plunged 24% compared to the previous quarter as LCD panel manufacturers cut back on capital investment in response to sharply lower prices for their products. Since there is a six-month time lag from order to delivery, the order slowdown is unlikely to affect current fiscal year results.

**Major Broadcasters to Report
Strong Profit**

Japan's major television broadcasters are expected to report strong interim profit as they take in more advertising revenue. Asahi Television reported the highest growth in advertising revenues, which were up over 20% in the second quarter. Other TV broadcasters also saw their advertising revenues go up by double-digit figures.



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

GDH (3755 TSE Mothers)

GDH KK, a company specializing in the planning and production of animation pictures, will list on the Mothers market of the Tokyo Stock Exchange on November 9. The company will offer 5,000 shares to the public in its initial public offering. Of those 1,500 are newly issued shares and 3,500 are existing shares currently held in private. The tentative price range will be set on October 19. The fixed offering price will be announced on October 28. Daiwa SMBC Securities is the lead underwriter of the offer.

Mamezo (3756 TSE Mothers)

Mamezo Co., Ltd., a computer systems consulting company with core strengths in system development, application consulting, custom software development and the educational solution business, will list on the Mothers market of the Tokyo Stock Exchange on November 9. The company will offer 1,400 shares to the public in its initial public offering. All shares are newly issued. The tentative price range will be set on October 18. The fixed offering price will be announced on October 27. Mizuho Investors Securities is the lead underwriter of the offer.

Trust (3347 TSE Mothers)

Trust Co., Ltd., an exporter of used cars, will list on the Mothers market of the Tokyo Stock Exchange on November 10. The company will offer 6,000 shares to the public in its initial public offering. All shares are newly issued. The tentative price range will be set on October 19. The fixed offering price will be announced on October 28. UFJ Tsubasa Securities is the lead underwriter of the offer.

G Trading (3348 Jasdaq)

G Trading Co., Ltd., a company marketing used trucks, buses and construction machinery, will list on the JASDAQ market on November 10. The company will offer 1,700 shares to the public in its initial public offering. Of those 1,200 are newly issued shares and 500 are existing shares currently held in private. The tentative price range will be set on October 20. The fixed offering price will be announced on October 29. Daiwa SMBC Securities is the lead underwriter of the offer.

Cosmos Pharmaceutical (3349 TSE Mothers)

Cosmos Pharmaceutical Co., Ltd., a drug store chain also handling general merchandise, will list on the Mothers market of the Tokyo Stock Exchange on November 11. The company will offer 1,800,000 shares to the public in its initial public offering. Of those 1,300,000 are newly issued shares and 500,000 are existing shares currently held in private. The tentative price range will be set on October 22. The fixed offering price will be announced on November 2. Nikko Citigroup is the lead underwriter of the offer.



Japan ERI (2419 Jasdaq)

Japan ERI Co., Ltd., a company engaged in real estate-related services such as quality residential housing inspections, inspection and certification of housing financed by the Japan Housing Loan Corp. will list on the JASDAQ market on November 11. The company will offer 1,800 shares to the public in its initial public offering. Of those 1,550 are newly issued shares and 250 are existing shares currently held in private. The tentative price range will be set on October 19. The fixed offering price will be announced on October 28. Mizuho Investors Securities is the lead underwriter of the offer.

Chintai Jutaku News (2420 Hercules)

Chintai Jutaku News Co., Ltd., operator of the CHINTAI NET/Web Internet site and publisher of CHINTAI, a rental news magazine, will list on the Mothers market of the Hercules market on November 15. The company will offer 44,000 shares to the public in its initial public offering. Of those 22,000 are newly issued shares and 22,000 are existing shares currently held in private. The tentative price range will be set on October 22. The fixed offering price will be announced on November 2. UFJ Tsubasa Securities is the lead underwriter of the offer.

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)
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	17,494	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	7,941	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	108.1	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	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	2,163	6,057	8,499	3,847	296
YoY	12.0	17.8	-12.5	6.1	10.2	5.4	5.0	19.8	-3.6	8.5	8.5	19.8

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

