IRG Technology, Media and Telecommunications and Life Sciences Weekly Market Review

Week of 5 July – 11 July 2004

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International

Hardware

- **LG Philips LCD, gearing up for an initial public offering later this month, reported a more-than-threefold surge in net profit and an 80% jump in sales for the second quarter.** But the earnings growth may have peaked given the oversupply of flat-panel displays, casting a shadow over the second half and into 2005. The flat-panel-display maker reported its net profit for the three months ended June 30 rose to 701 billion won (US$609.6 million) from 183 billion won (US$159.3 million) a year earlier. Sales rose to 2.3 trillion won (US$2 billion) from 1.3 trillion won (US$870.3 million). Operating profit for LG Philips LCD jumped more than six fold, to 771 billion won (US$671 million) from 111 billion won (US$96.6 million) a year earlier, thanks to a rise in sales of thin-film transistor liquid-crystal displays used in television sets and computer monitors, and the company's cost management.

Internet

- **Regulators from about 60 countries began a meeting at the UN's top telecommunications agency to try to stop the growing tide of unsolicited e-mails** or spam that threaten to drive users and businesses off the Internet. Some studies indicated that spam now accounted for up to 75 percent or 85 percent of inbound electronic mail, according to the UN's International Telecommunications Union (ITU).

Semiconductors

- **Korea's personal computer industry is quickly losing its competitive edge to their Chinese counterparts.** According to a report by the Federation of Korean Industries, the Chinese personal computer industry has a cost advantage over Korean manufacturers and is rapidly closing the technical and quality gaps. The report estimates the overall competitive gap to widen to 20 percent over the next five years, with the Chinese industry quickly catching up in technology and other non-cost factors. The surveyed Chinese factory held a considerable advantage in labor cost, government investment and tax benefits. The factory's spending on wages and administrative costs were 20 and 25 percent of its Korean counterpart, respectively, resulting in a total production cost that was nearly three times lower.

Japan

Hardware

- **Smart-tag developer YRP Ubiquitous Networking Laboratory has developed a smart-tag reader that can be worn like a wristwatch.** The reader, equipped with a very small LCD panel, enables users to see information recorded on smart tags by simply holding products outfitted with the tags. Such products include beverage or pharmaceutical bottles. The research lab plans to license the technology to companies, aiming to develop practical applications within three years.

Mobile / Wireless

- **KDDI Corp. aims to develop mobile phones powered by a small fuel cell through separate tie-ups with Hitachi Ltd. and Toshiba Corp.,** aiming to commercialize them in 2007. Cell phones are becoming increasingly multifunctional, equipped with TV viewing and game playing capabilities and the trend is forcing handsets to consume more power. Currently available lithium-ion batteries for cell phones, however, last only about two hours if users continuously watch TV on their terminals. A handset powered by a fuel cell is expected to last more than twice as long. The planned fuel cell would extract hydrogen ions from methanol to generate power, meaning that no time would be required for recharging because simply replenishing its methanol supply would allow the battery to operate continuously. The partners in both projects seek to develop prototype cell phones powered by a fuel cell by the end of fiscal 2005.

- **Sharp Corp. said its mobile-phone shipments in the April-June quarter were stronger than expected amid brisk demand in Japan** and elsewhere, a sign that the company got off to a good start this fiscal year. Still, the Japanese consumer-electronics maker would not revise its earlier full-year targets. That is because "only a quarter of the year has passed" and Sharp needs more time to assess the market trend later in the year.

Semiconductors

- **Fujitsu Ltd. has set up a foundry department to expand semiconductor manufacturing on behalf of other companies.** The department acts as the firm's liaison with clients, including so-called fab-less chipmakers without production facilities. It handles negotiations as well as proposes to customers a range of chip production plans featuring the most advanced processing technologies. The move is part of a company effort to nurture the foundry business into a major revenue source. As part of the drive, Fujitsu is building a plant capable of producing 300mm-diameter semiconductor wafers in Mie Prefecture, which is slated to come on-stream next spring. Fujitsu has already won orders to produce chips with a line-width of 90 nanometers at the plant from U.S. chipmakers such as Transmeta Corp. and Lattice Semiconductor Corp.

Korea

Internet

- **Expected strong quarterly earnings reports from Korea's Internet companies are raising the hopes of information-technology entrepreneurs.** Rising profits buoyed by a solid sales base is expected to combine with their efforts to expand into overseas markets and inject momentum into Internet stocks in the long-run. Analysts see value in the two biggest names in the business - Daum Communications Corp. and NHN Corp, both listed on the Kosdaq - and expect the two companies will report strong quarterly results. Overseas investors hold more than 40 percent stakes in both companies.
- **Daum announced it would invest 8.8 billion won (US$7.7 million) to buy a 65 percent stake in Taon Corp.** a joint venture with Poweredcom. The Japanese online venture owns Cafestar (www.cafestar.com), the largest community portal in Japan with 1.2 million members. Daum plans to launch a new version of Cafestar, which will be integrated with the company's business model in Korea. Cafestar last year reaped sales of 1.5 billion won (US$1.3 million) from digital items and Internet ads.

Media, Entertainment and Gaming

- **The government and domestic broadcasters ended their four-year debate over technologies for Korea's digital-television standard, approving the U.S.-based Advanced Television Systems Committee standard for digital broadcasts.** The decision also paved the way for the European DVB-

H (digital video broadcast handheld) standard to be included in the country's mobile television aspirations, with the government opening the possibility of adopting the platform as a multi-standard with the homegrown terrestrial DMB (digital multimedia broadcasting) technology. The agreement was released jointly by the Ministry of Information and Communication, the Korean Broadcasting Commission, broadcast company KBS (Korea Broadcasting System) and the National Union of Media Workers.

Mobile / Wireless

- **The Korean government may drop its policy of mandating mobile-phone makers to develop W-CDMA handsets in dual-band modes**, attempting to promote investment in the troubled third-generation mobile platform experiment. The official declined to comment on whether significant discussions were held on dropping the dual-band mandates for W-CDMA phones, as several media reports suggested, but said the ministry is "open to every idea." The government has been promoting W-CDMA as Korea's third-generation mobile platform, hedging its bets between the more popular CDMA2000 1x EV-DO standard that currently has more than 5 million subscribers. There are only about 1,300 W-CDMA customers in Korea.

Telecommunications

- **The government ordered SK Telecom Co. to reduce charges to its smaller rivals for using its networks as part of measures to level the playing field in the telecom industry.** The reduction in the interconnection fees is expected to cut the nation's top mobile carrier's 2004 sales by around 240 billion won (US$208.7 million), or 2.5 percent of last year's revenue. The Ministry of Information and Communication said SK Telecom will charge interconnect fees that are 22.4 percent reduced from the previous rate of 41 won (US$0.04) per minute.
- **Hanaro Telecom, resurrected from near-bankruptcy by a group of investors led by U.S. insurer American International Group, is poised to shake up South Korea's staid telecommunications market.** KT Corp. KT enjoys a near-monopoly in fixed-line service in Korea, with a market share of more than 95%. It also has more than half the market for broadband connections. And analysts say that Hanaro's likely growth, driven by new management and big investments, will come at KT's expense because Hanaro can offer similar quality services at a cheaper price.
- **LG Telecom issued global bonds worth US$200 million to foreign investors.** LG said proceeds from the bonds maturing in five years and carrying a coupon rate of 8.25 percent would be used to pay debt or for its operations. South Korea's saturated telecommunications industry has been struggling to tide over a period of slow growth and weak consumption caused by an economic downturn.

China

Internet

- **The battle with eBay Inc. for China's fledgling online-auction market has delayed plans by Alibaba.com, one of the world's largest business-to-business electronic-commerce sites, to go public soon.** Alibaba plans to expand its investment in online newcomer Taobao.com this year. Alibaba declined to specify the amount of the investment but would exceed the 100 million yuan (US$12.1 million) spent to launch Taobao.com last year. Alibaba's decision to refrain from preparing for an IPO follows a weak performance by technology shares in recent months in China. China's continuing investment and credit squeeze, aimed at slowing the country's economic growth, also has made investors wary of companies with mainland exposure and fussy about how much they are willing to pay for new listings. Alibaba's Taobao.com and rival EachNet.com are neck-and-neck in the race to capture China's online-auction business. The two companies each hold about a 50% share of the Chinese market. Competitors are emerging to chip away at that 50-50 split. Yahoo! Inc. joined the race in April, launching 1pai.com, a joint venture with Chinese-language Internet portal Sina Corp.

- **Tom Online Inc. is a rising star in China's Internet sector, challenging dominant portals Sina Corp., Sohu.com Inc. and Netease.com Inc.** Tom Online has received analysts' stamp of approval for its clear focus on China's high-growth market for wireless value-added services, and it is well-placed to capture opportunities in this fast-expanding sector. And the outlook for the stock is bright, with an upside potential of as much 90% in coming months. A boom in short messaging service, or SMS, in China had helped the three major portals overcome the burst of the Internet bubble in 2001-2002. But now, SMS growth is slowing, and portals are turning to wireless value-added services, or wireless VAS, to maintain revenue from their mobile-phone customers.

Semiconductors

- **Mainland chipmakers are shrugging off news that the country has agreed to end a preferential tax policy** that United States manufacturers complained put them at an unfair disadvantage. After April 1 next year, the mainland will quit providing rebates on the value-added tax (VAT) for domestically produced chips. Mainland companies, however, said the discounts did not provide much of an advantage over imported semiconductors and scrapping the policy would not significantly affect their cost structures. Semiconductor Manufacturing International Corp, the mainland's largest chipmaker, does not benefit much from the VAT discount because most of its output winds up overseas, qualifying its chips for a separate export rebate instead.

Telecommunications

- **Mainland telecommunications suppliers are grabbing overseas sales by targeting Africa, Southeast Asia, the Middle East and former Soviet republics** - price-sensitive markets often skipped by major western brands. This month, Tunisia awarded ZTE Corp a deal to build third-generation (3G) mobile phone networks in Tunis and Sousse, giving the Shenzhen-based company its first contract for advanced high-speed mobile services. This follows an US$18 million contract to build a CDMA network in Egypt and a US$42 million deal to install GSM equipment in Libya. Tunisia has also contracted Huawei Technologies to install 3G equipment for trials in the northern African country. And Huawei won a contract this week from Telkom Kenya to supply VoIP equipment. Norson Telecom Consulting said that as ZTE and Huawei were little known in western countries, developing markets offered the best opportunity for overseas income.

Taiwan

Semiconductors

- **TSMC boasted record sales of NT$22.5 billion (US$668.3 million) in June on the back of brisk demand.** June sales were up 3.7 percent from May and 26.2 percent from a year earlier. Cumulative sales in the six months to June rose 37.1 percent year-on-year to NT$122.4 billion (US$3.6 billion). The June figure marked its third consecutive monthly record. Sales in the second quarter to June registered an all-time high of NT$64.9 billion (US$1.9 billion), without providing comparative figures. The company said sales in the first quarter had reached NT$57.5 billion (US$1.7 billion).

- **United Microelectronics Corp, the world's second-largest contract chipmaker, reported its first half sales rose 37.6 percent on year to NT$54.5 billion (US$1.6 billion).** June sales alone rose to NT$10.3 billion (US$305.7 million) from NT$9.7 billion (US$287.9 million) in May and were up 46.8 percent from the same month last year. At an April 28 investor conference, UMC expected its average selling price in the three months to June to show a sequential increase of up to 5 percent in US dollar terms on the back of a rise of about 10 percent in wafer shipments.

Singapore / Malaysia / Philippines / Indonesia

Information Technology

- **Malaysia planned to create several new "cyber-cities" to expand its rapidly growing Internet technology industry** and spread the benefit to all Malaysians. The move is the second phase of the Multimedia Super Corridor (MSC) project south of Kuala Lumpur, which has attracted more than a thousand companies, close to 20,000 jobs and a software-driven industry worth 6.5 billion ringgit (US$1.7 billion) since its inception in 1996. Located in Cyberjaya, the MSC was designed as a hub for multimedia products and services and was the brainchild of former premier Mahathir Mohamad. The main aim during the first phase of the project was to attract foreign information technology companies and develop new ideas for software. The MSC's 'Next Leap', spanning 2004 to 2010, would see the setting-up of Cyberjaya-linked hi-tech centers throughout Malaysia.

United States / Canada

Information Technology

- **IBM Corp. signed a five-year contract worth more than US$400 million that expands the information technology services it currently provides to Sprint Corp.** The companies said IBM Global Services will provide application development and maintenance support to accelerate some of Sprint's software systems. Sprint said the deal will improve its IT application development and maintenance processes, cut costs and increase flexibility. The company added its agreement should help it towards its goal of reducing annual operating expenses by more than US$1 billion over the next two years.

Internet

- **Stelor Productions Inc., which operates a children's website called googles.com, is trying to block Google, the Internet search-engine giant, from expanding into new businesses aimed at children.** In documents filed with the U.S. Commerce Department's Patent and Trademark Office in Washington, Stelor contends that Google is traipsing on its turf, confusing potential investors and customers. Stelor took over the googles.com website when it acquired rights to the Googles children's characters in 2002. The previous owners established the googles.com domain name and started operating the website in July 1997, two months before the Internet search firm established its google.com website, according to the documents filed with the patent office.

- **Online retailers are trying to bring in new customers by allowing them to pay for goods with some old-fashioned methods -- checks and invoicing.** Credit cards are the most popular form of payment online, but for retailers trying to tap into every demographic -- including older shoppers who fear online fraud, customers who may not have enough credit for big-ticket items or those who lack credit cards -- alternatives to the plastic charge card can open doors. Following in the footsteps of retailers 1-800-Flowers.com Inc. and gifts e-tailer Ross-Simons, diamond retailer Odimo Inc. began offering "Bill Me Later" invoicing to customers on its websites diamond.com and ashford.com in June, promising no payment for 90 days on purchases of more than US$250. Under Bill Me Later, a service developed by I4 Commerce Inc., a shopper who makes a purchase with instant credit rather than a credit card receives an invoice in the mail later and pays the bill over time.
- **Tens of thousands of students have signed up for a new file-swapping service called i2hub that many say offers several advantages over existing networks like Kazaa.** The service works only at universities hooked up to Internet2, a superfast, separate version of the Internet intended for academic use. The file-sharing service can be accessed only by those at schools connected to Internet2, so it's harder for prying eyes from the outside to monitor students' activities. The service is legal, but downloading copyrighted material such as music is not.

Media, Entertainment and Gaming

- **Akimbo Systems Inc. plans to announce it has raised US$12 million from a group of investors lead by Kleiner Perkins Caufield & Byers**, the venture-capital firm best known for early stakes in Amazon.com Inc., Google Inc. and other high-technology companies. While early efforts by WebTV Networks and others to let consumers surf the web through their television sets have not clicked with audiences, Akimbo is using the Internet to funnel video programming with sharp pictures, rather than web pages, to viewers. Some analysts believe Akimbo and similar living-room technologies being developed elsewhere could provide an appealing new way for video programmers to reach viewers, especially those who can not find distribution on cable and satellite-TV systems. The Akimbo system, due out this summer, includes a US$230 box that plugs into a TV set and, through a home network, to a high-speed cable or digital subscriber line, or DSL, Internet connection. Users of the device must pay US$10 a month for a subscription to an Akimbo online service, from which they can select movies, sports clips and other programs to download to their set-top boxes.

Mobile / Wireless

- **Cingular Wireless and AT&T Wireless Services Inc. agreed to swap the AT&T Wireless networks in North Carolina and Puerto Rico for one owned by Triton PCS Holdings Inc. in Virginia.** The transaction, contingent on Cingular's planned acquisition of AT&T Wireless, would also hand Triton US$175 million in cash. The wireless phone service providers also entered agreements that call for AT&T Wireless and Triton to end an agreement that carved up a number of markets, including North Carolina, between them. The agreement would also require AT&T Wireless to surrender its common and preferred equity in Triton. AT&T Wireless currently holds about 20% of Triton through its ownership of 12.5 million common shares valued at about US$31.6 million.

Software

- **CyberGuard Corp., moving to capitalize on last week's software-industry turmoil, launched an unsolicited US$297 million stock offer for rival information-technology security systems provider Secure Computing Corp**. CyberGuard made its move five days after Secure said it would miss its second-quarter earnings targets. Secure was one of several software companies that reported trouble closing deals in June, prompting fears of a broader technology-industry slowdown. Computer security has been one of the software industry's bright spots, but the sector has dozens of small companies, many with similar offerings.

Telecommunications

- **Verizon Wireless won NextWave Telecom Inc.'s spectrum license for the New York metropolitan area in a bankruptcy auction.** The US$930 million deal expected to close by year end. The 10 megahertz license covers about 20.1 million people in New York, Westchester and Rockland counties, as well as northern and central New Jersey. NextWave is reorganizing under Chapter 11 bankruptcy. Last month, the company said the auction of licenses in New York and other markets would provide cash to exit bankruptcy protection. The transaction is subject to approval by the Federal Bankruptcy Court and the Federal Communications Commission, as well as antitrust regulatory review.

Europe

Mobile / Wireless

- **Virgin Mobile set a range for its market debut, valuing Britain's fifth-largest mobile phone firm at £588 million (US$1.1 billion) to £713 million (US$1.3 billion).** The indicative equity valuation, set after pre-marketing to potential investors by analysts backing the offering, is lower than initially tipped as a likely price tag by sources close to the flotation. But investors are concerned that rising interest rates will threaten economic growth and add fresh volatility to markets, and fund managers are becoming increasingly selective as a raft of rival initial public offerings flood European exchanges.

Software

- **SAP AG, the world's largest maker of business software, posted double-digit growth in software sales in the second quarter**, allaying fears it had suffered setbacks similar to some of its major rivals. Sales of software rose 15% to €495 million (US$614 million) in the three months, helping increase overall revenue 9% to €1.8 billion (US$2.2 billion) ahead of its full second-quarter report July 22. SAP decided to release the preliminary information due to the series of negative pre-announcements in the software industry during the past week. The company said software sales would have grown 17% were it not for the weak U.S. dollar. The figures were higher than analysts' expectations of €485 million (US$604.2 million) for software sales and €1.7 billion (US$2.1 billion) for SAP's overall revenue.

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