

IRG WMR



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

Week of 24 July - 30 July 2005

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International

Mobile/Wireless

- **Global players fared better in the handset industry in the second quarter, with Nokia Corp., the world's largest manufacturer of mobile phones, grabbing 32.2 percent of the market according to International Data Corp.** Motorola Inc. was No. 2 with its market share of 18 percent, a performance ascribed to its line of savvy new models. Second-quarter data on global market share from the global IT market researcher revealed Korean handset makers falling behind the two largest companies. During the April-June period, Samsung Electronics Co. saw its market share went down 1.1 percent to 12.9 percent market share, placing it to No. 3. LG Electronics Inc. was the fourth-largest handset manufacturer with 6.4 percent. Analysts see the lackluster performance of Korean manufacturers as attributable to their weak presence in the emerging mobile-phone markets of Latin America, Central and Eastern Europe and Africa.

Japan

Internet

- **Ikyu Corp, a provider of niche-type Internet services, announced its plans to go public on the Tokyo Stock Exchange's Mother's market for start-up companies.** The firm, which operates a hotel reservation web site specializing in luxury accommodations, has contracts with some 700 facilities as of the end of March 2005 and receives 7-8 percent of the accommodation charge as a commission. Ikyu expects to post 1 billion yen (US\$8.8 million) in parent-only pretax profit for the year through March 2006, a 51 percent increase on sales of 1.7 billion yen (US\$15.1 million). Ikyu said it plans to use the proceeds through the initial public offering, which is estimated from 1.4 billion yen (US\$12.4 million) to 1.5 billion yen (US\$13.3 million).
- **Rakuten Securities Inc. announced that its group pretax profit for the April-June quarter amounted to 2 billion yen (US\$17.7 million), a figure ascribed by the company to an increase in financial income.** The Rakuten Inc. group online broker's parent-only pretax profit went up 22 percent from a year earlier to 1.8 billion yen (US\$16 million). The income of the firm in the other operating revenue category climbed to 400 million yen (US\$3.5 million) from a nearly zero a year earlier mainly because the company set up a nursing home investment fund and went on to other undertakings. On-the-year comparisons cannot be made for the group earnings because the company started issuing them only in the July-September quarter of 2004.
- **Media Create Co., an operator of "multimedia net cafes" and karaoke outlets, said it would go public on the Mothers section for start-ups on the Tokyo Stock Exchange.** The company, which operates 71 entertainment outlets in the Tokyo metropolitan area, is attempting to attract a wide range of customers by making varied offerings. Forming the company's core business are the Yuyu Kukan multimedia cafes that, unlike the usual Internet cafes, have pool and ping-pong tables and other entertainment facilities in addition to comic magazines and personal computers. In the year through next May, Media Create expects a parent-only operating profit of 250 million yen (US\$2.2 million), on sales of 4.4 billion yen (US\$39.1 million). Media Create said it plans to use proceeds from its initial public offering to finance capital spending at its Yuyu Kukan outlets.
- **Softbank Corp. disclosed its plan to sell its entire stake, about 160 preferred shares, in Cisco System Inc.'s unlisted Japanese unit to the U.S. network equipment maker for about 2.8 billion**

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yen (US\$25 million). The company, which has not yet issued earnings forecasts for the current fiscal year for the current fiscal year through March 2006, said it plans to book a profit of about 2.6 billion yen (US\$23.1 million) in the July-September quarter from this securities sale. In a separate report, Softbank Corp. revealed its plans to combine the credit card transaction services of its subsidiaries into a single company. The firm will be tasked with the processing of credit card payments made by users of such services as Yahoo! Wallet, a service that provides easy payments on items bought on the Yahoo auction site, Yahoo! BB, which is the Softbank group's broadband Internet connection service, and the Otoku Line fixed-phone service. The same firm will be handling some 15 billion yen (US\$133.3 million) worth of credit card sales a month, a figure which makes it the largest such entity in Japan.

- **With Jupiter Shop Channel Co. and QVC Japan Inc. dominating the market, television shopping registered rapid growth in fiscal 2004.** A survey of the 10 leading TV shopping companies showed a total of 164 billion yen (US\$1.4 billion) worth of merchandise sold via television during the fiscal 2004, a figure that indicates a 25 percent increase from the previous year. Jupiter Shop Channel reported sales growth of 29 percent to 50.3 billion yen (US\$447.1 million), with cosmetics, health foods and accessories being the major sellers. QVC Japan posted sales of around 45 billion yen (US\$400 million). Forecasts are putting the sales for fiscal 2005 at more than 200 billion yen (US\$1.7 billion).

Mobile/Wireless

- **Corporatec Co., a Kyoto start-up firm, and KDDI R&D Laboratories said they would begin testing a service that will allow people to check their English skills through the cell phones.** Under the service, users will be able to download a multiple-choice test that can be viewed on their monitors. After doing the exam, the users will be informed of what their scores would be if they took the TOIEC English proficiency test. The companies expect from 1,000 to 2,000 individuals to participate in the test that would be offered for free. The software for the service was developed by the KDDI Laboratory and Advanced Telecommunications Research Institute International. The companies said they begin offering the service for a fee after assessing its performance during the trial period.

Hardware

- **Domestic shipments of personal computers in Japan saw a 7.7 percent increase to 237.8 billion yen (US\$2.1 billion) in 2004.** NEC was in the No. 1 place with a 19.9 percent market share, followed by Fujitsu with 15.8 percent market share. Hewlett-Packard Japan Ltd., which saw its shipment value increase by 29 percent, grabbed the third place with 15.8 percent of the market share. Dell Japan Inc. went down to No. 4 with a 12.2 percent of the market share.
- **Fujitsu Ltd. announced its return to profit in the April-June quarter of its fiscal year, ascribing the good performance to an increase in sales led by hard disk drives, mobile phones, and next-generation mobile phone base station equipment.** The company said its net income totaled 2.5 billion yen (US\$22.2 million), in the fiscal first quarter, compared with a loss of 11.8 billion yen (US\$104.8 million) a year earlier. Its sales went up 1.8 percent to 1 trillion yen (US\$8.8 billion). The company issued a caution about the second half of the year marked by "an anticipated delay in the recovery of the semiconductor market". Earlier this year, Fujitsu left the plasma panel business amid strong competition and falling panel prices. Other Japanese companies also suffered some setbacks.

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Telecommunication

- **Tokyo Electric Power Co. (Tepco) and KDDI Corp. announced that they have started negotiating on the integration of their fixed-line phone operations.** The partnership would pave the way for KDDI forming an alliance with Tepco's subsidiary PoweredCom Inc. Observers note that the agreement of the two companies to join forces would likely create major competition for the Nippon Telegraph and Telephone Corp. group. Revenue from KDDI's fixed-line service is estimated at 612 billion yen (US\$5.4 billion) for fiscal 2005. PoweredCom expects to post a consolidated operating profit of 11.6 billion yen (US\$103.1 million) on sales of 217.4 billion yen (US\$2 billion) in the current business year. Tepco provides fiber-optic broadband services to consumers, while PoweredCom offers fixed-line phone services to corporate customers. In some reports, Tepco has been quoted as in search of a partner that will allow it to penetrate the mobile phone business. News of a takeover of Japan Telecom Co. and a merger with Internet Initiative Japan, Inc. has been ascribed to Tepco.

Semiconductors

- **Advantest Corp. said its group profit saw a 44 percent decline in the April-June quarter as orders for its semiconductor-testing equipment went down.** The company, which makes chip-testing systems, posted a group net profit of 7.8 billion yen (US\$69.3 million), down from a year-earlier profit of 13.9 billion yen (US\$123.5 million). Advantest said its group operating profit went down to 11.7 billion yen (US\$104 million), while its group revenue posted a 28 percent decline to 52 billion yen (US\$462.3 million) from 72 billion yen (US\$640.1 million). Still the company said it expects the demand for dynamic random access memory chips and digital consumer products to recover toward the end of the year.

Ventures/Investments

- **Elpida Memory Inc. plans to form a joint venture with Powerchip Semiconductor Corp. of Taiwan and other firms with the aim of lowering the cost of pre-shipment DRAM chip inspections.** Kingston Technology Corp., a major U.S. semiconductor memory module maker, Advantest, a leading Japanese DRAM inspection instruments manufacturer, and others are expected to have stakes in the joint venture. The joint chip inspection facility is expected to give Elpida a chance to free up funds and be prepared to compete with Samsung Electronics Co., the world's biggest DRAM chipmaker.

Korea

Internet

- **Gravity Co., Ltd., an online game developer and distributor, announced that it would launch STYLIA, an online game portal.** Developed in partnership with Sonnori Ltd., STYLIA provides a software development kit to developers aimed at helping game developers to build a quick and convenient game development system. Gravity also announced that it plans to launch a new casual gaming line based on an animation character, 'Pucca', created by Vooz, Co. The Pucca character has been introduced in 72 countries. Gravity is a developer and distributor of online games in Japan, Taiwan, Thailand and Korea.

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China

Internet

- **Asia Payment Systems, Inc. announced its signing of an agreement with Guangdong-based Et-china Limited, making it possible for the two companies to work together and invest in an online system to process airline ticket sales from Et-china in Shenzhen, China.** Et-china is the company behind the e-commerce system that can accept and process e-commerce transactions from any of the 800 million domestic China debit cards issued across the country. The company is also the largest merchant in dollar value for e-commerce transactions in Guangdong Province, a position that can be ascribed to the high volume of online transactions Et-china processes for China Southern Airlines in ticket sales. The partnership will have Asia Pay and Et-China to cooperate in the enhancement of the processing systems and services available to Et-china's clients and to Asia Pay's China domestic and international marketing base.
- **As Netease revealed that it plans to release earnings in August, investors are said to be keen on getting an update from the Chinese Internet portal and online gaming company.** The interest is mainly fueled by the performance of the company's two in-house developed online role-playing games. Even as the game's growth has been described as slowing down, one of Netease's games, Fantasy Westward Journey, registered 710,000 concurrent players. Netease said it plans to commercially launch its casual games platform Popo Game in August. The company said it plans to release two more self-developed large role-playing games next month.
- **99Bill Corporation, the first company in China that offered e-mail and mobile phone number-based online payment platform and solutions, announced the strategic partnership it forged with Baidu.com, the world's largest Chinese language search engine.** The agreement stipulates that 99Bill will provide its comprehensive online payment platform that would support Baidu's services, like "Pay for Performance" and "Movie Search". The partnership is seen as 99Bills's efforts to form strategic relationships with major Internet companies in China.
- **Sohu.Com Inc. announced its receipt of the notification from China Mobile regarding the resumption of its multimedia messaging services (MMS).** As Sohu had transferred its MMS business to China Mobile's MISC platform, it is assumed that the company is technically ready to resume its MMS business. While the company is being released from sanction a month ahead of schedule, Sohu said resumption of its MMM will not have a material effect on its third-quarter results. In a separate report, Sohu reported a 9 percent increase in its revenues from the first quarter to US\$25.9 million. It reported its net profit climbing 25 percent from the first quarter to US\$7.1 million. Its advertising revenues were reported to have grown 14 percent quarter-on-quarter to US\$17 million in the second quarter. Analysts noted that Sohu's sponsored search service is a bright spot to the company, as it accounted for 18 percent of advertising revenues in the second quarter.

Media, Gaming and Entertainment

- **The China National Radio announced the official launching of the Galaxy Network Radio.** The new network radio technology will integrate fixed network technology with its mobile phone and radio network. The media firm aims to address both Internet radio listeners and mobile phone users.
- **The China Central Television (CCTV) announced projected losses of 1.2 billion yuan (US\$148 million) for the rest of the year, with the media firm explaining its forecast as partly caused by public service announcement ads that started airing on its channels.** The losses cover the

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projected losses of 1.1 billion yuan (US\$135.7 million) in advertising income, with the rest ascribed to expenses incurred to produce and broadcast the public service ads. The ads content tackle conservation of energy, water and other natural resources. Airing them will account for 13 percent of CCTV's total airtime.

- **China plans to invest about 15 billion yuan (US\$1.8 billion) to develop 100 kinds of online games with independent property rights in the next five years, according to the Press and Publication Administration of China (PPAC).** An official said that PPAC plans to establish joint efforts with other government departments to hasten the construction of game software development centers in Beijing, Shanghai and Guangzhou cities and Sichuan province where 10 to 30 homemade online game companies are expected to be launched within the next three years.

Telecommunications

- **As the industry makes its transition to 3G technologies, telecommunications equipment makers are expected to gain some US\$9 billion, according to Pyramid Research.** The communications and IT consulting and research firm ascribes the gain to the infrastructure upgrading that will accompany the changes. The projection says that, for 2007 alone, equipment makers are expected to gain approximately US\$4 billion. The company forecasts that 3G subscribers will make up about 15 percent of China's mobile users by 2010.
- **Huawei Technologies Co. said it is still working on reaching agreements with the big U.S. phone companies as it tries to get a significant share of the market dominated by Cisco Systems Inc. and Lucent Technologies Inc.** China's largest maker of telecommunications equipment said it has had difficulty building its brand name in the U.S. partly because Americans could not pronounce the Chinese name of the company. Huawei changed its name in the U.S. to Futurewei, hoping that the new name would be easier to pronounce and recall. The lack of progress in the U.S. for the Chinese company stands in contrast with its experience in the other markets, like Germany and France, where it got a major chunk of business away from Siemens AG and Alcatel SA.
- **There are rumors that China Unicom's GSM and CDMA networks will be split, and China Railcom, the sixth licensed telecom provider in the country, will also undergo restructuring.** Senior officials, however, of China Netcom Group Corp. have denied the latest rumors about China's six telecoms operators being formed into three new companies. Based on the speculations about the restructuring, three new telecom giants will be formed. The first will consist of the GSM networks of China Unicom, China Telecom and the northern part of China Railcom to form the new China Telecom. The second will merge China Mobile and China Satcom to form the new China Mobile. The third is supposed to put together the CDMA networks of China Unicom, China Netcom and the southern part of the China Railcom to form the new China Unicom.

Software

- **AsiaInfo Holdings, Inc. (AsiaInfo) announced net revenues for the second quarter of US\$23 million, which represents a 49 percent year-on-year increase.** Gross revenues of the company for the second quarter were US\$27 million, which represent a 73 percent increase from the year-ago period. During the second quarter, Lenovo-AsiaInfo gave about 28 percent to net revenue. Net income for the second quarter was US\$0.8 million, compared to US\$2 million in the year-ago period. AsiaInfo Holdings, Inc. is a leading provider of software, solutions and services to telecommunications operators and enterprises in China.

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Hardware

- **The merger of China Electronics (CEC) and China Great Wall Computer Group is expected to be realized upon order from the central government.** The merger is expected to produce a company valued at more than 50 billion yuan (US\$6.1 billion) and one that is forecast to boost corporate competitiveness. The merger plan had already been forwarded to the State Council's Asset Supervision and Administration Commission, the body that is tasked to provide the guide for the growth of China's state enterprises. Presently, the Chinese government is looking into the possibility of bringing into the merger the Panda Electronics Group and China Putian, an electronics conglomerate. To CEC are attributed assets of 39.6 billion yuan (US\$4.8 billion) plus Amoi Electronics and Shanghai Huahong, a silicon chip manufacturer. Great Wall has 12.2 billion yuan (US\$1.5 billion) in assets. In its assets are included the Hong Kong-listed Great Wall Technology.
- **TCL Corp., a major Chinese consumer electronics manufacturer, said it plans to boost local production in the ASEAN nations and India with the aim of minimizing the growing risks of strong yuan.** The company said it would fortify production bases in Vietnam, Indonesia and other places. For this year, TCL aims to increase sales of televisions to 1.6 million units, a figure that is a 50 percent increase on the year. The company also revealed its plans to expand its operation in white goods, which include refrigerators and air conditioners, by making use of its television sales network, with a plan to start local production of white goods in Vietnam. In the current year, the company aims to sell 100,000-200,000 air conditioners in Indonesia, an increase from 80,000 in 2004, which the company ascribes to the start of local production. The company recognizes one fact: demand in the ASEAN countries and India is strong for consumer electronics.
- **The Chinese government is building a next-generation LCD plant, with the total investment to reach as much as US\$6 billion, according to an official from the China Kunshan Economic & Technical Development Zone.** To be located near Shanghai, the project will have an initial investment of about US\$600 million. The official, however, declined to name any overseas investors in the project. The project's first phase will have a designed capacity of 90,000 panels per month.

Semiconductors

- **Semiconductor Manufacturing International Corp. disclosed a third straight quarterly loss, as it posted a net loss of US\$40.4 million in the second quarter, compared with a profit of US\$34.2 million a year earlier.** The Shanghai-based company said its sales posted a 26.5 percent increase to US\$279.5 million from US\$221 million a year earlier. The company joins Taiwan Semiconductor Manufacturing Co. and United Microelectronics Corp. in predicting a second-half rebound in orders, with its customers that include Infineon Technologies AG and Texas Instruments Inc. building up inventories.

Taiwan

Semiconductors

- **United Microelectronics Corp. (UMC), the world's No. 2 supplier of made-to-order chips, posted a 97.6 percent decline in its profit in the three months ended June 30 to NT\$299 million (US\$9.3 million) from NT\$12.7 billion (US\$399.1 million) in the same period a year earlier.** The company supplies chips to several of the biggest firms in the global high-tech sector. The chips are

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used in a variety of products like desktop computers, notebooks, mobile phones and digital cameras. UMC ascribed the massive plunge to a broad drop in demand.

- **Taiwan Semiconductor Manufacturing Co (TSMC) posted a net profit of NT\$35.1 billion (US\$1.1 billion), compared to NT\$42.2 billion (US\$1.3 billion a year earlier.** Even with the decline, TSMC said that the increase in the demand had already been felt in the second quarter to June and is expected to remain in the present quarter. The world's leading microchip maker said its sales in the six months dropped to NT\$114.1 billion (US\$3.5 billion) from NT\$122.3 billion (US\$3.8 billion) in the previous year.

Telecommunications

- **The state-controlled Chungwa Telecom, which is scheduled to launch its 3G services soon, announced that it is targeting 100,000 subscribers to its 3G telecommunications services by the end of the year.** Taiwan Mobile, which launched its 3G services albeit on a limited scale, said it is completing its 3G network by the end of the year. Far EasTone Telecommunications, which has launched its 3G multimedia services using the WCDMA network, reveal its aim of enlisting 50,000 3G customers by the end of the year.

Hong Kong

Telecommunications

- **PCCW announced that it had agreed to dispose of its 79.7 percent stake in Jaleco, a Japanese mobile gaming business, at US\$47 million to Sandringham Fund.** The company expects to book a gain of some HK\$160 million (US\$20.5 million) from the sale of the share. Observers point that for the past two years, selling non-core assets like the Japanese mobile gaming business has been the strategy of PCCW.

Media, Gaming and Entertainment

- **With Hong Kong's strong economic recovery and increases in advertising rates running up to 18 percent, media analysts are bullish about Television Broadcasts (TBV) half-year performance.** Expected to push up TVB's profits are the earnings that would come from its advertising revenue forecast to have climbed up 10 percent in the first half and 15 percent for the full year. The big increase in revenues is going to get much positive effect from the savings in the programming costs. The study conducted by Merrill Lynch indicates an increase in newspaper advertisements in the past two to three months. Still, analysts are telling TBV's shareholders to look forward to surge in the profits for Hong Kong's biggest domestic television station.

Singapore/Malaysia/Philippines/Indonesia

Ventures/Investments

- **Zentek Technology Japan Inc. said it has established a wireless LAN venture in Singapore with Soma Networks, a U.S. communications start-up firm.** Capitalized at S\$1.2 million, the venture falls under the name of Soma Asia, which is 51 percent owned by Zentek and 49 percent by Soma. The network will allow the customers to transmit broadband-based voice and data communications within a 10km radius of relay stations. The partners said the venture would give them entry point to Asia, where they see a vast improvement on the broadband infrastructure to take place.

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Under the partnership, Zentek will combine its digital TV and other technologies with Soma's wireless communications capabilities to offer broadband services.

- **IPGV Corp., an Internet firm, announced its agreement with Malaysia-based Terra ICT (M) Sdn Bhd, on an online gaming distribution agreement.** Terra ICT is joint venture between Malaysia's Kinden Corp Bhd and Terra Corp. Japan. IPGV also disclosed that its board of directors approved an increase in the company's capital stock to 1 billion pesos (US\$17.8 million) from 500 million pesos (US\$9 million).
- **The China Torch Center (Singapore) disclosed the signing of a Memorandum of Understanding with the Economic Development Board (EDB) and JTC Corp. with the aim of bringing in more Chinese hi-tech firms to Singapore.** Already, six Chinese companies headquartered in the high tech industrial zones of China have initiated their Singapore operations at the China Torch Center (Singapore). Beginning in 2002, the number of high-tech companies in Singapore has climbed up from 55 to more than 100 today. Using Singapore's world-class business environment, Chinese startups and high-tech companies can rely on Singapore as take-off point for expansion into the international market, according to industry observers.

Internet

- **Pacific Internet Limited announced that its Australian subsidiary, Pacific Internet (Australia) is acting on the growing demand for its Premium Broadband DSL offering by way of an alliance with Optus.** The partnership boosts the geographic reach of Pacific Internet Australia's existing range by 45 percent, which would make its premium grade broadband available to more Australian businesses. NEC NEXTEP Broadband, PacNet's wholesale provider will continue to provide connectivity for its premium Broadband DSL.

United States/Canada

Mobile/Wireless

- **Lucent Technologies reported net income of US\$372 million, which compares with net income of US\$267 million in the second quarter of fiscal 2005 and net income of US\$387 million in the year-ago quarter.** The company had revenues of US\$2.3 billion in the quarter, a figure that is flat sequentially and marks a 7 percent increase from the year-ago quarter, with Lucent posting revenues of US\$2.3 billion in the second quarter of fiscal 2005 and US\$2.1 billion in the year-ago quarter. The company through its Lucent Worldwide Services (LWS) continues to work on broadening its business and shows this in many contracts it has entered. Among the contracts were with wireless services components that include radio frequency network optimization contracts with provincial subsidiaries of China Mobile and China Unicom. Lucent Technologies designs and delivers the systems, services and software that drive next-generation communications networks.

Internet

- **Staples, Inc. announced the relaunching of its award-winning web site Staples. com.** The relaunching is the result of a long research process that looked into the making of a customer-centered e-commerce site. Staples is one of the few retailers to utilize customer persona research at the web site level to design based on specific customer shopping characteristics. The study yielded the primary Staples customer personas dubbed "Lisa Listmaker" and "Sammy Specific". Lisa Listmaker is an office manager whose main objective is to get the order done as quickly as possible. Sammy Specific runs a

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small business and is described as not a planner when it comes to buying office products. While Sammy does not make the purchase by item number, he knows the products by brand. The new site is made for customer personas represented by Lisa and Sammy.

- **A U.S. court ruling blocking the move of Google to enlist the service of a top Chinese executive from Microsoft is seen as putting a stop for a while to the huge ambition of the Internet giant.** Microsoft said that the Chinese executive, by agreeing to work for Google, violated a non-competing clause in his contract. The executive used to be in charge of Microsoft's development of search engine technologies. The court ruled specifically that the Chinese executive should not work on any products and services at Google, which are similar to those he worked on with Microsoft. Google has been preparing a formal launch of what is seen as a massive operation in China. The ruling is viewed by many as a preliminary victory for Microsoft.

Hardware

- **McData announced the closing of the acquisition deal that brought Computer Network Technology (CNT) into its fold.** The deal is valued around US\$235 million in equity and assumed debt. According to Gartner, the CNT acquisition would begin the consolidation of the storage networking switch field, which began in 2003 with Cisco's acquisition of start-up Andiamo Systems. The move of Cisco triggered speculation that McData or Brocade would be the next target of Cisco's acquisition strategy. With the acquisition, McData's operating income is estimated to be between US\$25 million to US\$35million.
- **Hewlett-Packard announced its decision to stop reselling Apple Computer Inc.'s popular iPod digital music players by September.** The decision brings to an end a high-profile deal that combined two of the best-known companies headquartered in the Silicon Valley. The two companies confirmed to end the arrangement.

Europe

Semiconductors

- **With the company predicting prices of memory chip to remain stable in the fourth quarter, Infineon disclosed a loss of 234 million euros (US\$283.6 million), compared with the a profit of 2 million euros (US\$2.4 million) in the same period a year earlier.** Infineon said its results include the 81 million euros (US\$98.1 million) in restructuring charges, a greater portion of which is attributed to the phasing out of its production facility in Germany. The impact of soft memory chip prices and declining sales of Siemens mobile handset unit is seen in the decline of its third-quarter sales to 1.6 billion euros (US\$2 billion), from 1.9 billion euros (US\$2.3 billion).

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