

JAPAN

Investment Strategy

Manufacturing Sector

Investment Themes for Fiscal 2011

Trias Corporation is pleased to announce the establishment of its LIN Website to support a Japanese economic renaissance. In mid-February, a familiar face to many of you at our IR forums, Yohei Kanazawa, former director of Citigroup Research, discussed investment themes in the manufacturing sector from the medium-term perspective.

Below we would like to introduce you to the essence of his thoughts.

● Areas to Pay Attention to in the Agricultural Sphere

- Food shortages in China, previously thought to be an issue from 2030, have a high probability of occurring well before then.
- As a result of the food supply crisis in China we can see through the exports of wheat and corn from America and France that they are benefitting from this. At the same time concerning rice, it is thought that the Chinese from the point of view of food self sufficiency and militarism, that they wish to increase domestic production or alternatively from satellite countries in South East Asia.
- When considering the plan to increase domestic agricultural production in China or neighboring countries the following two issues arise:
 1. Chinese agricultural laws prevent large scale farming;
 2. The modernization and automation of farming in South East Asia continues to be slow.
- When taking into account the above mentioned and the current conditions in the farm sector in China and South East Asia the possibility that the need for mid-scale agricultural equipment will rise is extremely high. This presents a big business chance for Japanese agricultural machinery makers such as KUBOTA Corporation (6326 TSE 1st), ISEKI & CO., LTD. (6310 TSE 1st) and YANMAR CO., LTD. (unlisted).
- It is also a big chance for agricultural fertilizer and chemical companies. Specifically companies such as KUMIAI CHEMICAL INDUSTRY CO., LTD. (4996 TSE 1st), IHARA CHEMICAL INDUSTRY CO., LTD. (4989 TSE 1st), Nippon Soda Co., Ltd. (4041 TSE 1st) and SAKATA SEED CORPORATION (1377 TSE 1st) to name but a few.
- In terms of the companies' business performance we expect things to improve from the second half of fiscal year 2011 ending March 2012. From an investment point of view a long term investment horizon and buy on dips approach is appropriate.

● Focus on Water Related Companies

- In China, along with food, water conservation is becoming an increasingly serious issue—not just drinking water but in particular water for agricultural and industrial use. Along with having issues such as deserts China has a real problem with water shortages. The spacious nature of the country makes the provision of water through irrigation facilities very difficult.
- Transporting water remains difficult and so the rule is local production for local consumption, which in turn leads us to focus on filters as a business chance. Several companies that have water filter technology divisions are EBARA COEPORATION (6361 TSE 1st), Toray Industries, Inc. (3402 TSE 1st), NITTO DENKO CORPORATION (6988 TSE 1st) and Asahi Kasei Corporation (3407 TSE 1st). We would focus on these companies for long term investment and look to buy dips in the share prices.
- It is my view that we are approaching a point in China where we need to think about the problems associated with food and water shortages and its potential impact on the economy and that this in addition to rising labor costs could be a risk for the business divisions of Japanese corporations doing business there.

● Restructuring of the Manufacturing Sector

- From the second half of 2012 the entire manufacturing sector will enter a cyclical downtrend. To date the earnings recovery has been driven by the impact of the Lehman Shock and the subsequent drop in inventory levels and the subsequent rebound rather than new product being launched. Consequently it will become clear in fiscal 2011-2012 who the winners and survivors and their related parts companies will be while the losers will face an increasingly strong trend that pushes them towards being weeded out; small and medium sized enterprises will be at the heart of this reorganization. In particular, owner managed companies with histories in excess of 50 years and the companies that straddled various business fields should be the most likely targets of the impending restructuring.
- Japanese companies face various problems such as weak corporate governance, high corporate tax rates and heavy depreciation burdens. Currently there is a shortage of experts who are conversant in both accounting and tax regulations, which, amongst other things, is one of the future points for improvement.

● About OLED (Organic Light-Emitting Diode)

- The OLED market has been the subject of previous attention and the stock market has already started to evaluate it. The key point in the future is whether or not large OLED products can be

produced. The reality is that from a technical point of view there are still limitations, at this point it cannot be said that the technology for the printing method has been established.

- The conclusion is that we forecast the OLED market will increasingly bifurcate. In the case of small to medium sized OLED it will be the case that, if it is not made in China, costs cannot be met. So for the Japanese makers it will become increasingly important to focus on and establish their presence in high end OLED for larger screens above ten inches and product for use in the building and lighting industries.
- It is likely that the Japanese makers will show strength in the printing method for larger OLED screens, for example companies such as SEIKO EPSON CORPORATION (3724 TSE 1st), Dai Nippon Printing Co., Ltd. (7912 TSE 1st) and KONICA MINOLTA HOLDINGS, INC. (4902 TSE 1st). One maker of equipment to focus on is TATSUMO CO., LTD. (6266 JASDAQ). 