

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



Week of 9 May - 15 May 2004

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## International

### *Software*

- **Microsoft Corp. and SAP AG, longtime partners and increasingly competitors as well, agreed to integrate their high-profile efforts in web software.** The deal is another indication of the success corporate customers are having in forcing software companies to eliminate technology roadblocks that have often served to entrench particular providers. The agreement includes provisions to link SAP's software, which is typically used for managing business functions such as manufacturing, supplies and financial reporting, with Microsoft's Office suite of desktop applications. SAP and Microsoft created a joint marketing fund and a technology support center in Germany and cross-licensed their patent portfolios.

## Japan

### *Hardware*

- **Tohoku Pioneer Corp. in fiscal 2004 will begin mass producing active organic EL (electroluminescent) panels with pixels driven by TFTs (thin-film transistors).** The company will first introduce 2.4-inch QVGA (Quarter Video Graphics Array) high-resolution panels for use as the main screens in mobile phones. Materials deposition and other panel production processes will be conducted at its Yonezawa plant. TFT circuit boards will be supplied by ELDis Inc., a joint venture with Semiconductor Energy Laboratory Co.
- **Oki Electric Industry Co. will invest a little more than ¥5 billion yen (US\$43.7 million) in fiscal 2004 to increase production of driver ICs for LCDs (liquid crystal displays).** The company is responding to greater demand for the products for use in devices such as personal computers, large televisions and mobile phones. The company will expand facilities at its key production site in Miyazaki Prefecture, and will introduce production equipment at a manufacturing site in Miyagi Prefecture. Oki Electric expects to ship 120 million LCD IC drivers in the current fiscal year, an increase of 66% from the previous fiscal year.

### *Information Technology*

- **Japan's largest Internet investor Softbank reported its group net loss widened to ¥107.1 billion (US\$950 million) in the year to March from 100 billion yen (US\$874.9 million) a year earlier.** Softbank, now aiming at expanding broadband Internet businesses through its affiliate, Yahoo! Japan, said the wider loss was mainly due to start-up costs for its Internet infrastructure business and special losses on its securities holdings. Its revenue of ¥517.4 billion (US\$4.5 billion), was up 27.2 percent from a year earlier.

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## *Media, Entertainment and Gaming*

- **Sony Corp. and Nintendo Co., Japan's two videogame kingpins, launched a long-awaited battle over the US\$4 billion market for hand-held gaming devices.** At a news conference before the E3 videogame show, Sony for the first time showed a prototype of its sleek, black PlayStation Portable, or PSP, the company's initial offering for the hand-held market. Sony said the PSP -- expected in late 2004 in Japan and the following spring in North America and Europe -- will run movies as well as videogames at what Sony promises will be a video quality similar to that of its PlayStation 2, which is No. 1 in living-room consoles. Nintendo, the current leader in hand-held game gadgets, showed its feature-crammed Nintendo DS, a clamshell-shaped device with a screen in each half -- one of them a touch-screen sensitive to the pressure of a finger or stylus. Nintendo said the DS will go on sale this year in both Japan and the U.S., and in Europe and Australia in early 2005.

## *Telecommunications*

- **Nippon Telegraph & Telephone's net profit more than doubled in the latest fiscal year, helped by strong results at its NTT DoCoMo Inc. mobile-phone arm,** as well as gains in its fixed-line communications business. The Japanese telecommunications giant posted a group net profit of ¥643.9 billion (US\$5.6 billion) for the year ended March 31, up sharply from ¥233.4 billion (US\$2.0 billion) for the prior fiscal year. Group operating profit rose 14% to ¥1.6 trillion (US\$13.6 billion) from ¥1.4 trillion (US\$11.9 billion). Revenue increased 1.6% to ¥11.1 trillion (US\$97.1 billion) from ¥10.9 trillion (US\$95.6 billion).
- **KDDI Corp. and Japan Broadcasting Corp. (NHK) announced that they have developed a cellular phone capable of receiving land-based digital broadcasts.** The handset was jointly developed by KDDI, KDDI R&D Laboratories and NHK Science & Technical Research Laboratories. Weighing 140 grams, it has been miniaturized to the size of a conventional cell phone and is powered by a battery capable of playing about two consecutive hours of television programming. The price and release date of the unit have not yet been determined, but negotiations will be held with broadcast stations and others, according to a KDDI representative.

## **Korea**

### *Information Technology*

- **The Korean information-technology sector was a major contributor to record monthly highs in exports and trade surplus in March,** and the surging sales are expected to continue through this year. According to figures released by the Institute of Information Technology Assessment yesterday, local IT companies exported US\$6.3 billion worth of products this March, up nearly 50 percent from the same period last year. Mobile phones, computer chips and liquid-crystal-display screens and digital televisions pumped up the exports, accounting for about 30 percent of Korea's US\$21 billion in goods sent abroad. Imports reached US\$3.7 billion, bringing the IT sector's trade surplus to US\$2.6 billion since last August. In particular, the semiconductor industry is expected achieve a trade surplus for the first time in four years.

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## *Mobile / Wireless*

- **Europe is the key to Pantech's drive to become one of the top six mobile phone makers in the world.** GSM, global system for mobile communication, is the dominant digital mobile phone standard for most of the world. It determines the way in which mobile phones communicate with the land-based network of towers. Pantech is the Korea's third-largest cellular phone maker behind Samsung Electronics and LG Electronics, posting 615 billion won (US\$559 million) in revenue last year. Pantech expects total overseas sales to reach 15 million units this year, with its domestic sales hitting 5 million compared to last year's 3.2 million. While most of Pantech's sales going to highly competitive Asian markets, including China, Taiwan and Thailand. the company is looking to Europe for new sources of revenue.

## *Semiconductors*

- **Hynix Semiconductor Inc. is closely trailing rival Micron Technology Inc. in dynamic random access memory market share,** according to iSupply Corp. According to the global market research firm, Hynix narrowed the market share gap with Micron to 1.5 percent in the first quarter from 3.3 percent in the previous quarter. Hynix retained number-three position with 16.8 percent share, compared to Micron's 18.3 percent, while Samsung Electronics held on to market leadership with 27.1 percent.

## **China**

### *Media, Entertainment and Gaming*

- **China-linked IPOs continued to have trouble winning back interest from U.S. investors, though a price cut helped shares of online-game company Shanda Interactive Entertainment Ltd. gain in its debut.** Shares of Shanda, known for the "The Legend of Mir II" online game, closed on the Nasdaq Stock Market at US\$12, 8.8% above the US\$11 price set on the Shanghai company's initial public offering of 13.8 million American depositary shares. Each ADS represents two ordinary shares. Despite the gains, Shanda raised far less than hoped in its IPO, led by Goldman Sachs Group Inc. Coming into the week, it was marketing 17.3 million shares at US\$13 to US\$15, valuing the offer at US\$242.2 million. In the end, Shanda raised about US\$152 million.

## *Mobile / Wireless*

- **Wireless data services provider Linktone is aiming at nearly doubling its number of monthly paying subscribers by the end of the year,** despite concerns that the mainland market for short-messaging services (SMS) such as horoscopes and games is maturing. The Shanghai-based firm plans to have eight to 10 million users by the year's end, against six million in the first quarter and 4.5 million in the fourth quarter of last year. Linktone has been diversifying sales channels to reach new subscribers. It recently sealed deals with mobile-phone manufacturers Bird and EastCom, whereby options to use Linktone services are included in handset menus.

## *Semiconductors*

- **Supporters of the US\$100 million initial public offering by mainland foundry CSMC Technologies are betting that the market debut flop by Semiconductor Manufacturing International Corp (SMIC) has not soured sentiment for chip stocks.** In research published by

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sponsor Citigroup, there appears to be clear differences between CSMC and SMIC, whose share price has fallen more than 30 percent since listing. For one, the two firms are not competitors and operate in different sectors of the mainland semiconductor industry. CSMC relies on China for much of its orders - about 79 percent came from the mainland and Hong Kong last year. SMIC ships 50 percent of its chips to mainland customers.

## *Telecommunications*

- **China Unicom is urging the Hong Kong government to speed up the controversial auction of its CDMA network licence**, saying the current infrastructure, run by Hutchison Whampoa, is too old. China Unicom hopes to connect data roaming in Hong Kong as soon as possible. China Unicom, which has 23 million CDMA subscribers, is the latest company to join the chorus calling for a new CDMA network in Hong Kong. However, it is up against the city's incumbent mobile operators, who say Hong Kong does not need a new mobile licence because there is already too much competition.

## **Taiwan**

### *Semiconductors*

- **Taiwan Semiconductor Manufacturing Co., one of the world's largest contract chip makers, said its board approved a US\$1.4 billion budget to buy new production equipment.** The Taiwan-based company has said its capital spending this year likely would exceed the US\$2 billion it had forecast but has not formally announced a new figure. However, the board's decision to allocate a budget for new equipment indicates spending may be raised. TSMC said in a statement that its board approved the money "to expand its manufacturing capacity in response to increasing customer demand."

## **Singapore / Malaysia / Philippines / Indonesia**

### *Internet*

- **All of Singapore's government schools were temporarily disconnected from the Internet in a bid to contain a potentially damaging Internet virus.** The Gaobot worm, which exploited a fault in the Windows operating system, was discovered and infected the computers of at least 30 schools. The connection to the ministry of education enables schools to access the Internet, however their intranet operations are still operating so students can continue to use the computers for non-web related activities.

## **Hong Kong**

### *Mobile / Wireless*

- **Sunday Communications Ltd. signed an 859 million Hong Kong dollars (US\$110.1 million) contract for China's Huawei Technologies Co. to build, integrate and maintain a third-generation cellular telecommunications network** for the Hong Kong operator. The deal was first announced in December and includes a seven-and-a-half-year HK\$859 million (US\$110.1 million) loan from Huawei to Sunday to finance the 3G equipment purchase as well as a two-and-a-half-year HK\$500

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million (US\$64.1 million) refinancing of earlier Huawei loans. The Chinese company is based in Shenzhen, where it has 3,500 engineers working solely on 3G projects.

## United States / Canada

### *Hardware*

- **Cisco Systems Inc. reported better-than-expected sales and profits for the latest quarter, a sign that the corporate pickup in technology spending is continuing.** The company also said it would add about 1,000 jobs between now and the end of the year. The company, the biggest maker of equipment used to connect computers and servers to the Internet, posted net income of US\$1.2 billion for its fiscal third quarter, up 21.6 percent from US\$987 million a year earlier. Sales jumped 21.7 percent to US\$5.6 billion, coming in a shade better than the consensus estimate of US\$5.6 billion.
- **Intel Corp. unveiled a new mobile processor for notebook personal computers in an effort to accelerate the growing trend of wireless Internet access via laptop PCs.** The Pentium M processors are Intel's first mobile processors built with cutting-edge 90 nanometer manufacturing technology, which helps the new chips perform faster than earlier models while consuming roughly the same amount of power. Intel made a big push into portable computing last year with the launch of its Centrino brand, which combines power-efficient processors with wireless communications capability.

### *Information Technology*

- **Electronic Data Systems Corp. may cut its dividend by two-thirds and raise over US\$1 billion of additional capital to keep its investment grade rating.** EDS pays a quarterly dividend of 15 cents a share and has about 480 million shares outstanding. EDS said it is evaluating alternatives, including raising capital by issuing new stock or stock-linked securities. A dividend cut is expected to greatly improve EDS' cash position. The current payout of 15 cents a share costs the company US\$290 million.

### *Internet*

- **A new worm that infects computers when e-mail recipients click on a fake website appears to be spreading.** The "Wallon" worm spreads in an e-mail message that appears to be a news site from Yahoo! Inc., according to Finjan Software Inc., which elevated the threat to "medium risk." A link in the e-mail takes users to websites not associated with Yahoo!, which downloads the worm to the victim's computer.
- **IBM Corp. and Cisco Systems Inc. are set to enter a comprehensive business tie-up in the area of Internet protocol phones.** The partners aim to develop IP phone systems that will cut corporate communications costs by 30-50%. Global sales of ¥1 trillion (US\$8.7 billion) annually are targeted in a few years. The two U.S. companies, which are expected to announce the alliance at the beginning of this week, will join forces in the technical, production, sales and after-sales areas of IP phone systems. They plan to develop and sell worldwide systems equipped with voice communications, videophone and data communications functions.
- **Google Inc. is broadening the types of advertising it sells on other websites, moving beyond small text ads in a bid to increase revenue.** Google begun selling ads that include images, including classic banner ads, on a test basis. For now, the image ads will appear only on other companies' websites, where Google acts as a quasiadvertising agency, selling small text ads related to the content of a page.



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- **Yahoo! Inc. would greatly increase the amount of free storage available to its e-mail users,** following a high-profile initiative by rival Google Inc. Yahoo! told an analyst conference in San Francisco that starting this summer, non-paying Yahoo! mail users would receive 100 megabytes of free e-mail storage. That's a 25-fold increase from the four megabytes that new users receive now. Users who pay for Yahoo! services, such as "premium" e-mail, will have "virtually unlimited" storage. The unlimited storage offer will include Yahoo! subscribers through partners that offer high-speed Internet access, such as SBC Communications Inc.

## *Media, Entertainment and Gaming*

- **A New York start-up plans to announce today a system for inserting and tracking advertisements in videogames,** an area of growing interest to advertisers and ad agencies. The system by closely held Massive Inc., scheduled to start later this year, initially will send ads over the Internet to personal computers and eventually extend to videogame consoles. Those ads will then be inserted in predetermined spots in videogames, such as virtual billboards along the track in a driving game. The system, which will be announced at the E3 videogame convention in Los Angeles, will monitor how frequently and how long users see the ads and send that data back over the Internet for advertisers to analyze. Massive announced game publishers Atari Inc., a subsidiary of Infogrames Entertainment SA, Ubisoft and Vivendi Universal's Vivendi Universal Games unit plan to include the technology in some of their games.

## *Software*

- **Oracle Corp. lowered its hostile bid for rival software company PeopleSoft Inc. to US\$7.7 billion,** citing market changes. Oracle also said it extended its tender offer for all of the common stock of PeopleSoft to July 16. The tender offer was previously set to expire at June 25. As of Friday, a total of 7.9 million shares had been tendered and not withdrawn from the offer. PeopleSoft has about 364.9 million outstanding shares.

## *Telecommunications*

- **AT&T Corp. asked the regional Bell companies to agree to a binding arbitration in an effort to resolve the dispute over wholesale rates, but the Bells rebuffed the proposal.** A federal appeals court in March struck down Federal Communications Commission competition rules that require the regional Bell phone companies to lease their networks to rivals such as AT&T and MCI at deep discounts. Attempting to avoid industry chaos in the wake of the decision, the FCC asked both sides to reach private agreements on wholesale prices, which the Bells maintain are too low.
- **MCI Inc. quietly waged another offensive in the long-distance industry's price wars earlier this year, targeting about 500 of AT&T Corp.'s corporate customers with offers that guaranteed price cuts of between 25% and 40% from their existing rates.** Word of the offer, now ended, is sure to fuel investors' continuing concerns about the long-distance industry's seemingly endless price fights, led by the two biggest players, AT&T and its smaller rival MCI. In recent months AT&T has made much of its willingness to match rivals' discounts for business customers. Investors have long feared that MCI, which recently emerged from bankruptcy protection shorn of most of its debt, would use its clean balance sheet to finance a price war.

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## Europe

### *Telecommunications*

- **Deutsche Telekom AG's first-quarter net profit slid 80%, partly reflecting another charge for problems with Germany's truck-toll project.** Meanwhile, the company's U.S. wireless arm continued its strong subscriber growth. Germany's largest telecommunications operator said net profit dropped to €169 million (US\$201.2 million) from €853 million (US\$1 billion) a year earlier, when the figure was padded by asset sales and a tax gain. It took a €148 million (US\$175.7 million) provision to cover the truck-toll project after the venture's management revised its budget. Revenue rose 2.7% to €14 billion (US\$16.6 billion) from €13.6 billion (US\$16.1 billion).

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