



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

Week of 31 July - 6 August 2005

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



Week of 31 July - 6 August 2005

Table of Contents

International	3
Japan	3
Korea	5
China	6
Taiwan	8
Hong Kong	8
Singapore/Malaysia/Philippines/Indonesia	9
United States/Canada	9
Europe	10

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



Week of 31 July - 6 August 2005

International

Internet

- **Online gaming firms in the Asia Pacific region outside Japan reported 30 percent growth in subscription revenues to more than US\$1 billion, according to IDC.** The research firm said the online game industry would continue to expand because of the introduction of new content and innovative business models. IDC projected a compounded annual growth of 19.7 percent for the industry. Subscriptions to online gaming enable users to play on the Internet-based proprietary video game platforms with other subscribers anywhere in the world. Of the eight online gaming markets in the region monitored by IDC, South Korea came out as the largest with revenue of US\$533.4 million last year, a figure that represents almost half of the market in Asia. Coming in as No. 2 was mainland China with revenue of US\$298 million. Taiwan occupied the third slot with US\$190.9 million.
- **With global revenues predicted to go beyond US\$7 billion a year by 2010, the mobile gambling industry will continue to exhibit sharp growth driven by Asian players, according to Informa Telecoms and Media.** The research group said lotteries would remain the most popular form of mobile betting. It also predicted that some 200 million people around the world would be placing bets through their cell phones by 2010. Informa, a London-based research firm, expected the mobile gambling industry to bring in US\$1.2 billion in annual revenues. The revenues are expected to increase to US\$7.6 billion by 2010. Europe is expected to dominate the market, with US\$3.2 billion of annual revenues forecast to be generated by 2010, followed by Asia Pacific, with US\$2.7 billion by 2010. Informa could not forecast the position of North America in the mobile gaming industry as the region has to contend with the legalization of mobile gambling, a status that leaves the size of the market undefined. The research firm said that telecom operators and companies running mobile gambling services would have to work on the legislative, technological and cultural concerns for the industry to continue to grow.

Japan

Internet

- **KDDI Corp said it would launch an international IP-VPN (Internet Protocol-virtual private network) service for Japanese companies with business engagement in India.** By switching to self-run service, KDDI expects to strengthen its customer support structure while using existing locations, and boost the service's profitability. The project will see the company working with Videsh Sanchar Nigam Ltd. (VSNL), India's largest international telecommunications carrier in setting up communications facilities in Delhi where most Japanese firms entering India have put up their offices. The project has targeted sales of more than 100 million yen (US\$894,000) in the first fiscal year.
- **Apple Computer Inc. announced the launching of its iTunes Music Store in Japan, a move that created one of the nation's biggest online music downloading services.** With a collection of roughly one million songs, the offering does not include the songs of a number of major Japanese artists. The reason for this is that Apple has not hammered out yet an agreement with some of the big record companies like Sony Music Entertainment (Japan) Inc., Victor Entertainment Inc. and Warner Music Japan Inc. The reasons of the major companies are varied; Victor says that it needs more time although it is considering supplying songs to iTunes Music Store. Observers note that Sony's absence in the project is due to disagreements related to the downloading prices for the songs.

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



Week of 31 July - 6 August 2005

- **Digital Advertising Consortium Inc. (DAC), a major Internet advertising agency, said it aims to run more ads that are suited to broadband communications.** With the intention to make its Internet ads more eye-catching, the company said it would employ new features to include techniques called “floating” and “expand”. The technique allows ads to move freely across the screen and increase its size when the user trains the mouse’s pointer to it. DAC currently shows 10 percent of the advertisements it manages through broadband networks.
- **Yahoo Japan said it plans to stop releasing the average prices at which goods are auctioned online as part of its move to reduce significantly the amount of management information it publicly discloses each month.** Online sales and the number of subscribers are among the other data that Yahoo Japan will keep away from the public’s eye. Some key information, however, will be disclosed on a quarterly basis instead of the regular monthly releases. Yahoo Japan said that every time data from the company are freely disclosed, the company is unduly helping its rival firms. The company has not disclosed annual and semiannual profit projections as most companies listed on the Tokyo Stock Exchange do. Yahoo Japan, however, has released data about its latest business performance.
- **Internet Initiative Japan Inc. (IIJ) said it is readying itself for the listing on the Tokyo Stock Exchange’s Mothers market.** The major Internet service provider was forced to cancel its listing attempt in June because it was unable to attract a significant number of subscribers. With the announcement, IIJ said it also plans to carry out a five-for-one share split. The stock split satisfies TSE’s nonbinding guideline that a minimum trading unit be no more than 500,000 yen (US\$4,470).
- **Napster, an online music merchant, and Tower Records, a “real-world” disk retailer announced their agreement to enter into a partnership to jointly compete in the Japanese music market.** Under the deal, Tower will provide a fund worth US\$7 million, managers, local music content, and take charge of marketing using its network of 108 stores in Japan. Napster is tasked with providing its online music cache and resources and a fund worth US\$3 million. In the joint venture, Tower would have 70 percent and Napster the remainder.

Mobile/Wireless

- **NTT DoCoMo Inc. said it plans to expand procurement of handsets for its 3G FOMA mobile phone service from foreign manufacturers, a move that the company expects would differentiate its phones from domestic rivals as it helps in cutting procurement costs.** Japan’s cell phone service operator disclosed that it is considering signing supply contracts with LG Electronics Inc. of South Korea and Nokia Corp. of Finland. The new handsets that DoCoMo plans to procure are expected to be compatible with the GSM 2G mobile phone service that is popular in Europe and other parts of Asia. The company said it plans to equip the handsets with all the standard functions of the current FOMA series, including videophone capability.
- **Crops Corp. announced its plan to go public on the Nagoya Stock Exchange’s Centrex market for start-up firms.** The Nagoya-based company markets cellular phones for the “au” cell phone service of KDDI Corp. and provides human resources utilization services. Cell phone sales for the company represent a stable source of earnings. Its human resources business is operated by Crops Crew Corp., which is a subsidiary set up jointly with Nagoya Railway Co. and Meitetsu Department Store Co. Noted for being aggressive in merger and acquisition deals, the company expects a net profit of about 620 million yen (US\$5.5 million) in the year through March 2006 on sales of 16.7 billion yen (US\$149.3 million). Crops said it plans to use part of the proceeds from the IPO to repay borrowings, and the remainder to be used to boost internal reserves in preparation for future M&A deals.

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



Week of 31 July - 6 August 2005

- **KDDI Corp. posted a slight edge over NTT DoCoMo Inc. as it takes the No.1 spot in the rankings of wireless and PHS (personal handyphone system) subscription increases for the month of July, according to the Telecommunications Carriers Association.** The report indicated that KDDI posted an increase in the number of subscribers to its au service by 230,500 customers on a net basis. The report noted that KDDI released four handsets, including models that allowed users to watch analog television broadcasting and that it attracted clients with its new service that makes use of global positioning system (GPS) technology. Vodafone KK was No. 3, with net subscription growth of 18,000. This was the second month of consecutive increases for Vodafone. The Tu-Ka group, however, saw its subscription go down by 17,800.

Telecommunications

- **Nippon Telegraph & Telephone Corp., Japan's top telecommunications group, disclosed a 4.4 percent decrease in its net profit in the April-June quarter to 177.5 billion yen (US\$1.5 billion), compared to 185.8 billion yen (US\$1.6 billion) a year ago.** The company ascribed the decline to competition that brought down its income from telephone services and a stock-related loss, which had impact on its profitability. Industry observers note that the latest quarterly results for the company mirror the tough business atmosphere in Japan for telecommunications firms, where the fixed-line business has to struggle against intense competition and the surge in the use of mobile phones.

Korea

Internet

- **Nofree, a copyright protection firm representing 60 domestic music companies, filed a suit against more than 2,700 Internet users for illegal music swapping.** Given its breadth of representation, the complaint stands almost for the whole South Korea's music industry and is said to be the biggest online copyright case. Nofree filed for the prosecution of NHN Corp, the country's biggest Internet portal operator, together with 2,707 Internet users for ignoring the request to stop users from sharing music files. According to the country's music industry, Internet piracy accounts for more than 400 billion won (US\$386.1 million) of losses annually. Legal and institutional reforms pushed the industry out the losses to push legitimate online music services, a move that resulted in sales rising to 240 billion won (US\$231.6 million). Piracy, however, remains to be widespread in the country, which is significant in the context of the country being one of the world's most concentrated markets for high-speed Internet connections.
- **The Korean government revealed its plans to replace the mandatory usage of resident registration numbers in the Internet with new individual identification numbers.** The Ministry of Information and Communication (MIC) said it would come up with a format late this year. At present, most South Korean web portal sites allow users to sign up services only after the input of resident registration numbers, a document equivalent to the social security numbers in the U.S.

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



Week of 31 July - 6 August 2005

China

Internet

- **Sohu.com reported a 25 percent increase in its net profit to US\$7.1 million compared with the US\$5.7 million in the first quarter and US\$9.9 million in the same period of last year.** The company, one of China's three largest web sites, announced revenues in the second quarter reaching US\$25.9 million, compared with US\$23.7 million in the first quarter and US\$27.3 million in the same period of last year. The increase in revenues from online advertising was a major factor identified by the company as helping the company's profit for the second quarter. Sohu also cautioned that it has signed advertising contracts with some companies in Southern China that may suffer financial setbacks.
- **Sina Corp. reported a 43 percent drop in its second-quarter profit of US\$10 million compared with a net profit of US\$18 million.** The company disclosed that its SMS and MMS revenues went down 25 percent and 11 percent quarter-on-quarter. Its net revenue went down 6.3 percent to US\$46.1 million the second quarter from US\$49.2 million. Analysts are forecasting third-quarter revenues of US\$51 million for Sina. For the full year, analysts are forecasting for Sina revenues of US\$206 million.
- **Ctrip.com International Ltd reported an 80 percent growth of its second-quarter profit to US\$6.8 million.** The company's second-quarter revenue surged 61 percent to US\$16.6 million. The profit increases are attributed to the revenue gains from the company's air ticketing services, with revenues from this part of the business posting 178 percent growth in the quarter to US\$4.4 million. The older hotel-booking service exhibited slower growth of 34 percent to US\$11.1 million.
- **eLong Inc. disclosed its total revenues for the second quarter ended June 30, 2005 as reaching 51.9 million yuan (US\$6.3 million), a figure that represents a 55 percent increase from 33.4 million yuan (US\$4 million) reported in the same period in 2004, and an increase of 33 percent from 39 million yuan (US\$4.7 million) reported in the first quarter.** Adjusted income for the second quarter, which excludes amortization of stock-based compensation and intangibles, was 0.4 million yuan (US\$49,000), compared to adjusted loss of 6.3 million (US\$766,000) in the corresponding period a year ago. The company said its revenue from hotel commissions for the second quarter of 2005 totaled 37.1 million yuan (US\$4.5 million), which represents an increase of 37 percent from 27 million yuan (US\$3.3 million) year-over-year. Revenues from air-ticketing during the second quarter of 2005 reached 5 million yuan (US\$604,000), a 122 percent increase from 2.2 million yuan (US\$271,000) year-over-year. eLong is a leading online travel service provider in China.
- **51job, Inc., a leading provider of integrated human resource services in China, announced a 26.2 percent increase in its total revenues to 147.4 million yuan (US\$17.8 million), higher than its guidance.** The company also reported net revenues increasing to 139.2 million (US\$16.8 million) in the second quarter of 2005 from 111 million yuan in the same period last year. Print advertising revenues for the second quarter of 2005 saw a 22.4 increase to 90.5 million yuan (US\$10.9 million), compared with 73.9 million yuan (US\$9.1 million) or the same quarter in 2004. Online recruitment services revenues for the second quarter of 2005 reached 38.9 million yuan (US\$4.7 million), a 52.5 percent growth from 25.5 million yuan (US\$2.7 million) for the same quarter last year.
- **Analysts are starting to call Baidu.com as the Google of China especially after its initial public offering at US\$27 per share surged almost fivefold in its first trading day.** The climb from the original US\$27 per share transformed the company's market value to almost US\$4 billion. IPO analysts expects Baidu's shares to rise even higher, leading everyone to make the comparison between Baidu

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



Week of 31 July - 6 August 2005

and Google, which used its search engine power to drive its market value to US\$85 billion less than a year after its IPO. Baidu, like Google, accumulated money by way of its text-based ads.

Media, Gaming and Entertainment

- **Guangdong TV Station, the firm that started promoting TV channels at the end of August, announced that it plans to launch several paid digital TV channels at the end of August.** With Guangzhou, Shenzhen and Foshan joining the list of cities approved by the Chinese State Administration of Radio, Film and Television (SARFT), there are now a total of 33 cities that are part of the digital TV promotion testing. The three cities of the Guangdong province have 300,000 set top boxes. It is forecast that the figure is expected to go up to 3 million by the end of the year. Guangdong TV Station is a subsidiary of Southern Media Corporation.
- **In what analysts perceive as a reaction to the growing participation of foreigners in the local media, Beijing announced that it will imposing a ban on new foreign-owned TV channels from entering the country.** Government regulators explain the restrictions as meant to function as oversight of the industry while the government looks for the mechanisms to effectively regulate foreign media in the market and “prevent harmful programs from entering the market”. The ban is the latest restriction coming from Beijing. Last year, it started allowing new ventures in TV programming but backed off when foreign firms started forming new channels amidst the relaxed rules.

Software

- **Infosys Technologies (Shanghai) Company Ltd., the Chinese subsidiary of Infosys Technologies Ltd. signed an agreement to set up development centers in Shanghai and Hangzhou through deals with Shanghai Zhangjiang and the Administrative Commission of the High-Tech Development Industry Zone-Hangzhou.** The company said it would invest US\$65 million over five years in these centers, a plan that includes the hiring of some 6,000 engineers. Infosys said the activities in the new centers would be on software development, IT services and IT-enabled services. The centers will have provisions for research and training. Leading Indian companies such as Infosys and Tata Consultancy Services are expanding operations in China, a move that is aimed at the growing presence of Western companies that the Indian firms are working with and are now in China.

Hardware

- **Dell announced that it is intensifying its presence in China by aiming to multiply at least three times its mainland production capacity, a move that would make the company a strong competitor of market leader Lenovo.** With the announcement came Dell’s disclosure of its strategy to build a second factory in China to double its capacity, estimated at 3.5 million computers a year. Without revealing any figure, Dell said that the planned expansion of its Xiamen facilities would transform the structure into one that will be similar to the company’s largest manufacturing site in the U.S. Dell operates its biggest plant in the U.S. valued at US\$100 million. The company’s mainland production serves the domestic and North Asia markets. Records show that Dell bought about US\$12 billion worth of parts and components from China. In terms of computer sales, it ranks No. 3 in China.

Semiconductors

- **Intel Corp. announced that it has moved the global headquarters of its Channel Platforms Group to Shanghai, China, the first time the corporation has set up one of its global business headquarters out of the U.S.** The company explained the move as recognition of the strategic role of the Chinese market. Intel, the world’s largest chipmaker, identified China as its second-largest market in the world after the U.S. It is seeing China as its biggest market in three to five years.

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



Week of 31 July - 6 August 2005

Taiwan

Media, Gaming and Entertainment

- **The Taiwanese government announced that it would not renew the operating licenses of TV news channel ETTV-S, together with six movie and variety channels.** The move by the Government Information Office (GIO) prompted sharp reactions from the stations and legislators, with the latter pushing for the establishment of a National Communications Commission (NCC) that will establish standards for media supervision. Once the NCC is established, the body will be tasked with the integration of the management of telecommunications, cable television, satellite and wireless broadcasting in the country. ETTV-S posted on its web site an appeal on the GIO decision. The perception that is forming is that the government action was a heavy-handed attempt to rein in media outlets that are critical of the government.

Hong Kong

Internet

- **Soundbuzz, a Singapore-based online music store launched its service in Hong Kong and initiated in effect a competition with three existing legal music downloading platforms, which are EOLasia.com, NWTmusic.com, and i-Cable's imusic.** Soundbuzz explains their expansion as being influenced by the growth of Hong Kong's market for MP3 players. Soundbuzz shares the technology with the locally developed music downloading platforms; it also uses Microsoft's Digital Rights Management (DRM), which limits the number of times a song can be downloaded to a portable music player. This prevents the music from being shared.
- **Information security giant Symantec is put to use by Hong Kong Broadband Network, for the online protection of its subscribers.** HKBN said it will offer bbGuard, to which is incorporated the Brightmail Anti-Spam software from Symantec, to new subscribers over a two-month trial period. The anti-spam service functions by flagging spam or suspected junk e-mails. Data from Symantec reveals that about 60 percent of all e-mail sent and received in Hong Kong as of the second half of last year, were spam. The Hong Kong Internet Service Providers Association said that spam could cost Hong Kong some HK\$10 billion (US\$1.2 billion) a year.

Mobile/Wireless

- **Sunday Communications disclosed that it would shell out HK\$600 million (US\$77.2 million) to PCCW this year and HK\$59 million (US\$7.5 million) for the first nine months for year as payment for the lease of its circuits.** Sunday said it would pay another HK\$98 million (US\$12.6 million) to pay for one way charges for calls crossing its network. Sunday said it is anticipating an increase in the usage next year given the introduction of 3G networks and the assumed growth in network usage. Sunday is also giving PCCW up to HK\$6 million (US\$772,000) in sales commissions this year mainly because PCCW has become the distributor of Sunday. Disclosure of the fee payments is a must because PCCW is Sunday's majority shareholder.

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



Week of 31 July - 6 August 2005

Singapore/Malaysia/Philippines/Indonesia

Mobile/Wireless

- **Singapore Telecommunications (SingTel) said the number of its mobile phone subscribers across Asia registered a 36 percent from last year to more than 70 million this year.** Asia's largest phone company disclosed that it registered in some 71.1 million mobile phone users in its seven markets in June this year, a significant increase from 52.2 million a year earlier. Aside from Singapore, Singtel has stakes in Optus of Australia, Bharti Televentures of India, Globe Telecoms of the Philippines, AIS of Thailand and Telkomsel in Indonesia. Analysts are predicting an increase in the first-quarter profit of the company by as much as 20 percent from the S\$700 million (US\$423.1 million) it posted a year earlier.

United States/Canada

Mobile/Wireless

- **MobileVision Communications Ltd. (MobileVision) has launched Global Music International, Inc.'s (Global) music video programming on China Unicom's mobile phone network.** The streaming media service by MobileVision is initially offered as a pilot commercial program without charge. Global entered into a content license agreement with MobileVision for distribution of its music video programming on a subscription basis for broadcast on mobile phones in China. Under the agreement, MobileVision is given the rights, on a non-exclusive basis, to distribute Global's music video content and to promote and market Global's music video programming in China. MobileVision will also handle all streaming and encoding of Global's content. Global is a corporation based in Florida involved in certain segments of the entertainment business.
- **A law signed made Nevada the first U.S. state to give a legal go-signal on the use of wireless, handheld devices at its hotel casinos.** The new stipulates that the devices can be used only in public areas of casinos that have more than 100 or more slot machines. The area should offer also at least one other gambling game. The law bars the devices from hotel rooms and other private areas. The passage of the law is seen as a victory for casino companies wanting to offer Internet-based gambling knowing that in other countries competitors are raking in huge amounts of profits from activities presently not allowed by federal laws.
- **Federal regulators have approved the acquisition of Nextel Communications by Sprint Corp in a deal that is worth US\$35 billion.** The Federal Communications Commission first gave the approval, followed by the Justice Department. The new company is expected to have more than 40 million wireless customers. With forecast annual revenue of US\$40 billion, the company is seen as providing a viable competition to Cingular Wireless and Verizon Wireless. Consumer advocates are looking at the merger and worrying that the deal may just result to three major players in the industry.

Internet

- **Ask Jeeves announced the launching of an upstart advertising network, a move that brings the company to the territory so far dominated by Google and Yahoo.** Acquired by Interactive Corp (IAC) in a deal that has recently been completed, Ask Jeeves is seen by observers as capable of developing its own advertising network. As with other web sites, Ask Jeeves has participated in the search engine boom by being part of Google's network. It has a contract, in fact, with Google that runs

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



Week of 31 July - 6 August 2005

until the end of 2007. According to eMarketer, the paid search concept has grown into an industry valued at US\$5.4 billion.

Media, Gaming and Entertainment

- **The newly formed Internet division of News Corp, Fox Interactive Media, disclosed its acquisition of Scout Media, the group that runs a network of sports web sites and team-specific magazines.** About 2.4 million users log in every month to Scout Media's network of niche sports sites. The newly acquired Scout Media will be combined with FoxSports.com for a more in-depth coverage of college and professional sports. The acquisition follows closely Fox Interactive Media's purchase of Intermix Media, operator of the popular MySpace.com, a social networking site. In a separate report, News Corp said it is in talks to acquire a minority stake in Moscow-based REN TV network. The report mentioned that News Corp wanted to acquire 35 percent of REN TV.

Ventures/Investments

- **HSBC Holdings, through one of its units, announced its planned acquisition of Metris, through a deal valued at US\$1.5 billion in cash.** Buying Metris, one of the last remaining independent credit-card companies, is expected to boost the retail presence of HSBC, the British banking giant, in the North American region. HSBC has been increasing its expansion in the U.S. through its Household consumer finance business. HSBC Finance, in Illinois, is already the sixth-largest U.S. issuer of MasterCard and Visa credit cards. With US\$5.9 billion in managed receivables, Metris is the No. 11 in the list of the largest issuer of MasterCard and Visa Credit cards. Industry observers note that card-issuers have been looking for new ways for them to grow and expand.

Europe

Mobile/Wireless

- **Siemens AG announced its decision to spin out its customer premises equipment (CPE) unit into a new fully owned subsidiary, creating a new company called Siemens Home and Office Communications Devices.** The move comes after the German electronics giant unloaded its mobile phone manufacturing business to Taiwan's BenQ Corp. in June. The new company will design, manufacture, and distribute the Siemens range of Gigaset cordless phones for both traditional fixed-line and new VOIP networks. It will also work on broadband products and home media devices. The move to form anew company focused on CPE is seen as helping Siemens respond more efficiently to the needs of the home networking consumer market. Siemens claims its annual CPE sales reach around 1 billion euros (US\$1.2 billion).

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