

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



Week of 30 May - 5 June 2004

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International

Information Technology

- **TU Media, the Korean consortium for satellite-based mobile broadcasting, settled its dispute with Japan's Toshiba Corp. over royalty patent issues.** In a letter sent to the Telecommunications Technology Association, the Japanese high-tech firm said it would take a fixed-amount approach on the royalties charged on equipment and products using its patent technology for satellite reception. Toshiba had been previously demanding a 2 percent royalty on the selling price of each product, drawing objections from Korean handset makers who feared royalty payments would increase in the future following the development of high-end satellite phones. Toshiba owns the patents to the System E technology, which is the standard for satellite-based mobile broadcasting in Korea and Japan.

Japan

Hardware

- **Sony Corp. will stop developing and selling new handheld digital assistants in the United States this year, exiting a market in decline and possibly striking a blow to software maker PalmSource Inc.** The move potentially shrinks the number of new handhelds that will be powered by software maker PalmSource, which counts Sony as its second biggest licensee, after palmOne. Sony will continue to introduce new models in Japan, where it faces less competition from rivals such as palmOne Inc.

Information Technology

- **Nippon Telegraph and Telephone Corp. and Fujitsu Ltd. are encouraged by the basic experiments they have conducted on a technology known as optical burst switching for next-generation high-speed networks.** In optical burst switching, packets of data are sent as optical bursts, enabling switching at routers and other branch points on the network to be performed without changing the optical signals into electrical ones. For the tests, a network was built from a set of six NTT thermo-optical switches and an optical switching device made by Fujitsu. The switching device is a microelectromechanical system that can achieve a switching speed of 1 millisecond. Data transmissions were conducted using GMPLS (Generalized Multiprotocol Label Switching) technology.

Internet

- **Yahoo! Japan Corp. and Impress Corp. have jointly developed a new type of online advertisement that combines moving and still images with website links.** Companies will be able to show how their products are used while presenting such details as specifications and features on the same screen. Yahoo! Japan and Impress will begin marketing this method soon by emphasizing to potential clients about how much more persuasive these ads will be than simple banner ads. The online screen will be split into four sections. On the left-hand part, a five- to eight-minute video will feature experts demonstrating how a product is used. Other parts of the screen will contain product images, catalog data and links to other related sites.

Media, Entertainment and Gaming

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- **Microsoft Corp. has scrapped plans to roll out an online game that was supposed to help it revive the fortunes of its Xbox game console in Japan.** "True Fantasy Live Online," a multi-player online role-playing game, was expected to be the Xbox's answer to Square Enix Co. Ltd's immensely popular online version of Final Fantasy, only available for consoles on Sony Corp.'s PlayStation 2 (PS2). Microsoft officials prominently displayed the game at last year's Tokyo Game Show, saying it would be a way for the Xbox to win over Japanese gamers, known for their love of role-playing games. After three years of development that saw the game's launch target pushed back three times, Microsoft decided not to publish the game because it failed to live up to expectations.
- **Seven of nine video game manufacturers are projecting higher group pretax profits for the year ending March 31, 2005, on the strength of new offerings.** Sales of existing consoles by Nintendo Co. are forecast to fall, but the introduction in the second half of the Nintendo DS hand-held system is expected to offset the decline. The firm is estimating console sales of 3.5 million units and game software sales of 15 million units. While operating profit is projected to grow, exchange rate fluctuations could lead to valuation gains or losses on foreign-currency-denominated assets. Pretax profit is estimated to rise 120% to ¥110 billion (US\$988.6 million). Namco Ltd. will introduce seven games based on popular series leading up to its 50th anniversary in June 2005. New titles in its "Tekken" and "Ridge Racer" series -- which have sold 23 million and 10 million units, respectively -- are among the offerings. The firm forecasts pretax profit growth of 5% to ¥15.2 billion (US\$136.6 million).

Mobile / Wireless

- **NTT DoCoMo Inc. unveiled three advanced mobile phone handsets that it expects to start selling in mid-June.** The handsets - manufactured by Fujitsu Ltd., Matsushita Electric Industrial Co. and NEC Corp. - will cost ¥30,000 to ¥50,000 (US\$269.6-449.4). DoCoMo gave no sales or profit targets for the new handset models. But it is hoping the models will help it make up ground on archrival KDDI Corp. in terms of subscriber numbers for third-generation mobile services.

Korea

Semiconductors

- **Hynix Semiconductor Inc. surprised analysts and investors earlier this week by selling its non-memory-chip business for more than many had expected.** The proceeds will help Hynix Semiconductor cut its debt as well as put the company on better footing to compete in a fast-changing industry. After more than a year of negotiations, Hynix received more than 954.3 billion won (US\$819.1 million) from a venture-capital arm of Citigroup Inc. for its operations that make non-memory chips, such as those used in flat-screen TV sets and digital cameras. For Hynix, though, the sale represents a modest step on its long path to cleaning up a bloated balance sheet. With Hynix currently managed by its creditors, paying down its debt is a clear priority.

Telecommunications

- **A Ministry of Information and Communication commission is considering suspending three telecom giants and KT Resale for violating phone subsidy bans.** The Korean Communication Commission will meet to discuss the issue but is unlikely to bring the case to criminal court. The Korean trade law has banned mobile-phone operators from offering phone subsidies since 2000. If suspended, SK Telecom Co. must shut down sign-up operations for 45 days, KTF Corp. 30 days, LG Telecom Inc. 30 days, and KT Resale 20 days. The four companies were suspended in October 2002 for similar illegal

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activity. During the periods, mobile phone customers will not be able to switch providers and the companies may not recruit new customers to phone numbers with the popular new 010 prefix. SK Telecom officials say the suspension is too harsh a penalty and they would rather pay a fine.

- **The Korean government will impose an 11.9 billion won (US\$11 million) fine on SK Telecom over its antitrust violations following the company's 2002 acquisition of Shinsegi Telecom,** according to the Information and Communication Ministry. The ministry said SK Telecom will be fined 5.8 billion won (US\$5 million) for its violations through December 2003 and 6.1 billion won (US\$5.2 million) for the period through February 2004. Ministry officials declined to detail the computation standards.
- **Government officials reached agreement with their U.S. counterparts to take Korean telecom giant KT Corp. off the procurement lists of both countries,** according to the Ministry of Information and Communication. The terms were agreed to at the Korea-U.S. Quarterly Action Meeting in Washington, D.C., with the U.S. government also promising to withdraw its objection to excluding KT from the World Trade Organization's procurement list. The WTO first enforced regulations on government procurement in 1981 as a measure to open international competition by preventing countries from favoring domestic suppliers over foreign competitors.

China

Hardware

- **Lenovo Group reported stronger profit but a loss of share in its home China market and will hold off expanding overseas.** Executives also warned that a restructuring begun in February would not produce improved financial results for several months. With its loss of momentum, Lenovo joins a growing list of Chinese manufacturers that once were considered potential global threats because of their size and domestic strength but that have stumbled under competitive pressure, either from domestic companies or from foreign rivals. Lenovo, which changed its name from Legend Group this year, reported a net profit of HK\$188.3 million (US\$24.2 million) for the fourth quarter ended March 31, up 7.6% from HK\$175.1 million (US\$22.4 million) a year earlier. The fiscal year net profit rose 3.5% to HK\$1.1 billion (US\$141.0 million) from HK\$1.0 billion (US\$128.2 million). Revenue in the latest quarter rose 18% to HK\$5.0 billion (US\$641.0 million) from HK\$4.3 billion (US\$551.3 million), while revenue for the full year improved to HK\$23.2 billion (US\$3 billion) from HK\$20.2 billion (US\$2.6 billion).
- **TCL International Holdings Ltd. expects earnings at its TTE Corp. television-set joint venture to exceed TCL International's 2003 net profit in three years.** TCL International's profit should fall this year because of the unprofitable TV-set operations Thomson SA is injecting into the joint venture. In 2003, TCL International, the Hong Kong-listed unit of major Chinese consumer-electronics maker TCL Corp., had a net profit of HK\$641.8 million (US\$82.3 million). TCL International will have negative goodwill of between HK\$600 million (US\$76.9 million) and HK\$700 million (US\$89.7 million) from the venture, but has not decided over how many years to book the amount.

Information Technology

- **China's consumers in both the city and countryside rank Japan as the top nation for quality consumer electronics and automobiles,** with European Union countries not even in the top three despite a high profile. Japan is the most-favored nation among China's consumers when it comes to

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computers, electronic goods and automobiles, based on the findings of a national survey conducted by Hong Kong-based Asia Marketing Research Directions. Japan edged out the U.S. and China in all three categories, ahead of other major manufacturing nations including the U.K., South Korea and E.U. countries.

Semiconductors

- **Private equity firm Warburg Pincus will invest US\$70 million in state-owned Datang Microelectronics**, joining a growing list of foreign investors who have leapt into China's semiconductor industry. Both companies confirmed the investment but declined to provide details. Other mainland chip companies that have recently received or are seeking outside investment include VI Micro, Shanghai Spreadtrum, BCD and Shanghai Comlent, which received US\$7 million from Intel Capital. Analysts said China's chip sector had become a hot area for investment because of rising demand for chips in domestically assembled electronics.

Taiwan

Semiconductors

- **Taiwan Semiconductor Manufacturing Co. expects the global chip industry to grow 30% in 2004.** The company hopes to remain a leader in the chip industry by ensuring it can provide 65-nanometer technology for customers by late 2006 or early 2007, with 45-nanometer technology following about two years later. A chip's transistor components and the spaces between them are measured in nanometers. The smaller and more closely transistors can be packed together, the more powerful the chip. The current industry mainstream production level is about 180 nanometers, while 90 nanometers is the best being used for mass-production purposes.

Singapore / Malaysia / Philippines / Indonesia

Mobile / Wireless

- **Telekom Malaysia and Singapore Technologies Telemedia will buy a 33 percent joint stake in India's Idea Cellular** to penetrate a mobile phone market that is expected to triple by next year. Telekom Malaysia and ST Telemedia, owned by Singapore's government, had agreed to buy AT&T Wireless Services' stake in Hyderabad-based Idea and might raise their holdings to 49 percent later, said Vikram Mehmi, chief executive of Idea. Closely held Idea Cellular, which has about 2.8 million subscribers, is India's fifth-largest mobile services provider. Total mobile-phone subscriptions in India increased to 34.6 million in April from 33.3 million in the previous month. ST Telemedia and Telekom Malaysia might have agreed to pay 10 billion rupees (US\$219.2 million) for the Idea Cellular stake, according to the *Economic Times*.

Hong Kong

Internet

- **A Tom.com subsidiary that provides financial information services, AA Stocks, has switched its server platform from Microsoft Windows to the open source Linux operating system.** The

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company is a major player in its sector. Its 400 corporate and several thousand individual clients include HSBC, Bank of America, Bank of East Asia and Bank of China International. Leading local retail brokers, such as TaiFook, Cash and KGI integrate the company's services to provide online quotes and charting to their clients. The switch from Microsoft to Linux in such a mission-critical application signifies that the attitude towards Linux in the financial industry has switched to full acceptance.

Mobile / Wireless

- **Hutchison Telecom will drop the brand "Orange", which it has used for nearly six years, in favor of its home-grown brand "3".** The mobile operator would adopt the numerical brand name for each of its three Hong Kong networks - 3G, 2G and CDMA - affecting 1.9 million subscribers. The Hutchison Whampoa subsidiary has used Orange as its flagship Hong Kong brand name since September 1998. It sold its London-listed company of the same name in 1999, earning US\$117.3 billion and the title of the world's most profitable company that year. Hutchison has ploughed most of the US\$156 billion it amassed from selling chunks of its global 2G business into its 3G platform, which it has marketed last year.

Telecommunications

- **Hong Kong won hosting rights to the 2006 convention of the International Telecommunications Union (ITU)** by making a better offer than Geneva, according to the ITU. The organization had decided to follow the recommendation of the event's board to hold the meeting in Hong Kong rather than in Geneva, where the ITU is headquartered. Hong Kong's offer trumped Geneva's bid with direct costs 30 percent to 50 percent lower. However, authorities for Geneva, which has held the event since 1971, were allowed to revise their offer.

United States / Canada

Hardware

- **Circuit City Stores Inc.'s sales increased 7.2% in the first quarter from a year earlier, driven by online shopping and a recent acquisition.** Circuit City said total sales for the first quarter ended May 31 improved to US\$2.1 billion from US\$1.9 billion a year earlier. The latest period reflects growth in web-originated sales and includes US\$21.5 million from InterTan Inc., which was acquired in mid-May. Overall same-store sales rose 6.4% from a year earlier.
- **Sales of hard-disk data-storage systems continued to rise in the first quarter of 2004,** according to market researchers, confirming the upward trend that developed in the fourth quarter of 2003. IDC reported the overall storage market rose 3.5% to US\$5.1 billion in the first quarter, with the sharpest growth coming in the market for external disk-storage systems, which are sold separately from computer systems. Most of the volume growth was recorded by EMC Corp., with a 26% revenue gain, and IBM Corp., with an 11% gain. Market leader Hewlett-Packard Co. and Sun Microsystems Inc. lost market share as revenue declined, according to IDC.
- **Hewlett-Packard Co., one of the biggest backers of the Linux operating system, said it will increase its backing of "open-source" software** by being the first large technology company to certify and support programs made by MySQL AB and JBoss Inc. The move by H-P is intended as a competitive strike against rival IBM, which sells its own stack of proprietary "middleware" software. By adding open-source programs from MySQL and JBoss to its offerings, which also include middleware

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programs from Oracle Corp. (ORCL) and BEA Systems Inc. (BEAS), H-P says it is giving customers more software choices.

Internet

- **America Online said it settled class-action lawsuits regarding account cancellations with former AOL and CompuServe members.** The Internet service provider denied liability in relation to the allegations but agreed to settle to avoid the cost of further litigation and to resolve an ongoing matter. As part of the settlement, the Time Warner Inc. unit will give refunds to AOL and CompuServe subscribers who tried to end their service but kept being billed, and who wrote or telephoned AOL before April 6, 2004, to request a refund.
- **Amazon has sought to broaden its selection of goods by letting individuals sell used and new copies of books, music and other items on the same web pages from which it sells similar merchandise stored in its warehouses.** Earlier this year, though, the company quietly began letting small merchants who pay a monthly fee sell products in categories that Amazon does not offer on its own. Small sellers have used this feature -- called the "EZ detail page" -- to offer tens of thousands of products since January, from hand-painted potty chairs to miniature motorcycles to stamps. That jumble of goods from individuals still is not as far-ranging as eBay but Amazon and eBay have begun competing more closely in recent years. Amazon has expanded its selection mostly by getting other retailers and individuals to sell their own merchandise through the site -- an approach eBay pioneered. And eBay has promoted the idea among its sellers of offering some goods at a fixed price, a la Amazon, instead of through auctions.
- **Non-profit groups are anxious for word about Google's Grants advertising program.** Under the program, Google has donated advertising space to hundreds of nonprofit groups tackling issues ranging from endangered species to multiple sclerosis. The site is not taking new applications but says it will in the future, and intends to expand the program beyond its current lineup of about 280 groups. However, due to rules that bar religious and political groups, as well as negative ads, many organizations fear they may miss out on the web windfall.
- **E*Trade Financial Corp. signed a definitive agreement to sell substantially all of the assets of its ATM operations unit, E*Trade Access Inc., to Cardtronics Inc. for US\$106 million.** E*Trade cited that the business is not core to its long-term vision. E*Trade expects to record a pretax gain of about US\$55 million upon closing the deal.
- **Amazon.com has thrived by delivering many of its web orders free of shipping charges is now delivering some of them faster** -- even the same day. For the past several months, teams of couriers have used luggage carts to deliver books, CDs and movies that were ordered online just that morning to offices and residences in Manhattan. The move matches a service by rival Barnes & Noble Inc., which has offered same-day delivery for some time in New York. But Amazon has not promoted the service, and some customers have been surprised when their goods arrive so fast.
- **Google Inc. announced an upgrade to the line of hardware and software packages it sells to organizations for searching their own websites and other information.** The company first launched the Google Search Appliance, a yellow computer server loaded with its software, in February 2002. It says it has sold several hundred of them, with list prices starting at US\$32,000 each, to customers ranging from Procter & Gamble Co. to the U.S. Army. The product represented less than 5% of Google's US\$962 million in net revenue last year.

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Media, Entertainment and Gaming

- **A joint venture of five major movie studios to provide video-on-demand services doesn't violate antitrust laws**, according to the Justice Department. Called Movielink and designed to counter online movie swapping, the service was formed in August 2001 by Sony Corp.'s Sony Pictures Entertainment Inc., Time Warner Inc.'s Warner Brothers Entertainment Inc., Viacom Inc.'s Paramount Pictures Corp., Metro-Goldwyn-Mayer Inc. and General Electric Co.'s Universal Studios Inc. It was challenged by a competitor, Intertainer, which survives as a corporation but whose business was shut down. The Justice Department said its "substantial investigation" of Movielink did not find that the venture harmed competition or consumers. Video-on-demand services distribute movies over high-speed Internet connections and digital cable.

Semiconductors

- **Intel Corp. sent mildly positive signals about results for its second quarter, citing demand for chips called flash memory that are used in cellular phones and other portable products.** The firm in its regular mid-quarter progress report, said it now expects revenue in the period ended June 30 of US\$8 billion to US\$8.2 billion. In April, the company had set a wider range of US\$7.6 billion to US\$8.2 billion. Intel's remarks raise the midpoint of its revenue forecast -- a closely watched measure on Wall Street -- to US\$8.1 billion from US\$7.9 billion. The company now expects its gross profit margin to be between 60% and 61%, compared with its previous estimate of 60%.

Software

- **Microsoft Corp. has adopted a new approach to the use of its patents making fans of Linux and other open-source software worry that they could end up as targets.** Microsoft now holds about 4,500 patents, covering its inventions in fields such as how computers store files and how text is displayed on a screen. In December, Microsoft announced a new policy to begin licensing its patents, citing requests from customers, regulators and others, though it is unclear how many of the patents cover techniques already in use by other companies. Microsoft has more than 100 patent-licensing discussions under way. It is offering royalty-bearing licenses both to partners and competitors -- even to sellers of open-source products that have emerged as the company's biggest threat.

Telecommunications

- **Twenty years after the breakup of the Bell System, the fees that telephone companies pay to use each other's lines have become a major source of contention for the nation's phone network.** For long-distance phone companies that must connect to the local phone lines of the caller and the person being called, access charges make up an enormous portion of expenses. They provide significant revenue to the Bell companies that own most of the local phone lines on which calls begin and end. The nation's largest telecommunications carriers collectively spend an estimated US\$25 billion each year on fees for access to each other's networks.
- **Sprint Corp. intends to close its call center in Bolingbrook, Ill., on Aug. 3 and eliminate about 1,000 jobs.** Employees were notified of the impending closure earlier. The company said the work will be spread among its seven remaining U.S. call centers. Sprint employs about 65,000 people. It has cut more than 22,000 jobs in the past two years.

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Europe

Internet

- **T-Online International AG will offer high-speed Internet access via satellite in Spain**, aiming to bolster its position abroad as its foreign operations near the break-even point. T-Online is Europe's largest Internet services provider. It has joined with satellite operator SES Global SA's Astra to target more than five million Spaniards who do not have access to digital subscriber line, or DSL, service. This is the first time that T-Online has offered satellite-based access abroad, where it normally rents lines from incumbent operators to provide DSL. T-Online's biggest forays outside Germany have been France and Spain, where it spent €2.3 billion (US\$2.8 billion) to buy Club Internet and Ya.com during the technology boom in 2000.

Mobile / Wireless

- **Nokia will offer wave messaging** which will allow users of the upcoming Nokia 3220, slated for release this fall, to send a short message that, instead of going to another phone, is flashed on and off by 12 orange LED lights on the back of the phone shell. Done correctly, the message appears to be floating in space, bright as the stars. Nokia says the image is visible from as far as 18 feet, but if it's cloudy or too bright, it might be better to send a regular text message or photograph instead.
- **Wind Telecomunicazioni, a mobile-phone operator in Italy, has awarded a €300 million (US\$367.3 million) contract to supply network equipment to Siemens AG.** The three-year contract is to supply third-generation, or 3G, network equipment designed to allow the delivery of video services as well as voice calls. In 2001, Wind signed a contract with Nokia Corp. to supply 3G equipment, the operator no longer plans to use the Nokia to build the 3G network.
- **Nokia Corp. has spent hundreds of millions of dollars launching a string of "smart phones" but is reversing its course.** It spent almost 80% of its research-and-development budget -- about US\$3.6 billion a year -- into software, much of it designed to give phones computer-like capabilities. Smart phones have proved too bulky and expensive for many consumers, and remain a tiny presence in the market. Moreover, in concentrating on smart phones, Nokia has neglected one of the hottest growth sectors in cell-phones, midrange models with sharp color screens and cameras, giving competitors a rare opportunity to steal market share.
- **Third-generation cell phones, designed to handle video services as well as voice calls, are finally gaining momentum in Europe.** In April about 225,000 third-generation, or 3G, cell phones were sold to consumers in Europe, according to GfK, a research firm in Nuremberg, Germany. While that still is only about 2% of the European cell phone market, GfK says unit sales in April were more than double those in March. The research firm attributes the lift to the arrival of several new, lighter models from Nokia Corp., LG Electronics Inc. and other manufacturers. Having spent more than US\$120 billion on 3G networks and licenses, European cell phone-service providers need to persuade consumers to buy 3G phones so they can start to see a return on that huge investment. Vodafone Group PLC, Deutsche Telekom AG and other European operators hope consumers will use 3G phones to access flashy premium services, such as video calls, downloadable video clips and, eventually, online games.

Software

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- **Microsoft Corp. plans to appeal the European Commission's landmark antitrust decision against it and to ask the European Union's highest court to suspend the commission's orders pending the appeal.** The software giant plans to appeal both major aspects of the commission's case against it. In March, the EU antitrust authority declared Microsoft had illegally "bundled" its Windows Media Player audio-visual software with its Windows operating system and used its monopoly in the market for desktop personal computer operating systems to illegally muscle its way into the market for more powerful computers called servers. The commission hit Microsoft with a record fine of €497.2 million (US\$607.7 million) and ordered it to take measures that would reduce its competitive advantage in the media player and server software markets.

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