

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



Week of 23 January - 29 January, 2005

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International

Internet

- **With the aim of expanding its anti-piracy engineering, education and enforcement initiative, Microsoft has announced that it would expand its Windows Genuine Advantage to 25 languages.** This initiative was launched in September piloting a program for English language users. The program allows users to check whether the copy of Windows they are using is legitimate. If users find out that their copy they are using is not legitimate, they are advised to ask the software vendor for a refund or a new copy. On February 7, Microsoft will expand the program to users of 20 languages. In the meantime, Microsoft allows any user to use Windows Updates and Windows Download Center, with around 5 million said to be checking out the software. With the expansion, users of Norwegian, Czech and Simplified Chinese language versions of Windows will be asked to participate in the pilot program if they want to use the Download Center. In the second half of 2005, participation in the Windows Genuine Advantage program will be a requirement for using the Windows Download Center and Windows Update. With the announcement, Microsoft said it would continue to offer critical security updates, such as Windows XP Service Pack to all customers.

Mobile/Wireless

- **The survey conducted by Strategy Analytics shows Nokia and Motorola regaining market share in the fourth quarter.** Slipping in recent quarters, Nokia's market share has recovered to 33.1 percent in the fourth quarter, compared to 30.7 in the previous quarter. Said gains were said to be caused by price cuts leading to lower operating profit margins. Motorola is said to have barely retained its No. 2 ranking in the third quarter, also gained market share as shown by a 15.9 percent climb, up from 13.9 percent. Said gains were based on the strength of a strong portfolio of new phones. Samsung came in as a very close No. 3, slipping to a 10.6 percent share in the fourth quarter, down from the 13.6 percent share in the third quarter. The survey mentioned worldwide handset sales reaching 200 million for the quarter, and 684 million for all of 2004. This is a 32 percent increase over 2003. The research firm said cell phone sales would grow at a slower rate in 2005.

Japan

Internet

- **Hitachi has developed two next-generation encryption technologies that are expected to be adopted as international standards.** Called MUGI and MULTI-SO1, the new methods are expected to be officially selected as ciphers by the International Organization for Standardization (ISO) in the middle of 2005. The technologies are based on "stream cipher system" and feature high processing speed and security. Stream cipher encryption has been used for the Internet and cellular phones. MUGI can process data more than ten times faster than the "AES" block cipher, adopted by the U.S. government as a multipurpose encryption standard.
- **Cybird Co. announced it is teaming up with Kyocera Communication Systems Co. to offer in February a security service for personal information on phone-based web sites.** The two companies will work on behalf of online marketers and other Internet businesses to find out whether

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their sites are vulnerable to unauthorized access aimed at stealing or tampering with information in those sites. They will also offer advice on how to prevent attempts of information theft or tampering. For this new service, Cybird, a distributor of cell phone-based Internet content, will offer its expertise in running phone-based web sites; Kyocera Communication will be the one to supply its security technology. The two companies project first-year revenue at 400 million yen (US\$3.8 million).

- **Partnerships are on the rise between smaller financial institutions and online brokerages.** The number of retail investors trading online has been reported as having risen sharply with online transactions accounting for more than 80 percent of total trading by retail investors. Industry watchers say that because online investors make their own investment decisions, smaller institutions can still form partnerships with online brokerages without devoting substantial human resources to such operations. Matsui last year forged tie-ups with the Resona Group, Fukushima Bank and Hokuriku Bank. Rakuten Securities also formed a partnership with Japan Net Bank, which is an online bank affiliated with Sumitomo Mitsui Banking Corp. The partnership allows Rakuten's customers to open accounts online.

Software

- **Hitachi Software Engineering Software said that it would be reporting its first loss since its establishment in 1970, with a group net loss of 7.3 billion yen (US\$70.6 million) in fiscal 2005.** The loss attributed by the company to heavy discounting pressure is altogether different from its projection of 3.6 billion yen (US\$34.8 million) profit. With these results, Hitachi Software presently forecasts that sales in the years will drop 19 percent to 181 billion yen (US\$1.7 billion). The company also said that sales from its systems development businesses are expected to grown 5 percent to 108 billion yen (US\$1 billion) due to higher demand for network security and cell phone software. In the April-December period, the company's group sales dropped 13 percent on the year to 124.5 billion yen (US\$1.2 billion).

Telecommunications

- **NEC Corp., Japan's largest telecommunications equipment maker, posted a group net profit of 39.4 billion yen (US\$381.4 million), up from the 11.1 billion (US\$107.4 million) profit it reported in the previous year.** The reason for the profit surge is the successful initial public offering of chipmaker Elpida, in which NEC owns a 25 percent stake. For its poor operating performance, NEC is citing NEC Electronics misjudging the semiconductor market trends. NEC's group operating profit was reported as plunging by nearly 40 percent on year to 20.6 billion yen (US\$199.4 million).

Hardware

- **Servers are built as soon as they are ordered at the NEC Computertechno Ltd.** The NEC subsidiary said that it has made changes in its parts supply system and the skill levels of its employee so that its best-selling models can be made on multiple lines. The company expects the speedier delivery would boost server sales by 10 percent.

Mobile/Wireless

- **KDDI Corp. announced that the company is expecting its group net profit to jump 65 percent to 193 billion yen (US\$1.8 billion) in the year ending March 31.** The same report however said that it expects the same to fall 5 billion yen (US\$48.4 million) short of the forecast in October. The company also said that sales are expected to rise 2 percent to 2.9 trillion yen (US\$28 billion). Operating profit is seen only to rise slightly to 293 billion yen (US\$2.8 billion). The slight increase, below the 309

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billion yen (US\$3 billion) projected in October, is due to the au cellular phone services slowing amid increased competition with NTT DoCoMo Inc.

- **Vodafone K.K. said its revenue in the nine months ended December fell 14.4 percent to 1.1 trillion yen (US\$10.6 billion), which the company attributed mainly to the exclusion of its fixed-line business.** The subsidiary of Vodafone Group Plc sold its fixed-line telecom business in November 2003. The company expects a group net profit of 110 billion yen (US\$1 billion) on group sales of 1.5 trillion (US\$14.5 billion).
- **NTT DoCoMo Inc. announced that its group net profit between April and December reached 756.5 billion yen (US\$7.3 billion), which is 53 percent up from 494.2 billion yen (US\$4.7 billion) in the year before.** The gain is said to be due to the sale of the company's stake in AT&T Wireless Services Inc. The mobile phone unit of telecommunications giant Nippon Telegraph & Telephone Corp., however, said its group revenue fell 4.8 percent to 3.6 trillion yen (US\$34.8 billion) from 3.8 trillion yen (US\$36.7 billion). Group operating profit was reported to have slipped 10.9 percent to 751.3 billion (US\$7.2 billion). NTT DoCoMo said the number of users of its "FOMA" third-generation mobile phone service has been growing steadily, with 8.5 million subscribers as of Dec. 31 book closing, up from 6.4 million three months ago.

Media, Entertainment and Gaming

- **Nintendo said its group net profit nearly doubled to 67.7 billion yen (US\$655.4 million) from 34.5 billion yen (US\$334 million) a year earlier.** The Japanese game maker cited the reason for this huge profit on the strong sales of its newly launched portable game player Nintendo DS. Its group sales during the April-December period fell 4.6 percent on year to 419.3 billion (US\$4 billion) from 439.5 billion yen (US\$4.2 billion).

Korea

Internet

- **According to the central bank, the use of mobile banking is rising fast in the country.** Statistics show a gain of nearly 7 percent in the number of Internet banking users in South Korea. At the end of 2004, users of Internet banking offered by 20 commercial and policy banks numbered 24.2 million, up 6.7 percent from a year ago, this according to the Bank of Korea.

Mobile/Wireless

- **SK Telecom Co. announced its third straight drop in quarterly profit, with a net income falling 20 percent to 348 billion won (US\$337 million) from 433 billion won (US\$422.4 million) a year earlier.** The company attributed this drop after it paid higher fees to use rivals' networks and with sales stalled as competitors gain market share. The company boosted marketing expenses 18 percent in order to retain customers. SK Telecom's operating profit fell 14 percent to 594 billion won (US\$579.4 million) from 693 billion won (US\$676 million), while sales rose 0.2 percent to 2.5 trillion won (US\$2.4 billion). SK Telecom is trying to expand abroad and venturing into Internet services after the government last year allowed the company's subscribers to switch to KT Freetel Co. or LG Telecom Ltd. without changing numbers.
- **Considered as the biggest overseas investment by company, SK Telecom has entered into a joint venture with Earthlink to offer mobile services in the United States.** Under the partnership,

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each company will each contribute US\$220 million in a joint venture to become SK-Earthlink over the next three years. Earthlink is the fourth largest U.S. Internet service provider. SK said it could not reveal which wireless operators would provide networks for the services. Presently, SK is in a strategic alliance with Verizon Wireless, the No. 2. U.S. wireless carrier, to advance such services as data roaming, video-on-demand and TV phones. SK Telecom has been turning to overseas markets to drive its earnings with growth in Korea, Asia's third-largest mobile market, having slowed down, with three out of every four people having a mobile phone.

China

Internet

- **China auction portal Taobao.com has set up a service in Hong Kong following U.S.-based ebay's announcement that it would pour an additional US\$100 million into its mainland operation.** The move of Taobao.com is seen as an effort to expand its coverage, with its business-to-business portal Alibaba.com competing with eBay's EachNet for China's 94 million Internet users. According to Taobao, its new service will afford Hong Kong's small businesses access to the auction site's mainland-based customers. Taobao has 4.3 million registered users posting a US\$300 million trade last year, with best-selling products ranging from cosmetics, clothes and electronics. EachNet registered US\$360 million in transactions last year. Alibaba posted up to US\$46 million in revenue last year even as it went for three years without charging its customers; EachNet charges its 10 million customers listing fees.
- **About a thousand Chinese websites and media units, which included several leading gateways like Sina.com and China.com, have signed up in an alliance to adopt and foster a new technology aimed at improving the efficiency and accuracy of online advertising.** The information comes from TIXA Internet (Beijing) Technology Co. Ltd. which supplies the technology that will "narrow advertisement to the audience who are most interested in it." According to Sina.com that has 40 percent of China's online advertising market, the present way of Internet advertising may be described as somewhat blind and contributes to the slow website operations. Online advertising is considered to be most profitable business for websites. TIXA Internet Technology said that companies would not be charged by the websites until their advertisements are clicked.
- **Yahoo! China is experiencing a dramatic turnaround, a development that is considered remarkable considering that the firm was established by Internet giant Yahoo! only about six years ago.** A report on China's search engine market, conducted last year by CCID Consulting, saw its search website Yisou.com ranking second in the market, with a 19.6 percent share. It followed domestic search engine service Baidu.com holding 32.9 percent. Google was third with 21.2 percent of market share. That marked the first time that Yahoo! cracked the top three. Yahoo! previously lagged behind Chinese firms such as Sina Corp, Sohu.com and Baidu.com in terms of the portal business, online advertising and provision of search engine services. Yahoo! China also gained ground in the area of e-mail and instant messaging. Yahoo! focused on portals and online advertising when it entered the Chinese market in 1999. It has been recruiting in recent months, with the aim of enriching the content on Yahoo! China.
- **China Finance Online Co. Limited announced that its net revenues grew by 229 percent year-over-year and 24 percent quarter-over-quarter to US\$2 million from US\$1.6 million for the**

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fourth quarter of 2004. It posted a net income that grew by 426 per year-over-year and 44 percent quarter-over-quarter to US\$1.8 million for the quarter. Gross margin for the quarter was reported as 95 percent, compared to 89 percent for the same period in 2003 and 94 percent in the previous quarter. The company, which is considered to be a leading Chinese online financial information and listed company data provider, said the results were primarily due to continued growth in average subscription fee per subscriber and an increase in the number of subscribers.

Media, Entertainment and Gaming

- **As part of the campaign to combat what it sees as harmful influences on the young, China has banned 50 electronic games.** The campaign will not only crack down on computer software but will also look into what the Chinese government called “illegal publications”. Twenty-six of the 50 games banned are pirated software. Included, too, in games banned are FIFA Soccer 2005 and Microsoft’s Age of Mythology. The state media has reported that, last year, China seized about 230 million illegal publications, including pornographic material, and closed down 412,000 publishing houses and bookstores. By 2003, China had been reported to have 13.8 million online game players, with sales of related products and services amounting to 1.3 billion yuan (US\$157 million). Its Internet population has reached 94 million at the end of last year, 30 percent of which are believed to be students.
- **The Orchard, the world’s leading distributor and marketer of independent music, announced new partnership with China-based Asia Markets Development Limited (AMDL).** Under the partnership, AMDL will help The Orchard source the best independent music from China and other Far East Music territories. AMDL will also serve as The Orchard’s local liaison for label partners. AMDL was formed to protect Asian content, which has been described as “notoriously subject to piracy. The company will be tasked with the establishing of overseas distribution for music and other forms of intellectual property originating from China, Hong Kong and Taiwan.
- **Xinhua Finance has announced that its fully owned subsidiary Mergent, Inc. has expanded its product offering.** The new products come with the launch of a new service designed to deliver critical data to the growing hedge fund market. Described as the key elements of the new initiative are Mergent’s BondSource and EventsData information services that are expected to make available the most accurate, timely and easily accessible financial data in the industry to hedge fund portfolio managers, analysts, traders and back office staff. Mergent is a leading provider of global corporate and financial information and was acquired by Xinhua Finance in June 2004.

Semiconductors

- **Intel Corp filed a suit against Shenzhen Donjin Communication Tech in Shenzhen Intermediary People’s Court, with the U.S.-based company seeking US\$7.9 million compensation for losses due to Donjin’s alleged intellectual property theft.** Intel claims that Donjin has reproduced copyrighted software and distributed it to its customers, which allowed user to utilize header files that enable computer telephony applications on Intel Dialogic boards. The U.S. has been strong in its demands for Beijing to improve copyright protection for overseas companies with business interests in the mainland.

Telecommunications

- **China Telecommunications Group expects its earnings growth to slow to 6 percent this year.** The company has set a 10 percent growth for last year. China Telecom was said to be in talks with leading carriers in Hong Kong and overseas about expansion opportunities. This comment attributed

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to a China Telecom official came after rival China Network Communications Group Corp announced a US\$1 billion deal to acquire a 20 percent PCCW stake. The same official was quoted also as saying that, although the growth pace will be as good as before, the company will continue to see some growth in China's fixed-line business.

Taiwan

Semiconductors

- **Taiwan Semiconductor Manufacturing Co (TSMC) reported a net profit of NT\$92.3 billion (US\$3 billion) for the whole year representing a 95.3 percent rise over 2003, with sales of NT\$256 billion (US\$8 billion), up 26.8 percent.** The company, however, reported its net profit in the last quarter dropping 8.4 percent to NT\$22.1 billion (US\$695 million) from NT\$27.9 billion (US\$877.3 million) in the three months to September. The company explains the revenue decline for the fourth quarter as mainly the result of an 8.5 percent decrease in wafer shipments and a 2.9 percent depreciation of the U.S. dollar against the local currency, offset by a 1.7 percent increase in wafer average selling prices. TSMC is considered to be the world's leading contact microchip maker.
- **ASE Test Limited posted its consolidated net revenues of US\$41 million.** This figure, when compared to prior periods, represents a decrease of 1.5 percent year-over-year and a decrease of 18.8 percent sequentially. For the fourth quarter of 2004, the company's net revenues increased 17.6 percent compared to year-ago quarter and decreased 9.4 percent compared with the previous quarter.

Mobile/Wireless

- **Foxconn International Holdings, the mobile phone unit of Taiwan's Hon Hai Precision Industry, which aims to raise up to HK\$3.3 billion (US\$433 million) by way of Hong Kong listing, has warned investors in its listing prospectus that it may experience a further decline in profit margins.** Like many other handset manufacturers, Foxconn has been experiencing sharp declines in profit margins and the company owes this to changes in product mix and competitors' price cuts. Both Goldman Sachs and UBS are forecasting that Foxconn's profit margins will continue to erode in the coming two years. The deal values Foxconn at HK\$20.9 billion (US\$2.6 billion) to HK\$26.5 billion (US\$3.3 billion) in market capitalization.

Hong Kong

Media, Entertainment and Gaming

- **Television Broadcasts (TVB) announced that it has signed a partnership agreement for the distribution of its satellite pay-television service over Hutchison Global Communications's cable network.** Hutchison provides a service to 4,000 buildings or 1.2 million households in Hong Kong. TVB's Galaxy plans to increase coverage of exTV to two million homes by the end of the year. TVB has been looking for a partner for Galaxy after the U.S.-based Intelsat pulled out of the venture in September. Galaxy has already applied to change its mode of broadcast but this application had not yet been approved. City Telecom's Hong Kong Broadband Network has been allowed to offer pay-television service without a broadcast license as the service is based on an open Internet platform. PCCW's NOW Broadband TV has obtained already a license to provide pay-television service, and this

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is through the Internet. With its 30,000 pay-television customers, Galaxy said it would continue to provide service through satellite and broadband broadcasts. According to the partnership, Galaxy and Hutchison would start selling the bundled service in the second quarter of the year.

Telecommunications

- **Global Crossing, the U.S. undersea cable operator, said it would sell its telecommunications services in Hong Kong through New World Telecom (NWT).** Under the agreement, Global Crossing will contract marketing and sales of its services to NWT; NWT will offer the services under its own brand. Hong Kong and the mainland account for less than 15 percent of Global Crossing's revenue. The U.S. firm will use NWT's connections to offer business services estimated to be worth US\$300 million annually. The two companies declined to disclose details of their revenue-sharing agreement.

Internet

- **Midland Realty (Holdings) has announced its acquisition of a majority stake in online education service provider EVI Education Asia.** EVI is listed on the Growth Enterprise Market. The acquisition would allow Midland to develop an online training programme for property agents and others in the licensed service industries.

Singapore/Malaysia/Philippines/Indonesia

Mobile/Wireless

- **Maxis Communications, Malaysia's top mobile operator, announced that it is expecting to complete its purchase of a 51 percent stake in Indonesia's PT Natrindo by the middle of April.** Maxis is acquiring the stake at a cost of US\$100 million in cash accompanied by the provision of a five-year US\$150 million loan. The company said it currently has a US\$360 million loan facility available for use. PT Natrindo, in another report, said that it has between US\$1.3 billion and US\$1.8 billion that it would invest in the next five years. PT Natrindo is [company description].
- **Singapore and Malaysia signed a mutual recognition agreement (MRA) for telecom equipment.** The agreement would provide for the two neighboring countries to lower the costs and time required to bring telecom equipment into both markets. By recognizing each other's equipment conformity testing processes, the agreement is expected to boost market access opportunities for telecom exporters from both countries, and make such equipment not only more affordable but also more accessible to customers.

United States/Canada

Mobile/Wireless

- **According to InfoTrends/CAP Ventures, at the end of 2004, nearly 20 percent of U.S. Internet users owned a mobile phone with embedded digital camera.** The study also shows that over 40 percent of the camera phone owners have printed their camera phone images. As manufacturers introduce higher resolution and better quality optics, as well as options like Bluetooth and removable memory to make image transfer easier, camera phone volume will continue to increase. The study also

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said that 27 percent of consumers who do not currently own a camera phone are highly interested in purchasing one as their next mobile phone.

Telecommunications

- **Nortel Networks of Canada entered a joint venture with South Korea's LG Electronics in order to establish a joint venture on telecommunications equipment and networking solutions.** The joint venture would be focusing on developing and producing telecom equipment for 3G wireless networks based on W-CDMA technology. The joint venture would have LG Electronics holding just less than 50 percent, with the Canadian telecommunications giant holding 50 percent plus one share. Nortel is the supplier of wireless communications equipment and solutions to mobile markets in some 150 countries; LG Electronics is the No. 3 maker of plasma display panels for flat TV screens and is the world's fifth-biggest handset maker.
- **AT&T shares climbed more than 7 percent after reports circulated that SBC Communications is planning to acquire America's once dominant telephone brand for at least US\$15 billion.** The New York Times and Wall Street Journal citing as source people familiar with the discussions reported the talks. AT&T presently has nearly 30 million long-distance customers while SBC has about 50 million local-phone customers. AT&T declined to comment on the reports citing a "policy against discussing rumor or speculation about mergers, acquisitions, divestitures or other business combinations."
- **Verizon said it earned US\$3 billion this year, compared with a loss of US\$1.5 billion a year earlier.** The company said that it earned US\$1.8 billion during the fourth quarter, up from US\$1.6 billion in fourth-quarter 2003. Revenue for the largest U.S. telecommunications company rose 6 percent to US\$18.3 billion. Verizon Wireless, a venture of Verizon Communications and Vodafone Group, said that its operating profit and revenue rose on strong subscriber growth in the fourth quarter. The second-biggest U.S. mobile service provider said its operating income rose to US\$1.3 billion from US\$1.1 billion. Verizon Wireless said data services such as text messaging and mobile web surfing rose to US\$359 million.

Internet

- **Yahoo! said that it has rolled out a new feature in its local search service allowing users to send results from their personal computers to mobile phones.** The service is available only in the U.S. to subscribers of mobile services provided by the merged Cingular Wireless/AT&T Wireless, Verizon Communications, T-Mobile USA, and Sprint and Nextel Communications. Yahoo! said it will not charge for the service, but the carriers may apply fees on their end for receiving the text messages. According to the firm, users can expect further developments from Yahoo! on mobile search.

Europe

Internet

- **Philips Electronics announced its fourth-quarter earnings, with net profit falling to €498 million (US\$648.2 million) from €598 (US\$778.2 million) a year earlier.** Compared, however, with the analysts' expectations, the figures were still above the analysts' estimates. The Dutch electronics manufacturer said it would start a buy-back program of up to €750 million (US\$976.1 million) to be executed in the next six months. From this fund, some €500 million (US\$650.7 million) would be used

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for capital reduction and €250 million (US\$325.3 million) for hedging share and option plans. Analysts were quoted as pleased with solid underlying performances at consumer electronics, medical systems, lighting and appliances.

Software

- **SAP AG announced a 29 percent increase in fourth-quarter earnings, with its fourth-quarter profit rising to US\$705.1 million, from US\$546.7 million a year earlier.** The Germany-based company said its revenue increased 8 percent to US\$3.1 billion from US\$2.8 billion a year earlier. An official of SAP was quoted as underscoring the company's objective to "grab even more market share from Oracle in the United States". SAP said it ended the quarter with a U.S. market share of 38 percent, up from 32 percent a year earlier. Software sales in the United States were up 27 percent in the fourth quarter to US\$414 million. European software sales were said to be flat though at US\$755 million.

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