

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



Week of 16 May - 22 May 2004

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International

Information Technology

- **Sony Corp, Matsushita Electric Industrial Co. and Samsung Electronics Co. are among the 13 firms that will soon establish a new organization to promote the next-generation Blu-ray optical disc format.** The Japanese, U.S., European and South Korean companies will seek a wide range of participating firms, including such content providers as movie companies. They had been working together to establish a unified format and move forward with R&D and product development, but have decided to broaden their membership base to compete against HD DVD, a rival format supported by Toshiba Corp. and NEC Corporation. HD DVD was endorsed in November by the DVD Forum, a global industry standardization group with about 220 member firms.

Mobile / Wireless

- **Vodafone's stake in China Mobile is unlikely to increase from its present 3.3 percent.** Vodafone, Sprint, SK Telecom and other carriers are wary of investing more in China's US\$30 billion market even as two customers are signed up per second and mobile-phone accounts probably outnumbered the United States population last month. State control, falling profitability at some Chinese cellular operators and the cost of investing in carriers such as China Mobile - the world's third-largest operator by market value - deterred investors. Two years after China eased investment rules, Vodafone's stake is still the biggest of any overseas operator.

Japan

Hardware

- **Canon Inc. has developed a color LCD (liquid crystal display) that runs on about 30% less power than conventional LCDs.** Unlike existing LCDs, which need to combine red, green and blue filters to reproduce other colors, Canon's new device requires just green and magenta filters. And because color filters are the main cause of light loss in LCDs, one less filter translates into power savings. The new LCD so far is capable of reproducing less than 100,000 colors, while conventional high-definition color LCDs can display more than 10 million hues. Because of this limitation, Canon believes its new offering will be used mainly in cellular phones, PDAs (personal digital assistants), industrial-use display devices and toys. In the future, however, the company hopes to improve the device's color reproduction capability to make it suitable for use in LCD TVs.
- **Hitachi Cable Ltd. has developed the world's first titanium electrode material for direct-methanol fuel cells.** Such fuel cells generate electricity directly from methanol supplied from a replaceable cartridge. The devices are being developed as a power source for notebook computers and other portable digital equipment. With the new material in place of conventional graphite electrodes, direct-methanol fuel cells can be reduced in size by around half and manufactured for 50 to 100 times less money. The company has worked with Hitachi Ltd. to prototype a 20-watt cell that is around the size of a business-card holder and can power a notebook computer. The goal is to have a practical version of the fuel cell ready in fiscal 2005.

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- **Seiko Epson Corp. has developed the world's largest OEL (organic electroluminescent) display at 40 inches.** Currently, most OEL displays are made using small molecules, which are evaporated and deposited on a substrate in a vacuum. This method has been limited to manufacturing smaller displays. Consequently, the largest OEL created until now was by Sony Corp. at 24 inches. Seiko Epson's technique, on the other hand, paints polymers on a substrate using ink-jet technology and is more successful in making large displays. Seiko Epson's display has a resolution of 1,280 x 768 pixels and can show 260,000 colors. It has an operating life of 1,000 to 2,000 hours, but by improving the material, the firm expects to soon raise its operating life to 10,000 hours. Ultimately, Seiko Epson plans to increase the figure to about 50,000 hours, the level needed for problem-free television use. The company is aiming to mass produce large displays by 2007.

Internet

- **Japan's eAccess Ltd. will buy AOL Japan's Internet service operations for US\$18.3 million in cash, marking the wholesale Internet provider's first foray into the retail business.** AOL Japan is a wholly owned subsidiary of Time Warner Inc.'s America Online Internet service provider business. The unit, which was formerly DoCoMo AOL, used to be a joint venture between the world's largest media company and NTT DoCoMo Inc., Japan's largest mobile operator. DoCoMo pulled out of the business last November after it failed to attract customers. The two companies initially intended to provide a new service linking personal computers and cell phones over the Internet.

Software

- **Knowledge Brain Inc. plans to release information system testing software capable of automatically finding bugs before and after the systems' completion.** The new product, TestAgent expected to be released in July, will help information system developers shorten the time for testing to less than one-twentieth the current time. In the initial phase, the systems that can be tested by TestAgent will be limited to ones written in the Visual Basic programming language developed by Microsoft Corp., but after July, Knowledge Brain plans to add the Java, C++ and other programming language versions to its product line. The TestAgent software allows system developers to see differences between the data they add to the database and the data displayed on the monitor screen and make partial corrections.

Korea

Hardware

- **During the first quarter, LG Electronics got a hefty boost from its liquid-crystal-display joint venture with Philips Electronics. Strong sales by the 50-50 venture helped the Korean company report better-than-expected earnings** during April and the company's stock rose to a 52-week high. In the future, LG Electronics is expected to retain a sizable stake in the venture, but the overall picture for the Seoul-based company will look rather different to investors. LG.Philips LCD, is getting its own listing. The joint venture with the Dutch electronics company aims to make an initial public offering in July. The new listing will raise the question of whether investors' appetite for LG Electronics might wane because some will prefer to own shares of LG.Philips LCD.

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Mobile / Wireless

- **Samsung Electronics began exporting world-first "world phone" that enables roaming between GSM and CDMA2000 1X territories.** Officials said that the dual-mode device is primarily targeted at businessmen traveling between the United States, which uses the CDMA (code division multiple access) mode for wireless communication, and GSM (global system for mobile communication) used in Europe. Sales will begin during the next month and the company expects annual demand of the phone to be in millions of units.

Semiconductors

- **Samsung Electronics Co Ltd expects a shortage of DRAM chips throughout 2004, with inventories at low levels and supply constrained.** Prices of dynamic random access memory (DRAM) chips, used mainly for computer memory, have soared since the start of the year on tight supply as chip makers switched to making flash memory and hit problems when they introduced new production technology. The chip shortage was a key reason for Samsung's near tripling of profits in the first quarter, along with buoyant handsets and flat-screen businesses.
- **Hynix Semiconductor Inc. is closely trailing rival Micron Technology Inc. in dynamic random access memory market share,** according to iSupply Corp. 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.

Telecommunications

- **Patent regulators turned down SK Telecom Co.'s claim to exclusive rights for its trademark "Speed 011,"** dealing a blow to the country's top mobile carrier which relies on the brand's popularity to lure new subscribers to the unified 010 access code. The court's decision allows mobile carriers KTF and LG Telecom Co. to use the digits 011 without the consent of SK Telecom. Before the government's decision to implement number portability and assign the 010 access code to new cellular phone subscribers, SK Telecom users were given the 011 access code, while KTF and LG Telecom users were given 018 and 019, respectively. KTF, the country's second-largest mobile carrier, filed a complaint last November over SK Telecom's use of Speed 011, claiming that the competitor should not hold exclusive marketing rights to the access code 011 with the government deciding to implement number portability. In a separate complaint, KTF demanded that the Korean Intellectual Property Office reject SK Telecom's application to register "Speed 010" as a trademark. SK Telecom may file a countersuit against the tribunal's decision within a month, said an official from the company's public relations office.

China

Information Technology

- **China has deployed electronic tagging systems to track the merchandise of global retail giants.** Key IT suppliers are hoping to start a new era in supply-chain management in the mainland by implementing radio frequency identification (RFID) systems for the Chinese manufacturing partners of some of the world's leading retailers, including United States retail giant Wal-Mart and Europe's Carrefour and Tesco. Alien Technology, EPC Solutions International, webMethods, Royal Philips Electronics, Texas Instruments, SAP, Sun Microsystems, Hewlett-Packard, NCR, IBM, Accenture,

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BearingPoint and Microsoft are some of the information technology companies making an aggressive push for RFID-related hardware, software and services in the mainland and other large manufacturing sites worldwide.

Internet

- **China might have the second-largest online population in the world but it only had about 1 percent of the global market for web advertising.** Last year the Chinese Internet ad business was valued at US\$130 million, compared with a worldwide market totaling US\$11.5 billion. The figure indicates that China's huge online numbers - it had 79.5 million netizens by late April - do not necessarily translate into revenue for the country's ad-dependent dotcoms. Even more worrying for the Beijing leadership, which has said it is committed to developing a hi-tech economy, China's market share is actually shrinking, according to Shanghai Research. In 2004, the Chinese Internet ad market was expected to grow 67 percent compared with last year, below the 91 percent growth predicted for the world as a whole.

Mobile / Wireless

- **Nokia will significantly expand its research and development operations in China, in an apparent move to revive its ailing market share.** Known for its sleek handsets and mobile innovations and regarded as an industry bellwether, the company last month shocked markets when it announced a fall in sales and profit and gave a flat outlook, citing increased competition from American and Asian rivals like Motorola and Samsung. Nokia's R&D expansion in China will be significant and include the establishment of a CDMA research center in Beijing. The company has long said China, where it employs 4,300 workers, is a major market for it and an important center of development for expanding its Asian business.
- **China Mobile Ltd. reported subscribers to its GSM network rose by 3.0 million last month.** The net addition, a 2.6% fall from the record net addition of 3.1 million users in March, took the company's customer base to 153.3 million by the end of April. China's largest mobile-phone operator said the acceleration in its net user additions in recent months was due to its efforts to promote a prepaid regional service called Shenzhouxing that targets low-end consumers. Minutes of use, average revenue per user and operating costs for Shenzhouxing users are generally lower than other prepaid services China Mobile offers.

Semiconductors

- **Semiconductor start-up Green Mountain Integrated plans to set up an eight-inch wafer facility in Nantong, Jiangsu province,** and hopes to sell shares to the public in 2007 or 2008. The mainland company aims to bring the plant on line in the second quarter of next year, with a capacity of 30,000 wafers monthly. The company has raised US\$40 million from investors and wants US\$30 million more.

Telecommunications

- **China is close to completing a draft of its first Telecommunications Law,** which could help level the playing field for domestic carriers, better protect consumers and provide opportunities for foreign vendors. After a quarter-century of effort, participants say a draft could be submitted to the State Council, or cabinet, next month, and go to the national legislature for passage as early as next year. If enacted, it would set basic rules to guide the behavior of China's telecommunications carriers, addressing

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issues from market access to regulator supervision to a universal service system to ensure affordable phone service for the country's poorest citizens.

- **China Telecom Corp. and its bankers have decided to raise the company's share sale by 15% to US\$1.7 billion** by increasing the number of placement shares. The size of the placement has been raised to 5.9 billion shares from the original 5.1 billion. The deal's pricing remained unchanged at 2.3 Hong Kong dollars (US\$0.29) a share. China Telecom's shares were suspended from trading in the afternoon session on the Hong Kong stock market. The share sale by China's largest fixed-line operator was previously designed to raise US\$1.5 billion.

Singapore / Malaysia / Philippines / Indonesia

Telecommunications

- **Singapore Telecommunications Ltd. said that SingTel Optus Pty Ltd. intends to make an off-market takeover offer for all of the ordinary shares of Australia's Uecomm Ltd.** The offer will be made via SingTel's Australian subsidiary Optus Networks Pty Ltd. Optus is about 226.8 million Australian dollars (US\$157.7 million). Optus believes Uecomm is a strong growth company and a natural complement to Optus's existing businesses. Uecomm's independent directors have unanimously recommended that shareholders accept the Optus offer. Uecomm is a leading provider of fiber broadband data services to the government, large corporations and other carriers and telecommunications service providers in Australia.
- **Telecom firm Global Crossing had obtained US\$100 million in financing from Singapore's ST Telemedia**, the firm that gained control of Global Crossing when it emerged from bankruptcy. News of the new credit arrangement came weeks after Global Crossing was hit with shareholder lawsuits and announced that it was conducting a review of its previously reported financial statements for 2002 and 2003. The review of its finance statements could lead to its delisting from the Nasdaq stock market. The company said the interim or "bridge financing" would help keep its operations on course.

Hong Kong

Mobile / Wireless

- **Hutchison Whampoa Ltd., a conglomerate that is one of the chief backers of controversial "third-generation" phone services, reported the number of people subscribing to its 3G services world-wide increased 66% during the past two months**, to 1.7 million customers. The number surpassed some market estimates, but still builds off a low base of subscribers. More important, analysts and some small shareholders continue to fret about the damage the new business is doing to Hutchison's profitability -- particularly because Hutchison is slashing the prices of its phones to lure new customers.

Telecommunications

- **PCCW Ltd.'s plan for a possible alliance with a Chinese Network Communication Group has prompted criticism** from some minority shareholders who fear such a deal could dilute PCCW's control of its core asset -- and leave the telecom firm with sharply reduced revenue. PCCW was in confidential discussions with China Network Communications Group about business opportunities and

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joint ventures, including the possibility China Netcom -- as the Chinese company is known -- would take a stake in PCCW's wholly owned phone unit PCCW-HKT Telephone Ltd. The unit is Hong Kong's dominant fixed-line carrier. PCCW, which spent heavily on acquisitions during the 1990s technology boom, is struggling to pay down debt and has seen its stock price languish recently.

- **PCCW has slapped the telecommunications regulator with a lawsuit, claiming it overstepped its powers when it overhauled charges paid to the fixed-line operator by IDD providers.** The company has filed an application for judicial review in the High Court, arguing what was supposed to be a study by the Office of the Telecommunications Authority (OFTA) of the principles and methodology of these charges turned out to be a policy review. As a result, a key component of the local access charges paid by IDD operators to piggy-back PCCW's fixed lines was to be stripped out, the writ contends. PCCW is seeking to quash the decisions contained in a February 2004 review of the principles behind the charges, along with the changes announced to the cost structure this month.

United States / Canada

Hardware

- **Tellabs Inc., a maker of telecommunications equipment, will buy Advanced Fibre Communications Inc. for about US\$1.9 billion in cash and stock.** Under the deal, AFC stockholders will receive 1.55 shares of Tellabs common stock and US\$7.00 in cash for each AFC share. When the deal closes, Tellabs stockholders will own about 75 percent of the company and AFC stockholders the rest. The deal is expected to add to Tellabs' 2005 pretax income on a per-share basis, excluding one-time items related to the acquisition. The deal is expected to close in the second half of 2004.
- **Regulators fined Lucent Technologies US\$25 million after the maker of telecommunication equipment failed to cooperate with an investigation into its accounting.** The Securities and Exchange Commission also charged Lucent with violating securities laws, and charged nine current and former executives and employees and one other individual with helping the company book US\$1.1 billion in bogus sales and US\$470 million in inflated pretax income in its 2000 fiscal year.
- **Applied Materials Inc., the world's largest producer of microchip-making equipment, posted a profit compared with a year-earlier loss, as revenue nearly doubled driven by improving investment in Asia.** The company also forecast revenue growth in the current quarter of slightly more than the average Wall Street analyst expectation. For the company's fiscal second quarter ended May 2, Applied Materials reported a profit of US\$373 million compared to a year-earlier loss of US\$62.1 million. Revenue rose sharply to US\$2 billion from US\$1.1 billion in the same period last year.
- **Hewlett-Packard reported solid gains in sales and earnings for the latest quarter as corporations again boosted spending on computers and servers.** The company reported net income of US\$884 million for its fiscal second quarter, up 34 percent from net income of US\$659 million a year earlier, sending its stock up nearly 3 percent. Excluding acquisition-related charges, HP reported a profit of 34 cents a share, in line with analysts' expectations. The company reported earnings of 29 cents a share in the same period last year after factoring out similar types of charges associated with HP's 2002 merger with Compaq.

Information Technology

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- **Intelsat Ltd. dropped plans for an initial public offering of stock and will look for outside investors or another company to buy it.** The satellite communications company said a change in the law requiring it to go public gives it time to find other funding. The Open-Market Reorganization for the Betterment of International Telecommunications Act, or ORBIT, had been amended earlier this week to extend the deadline for an IPO to Dec. 31, 2005, from this June 30.

Internet

- **Google Inc. named more than two dozen additional underwriters for its planned initial public offering, in a revised filing with the Securities and Exchange.** In all, Google will have 31 underwriters help sell the stock to the public. The offering, which will be led by Morgan Stanley and Credit Suisse First Boston, as previously disclosed, will be distributed by 29 other institutions as well. The list includes major Wall Street banks such as Goldman Sachs, J.P Morgan and Lehman Brothers.
- **Online "phishing" identity-theft scams soared in April, when customers of the Citibank unit of Citigroup Inc. and eBay Inc. came under massive assault,** according to a report from the Anti-Phishing Working Group. The industry association reported seeing 1,125 different phishing scams in April, up 180% from 402 scams in March. That compares with a growth rate of 43% from February to March. Phishing scams use e-mail and websites designed to look like those of legitimate companies, primarily banks, to trick consumers into divulging personal information, such as financial account numbers, that can be used to perpetrate identity-theft fraud.
- **Alibris Inc. withdrew its 2.5 million-share initial public offering, saying it was unhappy with the prices being offered by bidders.** The company, which operates an online marketplace for used and hard-to-find books, had planned to use an open-auction process for the offering, which allows interested investors to bid on the price they wish to pay for the company's shares. Google Inc. recently said it would conduct its public offering in a similar manner.
- **Google is planning to release a file and text software search tool for finding information stored on a computer.** Google's software is expected to be introduced soon, will allow the company to offer tools to search the desktop, a domain now controlled by Microsoft Corp. Upgraded technology for searching stored information on a personal computer will be part of Microsoft's upcoming version of its Windows operating system called Longhorn, according to the newspaper.
- **A court in New York upheld a complaint from eToys Inc. claiming that Goldman Sachs Group Inc. set a lowball price on its initial public offering in 1999 in an effort to allegedly gain illegal kickbacks.** The lawsuit alleges that a lowball IPO pricing was used to try to gain kickbacks from favored investors who received shares of the hot IPO. The suit, filed two years ago, was brought by eToys' unsecured creditors committee. The suit also claims that Goldman induced some investors to agree to give the firm a portion of the profits they later made on eToys shares in exchange for the IPO allocations.
- **IBM and Cisco Systems Inc. said they will launch a joint services and product offering aimed at corporations that buy telephone services over the Internet.** IBM said it would jointly market its consulting services with Cisco's voice, video and conference solutions because it wants to help develop the nascent market. Calls made using voice over Internet protocol, or VOIP, are converted to data and carried over data networks, making them less expensive than traditional phone services, which use a single dedicated line for each call.

Media, Entertainment and Gaming

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- **US music consumers were sharply increasing their interest in legal downloads and diminishing their use of free song-swapping over the Internet.** The survey by the NPD Group found about 5 percent of those who have purchased music CDs also used a legal Internet service to purchase music in the first quarter of 2004, or triple the percentage in the same period a year ago. Among music buyers who purchased both CDs and a song download from a legal service, the likelihood that they also downloaded a song illegally fell dramatically, from 64 percent last year to 42 percent in 2004, the survey found. The surge in use of legitimate online music services comes as a growing number of companies have set up sites with song downloads for roughly one dollar. At the same time, the music industry has been cracking down on file-swapping with lawsuits alleging copyright infringement.
- **Time Warner Inc. is not planning to spin off or sell the company's America Online unit** despite speculation in recent months that the media giant was thinking about shedding the unit, whose lackluster performance in the past two years has dragged down the media giant's results.
- **Digital download service Napster scored a major victory over archrival iTunes by launching in Britain, the first of the high-flying Internet music stores to make a European debut.** In a move that surprised many in the industry, Napster announced that the music download and song-streaming service would be live to users in Britain. It kept the launch date a tight secret, previously saying only it would make its UK arrival by the end of summer.

Mobile / Wireless

- **Shareholders in AT&T Wireless Services Inc. approved Cingular Wireless's US\$41 billion bid.** AT&T Wireless said holders of 65% of the shares voted to approve the acquisition, which will create the nation's largest cellular-service provider in terms of customers. AT&T Wireless expects the deal to close by the end of the year. Cingular Wireless itself is a joint venture of BellSouth Corp. and SBC Communications Inc.
- **AT&T Corp. reached an agreement with Sprint Corp. that will allow AT&T to sell mobile phone services under its own brand later this year.** AT&T said the five-year deal lets it use Sprint's wireless network to begin selling mobile phone services in combination with its traditional and Internet-based phone services later this year. AT&T recently disclosed plans to re-enter the mobile phone services market after Cingular Wireless' expected purchase of AT&T Wireless Services Inc. It did not disclose the financial terms of the deal.

Semiconductors

- **Shareholders of Intel Corp., the world's largest microchip maker, approved a proposal urging the company to treat employee stock options as a business expense.** The shareholder vote, at the company's annual meeting, flew in the face of the strongly-held view by Intel senior management that expensing option costs would be bad for the company and for the high-tech industry as a whole. About 54 percent of votes cast backed the nonbinding proposal. The proposal was made by the United Brotherhood of Carpenters and Joiners of America Pension Fund.

Software

- **Microsoft Corp., which has been struggling to break into the television business for over a decade, announced a deal to license its software to Comcast Corp.,** the country's largest cable-TV company. Comcast would deploy software developed by Microsoft TV in up to five million of its digital set-top boxes over the next 2½ years. The software, known as Foundation Edition, serves as a platform

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for the program guide as well as the new features being added to digital cable, like movies on demand and interactive games.

- **Apple Computer Inc reported a security hole in its software leaves users' computers vulnerable to attack.** Apple, warning of a rare security hole in the company's OS X operating system for the second time this month, said in a release that a "theoretical vulnerability" in an application used to get help while browsing the web could expose users to a malicious software code. The specific nature of the security hole, such as whether it makes the computer vulnerable to outsiders or allows virus-like code to enter the operating system, was not made clear. Mac, and its legion of enthusiastic users, have long touted the benefits of owning Apple's Macintosh personal computer, such as its ease of use and immunity from the computer viruses that plague users of PCs running Microsoft's Windows operating system.

Telecommunications

- **Carlyle Group is acquiring the Hawaiian telephone operations of Verizon Communications Inc. for US\$1.7 billion,** a price slightly higher than expected, in a deal that was hotly contested among investment firms. The purchase was announced by both sides and includes the local telephone business, long-distance and Internet services as well as Verizon's print yellow page business. These operations produced US\$610 million in sales last year.

Europe

Hardware

- **Siemens AG is preparing a legal challenge to the deal between the European Commission and France over a state bailout of French industrial group Alstom SA.** Siemens' management board voted to challenge the agreement, which is still being finalized, in European courts. Siemens, which had hoped to acquire Alstom's gas-turbines business as part of a restructuring solution, believes the agreement to be illegal and wants it thrown out.

Media, Entertainment and Gaming

- **Eidos PLC issued a surprise profit warning, saying its latest version of the "Hitman" game is suffering from market weakness** in the U.S. Eidos, famous for the successful "Tomb Raider" series of computer games, anticipates a shortfall of 700,000 units of "Hitman: Contracts," the latest title in its successful Hitman franchise, that it expected to be reordered. Eidos said that the reorders had been anticipated to add around £9 million (US\$16 million) to operating profit. The company said the hit will be significant, but it would not quantify the exact profit shortfall due to the impending release of two new titles.

Semiconductors

- **Intel Corp. plans to invest an additional US\$2 billion to develop its Irish microprocessor operations.** The move comes at a time when economists fear the small U.S.-dependent Irish economy is losing its competitive edge to low-cost economies, a problem compounded by a persistent lack of key infrastructure and spiraling wage costs. After two years of downturn the global semiconductor market accelerated in the last quarter of 2003 and world-wide semiconductor sales are expected to grow by over 20% in 2004.

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Telecommunications

- BT Group PLC's fiscal full-year earnings skidded, but the British telecommunications company reported strong results in "new wave" services such as broadband, and sales increased in the fourth quarter. The company reported that net profit for the year ended March 31 fell 67% to £685 million (US\$1.2 billion) from £2.1 billion (US\$3.8 billion) a year earlier. For the fourth quarter, net slid to £303 million (US\$541.7 million) from £1.7 billion (US\$3 billion). The year-earlier figures were boosted by a large gain related to the sale of its stake in French mobile company Cegetel. Revenue slipped 1% in the full year to £18.5 billion (US\$33.1 billion) from £18.7 billion (US\$33.5 billion), excluding the impact of mobile-termination rates.

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