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

Week of 10 October – 16 October, 2004

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## International

*Internet*

- **Internet security companies have long warned users against clicking opt-out links in spam e-mail.** Doing so confirms that an e-mail address is valid, resulting in even more offers. MessageLabs found another reason to delete offending spam rather than click on opt-out button. Several e-mails use "click here to remove" to download a Trojan, which allows spammers to control a computer – either for distributing more spam for stealing private information. MessageLabs said the bank links directed users to a webpage that sent malicious code to the personal computer. The process begins when the mouse scrolls over the page. The latest threat is a part of an increasing trend of using spam e-mail to deliver viruses.

*Software*

- **Microsoft released 10 security fixes for various products including seven that fixed flaws the company said posed the highest threat to users.** The new patches apply to a variety of products, including some versions of Microsoft's Windows operating system and server software, its Internet Explorer web browser and Excel spreadsheet program. The seven critical flaws could allow an attacker to take control of a user's computer. The patch aimed to fix a flaw that could allow an attacker to infiltrate a computer if the user viewed a specially crafted image in the popular JPEG format. The slew of security updates comes just months after Microsoft released Service Pack 2, which aimed to address ongoing security concerns that have dogged Microsoft's ubiquitous Windows operating system. The sheer volume of updates Microsoft released could pose problems for businesses grappling to get them all installed it time to prevent attacks. Many companies must first test the fixes to make sure they do not break other applications that are necessary for doing business.

*Hardware*

- **Hewlett-Packard (HP) claims to have trumped its rivals and become Asia's leading personal computer supplier.** Its breakaway group was attributed to strong demand from the mainland, India and countries in Southeast Asia – all of which were expected to remain the principal drivers of PC sales for HP in the region over the next four years. Citing figures from research firm International Data Corp (IDC), HP desktop and portable PC shipments in Asia-Pacific and Japan reached 1.1 million units from April to June this year. That made HP Asia's No. 1 PC vendor for the second consecutive quarter. But exclude Japan from those estimates and Lenovo retained its top vendor ranking in the Asia-Pacific region. Not counting Japan, IDC said Lenovo had a 12.1 percent market share in the second quarter, while HP took an 11.1 percent share. HP's renewed confidence in Asia comes more than two years after its merger with Compaq Computer and a sweeping revamp of its marketing strategy. With an eye on SMEs, HP launched PartnerONE – a sales-stimulus programme that was geared to foster closer ties with its distributors across Asia. IDC forecast that information technology investments this year by SMEs in the Asia-Pacific region, excluding Japan, would hit US$29.7 billion. Purchases by mainland firms would account for about 31 percent of that figure. Hardware will continue to be the mainstream expenditure item on SME purchase lists this year.

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## Japan

*Mobile/Wireless*

- **Japanese Internet firm Softbank asked a court to block a government plan for distributing high-speed bandwidth to mobile phone operators that would bar entrants until 2012.** The company argued the plan favored the existing top two mobile phone operators – NTT DoCoMo and KDDI – in the 800mhz band used for third-generation (3G) services, impeding Softbank's own plans for the business. The suit filed with the Tokyo District Court asks for an injunction to halt the plan and the adoption of a new system. Softbank said its participation in the ADSL (asymmetric digital subscriber line) Internet business helped it create competition resulting in the lowest prices in the world. Softbank, using its subsidiary Japan Telecom, is also challenging the landline market dominated by the nation's top carrier Nippon Telegraph and Telephone (NTT), parent of NTT DoCoMo. Analysts say Softbank's drastic step of filing a lawsuit against the government proves that the 800MHz range is a valuable resource for launching a cell phone business.
- **KDDI said it would launch a music distribution service in late November that will allow cellular phone subscribers to download songs to their phones.** This will be the first music distribution of its kind. The price of downloads is expected to be around 300 yen (US$2.73) per track. Some 10,000 songs will be available initially. The operator of the au brand cell phone service plans to use the setup of its current service that lets customers download portions of songs for use as ring tones to enable downloads of complete songs in 30-40 seconds. Users will be able to save about 28 songs on their handsets, or about 80 if they use external memory. Once saved, a song can be played repeatedly and a section of it can be set as a ring tone. However, because the memory cards have copyright protection functions, songs cannot be played on handset that has a different phone number. Casio Computer Co., Toshiba Corp., Sanyo Electric Co. and Hitachi Ltd. will release compatible handsets in late November. Handsets that work with KDDI's cell phone service sell an average of 500,000 units per model. If all four new models fare well, then their total number may surpass figures for the iPod, which is said to have shipped 400,000 to 500,000 units in Japan.

*Semiconductors*

- **Leading semiconductor photoresist manufacturer Tokyo Ohka Kogyo Co. has developed a new type of resist material for the mass production of chips with a 35 mm design rule.** The product is expected to come to market sometime during or after 2010. The new resist material is designed for use with immersion lithography, a next-generation lithography technique that uses a layer of water between the wafer and the lens to shorten the light wavelength and define circuit patterns with higher resolution. Because the resist enables the use of existing ArF laser light sources, chipmakers can boost the integration of their devices without the need to invest in new exposure equipment.
- **Toshiba Corp. will fabricate semiconductors for midsize U.S. chipmaker Xilinx Inc. using the latest 90nm processing technology.** Xilinx, which has no production facilities of its own, develops chips FPGAs (field-programmable gate arrays) that allow the chips to be modified through programming. Xilinx is the world leader in this field, and demand for FPGAs has been expanding, mainly for communications equipment. The California-based firm had been outsourcing production mainly to major Taiwanese semiconductor foundry United Microelectronics Corp. (UMC). Although UMC is contracted to make the chips using cutting-edge 90 nm technology, difficulties in improving the yield of usable chips has caused the U.S. firm to seek a partnership with Toshiba. Toshiba plans to start production for Xilinx around the beginning of 2005 at a new facility at its Oita Prefecture plant that is

capable of handling 300mm wafers. It expects to generate sales of 20-30 billion yen (US$183-274 million) annually in three years. As an advance payment for the chips, Xilinx will provide about 10 billion yen (US$91.3 million) to Toshiba, which will spend it on facilities. Toshiba logged about 900 billion yen (US$8.2 billion) in group sales from its semiconductor operations in fiscal 2003. By partnering with Xilinx, Toshiba will be able to use its production lines without having to find new buyers on its own. It will also help sustain the firm's operating rates even during market corrections. Moves to create production structures that are more resilient to demand volatility are spreading: another major Japanese chipmaker, Fujitsu Ltd. has signed a similar deal with a U.S. company.

*Information Technology*

- **KVH Telecom Co., a communications subsidiary of the Fidelity Group, plans to add online data backup to the corporate information services that it provides.** Dubbed Remote Vault, the new service will use the Internet to back up information on corporate personal computers, copying and storing data in KVH's data center. Special software installed on the PCs will automatically encrypt and send the data to the center without requiring further steps by client company employees. If a client firm's information is destroyed or infected by a computer virus, it can be retrieved from the center over the Internet and restored. The information is compressed for transmission and storage to ensure efficient use of communications lines and the center's data storage servers. The service will cost 1,200 yen (US$11) a month per PC when backing up a maximum of 500MB, with a discount for clients with at least 100 PCs. KVH aims to sign up 200 companies for the service in its first year.
- **DDI Pocket Inc., the largest player in the PHS (personal handyphone system) market, will aggressively develop operations in voice communication in addition to strengthening its core data communication business.** DDI Pocket, which will change its name to Willcom Inc. in February of 2005, was previously a subsidiary of KDDI Corp. and thus has concentrated on data communication given KDDI's own au mobile phone operations. Key to DDI Pocket's strategy will be network investments of 70 billion yen (US$636.4 million) over the next five years. The company will install equipment in central offices of Nippon Telegraph and Telephone Corp. to add Internet Protocol (IP) technology to its network. DDI Pocket will be able to reduce connection fees paid to NTT because it will not make use of the telecom giant's exchange equipment and will improve network efficiency through the introduction of IP technology, enabling DDI Pocket to lower its fees.

*Media, Entertainment and Gaming*

- **Nintendo will make available 12 software titles for its new DS handheld game console when the dual-screen machine is launched in Japan in December.** In what is expected to be an all-out war, the Japanese economy is gearing up to defend its market share of about 95 percent against Sony in the lucrative handheld game market. Sony is threatening Nintendo's market with PSP, which promises advanced features such as music and film player. However, it has not unveiled price plans for the PSP. DS features two screens, one of which is touch-sensitive and works with a pen-like device. It also has voice recognition and wireless communication functions. Some DS games would offer interactive entertainment such as chatting with other users. A total of 124 DS games are now under development by 46 companies. As a sign of its bullish look, Nintendo recently raised its global shipment target for the DS machine to four million units by the end of March from 3.5 million.

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## Korea

*Internet*

- **The domestic market for Internet-based telephony equipment will grow to 257 billion won (US$226 million) by 2008 from an expected 70.3 billion won (US$61.3 million) this year, according to an industry expert.** International Data Corp. predicts Korea's IP-based telephone equipment market to increase 41 percent annually over the next five years, following government plans to encourage Internet-based telephone services. The Ministry of Information and Communication revealed plans last week to encourage VoIP operations by allocating an IP-only prefix, 070 that can be used anywhere in the country. The government expects around 4 million VoIP subscribers by 2007. With the dominant fixed-line carrier KT Corp. strengthening its efforts to extend its competitiveness in Internet-based telephony, the VoIP equipment sector is due for significant growth along the service market. The domestic VoIP equipment market was valued at 45.7 billion won (US$39.8 million) in 2003. IDC expects the market for private branch exchange systems and VoIP gateway devices to grow annually by 50.9 percent and 33.7 percent, respectively, through 2008.
- **KT Corp., the country's largest fixed-line and broadband carrier, announced an alliance with convenience-store operator Family Mart to promote their Netspot wireless high-speed Internet services.** Under the agreement, KT will install Netspot access points at all 2,900 Family Mart stores nationwide by the end of this month, creating the world's largest wireless local access network among retail chain. KT introduced Netspot in 2002 and has around 400,000 subscribers, taking the lead in the wireless LAN market. The company also provides high-speed Internet for mobile phones through their Netspot Swing services. KT currently provides high-speed Internet for mobile phones through their Netspot Swing services.

*Hardware*

- **Samsung Electronics Co.'s third-quarter operating profit will likely fail to meet early market predictions by about 10 percent.** Analysts point to a slowing flat-panel display sales and tougher competition in the mobile phone market. Analysts also said the company would see profits shrink further into the first half of next year, as slowing growth for the computer memory chip market and seasonal factors will not be able to offset losses from displays. Most local analysts forecast Samsung's third-quarter earnings to dip slightly under 3 trillion won (US$2.6 billion), significantly up from 2.1 trillion won (US$1.8 billion) from a year ago but down from 3.7 trillion (US$3.2 billion) won in the previous quarter. Despite this financial situation, the view that the company has the best profit model among the world's semiconductor, LCD and communications tools is still effective.

## China

*Internet*

- **Mainland technology stocks bound for U.S. listings are defying a slump on New York Stock markets.** China Finance Online's stock was priced at US$13 per American depositary receipt (ADR), against an indicative offering range of US$10 to US$12, for its NASDAQ listing. China Finance – billed as a Chinese version of Bloomberg – became the second Chinese Internet stock over the past month to be able to price higher on hot demand. Sources said the deal was at least 10 times oversubscribed. JP Morgan is the sole book-runner for the US$80.6 million listing deal. Before China Finance Online, Chinese job recruitment portal 51job surged 51 percent on its debut after fixing its issue price at US$14

– US$1 above the top of its original price range. It is estimated that in the long term, demand for online financial information will grow at least 13 times more than the current demand, China Finance Online said. In the first half, the company achieved a 108 percent surge in revenue to US$2.3 million, while net profit soared 202 percent to US$1.5 million. China Finance, which sells financial data and information to subscribers in the mainland, sold 6.2 million ADRs – or the equivalent of 31 million shares – to investors. Of the sum, the company will use US$65 million, while the remainder will go to its selling shareholders, including information-technology services provider International Data Group's technology venture capital funds.

- **The listing of portal Soufun could see IDG reap US$120 million from a US$3.6 million investment.** United States venture capital firm IDG Technology Venture Investment is looking to boost the value of its investment in a mainland property portal operator within the next three months by listing the company on NASDAQ. Beijing-based Soufun Holdings, which sources said aimed to raise up to US$100 million, is preparing for a listing on the technology-focused U.S. exchange. IDG invested US$3.6 million to take a 30 percent stake in the Internet portal operator five years ago and expects the company to have an enterprise value of US$400 million when it goes public. While a listing at that valuation would enable the venture capital firm to exit with a handsome return of US$120 million, an official said IDG might not realize any cash until next year. Founded in 1999, Soufun was formed by a group of U.S.-educated mainland returnees. The company received financial backing from IDG – its largest institutional investor – and has developed into China's largest property portal.
- **Chinese online travel service provider eLong is on a roadshow for a NASDAQ offering worth up to US$62 million.** The company is selling 4.6 million American depositary receipts at between US$11.50 and US$13.50 each. Deutsche Bank Securities is lead managing the offering. Pricing date has not yet been determined.
- **Cyber Brains Co. will form a business alliance with the China Central Television (CTTV), the largest TV station in China, over an Internet-based research-based business.** The Tokyo-based marketing support company will handle market research to be conducted in China, mainly for Japanese corporations, by utilizing CCTV viewers as monitors. It will be able to choose research monitors from several million Chinese viewers. Cyber Brains will tie up with China View Intelligence Co. (CVI), which manages databases related to viewers in the CCTV group. It will handle surveys on consumer's preferences about products and collect opinions of monitors via questionnaire conducted on the Internet. The company will not only win orders from Japanese corporations, including those operating in China, but also provide know-how on its online research business in Japan to CVI, while the Chinese partner will offer data on CCTV's viewers. They will jointly build a research network.
- **U.S. interactive giant CNET Networks Inc. has acquired further Chinese partners for US$16 million, taking another stride in its strategic march into the fast growing Chinese market.** CNET said that it had reached a definitive agreement with Beijing-based Internet firms Zol and Fengniao. The payments will be made in this quarter and next. CNET already publishes eight magazines, owns an event company, and runs several websites in China. According to an analyst, CNET has had strong influence on enterprises spending and IT channel markets with ZDnet website and SmartPartner magazine, but in the consumer IT market, its brand is not well established. With the recent acquisitions, the situation may change. In April, it acquired Gzeasy.com.cn, a popular IT portal in South China's Guangzhou, of the three major IT markets in China, the other two being Beijing and Shanghai. Zol is one of the most popular IT product websites in Beijing and nationwide and a favorite web sites for IT product advertising clients. Fengnia is a website where many digital camera buyers go

for advice. It was also reported that CNET is also thinking of buying Shanghai-based Pchome which will give ownership of a strong consumer IT website in the three major Chinese IT markets. It is believed that acquisition of vertical portals was a good choice for foreign companies entering the Chinese Internet market. Domestic firms Sina Corp. and Sohu have very strong positions in the technology news and it will be very hard to challenge their dominance. But vertical websites are quite fragmented and much smaller than Sina, so companies have a good opportunity to consolidate the market. The online advertising market in China is growing very fast and IT portals are attracting more attention from advertising clients. According to market research house Shanghai Research Co. online advertising market rose 120 percent in 2003 to US$130 million and will grow to US$482 million in 2006.

- **Shanda Interactive Entertainment Limited announced a strategic relationship with eBay EachNet.** Under the agreement, eBay EachNet will place online advertisements on Shanda's games platform. In addition, Shanda has selected eBay EachNet's e-commerce platform as its preferred choice for Shanda game users. Financial terms of the deal were not disclosed. Shanda's agreement with with eBay EachNet is an important example of Shanda's strategy to leverage its large and growing user base to generate online advertisement revenue. Shanda's online game platform attracted 1.2 million total average concurrent users and 1.6 million total peak concurrent users during the second quarter of 2004. Under the agreement, eBay EachNet advertisements including a variety of banners, display and pop-ups, will appear on the web sites and user log-in pages for various Shanda's games. Including the eBay EachNet agreement, Shanda has already signed a number of contracts, which would add US$6 million of revenues from online advertisement in 2005.

*Software*

- **The mainland is widely seen as the next destination for cheap outsourcing work for which only basic programming skills are required but one software firm is setting its sights higher.** Bamboo Networks, which has its headquarters in Hong Kong, is aiming for top- dollar projects, competing against Indian counterparts such as Infosys and Wipro. The company brought in about HK$31 million (US$3.9 million) in the first six months of the year. Bamboo got off the ground in 2000 by acquiring a systems integration firm in Guangzhou, which gave it a development team as well as local government ties. It is one of only two outsourcing companies in China to be certified CMM Level 5, an industry standard to measure the maturity of an organization's software engineering processes. There are 52 CMM Level 5 software companies globally. Bamboo expects US$8 million in revenue this year. The company, however, faces growing competition in China not from other mainland firms but from Indian companies moving to China to set up operations.
- **French technology group STMicroelectronics (ST) had signed an agreement to create a joint venture in China to develop software for digital TV.** Under the cooperation agreement, ST will own a 65 percent stake in the company. Its Chinese partner, HDIC, a company controlled by the Shanghai Jiaotong University, will hold the rest. The joint venture, based in Shanghai, would start operating by the end of this year, ST said, adding that it would develop software for both the Chinese and overseas markets. The combination of ST's top position in digital entertainment and HDIC's leadership position in Chinese DTV technology will allow ST to expand its influential position in digital consumer products and, in particular, in the booming Chinese market, an ST official said. With the agreement signed, ST becomes the first global firm to become a partner in China's national open-source computing program. The program, known as Chinese Open Platform initiative, is to develop a new computing platform based on Linux open-source software.

*Media, Entertainment and Gaming*

- **A study forecasts that China will be the largest online gaming market by 2007.** Despite all this potential, the mainland still lacks the relevant legal and regulatory infrastructure to fully protect the rights of industry investors and the welfare of online gamers nationwide. Market research firm DFC Intelligence has estimated that the worldwide online game industry will be worth US$9.8 billion in 2009, up from US$1.9 billion last year. More than half of last year's revenue came from Asia, with the most buoyant markets being Taiwan, Hong Kong, Singapore, Japan and Australia. Piracy or not, the online games in China is huge. Research firm International Data Corp estimates the industry raked in 1.3 billion yuan (US$156.1 million) in the mainland last year, and is expected to generate 6.7 billion yuan (US$809.5 million) annually through 2007. Reports said in the mainland said the government intended to invest between one billion (US$120.8 million) and two billion yuan (US$241.6 million) to develop the online game publishing market.
- **Chinese online game operator Shanda Interactive Entertainment Ltd will raise US$150 million from offering senior convertible bonds to the public, as its aggressive campaign continues.** The company, whose stock prices have more than tripled since its initial public offering (IPO) on NASDAQ in May, said that it will issue US$150 million of such bonds, and the writers will also have an option to sell US$50 million of the bonds. Shanda's stocks performed very well since the IPO and were recognized by the capital market, according to the company. The proceeds will be used for working capital, potential acquisitions and investment and other general corporate purposes. Shanda may also use part of the proceeds to repurchase up to US$50 million worth of ordinary shares from its second biggest shareholder SB Asia Infrastructure Fund LP. Shanda did not disclose details on when and at what prices the bonds can be converted into stocks.

*Hardware*

- **Cisco Systems, the world's largest maker of computer networking equipment has conducted its biggest anti-counterfeiting raid in Guangdong, seizing products worth more than US$20 million.** The raids, after months of surveillance, netted mainly counterfeit Cisco routers, but also included user manuals, catalogues, packaging and labeling materials. Cisco said the syndicate had earned possibly US$4 million over the past year from selling pirated Cisco products. In the past year, the company has initiated 20 raids on the mainland and one in Korea, which have resulted in the seizure of goods worth US$50 million. According to Cisco, the syndicates have become so sophisticated that not only are they copying goods, but they are also investing in product research and development as well as providing customers with guarantees.
- **Lenovo Group, China's leading homegrown PC maker signed a memorandum of understanding with Bull Corp. to sell the French company's high performance computers in China.** Under the five-year memorandum, Lenovo would market Bull's NovaScale 5080,5160, and 6000 servers and application technology in the domestic market. The products were targeting China's high-end users, a new revenue source for Lenovo. The alliance could also provide the Chinese PC maker with a partner for its expansion in overseas markets, industry analysts said. Lenovo, founded in 1994, has controlled more than 25 percent of the Chinese PC marker with a total sales volume of nearly 3.6 million units in 2003. Last year, Bull grossed a net profit of 4.1 million francs (US$630,000) but less than 6 percent from the Asian market.

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*Mobile/Wireless*

- **Nokia (China) Investment has completed integrating its four joint ventures in the country into a new group to be launched early next year.** The move would help unify management structure, improve efficiency and reduce management costs at Nokia's China operations. The aim is to help make the Finnish company, which is already a major equipment manufacturer in China with a 17.3 percent share of China's handset market at the end of March, become more competitive against the growing challenge of Chinese makers in the world's biggest mobile phone market. The deal merges Beijing Capital, Dongguan Nan Xin Industrial Development, Shanghai Alliance Investment and Beijing Hangxing Machinery Manufacturing. Its four Chinese partners would have stakes in the new company, which would produce mobile phones and network equipment. The new company, whose name has not yet been released, would be one of the largest foreign enterprises in the country, according to the statement. In another major shake-up of its business, Nokia earlier this year reorganized its nine departments into four major business lines – mobile, multi-media, network and corporate solutions.

*Telecommunications*

- **China Network Communications (Netcom), the mainland's No. 2 fixed-line provider is expected to launch marketing activities next week for its planned US$1 billion share offering in Hong Kong and New York.** Its Hong Kong listing plan was scheduled for an approval hearing and was widely expected to get the go-ahead from the stock exchange's listing committee. Netcom still needs to gain clearance from the United States Securities and Exchange Commission before it can file its listings prospectus. According to a market source, some syndicate members, including sponsor Goldman Sachs, CLSA Asia-Pacific Markets and Nomura, are arranging analyst meetings with their clients. The official roadshow is expected to begin near the end of this month or early next month. The dual listing is expected to take place next month.

## Taiwan

*Hardware*

- **Dell has voluntarily recalled 4.4 million AC adapters for its notebooks after receiving seven reports of the adapters overheating, posing a risk or fire or electrical shock for users.** Dell announced the recall – which involves Latitude, Precision and Inspiron notebook adapters – in cooperation with the U.S. Consumers Product Safety Commission (CSPC). The recall only affects the adapters and not the notebooks, Dell said. Delta Electronics of Taipei, Taiwan manufactured the AC adapters.

## Hong Kong

*Mobile/Wireless*

- **Hutchison Telecommunications International Ltd (HTIL) and Goldman Sachs seem determined to ensure a solid showing for Hutchison Whampoa's latest spin-off.** Officials said they want HTIL to perform well in the after-market, to restore investor confidence and make money for the shareholders. To achieve that target, Goldman and Hutchison chose to fix the offer price at HK$6.01 – at the bottom of a range that had already been cut by 7.8 percent to lower entry costs for investors and allow more room for price appreciation. The American depositary receipts, which will trade in New York, were priced at US$11.67. Still, many institutional investors, especially Asian-based ones, remain skeptical about a company that has made clear there will be profit until 2006 at the earliest and no cash dividends in "the near to medium term". With shares opening 2.7 percent below their issue price, the debut of HTIL has been described as being given lukewarm reception.

*Telecommunications*

- **PCCW has filed a judicial review of the telecommunications regulator's decision to let a smaller rival to operate voice over Internet protocol (VoIP) services over its network.** It is also seeking an injunction compelling the Office of the Telecommunications Authority (OFTA) to prevent Hong Kong Broadband Network (HKBN) from offering VoIP services until the court makes a final determination. The action follows a PCCW threat to OFTA to seek relief in the courts if HKBN's VoIP service was not shut down. PCCW said in the filing that HKBN's VoIP sevice, which works by connecting a telephone to any broadband modem, did not require two fixed points to function and could be used anywhere without geographical limitations.
- **Wharf T&T backs rival PCCW in OFTA row when it released a statement which said that providers of voice over Internet protocol (VoIP) should be levied an additional charge for using fixed-line carriers capacity if they do not build their own network.** The industry should adopt a user-pays principle, as VoIP is an Internet value-added service, an official said. As VoIP is going to be a big trend for the industry, it needs to be regulated so telecommunications carriers can get a return on their investment. Wharf has said that with sister company i-Cable Communications, it will launch its own VoIP service, offering only local calls.
- **The telecommunications regulator's compromise of granting PCCW the freedom to set its own prices has not been well received by those in the industry.** PCCW has still something to grumble about, for although the Office of the Telecommunications Authority (OFTA) will allow the fixed-line operator to set fees without prior approval, the regulator stopped short of approving the carrier's application for "non-dominant" status. The company's rivals do not like the plan either as PCCW – which still commands 70 percent of the market – will now be able to lower prices to win back customers. Ofta's decision means it will retain some regulatory control over the carrier. The regulator had feared a full declaration of non-dominance could limit its ability to pursue the carrier in the future for anti-competitive behavior such as predatory pricing.

*Information Technology*

- **The Hong Kong government should work with mainland counterparts to help local information technology players in bidding contracts in developing markets, the Internet Professionals Association (iProA) said.** The industry body said countries such as Romania, South Africa, Brazil, Ecuador and Azerbajan were interested in working with Hong Kong companies to build their information infrastructure. These countries are enthusiastic to adapt to Hong Kong-developed smart identity cards, MTR and airport management, as well as electronic purchasing systems, iProA said. Research house Aberdeen Group said developing countries spent US$13.8 billion to US$41.4 billion on IT last year.

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## Singapore/Malaysia/Philippines/Indonesia

*Information Technology*

- **Wipro Spectramind, the IT-enabled services arm of Wipro, said that it would soon expand its operations to the Philippines.** The company said the entry into the Philippines could be either through a green-field project or acquisition. An official said they hope to complete this task before the fiscal ends. Calling the just concluded second quarter as a great one, Spectramind said the BPO business is seeing a lot of traction. The present headcount of 13,013 makes Wipro Spectramind the single largest BPO service provider in India. A large portion of the present business (86 percent) continues to be voice-based and there is an on-going effort to grow non-voice business. The IT-enabled services business contributes to 11 percent of Wipro's technology revenues.

## United States/Canada

*Internet*

- **Internet giant Yahoo said its quarterly net profit more than tripled as advertising and subscriber sales boomed to the sixth straight record high.** It also forecast a brighter outlook for sales and profits in the final quarter of 2004. Net profit soared to US$253.3 million, or 17 cents a share, in the three months to September 30, up 287.7 percent from the year –earlier 65.3 million dollars or five cents a share. Stripping out a one-off gain from an investment sale, however, net profit was a more modest US$124 million, or nine cents per share, in line with expectations. Yahoo said it expected revenue, excluding traffic acquisition costs (TAC), the amount it pays partners – to raise to US$710 million to US$760 million in the last quarter of 2004. For the whole of 2004, Yahoo predicted revenues excluding TAC of US$2.5 billion to US$2.6 billion.
- **Google, the Internet search engine company, launched an early version of a free desktop search tool that will help people find information buried on their computer hard drives.** The new search software has enabled Google to grab an advantage over search engine rivals such as Microsoft, AskJeeves and TimeWarner's AOL unit, all of which were expected to release similar products soon. Microsoft, the giant software maker, Yahoo, the Internet portal company, and Google are vying for dominance in the Internet search market to generate revenue by displaying ads alongside search results. Industry watchers said Google's free desktop search tool would boost consumer loyalty and solidify its user base. Google's desktop search tool will allow PC users to search their e-mails and files in Microsoft Outlook, Word, Excel and Powerpoint, AOL Instant Messenger chats, as well as websites viewed in Microsoft Internet Explorer. Google, which raised US$1.7 billion in an initial public offering in August, said the software is available for free download. The software would then be installed on the user's PC and could be accessed via an icon on Google's homepage.

*Media, Entertainment and Gaming*

- **Apple's iTunes fended off new challengers to remain the dominant player in paid music downloads, as the market has appeared to hit a plateau, a market research showed.** A survey by NPD group found that nearly 70 percent of music files downloaded legally between December 2003 and July 2004 were from iTunes. The share for Napster – a new legal site created after the demise of a file-swapping service – was 11 percent, while MusicMatch, RealNetworks and Wal-Mart each held 6 percent. NPD found the number of consumers paying for downloads reached a peak of 1.3 million in April

2004. NPD also said that between 4.7 million and 6.4 million U.S. households still have someone using peer-to-peer (P2P) sites, which the music industry claims are centers of piracy.

## Europe

*Internet*

- **German phone giant Deutsche Telekom plans to buy back full control of its Internet unit by next year to profit from burgeoning demand for broadband services.** The move could cost US$3.6 billion. Deutsche Telekom would offer T-Online International shareholders its own stock at a ratio to be announced later. The former state phone company sold the stake in T-Online in 2000, just as the dotcom stock bubble was bursting. Its attractiveness has grown this year as consumer demand for broadband services via digital subscriber lines (DSL) lifted T-Online into profitability. Offering combined voice, Internet and television services would allow Telekom to generate higher revenues per customer and improve its position in the voice market. Telekom said it intended to complete the deal, approved in at a meeting of its supervisory board, in the second half of next year, pending shareholder approval. To avoid diluting its stock with shares issued to repurchase the T-Online stake, Telekom said it planned a buyback next year to keep the number of shares on the market steady. T-Online's business will remain a separate unit within Telekom, while the brand name for the new broadband and fixed-line sector will change to T-Com.

*Mobile/Wireless*

- **Nokia, the world's largest mobile phone maker, says profit may drop for a second straight quarter after reporting a 20 percent decline in third-quarter earnings s it cut prices to regain market share.** Nokia's profitability is declining as the company fights to win back customers lost to Samsung Electronics and Motorola. The company's overall operating margin of 13.4 percent in the quarter just ended was the lowest since the second quarter last year. Nokia was expected to forecast fourth-quarter earnings of 16-euro cents (US$19 cents) a share, according to a survey by Stockholm-based SME Direkt.