

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



Week of 25 July - 1 August 2004

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## International

### *Information Technology*

- **The governments of Korea, Japan and China have agreed to start an international working group to share their advancements in information technology**, extending a movement among Asian countries to jointly develop solutions to compete against dominant multinational high-tech firms such as Microsoft Corp. The three countries agreed to exchange information on markets, technology trends and standardization activities while encouraging business partnerships and strategic alliances in both the public and private sectors. The working group will run through December 2009 and include officials from governments, research institutes and private companies.

### *Internet*

- **Online advertising spending is expected to nearly double by 2009 to US\$16.1 billion and represents a much higher proportion of marketers' total budgets in that time, according to Jupiter Research.** Internet advertising will grow 27 percent this year to US\$8.4 billion, with double-digit growth for both paid search listings and display ads like banners. The medium is expected to increase its share of marketers' budgets from 3.5 percent last year to 6.5 percent in 2009. Top advertising industry forecasters have predicted total U.S. ad spending growth between 6 percent and 9 percent this year on the strength of an improved economy, political campaigns and the summer Olympic Games. Internet advertising is widely expected to be the fastest growing media category, followed by cable and network television, marking its return from the Internet bust in 2000.
- **Daum Communications acquired the US portal business of Spain's Terra Lycos. Daum had acquired all of Lycos' operations for 111.2 billion won (US\$95.3 million).** With the US portal under its wing, Daum aimed to become a global leader in the sector by combining Lycos' brand and Daum's business know-how. Daum expects the Internet portal to turn profitable by 2005 on the back of dramatic growth in the U.S. advertising market. The deal would be financed by Daum's cash reserves and bonds.

## Japan

### *Hardware*

- **Toshiba Corp. and disc manufacturer Memory-Tech Corp. have decided to freely publicize the technical specifications for manufacture of HD DVD optical discs.** HD DVD is one of the two competing next-generation optical disc formats, the other being the Blu-ray format promoted by Sony Corp. and Matsushita Electric Industrial Co. Memory-Tech operates a production line at its Tsukuba factory that writes software to HD DVD discs. The equipment can make double-layer discs that hold 30 GB at a rate of one disc every 3.5 seconds with a yield of better than 90%. The same equipment can be converted in less than 5 minutes for manufacture of regular DVDs. The detailed technical specifications for this equipment will be made freely available starting from late August on the websites of both Toshiba and Memory-Tech.
- **Barcode system maker Tohken Co. has developed a relatively small and inexpensive wireless device for transmitting and receiving high-resolution images.** Designed in collaboration with a

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French maker of semiconductors, the device uses signals transmitted in the 60 GHz milliwave band to send and receive data at the rate of around 1.5 Gbps over distances of up to around 100 meters. Data-transfer rates that high enable real time monitoring of images with a resolution comparable to high-definition television. Tohken will begin shipping systems in September, charging ¥1.6 million (US\$14,300) for a set that includes a transmitter and a receiver. It hopes to sell 200 sets in the first year and nature this into a business with annual revenues of ¥1.6 billion (US\$14.4 million) after three years.

- **Electric equipment maker Nippo Electronics Co. has developed a device for transmission of information such as video that uses radio signals to jump spaces that obstruct the passage of the cable, such as concrete walls and elevator doors.** The device converts the cable's signals into 2.4 GHz high-frequency radio signals which can be picked up and reconverted by a similar device located behind an obstruction as thick as 20 cm. No antenna is required for this transmission; the signals jump the space using a phenomenon known as coupling. By attaching a device to cables on either side of a wall, the data can be sent without signal loss and without the need to punch a hole for the cable. Nippo Electronics will sell the device in sets of two, priced at ¥600,000 (US\$5,386) a pair. It expects the product to be used for monitoring of video cameras set inside elevators and to send live video feeds out from surgery rooms.

## *Mobile / Wireless*

- **NTT DoCoMo reported its net profit in the three months to June fell 13.4 percent from a year earlier to US\$1.5 billion** as price competition ate into its revenue. Net profit fell to ¥170.4 billion (US\$1.5 billion) as pre-tax profits fell 17.8 percent to ¥276.9 billion (US\$2.5 billion) and revenue slipped 2.5 percent to ¥1.2 trillion (US\$10.8 billion). Operating profit from the mobile business tumbled 18.9 percent to ¥283.8 billion (US\$255.4 million), with ARPU sinking to ¥7,400 (US\$66.4) from ¥8,060 (US\$72.4) in the same quarter last year. Another factor that pressured profits was a 9.6 percent expansion in costs to promote a customer shift to its cutting-edge third-generation (3G) mobile services, called FOMA.

## *Telecommunications*

- **Japan's second-ranked telecommunications operator KDDI reported its net profit rose 17.6 percent to US\$463 million** in the June quarter due to higher income from its mobile business and cost cutting. Group net profit reached ¥51.7 billion (US\$463 million) in the April-June period, with recurring profit growing 7.4 percent to ¥87.2 billion (US\$782.8 million). Overall revenue rose 4.4 percent to ¥720 billion (US\$6.5 billion). KDDI raised its net profit forecast for the year to March 2005 to ¥213 billion (US\$1.9 billion) from the ¥190 billion (US\$1.7 billion) estimated earlier but cut its recurring profit projection to ¥300 billion (US\$2.7 billion) from ¥311 billion (US\$2.8 billion), with revenue now seen at ¥2.9 trillion (US\$26 billion) rather than ¥3 trillion (US\$26.9 billion). The changes were made due to the planned sale of one of its wireless phone companies to a consortium led by U.S. investment firm the Carlyle Group and Japanese electronics maker Kyocera.

## **Korea**

### *Internet*

- **Daum Communications Corp. reported a first-half operating profit of 23.1 billion won (US\$19.8 million)** on sales of 91 billion won (US\$77.8 million). The figures are up 29.4 percent and 47.2 percent from last year's operating profit of 17.8 billion won (US\$15.2 million) and sales of 61.8 billion won

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(US\$52.8 million), respectively. The company reported 1.4 billion won (US\$1.2 million) in net income through the first quarter this year. Daum, the operator of Korea's No. 1 Internet portal Daum.net and popular free e-mail service Hanmail.net, reported 141 billion won (US\$120.5 million) in sales and 25 billion won (US\$21.4 million) in net income last year. Advertising accounted for 52 percent of first-half revenue at 47.7 billion won (US\$40.8 million), up 46.9 percent from last year's numbers. Online shopping sales were 24.3 billion won (US\$20.7 million), up 74 percent from last year and representing 27 percent of revenue. Paid services including online games, movies and other entertainment content, generated 19.1 billion won (US\$16.3 million), up 23.6 percent from the first half last year.

## *Media, Entertainment and Gaming*

- **Apple Computer Inc. announced the release of its portable music player, the iPod mini, in Seoul,** hoping its latest product will overcome the disappointing market performances of earlier models. iPod mini is integrated with a 4-gigabyte hard disk that is capable of holding more than 1,000 songs copied at 128 kbps and a rechargeable battery featuring up to eight hours of playing time. It will sell for 341,000 won (US\$292), about US\$50 more than in the United States, but similar to the conventional 512Mb flash-memory digital music players that hold about 200 songs selling here for around 300,000 won (US\$256.4).

## *Semiconductors*

- **Hynix Semiconductor, the world's third-largest memory chip maker, swung to a record quarterly profit thanks to stronger sales and prices and would raise output of flash memory.** Analysts expect memory makers such as Hynix and market leader Samsung Electronics to benefit from firm prices for their chips in the second half thanks to a healthier PC market, in contrast to makers of processors and other chips facing growing inventories. Prices for dynamic random access memory (DRAM) chips used mainly for computer memory rose in the second quarter as glitches at companies moving to next-generation production technology crimped supplies. Hynix earned 625.2 billion won (US\$71.5 million) in net profits for the quarter to June 30, compared with a revised 526.3 billion won (US\$449.8 million) loss a year ago. This is up 78 percent from a 351.1 billion won (US\$300 million) profit in the first quarter. Turnover increased to 1.7 trillion won (US\$1.4 billion) versus 778.5 billion won (US\$665.4 million).

## *Telecommunications*

- **South Korea's top mobile carrier SK Telecom reported that net profit for the second quarter to June fell 46 percent from a year ago to 299 billion won (US\$256 million)** as a result of higher marketing costs and lower interconnection charges. Operating profit fell 43 percent to 463 billion won (US\$395.7 million) while sales for the period totaled 2.4 trillion won (US\$2 billion), barely changed from the year ago level of 2.4 trillion (US\$2 billion).

## **China**

### *Internet*

- **China planned a multi-pronged approach in its fight against Internet porn,** employing both high technology and sex education to stop young people from visiting lewd websites. The government kicked off a massive campaign to weed out pornography from the country's rapidly growing Internet, but experts warned technology had to be used to ensure a lasting effect. High technology would play a

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vital role in ensuring a clean cyberspace, as it could be used not only to crack down on domestic Internet porn, but also to block overseas sites. Officials and experts, however, are also aware that half the country's Internet population of 87 million are people under the age of 24, and that many simply visit porn sites to learn about sex. This is because there are few other sources of information, given the low priority of the subject in schools combined with parental reluctance to talk about the still-taboo issue.

- **Tom Online will partner with ESPN to offer sports content to mobile phone users, as part of the company's plan to add new revenue streams.** The multi-year deal, to be announced over the weekend, would allow Beijing-based Tom Online to provide English Premier League (EPL) content. ESPN, which has exclusive broadcast rights for EPL in China, will promote the Tom Online brand through its television programs. Meanwhile, parent Tom Group said outdoor advertising sales would rise by as much as 70 percent this year to more than HK\$400 million (US\$51.3 million).
- **Sina Corporation announced its financial results for the second quarter ended June 30, 2004.** Net revenues for the quarter grew by 89.3% year-over-year to a record US\$49.2 million. Advertising revenues for the quarter grew by 63.4% year-over-year to US\$15.5 million and accounted for 32% of total revenues. For the quarter, Sina reported record net revenues of US\$49.2 million, an increase of 89.3% from US\$26.0 million reported in the same period in 2003 and an increase of 18.9% from US\$41.4 million reported in the previous quarter, within the range of the Company's guidance of between US\$48.5 million and US\$49.5 million.
- **Sohu.com Inc reported double-digit growth in both revenues and profits in its second quarter** thanks mainly to its online advertising business, but the firm's short messaging service (SMS) continued to decline. The Nasdaq-listed Chinese firm reported that its revenues rose by 41 percent year-on-year in the quarter to US\$27.3 million, beating its prediction of US\$26.1 to US\$27.1 million. Its quarterly profits also rose to US\$9.9 million, or 25 US cents per share.
- **Tom Online has achieved a 20.3 percent rise in second-quarter profit after diversifying its mobile short messaging service (SMS) business to interactive voice operations.** The Hong Kong and Nasdaq-listed firm reported a net income of US\$10.1 million, up from US\$8.4 million a year earlier. Revenue increased 19 percent to US\$30.9 million. SMS sales reached US\$15.1 million, up slightly from US\$14.7 million. The company expects strong growth for the rest of the year from its interactive response service, which contributed 28 percent of revenue, as well as 2.5G, multimedia messaging and wireless application protocol services, which accounted for 20 percent in the past quarter.

## *Mobile / Wireless*

- **China Unicom, the mainland's sole CDMA mobile network operator, is gearing up its global expansion efforts in the hope of becoming a global class leader within five years.** The strategy will focus on taking small stakes in emerging markets carriers and collaborative efforts aimed at increasing CDMA operators' bargaining power with equipment vendors. Unicom also aims to force technology standardization and facilitate bulk handset purchases among operators in these markets, a move that if successful could squeeze the margins of handset makers. Unicom is in talks to take a stake in Romania's POSTelecom, a new operator established last year by the country's postal service as part of a deregulation program. If successful, it would be China Unicom's first investment in a foreign carrier and other investments could be made if opportunities arose.
- **China Unicom will launch this week the world's first-ever GSM-CDMA dual-mode mobile phone service** - its latest effort to lure subscribers to its underused CDMA network. Motorola,

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Samsung Electronics and LG Electronics are developing three new handsets for Unicom that will allow users to use both GSM and CDMA networks on the same phone. China Unicom said the new dual-mode service, branded Worldwind, would also allow GSM users in China to enjoy high-speed data services offered by Unicom's CDMA network. The carrier hopes the new phones will help it win China Mobile's users - who do not want to drop their existing GSM account with the country's dominant carrier - to sign up for Unicom's CDMA service as well.

## *Semiconductors*

- **Semiconductor Manufacturing International Corp (SMIC) reported robust second-quarter earnings and forecast strong demand up to the third quarter of next year** - shaking off concerns of a slowdown in the cyclical chip industry. The chipmaker is aggressively expanding capacity, and last week began pilot production at a new, advanced 12-inch wafer line in Beijing. Wafers shipments are expected to increase 23 to 27 percent this quarter. SMIC reported second-quarter earnings of US\$34.2 million, up 24.4 percent from the first quarter, compared with a loss of US\$30.5 million last year. Revenue was US\$221 million, up 18.2 percent sequentially and 193.9 percent from a year earlier.
- **CSMC Technologies planned to re-launch its delayed initial public offering as early as next week after agreeing with its underwriter to cut its minimum offer price target by 20 percent.** The Wuxi-based low-cost chipmaker planned to raise up to US\$683 million last month, but the offering was delayed as it failed to agree with bookrunner Citigroup on the final offer price. The decision came after the order book closed and five days before shares were to list on the Hong Kong main board on June 25.

## *Telecommunications*

- **China Network Communications (Netcom) has made a huge write-down on its assets before a planned Hong Kong listing** in an effort to offer the shares at a low price. The mainland's No. 4 basic telecom services provider wrote down 23 billion yuan (US\$2.8 billion) of its assets value for last year and expects to report a net loss of 11 billion yuan (US\$1.3 billion) for the year. Banking sources said Netcom had "planned ahead" to bring down its book value in an attempt to lower its offering price to draw investor interest. The huge write-off was made to avoid the problem that China Telecom faced in its first attempt to sell shares. In 2002, China Telecom was forced to first halt then reduced its share offering by 50 percent because it was unable to price its shares at a deep discount to its book value, as demanded by investors. Chinese regulations prevent the sale of state assets for less than their book value. The carrier cut the number of shares offered to keep the issue at a marginal premium to its book value. Instead of the originally planned US\$3.7 billion share offering, China Telecom eventually raised US\$1.4 billion when it re-launched the offer within a week.

## **Taiwan**

### *Semiconductors*

- **United Microelectronics Corp (UMC), the world's second-largest made-to-order microchip maker, reported its earnings jumped more than six-fold** in the six months to June on the back of increased shipments and higher margins. Net profit for the half reached NT\$19.6 billion (US\$573 million) from NT\$3.1 billion (US\$91.2 million) in the year ago term. Sales for the half rose to NT\$54.5 billion (US\$1.6 billion) from NT\$39.6 billion (US\$1.2 billion) a year ago while the firm's gross margin



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rose to 32.4 percent from 19.5 percent a year ago. The company said its wafer shipments in the third quarter to September are expected to rise 15-16 percent quarter-on-quarter.

- **Taiwan Semiconductor Manufacturing Company (TSMC), the world's leading made-to-order microchip maker, first half earnings more than doubled** from a year ago on the back of higher margins and rising wafer shipments. Net profit for the six months to June surged to NT\$42.2 billion (US\$1.2 billion) from NT\$16.1 billion (US\$473.5 million) a year ago. Sales for the half rose to NT\$122.4 billion (US\$3.6 billion) from NT\$89.3 billion (US\$2.6 billion) a year ago while the firm's gross margins rose to 41.6 percent from 32.2 percent. The average selling price (ASP) in the third quarter is seen to be flat from the second.

## Hong Kong

### *Telecommunications*

- **Hong Kong Broadband Network, a unit of City Telecom, unveiled a broadband telephone service that posed a new challenge to dominant fixed-line carrier PCCW.** The offering piggy-backs on the existing broadband networks of other players - such as PCCW, HGC and Wharf T&T - to bring users voice services for as little as HK\$88 (US\$11.3) monthly. Fixed-line services at PCCW start at about HK\$120 (US\$15.4) per month. Customers are provided with an adapter box that is attached to a broadband modem and computer. A normal phone is then connected to the adapter box. Hong Kong Broadband assigns a telephone number to customers, or an existing number can be transferred. Market watchers said the move could further erode PCCW's dwindling share of the voice services market.

## United States / Canada

### *Information Technology*

- **Electronic Data Systems Corp. slashed its quarterly dividend, saying the new, lower payout was in line with market rates.** EDS reported its board has approved a dividend of 5 cents per share, payable on Sept. 10 to shareholders of record as of Aug. 13. The company had previously planned to cut its dividend, which had stood at 15 cents.

### *Internet*

- **Monster Worldwide Inc., parent of Internet job-hunting site Monster.com, reported its second-quarter net income rose, thanks to the improving labor and advertising markets.** The New York-based company posted net income of US\$16.2 million compared with US\$9.7 million a year earlier. In April, Monster said it expected earnings of at least 12 cents a share for the second quarter.

### *Semiconductors*

- **Intel announced a faster version of its flagship Pentium 4 microprocessor would not be available by the end of the year as previously promised.** The company told PC makers this week that the 4-gigahertz chip will not ship until the first quarter of 2005. Currently, the fastest model runs at 3.6 gigahertz. Its current Pentium 4, unveiled in February, has been criticized for not raising the performance bar over previous processors. In May, it cancelled the next-generation Pentium 4 so that it could focus on more promising technologies. In June, a manufacturing glitch forced a small recall of chipsets, which handle communications between the processor and the rest of the system.

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## *Software*

- **PeopleSoft Inc. posted a weaker quarterly profit, citing dampened demand for its business software products, which it blamed on Oracle Corp.'s hostile takeover bid.** The company also said it is unlikely to meet its earlier 2004 full-year earnings outlook. PeopleSoft told analysts in a conference call that the company's previous full-year outlook "cannot be achieved" and the company would update its outlook after a federal court rules on whether the takeover can move forward.
- **Microsoft released a patch to halt the spread of a computer virus that can steal personal information, more than a month after the virus began** winding its way through the Internet. Microsoft had previously released tools to detect the virus and thwart it from infecting computers. Until recently the company did not have a fix available to prevent the pesky virus from spreading. Microsoft said the company needed time to make sure the patch would not create further problems for users. The concern was that if even a tiny portion of users had difficulties, they would distrust the system and be less likely to download other security updates in the future. That could leave many more people open to further cyber-security problems. The virus, dubbed "download.ject," exploits a vulnerability in Microsoft's Internet Explorer browser, potentially allowing a hacker to convert popular websites into virus transmitters.

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