

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



Week of 15 May - 21 May 2005

Table of Contents

International	2
Japan	2
Korea	4
China	4
Taiwan	7
Hong Kong	7
Singapore/Malaysia/Philippines/Indonesia	8
United States/Canada	8
Europe	9

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



Week of 15 May - 21 May 2005

International

Information Technology

- **Vehicle navigation systems are expected to double in five years as their prices come down, according to a new report by the vehicle research firm, CSM Worldwide.** The study predicts that the number of navigation systems installed in North America will increase by 91 percent in the next five years, from a US\$406 million to a US\$778 million business. Japan registers the highest rate of installation of navigation systems, at 16 percent of vehicles produced, with the market already reaching US\$1.6 billion. The report said the European market is seen as posting the highest growth with the market forecast to grow 103 percent to US\$2.5 billion by 2010. Europe presently installs navigation systems in 8 percent of the vehicles it produces.
- **Manufacturers lost around US\$8 billion in software piracy in the Asia-Pacific region last year, with China, Vietnam and Indonesia placing amongst the top five nations basically disregarding intellectual property laws.** According to the Business Software Alliance (BSA), the increase is around US\$500 million from the previous year. The report said Vietnam was No. 1, with 92 percent of all software coming from pirated sources. Ukraine followed with 91 percent. China was third with 90 percent. New Zealand at 23 percent and the United States at 21 percent were listed at the other end of the scale. The software industry was worth around US\$90 billion last year globally, with only around US\$59 billion from this figure paid for commercially packaged software. Europe, by region, posted the highest loss at about US\$12 billion last year, up from around US\$10 billion the previous year. The figures were explained by BSA as arising out of the strong euro to the US dollar. The BSA commissioned International Data Corporation to conduct the study, which involved more than 80 countries.

Japan

Internet

- **Livedoor Co. announced a net profit of 1.8 billion yen (US\$16.6 million) for the fiscal first half through March 31, a 110 percent increase year on year.** The performance was ascribed to solid earnings at recent acquisitions that were made into subsidiaries, which include Livedoor Securities Co. and accounting software developer Yayoi Co. Earnings of the company were also boosted by profit of 1.2 billion yen (US\$11 million) generated from selling stakes in some subsidiaries and affiliates, which include Internet advertising firm ValueClick Japan Inc. The company said its sales for the period totaled 30 billion yen (US\$277.4 million). Its net media operations posted a loss.
- **Internet securities firms are seeing a rapid increase in their clients who trade currencies on margin.** Combined trading at Matsui Securities Co., E*Trade Securities Co., Monex Beans Inc. and Rakuten Securities Inc. totaled 570 billion yen (US\$5.3 billion) in April, a 68 percent increase over a year earlier. Matsui signed up the most new accounts over a one-year period.
- **Internet firms and non-bank financial institutions have been reported as expressing interest in acquiring shares of Nippon Shinko Bank, which provides unsecured loans to small and midsize companies.** Global Media Online, an Internet service provider, said it has obtained 8,260 of Nippon Shinko Bank's outstanding shares, which represents a 10 percent stake. Consumer finance

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



Week of 15 May - 21 May 2005

company Aiful Corp. is believed to be indicating an interest in Global Media's shares. The report said Nippon Shinko Bank appears to be pursuing discussions with potential share buyers.

Mobile/Wireless

- **Zappallas Inc., a content provider for mobile phones, said it will go public on the Tokyo Stock Exchange's Mothers market for start-ups.** Zappallas operates 67 sites, with most of the sites providing astrology and other content that has something to do with fortune telling. About 70 percent of the company's sales are attributed to the fortune-telling related service. At the end of January, Zappallas had 869 subscribers, a 12 percent increase from the end of April 2004. In the year ended last month, the company had an estimated 470 million yen (US\$4.3 million) in unconsolidated tax profit. Zappallas plans to use 1.3 billion yen (US\$12 million) from its initial public offering for capital spending and other purposes.
- **Eight major domestic cellular phone makers are targeting a 10.9 percent increase in their global shipments to some 81 million units in fiscal 2005.** Domestic demand is perceived to be bottoming out, with users shifting from 2G handsets to 3G models. The market is said to be near saturation even as overseas sales are expected to expand due to growing demands for higher-end models in China and Europe. Cell phone shipments in Japan, including imports are topping 2 trillion yen (US\$18.3 billion) annually. NEC Corp. is looking to boosting global shipments by 15 percent to 15 million units, with those to China targeted at 3 million units. Sanyo Electric Co. intends to increase shipment by 44 percent. Sharp projects domestic shipments of up to 3 million. Mitsubishi Electric Co. and Fujitsu Limited are on the other side of the picture: both companies are reducing their shipments by more than 10 percent.

Media, Entertainment and Gaming

- **Nippon Broadcasting System Inc. announced an impressive 82 percent increase in its group net profit to 6.3 billion yen (US\$58.2 million) a figure that beats previous estimate by around 900 million yen (US\$[] million).** With the increase in the sales of DVD content, the company's profit at the video, music and publishing business went past beyond estimates. The company's sales had a 5 percent increase to 114.7 billion yen (US\$1 billion), with its operating profit rising 130 percent to 6 billion yen (US\$554.8 million).

Software

- **Oracle Corp. Japan said it has started promotion of its small database-management software for use with cell phones.** The company is proposing to its customers ways to use the software in relation to their computer systems. Their application programs will include those used to assist in marketing work, manage customer data and support location-related services. Trial operations of the software will be conducted jointly with NTT DoCoMo Inc. The software is to be used with the 3G Foma M1000 handset to be released for business users in June.
- **Toshiba Corp. and Microsoft Corp. announced their entering into a cross-licensing agreement that would allow them to use each other's patents in the field of digital home appliances.** The agreement is expected to cover digital TV and other image processing technologies whose patents are held by Toshiba and Internet-related software technology owned by Microsoft. The agreement is said to be the first cross-licensing contract that Microsoft has signed with a Japanese company. The two

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



Week of 15 May - 21 May 2005

companies are sharing their technology to shorten the time needed to develop new digital home appliance products and, at the same time, cut costs.

Hardware

- Dell said it aims to strengthen its corporate sales in western Japan by establishing a special department to oversee sales activities to midsize companies, local governments and others in the area, which includes Kyoto, Osaka and Kyushu. Dell had an 11.2 percent share of the Japan market in 2004, a figure that put it at No. 3. Dell said it aims to raise that share to 20 percent and thus is focusing on western Japan where its share is low. Dell has a world market share of 17.8 percent. In Japan, Dell has figured prominently with large companies that have head offices in the Tokyo area.

Korea

Internet

- **South Korea presently leads the world in broadband penetration at 77 percent and is acknowledged as a global pacesetter in mobile wireless broadband through Wibro.** With Wibro products becoming WiMAX-certified, as this would allow interoperability among vendors, industry analysts are warning that joining the two standards could pose major problems when ratifying the all-important mobile version of WiMAX. The challenge for mobile WiMAX is ensuring backwards compatibility with pre-WiMAX tools already installed and already in use for fixed wireless services.

Hardware

- **TriGem Computer, Inc. filed for bankruptcy weeks after announcing a net loss in the first quarter.** The move of the 3rd biggest computer maker in the country will cause it to be delisted from the local stock market. The court will have a month to decide on the company's entry of court receivership and three months to approve the company's reorganizing plan. The company pointed to declining sales in the foreign markets as the main reason why they opted for bankruptcy.

Mobile/Wireless

- TU Media Corp., the country's only satellite-based mobile television broadcaster announced that it has registered more than 20,000 customers after two weeks of commercial services. The company's satellite-based mobile television enables subscribers to watch television programs from their mobile phones. TU Media is 30 percent owned by SK Telecom and is currently providing 7 video and 20 radio channels to its customers.

China

Internet

- **The Industrial and Commercial Bank of China's (ICBC) e-banking business got a boost with the bank's signing of strategic agreements with 12 new partners.** The partnerships are with leading e-commerce companies, which include Sohu.com, and include areas like online payment and client sharing resources. The move is seen as connecting the different firms to the country's largest online banking system and is expected to alleviate the payment gridlock that has long been perceived as hindering China's e-commerce. The ICBC has been observed as working hard in the past years in

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



Week of 15 May - 21 May 2005

promoting intermediary services and e-banking, which would include e-banking and telephone banking services.

- **CDC Corporation, the former Chinadotcom Corporation, posted for the first quarter of this year revenues of US\$56.2 million, which represents an increase of 58 percent from US\$35.5 million in the first quarter of the previous year.** The company said its net income was US\$4.3 million. The company's operating expenses totaled US\$33.8 million, which is a 105 percent increase from US\$16.1 million posted in the first quarter of 2004. The year-on-year growth in operating expenses was explained by the company as primarily driven by the consolidated results of Go2joy and Ross Systems, both acquired in May and August of 2004.

Mobile/Wireless

- **China Wireless Technologies announced its plan to launch some six of its own brand smart phones this year even as it tries to increase its market share and be ahead of Research in Motion (RIM) entry to China's mobile device market.** RIM has signed a memorandum of understanding with China Mobile last year. Last year, China Wireless Technologies launched three new models. With its nine-product portfolio at present, China Wireless Technologies is still behind RIM's 13-device collection. The company has almost 3 million users worldwide and has licensed the Blackberry platform to Nokia and Siemens. China Mobile is considered the world's biggest mobile operator by subscriber; RIM is the maker of Blackberry.
- **China Unicom has more new customers last month than in March, even as subscriber growth slowed to 1.4 million from 1.5 million in March.** The firm had users reaching 117.8 million at the end of last month. For its CDMA service, Unicom posted additions of 500,000 customers, a figure which would bring the total to 29.9 million. The company's bigger network, which is based on GSM, has about 900,000 users, which would add up to 87.9 million, a decrease from 922,000 in March. Unicom has about a third of China's mobile phone market, which is the world's biggest in terms of numbers.
- **China Mobility Solutions Inc. (CHMS) announced revenues of US\$1.2 million in the first quarter of 2005, compared with US\$60,000 in the first quarter of 2004.** For the first quarter of 2005, CHMS had a combined operating income of US\$168,000, which resulted in income of US\$61,000, compared with a net loss of US\$19,000. China Mobility Solutions is a leading provider of mobile business solutions to many diverse corporations across China. The firm has a growing client base of more than 17,000 companies and access to more than 500,000 companies, and makes it a strong candidate as a leading provider of mobile business solutions to China. The company has profit-sharing contracts with China's largest telecommunications companies – China Mobile, China Unicom and China Telecom.
- **Hurray Holding Co., a provider of advanced wireless and value-added services and mobile telecommunication network software in China announced total revenues of US\$14.9 million, a 6.2 percent growth quarter-over-quarter.** The figure is also unchanged year on year. Its 2.5G services revenues were US\$9.4 million, representing a 4.3 percent growth quarter over quarter. For its software and system integration services, revenues were US\$3.5 million. The company posted net income of US\$5.6 million, a figure that represents a 6.1 percent growth.

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



Week of 15 May - 21 May 2005

Media Gaming and Entertainment

- **NetDragon Websoft Inc., one of China's leading online game developers and publishers announced that it will start the alpha testing of Conquer Online 2.0 (English Version) at the end of May.** Conquer Online is an MMORPG combining ancient Chinese Kungfu elements with western mystical atmosphere. The game was developed by TQ Digital Entertainment, a wholly owned subsidiary of NetDragon Websoft Inc. Conquer Online 1.0 was launched in the worldwide English market in 2004 and has become one of the most popular MMORPGs in the English gaming market. The alpha/beta testing is expected to last from 3 to 6 months.
- **9you.com, a Shanghai-based online game operator said it has plans to publicly list on either the NASDAQ or Tokyo Exchange at the end of this year or in early 2006.** The trademark of 9you.com's current operations are the company's music oriented online games, which includes O2Jam, a game wherein players play virtual instruments and Audition where players compete in dance contests using virtual characters. The music oriented online gaming has helped 9you.com to recently raise US\$5 million in venture capital from Dragon Groove Inc. The company is considered the third largest online gaming company in Shanghai, coming in third to Shanda's 1st and The9's second. All of 9you.com's online games can be played for free, with the company generating income from selling online gaming accessories. The company is planning to launch operations of a self-developed 3D massive multiplayer online role-playing game.
- **Shanda announced its unaudited results for the first quarter ended March 31, 2005, with net revenues posting a 118.3 percent increase year-on-year to 497 million yuan (US\$60 million).** The revenues for online games, which include MMORPG and casual games, for the first quarter of 2005 went up 96.7 percent and 13.2 percent quarter over quarter to 441 million yuan (US\$53.3 million). Other revenues for the first quarter, which include revenues from online advertising and other value-added services, went up 36.2 over to 55 million yuan (US\$6.7 million).
- **Linktone Ltd. announced its acquisition of Brilliant Concept Ltd. (Brilliant).** Under the terms of the deal, Linktone, a leading provider of interactive entertainment products and services to consumers in China, has bought all of the outstanding shares of Brilliant for total cash consideration not to exceed US\$11.5 million. Brilliant presently offers online board and card games to more than 15 million registered users in selected provinces and had about 60,000 concurrent users during recent peak period. Brilliant is a developer and operator of online casual games in China through Shenzhen Yuan Hang Technology Company Limited. Linktone also announced its licensing of Mr. Hammer, a popular action game available on Yahoo! in South Korea.

Telecommunications

- **China Netcom Group Corp (CNC) announced that the company is working with investment banks to acquire four provincial fixed telecommunications network assets from parent China Network Communication.** CNC said it intended to buy from Netcom in Heilongjiang, Jilin, Snahsi and Neimenggu. The company added 2 million broadband subscribers during the first quarter and forecast it would have 20 million by year's end. Nothing was disclosed as to when the deal would be announced.

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



Week of 15 May - 21 May 2005

Taiwan

Hardware

- Taiwan may replace South Korea as the world's biggest producer of flat panel displays for computers and TVs by the first quarter of next year, iSuppli said. The market researcher said that it is still South Korea, led by Samsung and LG, that dominates the LCD market but that its LCD market share will be a 41 percent while that of Taiwan would be 42 percent. If one looks at the investment and spending by Taiwan LCD makers, it is certain that their shipment capacity would pass that of South Korea. By the second quarter of next year, South Korea would have regained the top position but after that the competition would be neck and neck, iSuppli said.

Hong Kong

Telecommunications

- Hutchison Global Communications Holdings (HGC) is offering its fixed-line and broadband subscribers a big discount on the monthly tariff on sister company 3 Hong Kong's 2G mobile-phone network if the clients switch to the service from rival mobile operators.** Industry watchers are saying that the offer created Hong Kong's first quadruple play of mobile and fixed telephony, and data and television. Bundling services, which involve a triple or quadruple play, is a trend in the industry used as a means of offsetting falling fixed revenues from fixed-line services. The practice also engenders customer loyalty.
- City Telecom (HK) warned that its net losses might extend to the month of February of next year in the context of a company outlook for a gloomier fixed-line market.** The company also announced that its plan to double its capital expenditure to US\$42.3 million every six months until August 2006 would increase further the network depreciation charges and affect its profit for the coming years. The company said it posted a net loss of HK\$32.2 million (US\$4.1 million) for six months to February, compared to its HK\$35.1 million (US\$4.5 million) net profit for the previous corresponding period. Its turnover in the first half was flat at HK\$575.8 million (US\$74 million), compared with HK\$572.4 million (US\$73.5 million) in the previous year.

Internet

- Tencent, remaining optimistic, said that its first-quarter profit went down from 116.3 million yuan (US\$14 million) in the first quarter to 96.9 million yuan (US\$11.7 million).** The company's revenue declined 4.5 percent from the previous quarter to 300.4 million yuan (US\$36.2 million). The announcement came days after Microsoft formed a joint venture with Shanghai Alliance Investment to expand its MSN services into China. Tencent attributed to the drop in revenues from continued volatility in the mobile value-added services industry. The firm expects Internet revenue to grow this year through virtual online identity and online games. Its first multi-player online QQ Fantasy is scheduled for open beta testing.

Media, Gaming and Entertainment

- Media firm Tom Group said it expects advertising sales from the Chinese Entertainment Television (CETV) to reach HK\$80 million (US\$80 million) this year. According to an official, the group

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



Week of 15 May - 21 May 2005

would strengthen the program content and sales teams for the television broadcasting channel, which it bought from Time Warner in 2003.

Singapore/Malaysia/Philippines/Indonesia

Telecommunications

- **Singapore Telecommunications said it would spend US\$252 million to raise its stake in India's Bharti Telecom.** The Singapore firm has been making investments in high growth opportunities abroad as it faces tougher competition in the local scene. The result of this is that SingTel's wholly owned Australian unit, Optus, and regional mobile phone associates in Indonesia, Thailand, India and the Philippines now make up more than 70 percent of the group revenues. An official said the remains on the lookout for attractive acquisitions overseas. It has expressed interest in a stake in Pakistan Telecommunications so long as the company is privatized.

United States/Canada

Internet

- **Google introduced a new option that would enable visitors to display more information on the online search engine leader's homepage.** The feature allows the millions of Google users worldwide to select components tools located under the search engine's hoods and display them on the main page. Web surfers who personalize Google's home page will be able to create a site that will begin to look more like Yahoo and Microsoft's MSN, which have multidimensional sites or portals.

Media, Entertainment and Gaming

- **Wal-Mart Stores said it is turning over its online DVD rental business to Netflix.** Observers see this as a sign that the world's largest retailer could not beat the Internet upstart at its own field, Under the agreement, Wal-Mart would allow its existing online DVD rental customers the chance to continue their subscriptions with Netflix at their present price for next year. Wal-Mart will also promote the Netflix service on its website. In return Netflix's web site will tell its subscribers that they can get their DVDs from Walmart.com.
- **Warner Music Group reported a narrower loss for the latest quarter, with the newly public company ascribing growth to its online business.** The company registered a loss of US\$18 million for the fiscal second quarter to March, which compares to the previous year's US\$45 million loss. Its revenue went up 4.4 percent to US\$7678 million from US\$735 million. Digital music revenue, music sold through web sites, reached US\$35 million.

Hardware

- **Intel said it would launch a desktop PC platform that is aimed at business.** Intel's Professional Business Platform would include a Pentium 4 processor and other features that would simplify system management, enhance security and decrease power requirements. Systems based on the platform would be first to incorporate Intel Active Management Technology that would help a company's computer administrators remotely monitor and protect PCs.

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



Week of 15 May - 21 May 2005

- **Hewlett-Packard announced a profit of US\$966 million, a 9 percent increase from US\$884 million in the second fiscal quarter of last year.** The company posted a quarterly revenue of US\$21.6 billion, which is a 7 percent increase from US\$20.1 billion in the same quarter a year earlier. The company reduced its research and development costs to US\$90 million in the second quarter, from US\$924 million in the same quarter of last year.

Europe

Mobile/Wireless

- **Ericsson said it entered into an agreement with China's leading telecommunications equipment maker ZTE for mobile network solutions in China.** The Swedish communications giant said it would open a 3G wireless research and development center in the country. Both the strategic alliance and the research center are aimed at the development and delivery of TD-SCDMA, a technology invented in China and with the purpose of simplifying the making of 3G networks. The deal calls for Ericsson to integrate some of ZTE's TD-SCDMA technology into its own network. The two companies have also agreed to work together on trials of the technology in China.

Telecommunications

- **BT Group, British telecom operator, announced a 4 percent increase in its annual pre-tax profits with the company ascribing the demand for its Internet products as offsetting weakness in its traditional fixed-line business.** The company's pre-tax profit was HK\$30 billion (US\$3.8 billion) during the 12 months to March. Last month, BT Group connected its five millionth broadband customer to the Internet, which was one year ahead of the group's own target.

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