

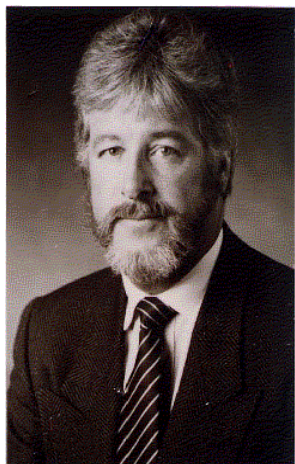
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## ASIA

Top 10 Tech Stories Reveal Fast-Changing  
Landscape

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President

The tech industry had a rough start in 2003, but things started to look up as the year went on. The year started with the SARS scare in Asia and with war continuing in Iraq. Soon the tech industry started to pick up again with sales and stock prices rising.

1 - Tech stocks had strong gains by the end of 2003. Considering stocks had fallen for the past three years, this looked promising. Tech heavy Nasdaq rebounded by 50%. . The industries

with the largest gains were wireless telecom gear, Internet, electronics, chip and contract manu-

facturing stocks. The leading company stocks were held by eBay Inc., NetEase.com Inc., OmniVision Technologies Inc., Yahoo Inc., ScanDisk Corp., Nam Tai Electronics Inc., Altiris Inc., Amazon.com Inc., Netflix Inc. and Foundry Networks Inc.

2 - Offshore outsourcing was prevalent in 2003. This trend has cut costs for companies up to 50%, quickened the pace of production and lowered risk. Some of the duties that have been outsourced are call centers, tech support, processing transactions and writing code for softwares. India receives most of these jobs due to their well educated workers. Other outsourcing locations include: Ireland, Israel, Russia and the Philippines. It is estimated that by the end of 2004, one out of ten jobs will be off-shored.

3 - China rose to be an important factor in the tech industry in 2003. Two factors have been involved in China's success. One was manufacturing had risen in the country, which has made

China a powerful playing force in the chip and electronics industry. Second was that consumers were making themselves much more visible in the industry. There is a huge market in China for personal computers and cellular phones. Internet use in China has grown fast. China has a population of 1.3 billion. They currently have 78 million internet users, compared to 68 million in December.

4 - There were two major attempts to crackdown on unsolicited marketing; spam e-mails and telemarketing calls. President Bush signed a Can Spam Act which prohibits emails that are misleading and giving the option to opt out of unwanted mail. However this act has not been very helpful. Spam accounts for over half of the e-mail out there. Bush also signed the Do Not Call Registry measure to deter telemarketing calls.

5 - In 2003, Wi-Fi (Wireless Fidelity) reached many coffee shops, hotels and airports. Wi-Fi allows users to connect to the Internet and send e-mail without being wired. Intel released Centrino chip laptops with Wi-Fi capability. Wi-Fi technology still has a way to go in boosting speed, range, pricing, and security.

6 - Technology spending was stagnant for two years until finally rising 6.4% in 2003 over 2002 levels. Many expect 2004 to be another good year, if not better.

7 - The chip industry started to recover in the middle of 2003, with chip sales rising 15.8%. The Semiconductor Industry Association should grow 20% in 2004 to \$195.6 billion. Sales picked up in the United States and Japan. China's market continues to flourish, and Europe may surprise the industry.

8 - On November 24, 2003, consumers of cell phones were provided with number portability so they were able to switch cell phone providers without switching their numbers. In the past, one quarter of cell phone users switched wireless carriers annually. Now however, this new regulation is expected to increase the customer turnover even more.

9 - Another technology called VoIP (Voice Over Internet Protocol) emerged. This basically allows someone to make a phone call using their Internet connection. This is expected to save consumers and businesses money, but may also produce competition and price deflation.

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VoIP technology has greatly improved compared to the poor voice quality and reliability in the past. This is due to newer network switches and call routing software.

10 – Many large companies embraced lower end Intel type machines and the Linux operating system for their IT departments. This made 2003 the year where many firms treated information technology as a commodity.

## **EUROPE**

### **France Fails in Bid to Cut Restaurant Tax**

France, the world's most popular tourist attraction, hoped the government would cut taxes for restaurants and hotels to boost salaries and create jobs for the economy. France, however, was unsuccessful once again with Germany being one of the countries leading the opposition. They require approval from the European Union finance ministers. In order to be successful, it must be unanimous among the European Union's fifteen countries, and this is not an easy task to achieve.

France hoped to have taxes cut from 19.6% to 5.5% for restaurant meals. Germany opposes this. The primary fear being restaurant employees will start requesting salary increases and similar demands.

The European Union finance ministers have been discussing budget plans for France. France has more than once broken the rules when it came to the European Union's fiscal rules. They fear if there are not any spending cuts, France may break budget deficit limits of 3% for the country's gross domestic product for the following four years. France and Germany have evaded fines in the past for having a budget deficit over 3% of GDP, or the total value of goods and services produced in a nation, and the European Union's ministers have been sued for this. The ministers also fear Italy will breach the 3% GDP deficit with their pace in debt reduction.

The European Union expects French proposals to cut taxes will be dropped by this spring.

### **Adopting Spending Plan To Boost Security**

The European Union (EU) has been discussing terms to enhance internal security in Europe. They are looking to spend around \$2.5 billion to match the spending on research in the U.S. on their Department of Homeland Security technology. European Aeronautic Defense & Space Co., Thales SA of France and BAE Systems PLC and Smiths Group PLC of Britain are

some of the beneficiaries of this project. They hope to launch this research program by 2007.

The funding for this research will come from the European Union budget. Initial funding will start at 1 billion pounds and will go up to 2 billion pounds. The U.S. Department of Homeland Security has an annual budget of \$1 billion.

With the new research and technology that will be developed, efforts towards securing the European Union's borders fighting terrorism, crime, as well as providing peacekeeping and other security related issues will be launched. They would also like to develop a myriad of devices to detect various threats.

### **Top Aides Hint at Actions To Rein In Euro**

The European Union finance ministers have been in discussion regarding intervention of the strengthening of the euro to stem its growth. What worries them is the volatility of the market. The euro has risen 50% since the year 2000.

The European Central Bank announced that interest rates would remain the same for now. There was speculation regarding cutting the current rate of 2% to stem the growth of the euro and inflation. But for now, the rates will remain unchanged.

In the past there have been many interventions to assist the weakening euro. The Europeans would like to work with the U.S., however they believe this is unlikely. The U.S. does not wish to see the dollar continue to decline, but it does help American manufacturers in competing against foreign companies. The Japanese have been aggressively trying to stem the yen's growth against the dollar.

### **MMO2 Surges on Takeover Rumors**

MMO2 has been a takeover target because they are a fairly small company and may have trouble surviving on its own. MMO2 is based in Slough and is Europe's sixth largest mobile firm. Dutch firm KPN made a bid for MMO2, but was unsuccessful. This will most likely bring more bids for MMO2 to the table. There are speculations that Japan's largest mobile phone firm NTT DoCoMo to be a possible contender.

Since there were news of MMO2 being taken over, its shares jumped 16%. On the London Stock Exchange, the stocks made a record by reaching 111p and then ending the day at 107p, making this a 15.25p gain.

MMO2 has assets in Germany, Ireland and Britain. It was formed from a UK telecom group BT's mobile business in 2001. MMO2 has a subscriber base of 20.1 million users compared to the world's largest mobile phone firm, Vodaphone of the United Kingdom, with 130 million subscribers.

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## ASIA

### **Cloning by Koreans Stirs Washington Over Research Issue**

Korean scientists claimed they were first to clone human embryos and turn them into powerful stem cells. Another name for this embryo cloning is therapeutic cloning. After this announcement from Korean scientists, there were renewed calls to ban this science in the United States. There are conservatives who feel this is an unethical practice. There is currently no law that makes embryo cloning illegal due to the lack of votes in the Senate. But no taxpayer dollars are allowed to fund this kind of research through a compromise. The only way embryo cloning can access funding is through companies, patient organizations and people who choose to donate funds toward this research.

One particular individual who has offered \$400,000 to researchers to clone embryos is Irvin Naylor. He is a ski-resort owner and investor whose life changed when a horseback riding accident left him in a wheelchair. Embryo cloning can one day help Mr. Naylor. With embryo cloning, there is a possibility to take Mr. Naylor's skin cell, placing it in an egg, and turning it into an embryo that shares his DNA. In this embryo are the stem cells that can be transformed into nerves which Mr. Naylor needs for his injured spine. This can still be far in the future, but if no funding is going towards this research then this could never be a reality.

Mr. Naylor's funds were first used at the Bedford Research Foundation near Boston, but due to unsuccessful attempts in producing stem cells, research was suspended. His funds are still in the process of looking for a new research facility.

Currently there are not any U.S. groups working on the technology of human embryo cloning due to lack of funding, companies dropping out or universities not being able to access grants from the government.

### **Citigroup buys South Korean bank**

Citigroup has just made one of the largest foreign investments in Korea. Citigroup will buy South Korea's Koram Bank for \$2.7 billion at 15,000 won (\$12.71) per Koram Bank share. This price per share is 7% higher than last month's average price. Koram Bank has six million clients and 222 domestic branches. The combination of Koram Bank and Citigroup will make them South Korea's fifth largest bank.

Citigroup currently already holds operations in other countries such as Poland and Mexico. The merger of these two lenders will place Citigroup ahead of its competitors Standard Charter and HSBC in South Korea. Standard Charter has a 10% holding in Koram Bank.

This deal still needs to go through regulatory approval. The board and both lenders have already agreed upon this purchase agreement. If all goes well, which they are confident about, then the deal should go through during the second quarter of this year. There are expectations that this deal will shake up the banking industry of South Korea.

### **China Wants Banks to Cut Loan Pace**

China's economy has been booming and the government would like the pace to slow down by having the banks limit new loans being issued this year. The loans generated by banks in China generate around half of the \$1.4 trillion economy growth. Banks are an important factor in investment funding due to the lack of financing alternatives in China.

The central bank would like the limit to be at 2.6 trillion yuan (\$314.1 billion) for 2004, which is 16% more than last year. Lending in 2003 was up by 21%. The government is worried this growing economy can burst due to the risk of inflation and bad investment decisions. There is no easy way to sell yuan and buy foreign currencies. There is no indication of whether this will be changed in the near future.

There has been an abundance of deposits in the banks since last year due to the amount of cash coming into China. The economic growth for China was at 9.1%. Deposits rose 20% to 22 trillion yuan. This has caused the economy to be flooded with cash. The central bank would also need to limit the money supply growth at 17%. So far it looks like the money supply for January exceeded the 17% limit to 19%. But this seems like a normal trend for the economy to exceed their expectations. The growth in exports, imports and foreign investments have slowed in January. The central bank has been successful in attempting to limit lending growth, but it is still too early in the year to tell what the outlook for the rest of the year will be.

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## **Chinese Upstart In Chip Making Planning IPO**

Semiconductor Manufacturing International Corp. (SMIC), China's largest chip foundry makes chips based on customer designs. SMIC is planning an initial public offering of stock valued around \$1.5 billion. They are expected to raise around \$1 billion. SMIC has won approval from stock exchange regulators and pricing will start around the second week of March 2004. Credit Suisse Group's Credit Suisse First Boston unit and Deutsche Bank are the two sponsors.

SMIC is based in Shanghai and was founded in April 2000 by overseas professionals. They announced a \$10 million net profit in 2003's fourth quarter. Their revenue of \$360 million was seven times more than 2002 at \$50 million.

Taiwan Semiconductor Manufacturing Co., the world's largest foundry chip maker, filed a lawsuit against SMIC back in December alleging theft of intellectual property. It looks like this deal will not be affected by the lawsuit due to lack of merit. SMIC is still behind industry leaders such as Taiwan Semiconductor, but they are gaining recognition with their low prices and building their production capabilities.

## **Broadband Fiasco**

The world is leading the United States in broadband technology. The U.S. was in the lead during the 1990s, but now ranks eleventh worldwide in high speed internet use compared to Germany, Canada, South Korea, Japan and Italy. The reason for U.S. technology falling behind is due to Al Gore's telecom policy. A policy inherited from the Clinton years. The policy has brought uncertainty and instability with regulatory rules. No one has taken the initiative in paving a path that is much clearer for potential investors.

The global leader in the industry is South Korea; with 73% of the households broadband capable. In comparison the U.S. has only 38%. Japan has the fastest and cheapest connections. Users there can download a whole movie in twenty minutes. Many individuals in the U.S. still have 56K modems and old copper-wire phone lines. At 56K modem speeds it would take someone more than seven days to download a movie.

The lack of technology has dragged down the U.S. economy and impedes web surfers from taking advantage of the latest technologies and viewing intensive applications. This has led to the loss of half a million jobs in the telecom sector since 2001 and market capitalization has dropped to \$2 trillion compared to its peak in the 1990s.

FCC Chairman Michael Powell has attempted to deregulate the market and opposed FCC rules, but has been unsuccessful in doing so with state regulators trying to preserve status quo.

The latest generation for internet applications is available now. Alas, Americans are not up to speed and may never be in a position to be a leader in this industry again. The regulations from the past are impeding the path of this country from moving forward.

## **INDIA**

### **Job shift creates tech boom**

The tech economy is starting to look good again, but a majority of the jobs are in India. Silicon Valley once the center of this boom, but unfortunately this is no longer the case. This shift has boosted India's tech industry and allowed U.S. companies to save money. Alas, this has not helped the US job market which has already lost over 200,000 jobs since 2001 along with salary ranges dropping by as much as 24%.

Major U.S. tech firms have opened locations outside the U.S. through the years. Many of the positions moved to India are software programming positions. India has a strong education system with many English speaking workers. If you look in an Indian classified ad, you will notice all the major U.S. tech firms having job listings. This will in turn push U.S. tech workers to look for jobs elsewhere. There is a research survey done by Forrester Research that estimates 3.3 million jobs to be moved out of the U.S. by 2015. With people working in both the U.S. and India, it allows for a 24 hour workday while also lowering the cost of tech goods.

When comparing India and the U.S.'s tech industry, India's is one fifth the size. India's tech industry revenue by fiscal year is as follows: 1998-99 \$6 billion, 1999-2000 \$8.4 billion, 2000-01 \$12.4 billion, 2001-02 \$13.8 billion and 2002-03 \$16.5 billion. As you can see from the numbers, India's industry is booming.

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