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

Week of 15 August – 21 August, 2004

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International

Internet

- **Amazon.com will buy Chinese online retailer Joyo.com for about US$75 million**. Amazon said that Joyo, which sells books, music, movies and toys over the Internet, would become its seventh global website. The move by the world's largest Internet retailer would mark its entry into the rapidly growing mainland market after several months of searching for a suitable domestic partner or acquisition target. Analysts said the landmark purchase was part of efforts to maintain rapid revenue growth. The world's largest web retailer posted disappointing results last month, suggesting growth was slowing. Joyo executives, on the other hand, reported revenue hit 130 million yuan (US$15.9 million) for the first half to June, while revenue for last year was 160 million yuan (US$19.5 million).

- **Computer viruses spread by e-mail are growing more sophisticated as virus writers and "spammers" are thought to be joining forces in an effort to make smarter bugs, a computer security group says**. New-York based MessageLabs, which scans client e-mails for viruses to block, said it picked apart some 5.6 billion e-mails from January to June this year and found 1-in-12 contained some sort of virus that penetrated firewalls meant to block them. MessageLabs scans generally about 50 million customer e-mails daily. Its customers include major government and corporate entities from the British government to the Bank of New York and Japanese technology giant Fujitsu. While the number of e-mails sent globally was not covered by the study, the problem of computer viruses can be massive. They can overload computers with messages, automatically reboot systems and sometimes disable them.

Software

- **According to Microsoft, after installing its badly needed and much anticipated Windows XP Service Pack 2 (XP SP2), it seems that some of the programs may no longer work**. Microsoft has spent the last few months warning that the security-centric service pack will break and disrupt existing applications, especially those that depend on open ports for connectivity. The list includes Microsoft's own Visual Studio, NET and SQL products, as well as anti-virus software from Symantec, the ColdFusion MX Server from Macromedia and security products from Computer Associates and McAfee. The XP SP2 disruptions will also affect certain multi-player games that rely on instant messaging connectivity. Games sold by the likes of Atari, EA Games and ActiVision were affected.

- **Computer hackers are keeping up with the times and putting an increasingly technology-dependent world at risk, according to leading IT security firm McAfee.** One major telecom company had 800 megabytes of their source code stolen. A large retail chain could not operate their credit card automation because of a virus attack. Software could now automatically block out 90 percent of attack but other viruses are still getting through. The global rush for Internet-enabled phones, which are estimated to number over 15 million by the end of next year, would be an enormous security challenge.

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Japan

Software

- **Fujitsu has received an order from Sumitomo Mitsui Bank to construct a Linux-based Internet banking system before the end of the current fiscal year**. The system ordered by Sumitomo Mitsui Banking will operate with the institution's Internet banking service and will allow corporate customers to deposit salaries in employee accounts as well as make various payments over the net. Other large banks, like Bank of Tokyo-Mitsubishi, also plan to use Linux in some of their information systems because the free operating system reduces configuration and operating costs by 20-30% compared with large mainframe designs. Up to now, banking systems for corporate customers have incorporated specialized financial and accounting software and were connected to a bank's host computers through public lines. Using the Internet, however, will reduce investment costs.

Hardware

- **Hewlett-Packard Japan has recently started working to resume and rebuild personal computer sales to individuals it suspended in 2002 when its U.S. parent merged with former rival Compaq Computer Corp**. Noting that consumers are phoning in and accessing its website about direct sales of PCs that were originally aimed at corporate customers, HP Japan will release a special consumer brand. Of the 150,000 computers it sold in the April-June 2004, up 35% year on year, about 30% went to individual customers. According to quarterly statistics from Japan Electronics and Information Technology Industry Association, about 2.6 million customers were shipped in Japan in the April-June 2004.

Information Technology

- **Aerial survey company Pasco Corp. aims to use its proprietary data compression technology to deliver freely scalable images to cellular phone**. The company plans to offer the service to mail-order companies so that shoppers can download pamphlets and view products on their cellphones as they navigate around the image and zoom in for a better view. With other services, users must download the image each time they zoom in or out. Pasco's high-compression algorithm delivers enough data on the first download for all these operations to be conducted from data stored in the phone. Pasco plans to run this business as an application service provider, charging a monthly fee of around 2 million yen (US$18,000) for a client whose website gets around 100,000 hits a day.

- **Sharp Corp. has formed a comprehensive R&D partnership with the Tokyo Institute of Technology in the information technology field**. Sharp will provide funding of several million yen over a three-year period and work with five Tokyo Institute of Technology laboratories to research and develop new technologies for mobile information equipment, with a focus on power-saving features for cellular phones. One theme will be the design of cellphone analog circuitry for processing of received signals that consumes less than a tenth the power now consumed.

Mobile / Wireless

- **Vodafone Holdings K.K., the Japanese unit of Vodafone Group Plc. of the U.K., appointed a new president in a bid to turn around its struggling Japanese mobile phone business.** Mr. Shiro Tsuda, formerly senior executive vice president of NTT DoCoMo Inc., a unit of Nippon Telegraph & Telephone Corp. will take over as president of Vodafone Holdings on Dec. 1st. Vodafone group has been hoping to revive its Japan business with a global launch of its third-generation services this year.

But Japan's mobile users have already been enjoying some of the most advanced quality and variety of 3G services via DoCoMo and KDDI. In July, the number of mobile phone customers at Vodafone's Japanese unit fell for the first time ever. Mr. Tsuda spearheaded the launch of DoCoMo's world-first 3G mobile services based on W-CDMA technology in October 2001.

Korea

Internet

- **Yahoo! Korea Corp. has added price data to its real estate information service as part of its move to diversify amid increasing search engine competition**. The search page allows users to examine average prices of similar homes and check out comparable sales data from neighboring areas. Users access the information by typing in a street address or name of an apartment complex. Yahoo! Korea is the fourth largest portal in Korea that had a profit of 11 billion won (US$9.5 million) on revenue of 50 billion won (US$43.3 million) in revenue last year. Korean portals have been racing to upgrade their search services in their attempt to find new revenue sources in a market near saturation.

Mobile / Wireless

- **The Korea Financial Telecommunications and Clearings Institute said that it has begun tests of mobile banking services allowing people to transfer money, pay bills and check transaction information on their cellular phones or personal digital assistants**. Under the system, one can transfer money to another bank's account with only their mobile numbers, even without knowing their account information. The so-called "ubiquitous" banking interface" currently serves the customers of seven financial institutions, including Korea Development Kookmin Bank.

- **Korean mobile-phone makers took great strides in sales during the second quarter, according to the U.S.-based Strategy Analytics**. The report said that sales at Samsung Electronics Co. and LG Electronics grew 91 percent and 88 percent respectively. This increase is attributed to a dramatic rise in demand from North America. The consultancy attributed the sector's solid growth in the second quarter to market consumers buying new models as well as the new demand coming from markets like the South America.

- **Mobile-phone carrier SK Telecom Co. has agreed to jointly develop and market global positioning system solutions with U.S. chipset maker SiRF's Technology Inc**. The contract provides SK Telecom exclusive rights to market network servers using SiRF's GPS technology in global code division multiple access mobile-phone markets. SK Telecom is Korea's No. 1 mobile-phone operator and it controls 18.5 million of the country's 35 million customers for a 51.6% market share. SK Telecom invested US$1 million to buy 6.4 percent of U.S. Network equipment company SkyCross last April, gaining access to the company's advances in radio frequency identification technology.

Telecommunications

- **The Korean government, ending weeks of speculation and bowing to pressure to lower consumer prices, has decided to cut the mobile phone rates of No. 1 carrier SK Telecom Co.** The Ministry of Information and Communication said it will lower the rate from the current 14,000 won (US$12) to 13,000 won (US$11) beginning Sept. 1 to help ease the inflationary pressure on the economy. Next month, the government will also cut the land-to-mobile rates of top fixed-line carrier KT Corp. from the current 14.8 won to 14.5 won per 10 seconds. Industry analysts estimate the rate cuts will

result in a loss of 222 billion won (US$192.2 million) this year for SK Telecom, while KT is expected to lose 85 billion won (US$73.6 million).

China

Software

- **A North Asian government alliance is set to promote the Linux operating system and reduce dependence on Microsoft's Window's plans to release its first products for China**. The Linux-based software-jointly developed by China, Japan and South Korea would offer government and business users a choice of operating systems. Asian governments have latched on to Linux as an alternative to Microsoft's virtual stranglehold on the sector. The software is free and its code can be freely viewed and modified.

- **The central government has axed a software-buying policy that would have discriminated against western firms after bowing to international pressure and internal critics.** The State Council had been widely expected to announce a new policy this summer requiring a percentage of software bought by ministries and state-owned companies to be made by mainland firms. Rumors circulated that the minimum would be anywhere from 50 to 70 percent. But officials drafting the software policy had backed off from the original version. The policy was seen as discriminatory as there were companies doing research, development and even production in China. A government source said it could be argued that their software is Chinese. Western software makers have spent billions of dollars in setting up plush research campuses, nurturing Chinese staff and localizing their products with the hope of capturing a market growing at more than 20 percent a year.

- **Veritas Software, the world's largest independent storage software company, is planning a fresh round of investments and alliances in the mainland as part of its goal to reach US$2 billion in revenue this year.** The Silicon Valley-based firm will open a development center in Beijing next month, with 25 engineers initially. The center will focus on product localization, hardware certification and system integration with mainland technology firms. IDC currently ranks Veritas No. 2 among the top-five storage software providers in China. Storage specialist EMC now leads the market.

Hardware

- **Dell, the worlds largest PC maker, says it has left the low-end consumer PC market in China and cut its overall growth target for the country this year due to stiff competition in the segment.** As a result of the shift, Dell now expects its PC shipments for China--its fourth largest market worldwide--to grow "closer" to two times the overall market rate, rather than the target of three times it previously set. IDC has forecast the China PC market, the world's second largest, will grow about 19 percent this year.

Mobile / Wireless

- **Nokia, the world's largest mobile phone maker, overtook archrival Motorola Inc in sales in China in June, according to JP Morgan.** Nokia, fighting for first place in the world's largest mobile phone market by users, grabbed 15.5% of China's market in June, followed by Motorola's 14.1%. The mobile phone market size grew an annual 19.3 percent in June to 5 million units, citing figures from Beijing-based research firm Sino-Market Research Ltd.

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- **Unitech Networks is remodeling itself into a provider of wireless broadband equipment amid a steep drop in its core systems integration business**. The company, backed by venture capitalists such as Walden International, invested US$1 million to research and develop customer premise equipment, which allows high-speed, wireless connections to the internet. The transformation comes as Unitech's core clients--the city's six mobile phone operators and four fixed-line companies --cut back orders for systems integration work. Unitech will make equipment for use as wireless broadband modem or access point for Bluetooth or Wi-fi connections.

- **TCL Corp, a handset maker and the world's largest TV set manufacturer, said it had won approval from regulators to list its mobile operations in Hong Kong**. The listing, which replaces a previous proposal for a global share offering, now awaits approval from shareholders of TCL International Holdings and the Hong Kong Stock Exchange. TCL Corp originally planned to divest all its cellular operations of TCL Mobile Communications into a new listing vehicle, TCL Communication, and sell up to a 30 percent stake to the public. It intended to use the money raised to expand its mobile phone operations, which generated US$1.1 billion in revenue last year. TCL Corp has joint ventures with French giants Alcatel and Thompson.

- **China Mobile punished recently-listed Kongzhong.com for breaking the telecom's Interactive Voice Response (IVR) regulations**. As a punishment, Kongzhong cannot apply for any new product and service for its current Java, color mobile messaging, WAP, IVR and SMS platforms until June 30, 2005. China Mobile will also terminate product and service promotions with Kongzhong by the end of 2004. According to Kongzhong's CEO, the company will work to make adjustments on their business and attempt to maintain a close relationship with China Mobile. IVR accounts for a small portion of Kongzhong's revenue and the company believes the punishment will not affect them much in the short term.

- **chinadotcom corporation announced that Go2joy, one of chinadotcom's mobile applications units, received notice from China Mobile (CMCC) that it was imposing sanctions upon Go2joy and 21 other mobile value added service providers in China.** Recently, CMCC notified 22 mobile value added service providers in China, including Go2joy, that it would be imposing sanctions and penalties for various violations of CMCC's requirements. CMCC has indicated that it will consider lifting the sanctions on Go2joy as soon as practicable after a satisfactory connection to the Mobile Information Service Center platform has been established and a satisfactory review of Go2joy's remedial actions by CMCC.

- **Profit margins at Tencent Holdings are expected to remain flat as a mainland crackdown on short-messaging services (SMS) hampers the company's ability to aggressively promote the product.** Its third-quarter margin was expected to remain at 42 percent, level with the first and second quarters, and down on the 48 percent margin in the second quarter of last year. Tencent's SMS sales fell 1.3 percent quarter-on-quarter to 131.1 million yuan (US$16 million) in the second quarter. Tencent recorded profits of 113.3 million yuan (US$13.8 million) on revenues of 270.5 million yuan (US$33 million). Tencent is the mainland's largest provider of computer instant messaging services. The company also provides value-added services, which allow users to send messages between computers and mobile phones.

Information Technology

- **China has to further open up its IT security market to introduce international advanced technologies and integrate it into the global Internet security platform, according to the leading**

Internet security solution provider Check Point Software Technologies. Online security has drawn on concerns of the whole world with the spread of the Internet. China needs the support of web security technologies to back up the growth of its economy, which plays an increasing significant role in the world economy. Small and medium sized enterprises are the most vulnerable to attacks of hackers and virus because of the lack of resources and expertise. The prospect for IT security market is promising, particularly in Asia and with China and India leading.

Taiwan

Venture Capital / Investments

- **Japanese companies in Taiwan are shifting their focus to research and development and product design from manufacturing, hoping to use the island as a testing ground before moving into China.** The Taiwan government commissioned Japan's Nomura Research Institute to conduct a poll of over 300 Japanese companies in Taiwan. According to the survey released earlier this month, nearly 60% of the companies said they plan to raise their R&D spending in Taiwan. The survey said Japanese companies are using Taiwan as a "marketing and testing ground" for Japanese goods before a broader launch in China, as the Taiwanese consumer is particularly receptive to Japanese goods. Last year, Taiwan imported US$32.6 billion worth of goods from Japan, more than any other country, giving Japan a trade surplus of US$20.7 billion with the island.

Hong Kong

Internet

- **So-net, the broadband service provider of Japanese consumer electronics giant Sony**, is quitting the business in Hong Kong and handing its accounts over to fixed-line operator PCCW. PCCW will manage accounts under its Netvigator service. Customers should not notice any difference after the switch because So-net was essentially a reseller of Netvigator broadband capacity under its own brand.

Telecommunications

- **Hong Kong-listed China Motion Telecom has teamed up with Shenzhen-based telecommunications equipment maker Huawei Technologies to build an international Internet protocol-based network that will connect Chinese communities worldwide.** The so-called next generation network (NGN), at US$25 million, will shuttle voice, video and multimedia traffic between more than 10 countries. The network could be used for application such as document transmissions and digital whiteboards, which allow employees in different locations to collaborate on a project. The two companies plan to finish testing Huawei's equipment by October. The network will be launched in phases, beginning at the end of each year. An initial investment of US$5 million is planned for the first phase, which will connect Hong Kong and the mainland and offer video and international direct dial through voice-over Internet protocol services.

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Singapore / Malaysia / Philippines / Indonesia

Semiconductors

- **Singapore's exports rose more than expected in July as companies such as Chartered Semiconductor Manufacturing Ltd. and Pfizer Inc. shipped more than computer chips and drugs to the U.S., China and Europe.** Electronics, the island's principal export, rose 17 percent in the second half, following a 30 percent expansion in June. Semiconductor Manufacturing Ltd. rose 43 percent, after gaining 70 percent in June. Exports of disk drives shrank for a fifth month, declining 28 percent from a year earlier. Seagate Technology Inc., the world's biggest computer disk-drive maker, in April said third-quarter profit missed previously lowered forecasts because of slow notebook computer sales.

United States / Canada

Internet

- **Initial shares of Google Inc., the world's most-used Internet search engine, were priced at US$85.** Google had reduced the price range to between US$85 and US$95 a share from the previous range of between US$108 and US$135 a share just hours before pricing. The US$85 price values the company at US$23.1 billion, and the IPO raised US$1.7 billion. The stock surged in its first day of trading, closing at US$100.34.

- **U.S. telephone and cable companies see the growth of high-speed Internet services slow in the second quarter to the lowest rate in a year**. While broadband growth typically slumps in the second quarter (the time for the students' summer break), analysts have said overall sales of high-speed Internet connections were less than expected. Telephone and cable companies have been pushing broadband services as a lucrative growth business and a way to hold onto customers who would otherwise switch their phone or television service to consumers

- **Yahoo! is seeking a more attractive offering in the face of a heavy competition for web hosting by launching a low-price "placeholder" product for web addresses.** The new placeholder significantly increases the storage space for websites using its hosting services. The new placeholder, for US$9.95 per year, allows users to park a web address, or domain name, at Yahoo! with a single page. They can also redirect the domain to another site, and set up an e-mail address that forwards a message to a second address. Yahoo!, which started as a simple web portal in the mid-1990s, has gradually pushed into a broad range of services, from premium e-mail, to online dating, to job search, to hosting and commerce services for online small businesses.

Software

- **Oracle plans to release the latest version of its customer relationship management application within the next two months as part of an ongoing update of its E-Business suite**. Oracle CRM 11i10, Oracle's roughly annual applications update, adds new features to the suite's sales, marketing, partner relationship management and e-commerce modules. Oracle's CRM update aims to connect more tightly sales to other corporate operations, including marketing and partnering activities. A new tool dubbed "audience workbench" allows managers to create campaigns that use customer data to target a specific audience. Oracle's CRM functionality still lags behind that of market leader Siebel,

particularly in key vertical markets such as financial services, but the company is closing the gap, analyst firm Gartner said in a May research report.

- **Hewlett-Packard Co., warning of a profit shortfall last week, blamed problems it had combining two SAP systems, something that the computer maker believed would be relatively simple.** Software mergers have long proved to be a problem because different companies have different source codes. HP and Compaq both run back-office software made by SAP AG, which is supposed to make the job easier. The fact that they are both SAP systems does not make it much easier because there is still need to harmonize the data and business processes.

Hardware

- **IBM will fill in the ranks of its iSeries line of Power5servers with a machine it says can juggle multiple jobs**. Big Blue will debut its server 15 550, an iSeries machine it created to serve midsize businesses and to bridge the gap between its Power 5 e Server 15529, which has two processors and its 570 model, which offers 16 processors. The eserver "is i5 550" was designed to help midsize businesses, typically companies that employ a few hundred to as many as 1,000 workers, by running their critical computer systems for jobs such as order entry, inventory tracking and e-mail.

Media, Entertainment and Gaming [wrong indentation]

- **RealNetworks Inc. will begin selling Internet music at half price as it steps up efforts to draw customers from Apple Computer Inc." iTunes site**. For more than a year, Apple Computers Inc. enjoyed singular success selling songs exclusively to users of its iPod portable music player. Last month, RealNetworks fired the first shot at Apple by announcing that it had developed technology, called "Dubbed Harmony," that allows songs purchased through its own online music services to be played on iPod. Then it released the report that it would temporarily slash its price for song downloads to 49 cents--50 cents less than iTunes. By selling songs for 49 cents, RealNetworks will be losing 40 cents on every song it sells. It is speculated, however, that the sale is a "surefire money loser" for RealNetworks because it will be charging the consumers a whole lot less than it pays recording companies for music. It also appears that RealNetworks is currently aiming for coverage, not cash.

Mobile / Wireless

- **Qualcomm Inc. said fiscal third-quarter profit more than doubled, and the company raised its financial forecasts for the fourth time this year because of surging demand for its wireless-phone chips**. Qualcomm is benefiting from stronger-than-expected demand for so-called third-generation, or advanced, wireless networks that transmit data as well as voice. Qualcomm expects 164 million phones using its technology to be sold this year, up from 156 million estimated in May. At the same time, consumers who want to play games, send photos and tap the Internet over wireless networks are buying more expensive phones. Qualcomm now expects the average price of phones using its technology, on which the company receives a royalty, to be US$209 in the fiscal year ending Sept. 30, up from an earlier projection of US$195.

Europe

Software

- **Officials at the London Borough of Newham denied that they had faked an interest in deploying Linux to force Microsoft to dramatically cut its licensing costs**. Microsoft has said that

Newham can look forward to saving US$5.9 million over five years because of this deal, under which it will deploy 12 different Microsoft products ranging from Office 2003 Professional to SQL Server 2000. Tablet PCs are also being tested by the borough's social services arm. The software giant is now citing Newham as proof that its software can deliver greater value than Linux. Open-source advocates claim Microsoft made massive concessions to convince the council not to take the open-source road.

Information Technology

- **At the end of July, Alvarion announced it was buying the U.S. company Interwave for US$56 million**. A long negotiation ensued before the deal was done with other potential buyers participating in the activity. Alvaron specializes in broadband technology, and Interwave supplies equipment and services to compact cellular networks based on GSM and CDMA technologies, meant mostly for low population areas and developing markets. Alvarion say that the effects on their third quarter in 2004 are likely to be minimal despite the expenses accompanying the purchase.