

IRG WMR



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

Week of 22 May - 28 May 2005

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International

Internet

- **South Korea is still the world's biggest user of high-speed Internet with mainland China possibly soon overtaking the United States with the greatest number of high-speed households, according to a survey by research firm eMarketer.** The survey showed that 73 percent of Korean web users had broadband connections. Even as the U.S. still has 34.3 million broadband households at the end of last year, the U.S. household penetration rate was not significant enough for the country to make it to the top 10. In the list, Korea was followed by Hong Kong, with 59.1 percent of web users having high-speed connections, Taiwan, with 50.8 percent, and Canada, with 42.7 percent. In terms of number of broadband users, the China with 23.2 million followed the U.S. Ranked third and fourth was Japan (17.5 million) and Korea (11.5 million). The other countries that followed were France (6.1 million), Germany (5.7 million), Britain (5.6 million), Canada (5.3 million), Italy (3.8 million) and Taiwan (3.3 million).

Mobile/Wireless

- **Global mobile handset sales increased 17 percent to a record 180.6 million in the first quarter of 2005 according to research company Gartner.** The results led Gartner to change its forecast for global mobile handset sales in 2005 from 720 million to 750 million handsets. Nokia Corp. saw its market share increase showing good performance in China. After selling 54.9 million units in the first quarter, its market share climbed up 30.4 percent from 20 percent. Motorola's performance gave it a 16.8 percent share. Samsung Electronics Ltd. market share increased to 13.3 percent due to its good performance in Western Europe and Russia.

Japan

Internet

- **The increase in the number of Internet users continue to boost the sales and operating profits of Internet-related service providers in the January to March quarter.** Yahoo Japan Corp. saw its group operating profit rose to a record quarterly result of 17.5 billion yen (US\$165 million), with its portal site registering 31.2 million individual users. Its sales went up 59 percent to 35.8 billion yen (US\$331.5 million). Rakuten Inc., a major comprehensive Internet service provider, posted a 40 percent increase in its group operating profit to 4.7 billion yen (US\$435.3 million), with 2.7 million individuals shopping once or more at the company's virtual shopping mall. Its sales had a 58 percent increase to 15.5 billion yen (US\$143.5 million). Cyber Communications Inc. group operating profit went up 54 percent to 331 million yen (US\$3 million), with its sales rising 60 percent to 7.5 billion yen (US\$69.4 million). Online job information provider en-Japan Inc. saw its parent-only sales going up 95 percent to 2.4 billion yen (US\$22.2 million), and its operating profit having an 86 percent increase to 1 billion yen (US\$9.2 million).
- **Internet companies are making their presence felt in the video distribution business with Yahoo Japan Corp., initiating the airing of a proprietary documentary film that will be shown in 24 installments within a duration of 2 months.** Yahoo Japan planned and produced the film with Broadband Tower Inc., a company that makes image content for Internet services. With 38 million users of its portal site, Yahoo Japan is seen by analysts as having the potential to become an image broadcaster like the traditional TV giants. Usen Corp., the country's top cable-music broadcaster

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launched its GyaO web site, which airs video content around the clock, and registering some 500,000 viewers in less than a month. ShowTime Inc., a firm created by Usen and Rakuten in 2001 is establishing a business model for broadcasting movies and other dramatic content for a certain period for a fee. These firms have an advantage over the traditional broadcasting networks as they are not required to obtain a TV broadcasting license for the business.

Mobile/Wireless

- **Vodafone KK said that its consolidated operating profit went down 15 percent on the year to 158 billion yen (US\$1.4 billion) in the year ended March 31.** Facing intense competition, the company lagged behind in its plan to unveil new 3G cellular phone handsets. The company announced that its sales declined 11 percent to 1.4 trillion yen (US\$129.7 billion). Its net profit was 162 billion yen (US\$1.5 billion), marking an improvement from the 100 billion yen (US\$926.3 million) net loss that it posted in fiscal 2003 partly because of the sale of Japan Telecom. Vodafone's net growth in cell phone customers went down to more than 90 percent.
- **KDDI Corp. said it would start selling in June three 3G cellular phone models that are able to give location information.** The firm said it would also offer two types of handsets that would enable users to view television programs. The three models for KDDI's au cell phone service will be utilizing GPS (Global Positioning System) technology that will give the location of a handset user on a map on a cell phone screen. The phones can also automatically make notifications when someone is in or out of a preregistered area such as train stations or schools, with the tracking services working only with the consent of the person being tracked. KDDI hopes these models will boost the use of data communication and derive revenue from data communications charges.

Media, Entertainment and Gaming

- **Square Enix Co. is using an omnidirectional strategy in the game industry of supplying software to Microsoft as well as Sony Computer Entertainment (SCE) and Nintendo Co.** Square Enix's popular game "Final Fantasy" will be available for Microsoft's Xbox, SCE's PlayStation 3 and Nintendo's Revolution. Square Enix decided to do business with all three because they are releasing next-generation game machines starting in the late 2005, when the machines will be much faster than current models and capable of displaying high-definition computer graphics. After Electronic Arts, Square Enix will be the second software company in the world and the second in Japan to access Xbox. Square Enix announced that for fiscal 2004, it had 73.9 billion yen (US\$684.6 million) in consolidated sales, a 17 percent increase year on year. It posted a 36 percent increase in operating profit to 26.4 billion yen (US\$244.6 million).
- **Nintendo announced a small increase in annual operating profit but forecasts lower than expected growth this year.** The company said its operating profit in the past year to March went up 3.6 percent to 111.5 billion yen (US\$1 billion). Nintendo said its group net profit reached 87.4 billion yen for the past year. Sales were flat at 512.2 billion yen (US\$4.7 billion)

Software

- **YE Data Inc. announced the release of a faster data recovery software package.** The software works with Microsoft Corp.'s Exchange Server messaging system and is able to quickly search and restore data from more than one mailbox simultaneously. The PowerControls Ver. 3.10 software also doubles as security software meant to protect information leakage.

Hardware

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- **Major personal computer manufacturers are releasing business-use terminals without hard-disk drives with the aim of preventing information leaks.** The result is the increase in thin-client terminals as companies boost protection of personal data on customers and cut as well on administration costs. Dell Japan Inc. plans to begin sales of thin client next month. The company saw its Japanese market increase to 11.2 percent in terms of PC shipments in fiscal 2004. Dell already sells thin-client devices in the U.S. and the company decided to offer the products in Japan after the information protection legislation was enacted in the country. Hitachi Ltd. also announced that it is launching a terminal designed to prevent information leaks.

Korea

Mobile/Wireless

- **SK Telecom Co., the country's largest mobile-phone operator, will offer large discounts on its WCDMA handsets to make them more affordable to customers and to add new customers to what has been described as its "struggling" WCDMA services.** Company officials said that they will start providing discounts of 300,000 won (US\$300) per unit on its 850,000 won (US\$850) WCDMA handset. SK Telecom has more than 19 million customers, which forms the firm's 51.2 percent market share. Since its WCDMA service began, the firm has just signed up 1,300 customers.
- **LG Electronics announced that it has created a task force that will handle negotiations with NTT DoCoMo, the largest wireless communications company in Japan, with the aim of supplying 3G WCDMA handsets to the Japanese company.** NTT has been seeking ties with domestic handset manufacturers, asking Samsung Electronics last year to supply 3G phones with the Korean company refusing. LG is, however, aiming to make Japan part of its wider base that will support its goal of becoming a top communications company. In 2004, LG shipped out 4.4 million WCDMA phones and it has set for this year an export target of over 6 million.
- **KT Freetel launched its digital music portal Dosirak, which would enable its users to download music files to their mobile phones, MP3 players and desktop computers.** The company said it plans to boost their networks to accommodate online music distribution and compete with SK Telecom Co. and LG Telecom Ltd. in tapping the growing digital music market. KTF has contract with Samsung Electronics Co., MPIO Co. and Cowon Systems, an agreement that would enable the company's client to transfer the music files to MP3 players made by the companies. KTF hopes to register 300,000 subscribers by the year's end. With the latest technology that allows digital stereo functionality in mobile phones, operators have been trying to develop digital music services as a new source of revenues.

Semiconductors

- **Hynix Semiconductor said it had built a new plant with the aim of strengthening its competitive edge over foreign rivals in memory chip manufacture.** The company said the plant in Incheon would be producing 20,000 300 mm wafers a month. Hynix and its European partner STMicroelectronics completed the construction of US\$2 billion plant in China with the capability of producing 200mm wafers this year and 300 wafers by the end of next year. Hynix has also formed a strategic alliance with Taiwan's ProMOS Technologies that would allow it to produce in January 300mm wafers.

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China

Internet

- **China Telecom is said to be taking a cautious approach to the development of Internet protocol television (IPTV).** The company had some 40,000 customers for the trial run of its Internet service in Shanghai and Guangdong. As the fixed-line company does not have a license, it conducted its trials through its partnership with Shanghai Cultural and Broadcasting Media Group, which is licensed. Through this partnership, China Telecom is aiming at 20 percent of the nation's 300 million homes with television as broadband television partners. China Telecom has a partnership also with Sichuan Changhong Electric in producing set-top boxes and Internet-capable television sets. Industry watchers are saying that firms like China Telecom have to contend with uncertainties like government restructuring plans and other concerns like the issuance of licenses.
- **Leading online travel service provider eLong reported unaudited financial results for the first quarter ended March 31, 2005, with its total revenues seeing an increase of 46 percent year-over-year to 39 million yuan (US\$4.7 million).** The company said its travel revenues went up 63 percent year-over-year to 37.2 million (US\$4.5 million) while its hotel revenues increased 42 percent year-over-year to 29.8 million yuan (US\$3.6 million). eLong said its air ticketing revenues went up 137 percent year-over-year to 3.7 million yuan (US\$450,000), with air ticketing representing 10 percent of the total revenue in the first quarter as compared to 6 percent in the same period one year ago.
- **Microsoft Corp. announced the launching of MSN China, a Chinese language web portal with content provided by Chinese partners.** The portal is seen as tapping deeper into the world's second-largest Internet market. The portal, which Microsoft is going to offer more than what MSN presently offers, will be run through Shanghai MSN Network Communications Ltd., a joint venture established with government-operated Chinese firm Shanghai Alliance Investment Ltd.
- **Sina announced that it will launch in early June its own self-developed search engine.** The search engine may be operated as an independent web site or as a subsite under Sina's web portals. Sina currently offers Internet search services using its portal but gives said services in partnership with other search engine providers. The completion of its own search engine will allow Sina to move away from dependence on Google and other partners and be more competitive with groups like Yahoo and Sohu, two firms that possess their own search engines.
- **51job, a leading provider of integrated human resource services in China, announced that the shareholders have approved a stock repurchase program.** Under the program, the company is authorized to buy back up to US\$25 million worth of outstanding American Depositary Shares (ADS). The stock repurchase program will be funded from the company's available working capital.

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Mobile/Wireless

- **Eastman Kodak is looking to camera phones to push demand for digital printing at its sales outlets in China.** The company said it expects the number of mobile-phone users in the mainland to reach 400 million by 2007, which would translate to a market gain of around 80 million cameras assuming 20 percent of the 400 million phones were equipped with the standard feature. Eastman Kodak said that in the study conducted by the company, it found out that among Asians, Chinese print more photos than others. A company spokesperson said that with the current opportunities the trend is bringing about as “fantastic”, it is pumping resources into its digital business.
- **Kongzhong Corporation, a leading provider of advanced second generation (2.5) wireless value-added services in China announced its unaudited first quarter results, with revenues in the first quarter increasing 138 percent year-over-year and going up 3 percent sequentially to a record US\$17 million.** The company said its 2.5 revenues went up 161 percent year-over-year and 89 percent sequentially to US\$3.2 million. Net income of the company for the quarter climbed up 87 percent year-over-year but declined 11 percent sequentially to US\$5.8 million.
- **Nokia announced that 5 component suppliers have agreed to invest US\$300 million in the Xingway International Industrial Park in Beijing’s Economic and Technological Development Area.** A company official said the investment would help Nokia cut logistics costs, improve production management and help its supply chain. The five component suppliers include Sanyo, Beijing SandC, AMC Centurion Equipment (Beijing) and Zhengyuan Group.

Hardware

- **Chinese computer group Lenovo announced its opening in the United States of a research center that has the backing of Microsoft and other firms.** The US\$2 million “Innovation Center” at North Carolina is formed around the ideas laboratory whose beginnings were founded by IBM, Microsoft, LANDesk, Intel and Symantec. The center will be using the resources coming from these companies to develop solutions that will respond to specific customer problems.

Media, Gaming and Entertainment

- **The9 announced its net revenues for the first quarter of 2005 as increasing by 44.8 percent quarter-over-quarter and 92.1 percent year-over-year to US\$1.5 million.** The company said its gross profit decreased by 24.8 percent quarter-over-quarter and increased 8.7 percent year-over-year to US\$0.5 million, with its net loss posted as US\$1.3 million, compared to its net income of US\$0.9 million from the fourth quarter of 2004 and net income of US\$0.4 million of the same period last year. Online game and virtual community services revenues came from sales of playing time for The9’s proprietary online virtual community game, “The9 City” and Mystina Online.
- **NetCert, Inc. announced the signing of a strategic partnership agreement with China News, one of the most popular and influential news web sites in China.** China News has some 10 million visitors that, under the agreement, will be given a direct entrance to NetCert’s Treasure Island Mall. NetCert offers a complete range of products and services in an online format.

Telecommunications

- **The government is giving priority to value-added telecom services, according to the country’s Ministry of Information Industry.** Value-added telecom services are acknowledged as already becoming a new business growth area for China’s telecom industry, with government statistics showing last year’s revenue from value-added IT-related services forming 7.2 percent of the nation’s gross

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domestic product. In the first quarter of the year, more than 67 billion short messages were sent, a figure that stands for a 39 percent growth over the same period last year. Broadband users have increased to more than 28.3 million. Analysts believe that a sound business environment is necessary for the value-added telecom services to thrive. The ministry said the government will strengthen laws and regulations in order to better supervise the market and protect consumers.

Taiwan

Mobile/Wireless

- **Taiwan launched its first 3G service by Taiwan Mobile, a project that is closely supported by Nokia.** During the preparation stage, Nokia provided 3G solutions and technologies and shared global 3G business experiences with Taiwan Mobile. Nokia was the one that provided also the handsets customization and helped in the mobile content development. Since 2004, Nokia has been Taiwan Mobile's sole supplier of a full range of 3G radio and core network equipment.

Telecommunications

- **Taiwan's state-run Chunghwa Telecom announced its selection of Goldman Sachs, Union Bank of Switzerland and Morgan Stanley as co-underwriters for its prospective overseas share offer.** The firm said it has appointed Goldman Sachs as global coordinator for the exercise. The selection of the underwriters was carried out by an ad-hoc committee organized for the Ministry of Transportation and Communications (MOTC), which remains the company's largest shareholder. In a separate announcement, an MOTC official said that his ministry plans to sell a 17 percent stake in Chunghwa Telecom, including 12 percent to 13.5 percent through an American Depositary Receipt. Chunghwa Telecom is the largest telecom operator in Taiwan, holding a 31 percent share of the local mobile phone market and posted US\$182.6 billion in revenues last year.

Hong Kong

Media, Gaming and Entertainment

- **Galaxy Satellite Broadcasting launched a new brand for its pay-television services called SuperSUN.** Galaxy is the paid television arm of free-to-air carrier Television Broadcasts (TVB) that has been losing revenues. SuperSUN is seen as the beginning of a new era of paid-TV service, which is aimed at bringing a whole new experience in TV entertainment to audience. The firm has also formed an alliance with Hutchison Global Communications to bundle paid-television and broadband services.

Internet

- **Pacific Internet Limited, Asia Pacific's largest telco-independent Internet Communications Service Provider by geographic coverage, announced the launching of a public wireless broadband service in Hong Kong in partnership with Y5ZONE.** The latest WiFi service is immediately available at over 100 public wireless broadband Internet access points or "hotspots" in Hong Kong, which cover shopping malls as well as food and beverage areas. Y5ZONE is a wholly owned subsidiary of BEENET, a leading pioneer provider of WiFi connectivity, with headquarter in Hong Kong.

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Singapore/Malaysia/Philippines/Indonesia

Internet

- **Internet costs in Singapore are expected to go down after the government decided to increase the number of broadband operators to six and permit them to operate over wireless technology.** The Infocomm Development Authority (IDA) awarded licenses to four new entrants even while allowing the two existing operators, SingTel and StarHub, to continue to operate on wireless as well as their existing cable system. The licenses were granted after a government auction that had the bidders shelling out between S\$215,200 (US\$130,000) and S\$550,000 (US\$330,000) for a single lot on the frequency spectrum. As the companies were buying multiple lots, some operators paid more than S\$2 million (US\$1.2 million) for a wireless service that will serve the city state. The government said broadband subscriptions were more expensive in Singapore than its developed neighbors, such as Japan and South Korea.

United States/Canada

Internet

- **A group of academic publishers called the Association of American University Presses is questioning Google's plan to scan millions of library book into its Internet search engine index, saying that the huge project will violate copyrights and affect future sales.** The group said the plan of Google appears to entail "systematic infringement on a massive scale". Google has told the nonprofit publishers that its library program satisfies the criterion of federal law, which considers the free distribution of some copyrighted material to be permissible fair use. Google expects its library scanning project to attract more visitors to its site so it can display more ads and earn more.
- **Online retail sales in the U.S. are projected to increase 22 percent to US\$172.4 billion this year, according to the study by the e-commerce arm of the U.S. retail industry Shop.org conducted by Forrester Research.** The report indicated a strong growth linked to a growing acceptance of online shopping by women as it forecast a 33 percent growth in the online sales of cosmetics and fragrances. It said that sales of over-the-counter medications and personal care would have a 32 percent growth. In a separate study from the Department of Commerce, first-quarter retail Internet sales climbed 23.8 percent to US\$19.8 billion in the U.S. from the US\$16 billion a year earlier. The same study also noted that the jewelry category showed rapid growth lately in the Internet.
- **Competing with Google in localized online search, Microsoft previewed a layered geo-mapping service that features aerial photographs and satellite images.** The service called MSN Virtual Earth will be offering detailed local search results that include actual glimpses of coffee shops and other structures rather than just the rooftop views that satellite images give. The service is free and would be available this summer.

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Semiconductors

- **In what analysts call a major change in the computer world, Apple has been reported as talking with Intel about the use of its chips in the Macintosh line.** The report said the computer maker had been engaging Intel in a discussion, although neither company would discuss the report. Apple, in fact, calls the report a speculation. The report said the ongoing talks between Apple and Intel could fail as they have before. Analysts are also saying that Apple is negotiating with Intel in order to gain leverage over IBM.

Europe

Software

- **The European Union commission said it is giving Microsoft a week to comply with last year's antitrust ruling or face huge fines.** The EU commission said it also notified Microsoft to market a version of its leading operating system Windows without bundling it to its software Media Player. It required the company to release information about its product operating system, which is needed by manufacturers of competing products. The commission has called for a formation of an independent monitoring trustee that will ensure Microsoft applied their ruling correctly.

Mobile/Wireless

- **Seeking to expand its GSM network capacity and coverage, Ericsson announced the signing of a US\$150 million contract with OAO Mobile Telesystems (MTS), Russia's largest mobile operator.** Under the deal, Ericsson will deliver switching and radio equipment that will support both GSM and GPRS. The said equipment will allow MTS to offer advanced and innovative services. Ericsson has agreement with MTS to deliver infrastructure and services.

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