

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



Week of 6 June - 12 June 2004

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International

Mobile / Wireless

- **Gartner Inc. said global first-quarter mobile-phone sales grew 34% from a year earlier to 153 million units**, the highest sales figure ever recorded in the first three months of a year. Gartner reported the strength came from the Asian-Pacific market, with sales buoyed by the Lunar New Year, healthy growth in emerging markets and a surprising number of people upgrading phones in mature markets. Gartner expects global sales in 2004 to exceed 600 million units, compared with 520 million in 2003. All of the top five global vendors recorded sales increases in the first quarter.

Japan

Media, Entertainment and Gaming

- **Nintendo Co. plans to develop videogames for casual users, rather than simply pursue the type of advanced technology** that may satisfy hard-core game fans but turn off less experienced users. Nintendo believes the videogame industry is in a state of crisis that needs to be addressed by appealing to a broader group of consumers. Nintendo's strategy with its next-generation game console, code-named "Revolution," contrasts with that of rivals Sony Corp. and Microsoft Corp., which are incorporating powerful microprocessors into their new game machines.

Semiconductors

- **Elpida Memory, the Japanese memory chipmaker jointly owned by NEC and Hitachi, planned to invest ¥500 billion (US\$4.5 billion) to build one of the world's largest DRAM plants.** The plant would begin producing around 10,000 300-millimeter wafers of dynamic random access memory (DRAM) chips per month starting in late 2005, with output to rise to around 60,000 by 2007.

Korea

Hardware

- **LG Electronics Inc. was named to Business Week's 2004 Information Technology 100 companies list.** LG Electronics Inc. is the world's fifth-largest handset maker and the largest home appliance maker in Korea. Two other Korean technology giants made the rankings, including Samsung Electronics Co., the largest Korean electronics maker, in 11th spot, and SK Telecom Co., the nation's top mobile-service provider, in 23rd.

Semiconductors

- **Hynix Semiconductor, steadily building on its rescue early last year, expected to make an operating profit of more than US\$1 billion this year** on the upturn in the global memory chip industry. The world's third-largest memory chip maker reported operating profit was expected to reach 1.4 trillion won (US\$1.2 billion) on sales of 5.3 trillion won (US\$4.5 billion), with a further improvement to come in 2005.

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Software

- **South Korea's anti-trust watchdog conducted a probe of US software giant Microsoft's local affiliate for alleged fair trade violations.** The Fair Trade Commission (FTC) said its "on-site investigation" began at the headquarters building of Microsoft Korea in southern Seoul and would last for a five days. The probe came after Daum Communications, a leading South Korean Internet portal, filed a 10 billion won (US\$8.6 million) lawsuit against Microsoft for allegedly violating fair trade rules in April.

Telecommunications

- **KT Corp. commercialized a home networking system that provides subscribers with advanced interconnectivity between home-entertainment equipment.** The company's Home N service features television/video-on-demand functions, which enable users to save and replay television broadcasts in their preferred order, and a "home viewer" function, a wireless home security system providing real-time images from inside the home via mobile phones and other portable devices.

China

Internet

- **Tencent Holdings would retain its leadership in the mainland's instant messaging service sector, but margins would continue to fall** as development and marketing expenses rise. Tencent would use 65 percent of the proceeds from the share sale to buy firms in the wireless and interactive gaming sectors to enhance its offerings through its QQ messaging service.
- **Tencent to price at the top end of its price range,** under the lead management of Goldman Sachs. The instant messaging company priced a 420.16 million share deal at HK\$3.7 (US\$0.5), raising HK\$1.6 billion (US\$199.3 million). This represents 15.5 times earnings based on the mid-point of syndicate 2004 profit forecasts spanning RMB400 million to RMB450 million (US\$48.4 million to US\$54.4 million). About 150 investors participated in the offering, which had a demand split of 56% Asia, 27% Europe and 17% US. Allocations were more evenly balanced, with Asia taking 45%, the US 30% and Europe 25%. The company is China's dominant instant messaging (IM) operator with a 74% market share at the end of 2003 compared to Microsoft MSN on 11% and NetEase 4%. Its IM service QQ has become one of China's better known domestic brands and registered strong growth. Net profit jumped from RMB140.7 million (US\$17 million) in 2002 to RMB322.2 million (US\$39 million) in 2003 and is forecast to hit up to RMB450 million (US\$54 million) in 2004. First quarter profit came in at Rmb107.3 million (US\$13 million). Tencent has a total of 291 million accounts of which 97 million were active subscribers at the end of the first quarter.

Semiconductors

- **Advanced Micro Devices Inc. (AMD) unveiled a deal to sell chips to top Chinese PC maker Lenovo Group Ltd, its biggest break yet into a country dominated by archrival Intel Corp.** Lenovo has long exclusively used central processing units (CPUs) made by Intel, the world's biggest chip manufacturer, in its PCs. AMD was largely locked out of the branded PC business in China until last year, when it began a push to enter a market that has been a stronghold for Intel.

Telecommunications

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- **China Telecom Corp. expects to complete a long-planned acquisition of assets from its parent company on June 30**, after its shareholders approved the purchase at an extraordinary general meeting. China Telecom is the listed arm of China's largest fixed-line telecommunications service provider. The parent company is transferring 10 of its provincial operations to the listed company in exchange for a cash payment of 27.8 billion yuan (US\$3.4 billion). To help pay for the acquisition, the listed company last month raised US\$1.5 billion through a placement of shares to institutional investors.

Taiwan

Hardware

- **Hon Hai Precision Industry Co., one of the world's largest manufacturers of electronics parts and products, plans to issue global depositary receipts valued at NT\$40.1 billion (US\$1.2 billion)** and list a unit overseas to strengthen its global presence. At the company's annual general meeting, shareholders voted in favor of the plan to issue GDRs equivalent to as many as 300 million common shares, and to list unit Foxconn International Holdings Ltd., most likely in Hong Kong.

Mobile / Wireless

- **Taiwan Cellular Corp (TCC) expected to replace Chunghwa Telecom as the island's largest mobile phone service provider** after acquiring smaller rival MoBiTai Communications. As Taiwan's second-largest operator, TCC now has 7.5 million subscribers, including those of TransAsia Telecom, which it acquired in 2001. The company signed a memorandum of understanding to buy an initial 67 percent stake of MoBiTai Communications for around NT\$2.5 billion (US\$73 million) from Teco Electric Machinery. The new MoBiTai board elected after the acquisition, expected later this year, would decide whether to sell the remaining 33 percent shares in 12 to 16 months. The deal is expected to make TCC the new market leader with over 8.2 million users, surpassing Chunghwa Telecom's 8 million.

Semiconductors

- **Taiwan Semiconductor Manufacturing Company boasted record sales of NT\$21.7 billion (US\$650 million) in May** on the back of increased demand. May sales were up 5.3 percent from April and 29.2 percent higher from a year ago. TSMC sales in the five months to May rose 39.9 percent year-on-year to NT\$99.9 billion (US\$2.9 billion). At an investor conference on April 30, TSMC chairman Morris Chang said the company expected its wafer shipments to rise close to 10 percent quarter-on-quarter in the three months to June.
- **United Microelectronics Corp reported its May sales rose 31.21 percent year-on-year to NT\$9.7 (US\$288 million).** Sales in April totaled US\$9.2 billion. For the five months to May sales rose to US\$44.2 billion from US\$32.6 billion a year earlier. At an April 28 investor conference, UMC expected its average selling price in the second quarter to June to show a sequential increase of up to 5 percent in US dollar terms on the back of a rise of about 10 percent in wafer shipments.
- **Semiconductor Manufacturing International Corp (SMIC) has denied a media report in Taiwan that Infineon Technologies could stop outsourcing to the contract chipmaker**, saying relations with the German firm were intact. According to the report, Infineon is considering suspending orders due to problems relating to the production of 0.11 micron memory chips. Recent developments at Infineon have led to concerns that SMIC could lose the chipmaker as a key client. In March, Infineon chief executive Ulrich Schumacher suddenly resigned. Mr Schumacher favoured an "asset light" strategy

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that relied on contract chipmakers, such as SMIC, rather than costly internal capacity. On April 23, Infineon announced a US\$1 billion plan to expand into 12-inch wafer production at its facilities in Richmond, Virginia.

Singapore / Malaysia / Philippines / Indonesia

Mobile / Wireless

- **Singapore's third-largest mobile phone operator StarHub was likely to list in July**, raising proceeds of up to S\$700 (US\$411 million), according to the Business Times. The report cited unnamed sources as saying Credit Suisse First Boston and UBS, managers for the float, submitted the listing application to regulatory authorities in April. StarHub, which also owns the city-state's sole cable television service provider, had said in the past a listing was on the cards but no specific date was given.

Hong Kong

Telecommunications

- **Undersea-cable operator Reach and its parent companies, PCCW Ltd. and Australia's Telstra Corp., are in talks with Reach's bankers on restructuring its syndicated loans.** In April of last year, Telstra and PCCW agreed to inject US\$286 million into the Reach joint venture, funds that were used to help cut Reach's bank debt by US\$300 million to US\$1.2 billion. Reach does not have to make further principal payments until Dec. 31, 2010. Both Telstra and PCCW have written off their entire investments in Reach. The joint venture has been fallen victim to a sharp downturn in demand and overcapacity in fiber-optic cable systems in the past few years. Reach reported a pretax loss of US\$215 million in 2003 compared with a pretax profit of US\$189 million in 2002.

United States / Canada

Hardware

- **Hewlett-Packard Co. continues to anticipate share earnings growth of about 20 percent a year**, and that HP has become the clear challenger to rival IBM. Speaking at the company's analyst meeting in San Jose, California, HP, more than two years after its controversial US\$19 billion acquisition of Compaq, is in a strong position to continue taking market share from competitors.

Information Technology

- **Best Buy Co. purchased and will soon begin selling excess inventory from Gateway Inc.'s recently shuttered retail operation**, including flat-panel televisions, digital-music players and home-theater systems. Gateway closed its remaining stores two months ago after a failed retail push that once included 384 Gateway Country stores across the U.S., Europe and Japan. Once the largest U.S. seller of home PCs, Gateway expanded into consumer electronics three years ago as its PC sales plummeted.

Internet

- **America Online Inc. is enlisting web meeting provider WebEx Communications Inc. and voice conference firm Lightbridge Inc. to establish its instant-messaging service as a business tool.**

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AOL plans to announce AIM Business Services, which gives workplace users of AOL Instant Messenger the ability to launch conference calls and web meetings from their buddy lists. The new paid tools, which show up as icons on buddy lists once a user signs up for them at the AIM site, include AIM Voice Conferencing by Lightbridge and AIM Web Meeting by WebEx. The goal of the new services is to make AOL Instant Messenger a one-stop communication hub for businesses. AOL has noticed its users currently use the chat program to schedule and organize conference calls and online meetings, but then have to go to other services to actually talk on the phone or meet.

- **The number of high-speed Internet lines in the U.S. increased 42% last year**, and service now is available in all but 7% of the nation's ZIP codes. In a semiannual report, the Federal Communications Commission said 28.2 million homes and businesses had high-speed lines. Cable modems made up 58% and DSL 34%. Most of the country had choice. Seven to eight percent of the nation's ZIP codes had at least two companies providing service.

Media, Entertainment and Gaming

- **DirecTV Group Inc. sold its roughly 4% stake in TiVo Inc.**, which sent TiVo's stock plunging as investors fretted about the future of the companies' relationship. DirecTV now markets TiVo's digital-video-recorder product as part of its satellite-TV service, in a vitally important partnership for TiVo. While TiVo was a pioneer of DVR technology, its market lead has been eroded during the past couple of years as cable-TV operators and DirecTV's main satellite competitor, EchoStar Communications Corp., have started offering alternative versions of DVR technology. DVRs store television programming on a hard disk, allowing viewers to freeze live TV and otherwise shift schedules.
- **Comcast Corp. is in advanced negotiations with the Public Broadcasting System, Sesame Street Workshop and HIT Entertainment to develop the first 24-hour network dedicated to preschool kids.** The as-yet-unnamed network would carry no commercials and would have rights to "Barney & Friends," "Sesame Street," "Bob the Builder" and "Thomas the Tank Engine," among others. Rights to those shows are now owned by Sesame Street Workshop, a nonprofit organization, and HIT, a United Kingdom company that produces children's programming. Comcast, PBS and the two programmers each would own stakes in the new digital network. But the biggest piece would go to Comcast, which has made owning content a major priority.

Mobile / Wireless

- **The Vodafone and Verizon alliance came close to unraveling when Vodafone made a US\$38 billion bid to acquire AT&T Wireless Services Inc.** The bid failed and many observers noted that Vodafone's willingness to buy a U.S. carrier showed its desire to strike out on its own in the pivotal North American market to further establish itself as a truly global cell phone company. Now, the relationship between Vodafone and Verizon is about to be tested again. Vodafone with more than 100 million subscribers, has the right between June 10 and Aug. 9 to require Verizon to pay it as much as US\$10 billion in exchange for some of its 44.4% stake in Verizon Wireless. Over time, Verizon could buy up the entire holding. Under a put option agreement between the partners, the exact value would be determined by mutual agreement or, failing that, by a third party that both parties agree upon.

Software

- **EMC Corp. expects about US\$8.1 billion in revenue in 2004 on sales of US\$6.2 billion last year.** A significant part of the revenue growth is coming from three relatively large software acquisitions that barely contributed to 2003 figures. EMC's peak revenues were US\$8.9 billion in 2000. EMC would post

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net income of US\$825 million, its largest profit since 2000, when it earned US\$1.8 billion. Profit in 2003 was US\$496 million. EMC expects demand for storage equipment to rise 7% this year, ahead of its previous projections of 5% to 6%.

- **Software maker i2 Technologies Inc. agreed to pay US\$10 million to settle charges it misstated about US\$1 billion in license revenues over five years, according to the U.S. Securities and Exchange Commission.** The company agreed to a cease-and-desist order without admitting or denying wrongdoing. The civil penalty amount will be paid to injured investors.
- **SCO Group Inc. posted a fiscal second-quarter loss on a sharp decline in revenue and increased expenses from its copyright fight over the Linux operating system.** The software company reported a net loss of US\$7.9 million for the quarter ended April 30, compared with year-earlier net income of US\$4.5 million. The per share loss was widened by a US\$7 million payout on preferred dividends, while there were none in the year earlier period. Revenue dropped 53% to US\$10.1 million from US\$21.4 million.

Telecommunications

- **The Federal Communications Commission approved a plan that will reconfigure a broad swathe of valuable airwave spectrum to accommodate wireless-mobile broadband,** but rejected a plan that would have allowed the sale of educational spectrum space to commercial interests. Commercial use of the airwaves has been hampered because educational-video and commercial uses were adjacent to each other in the spectrum band, requiring the agency to impose rigid rules on users to guard against interference.

Europe

Mobile / Wireless

- **Nokia's share of the global cell phone market fell sharply in the first quarter of 2004, hurt by a lack of new models and a rocky relationship with mobile phone service providers.** Though the industry leader shipped more phones than in the first three months of 2003, its market share slid to 28.9 percent from 34.6 percent, market research group Gartner found, as Nokia lost ground to all of its top six rivals. Gartner also noted that the overall handset market was growing strongly, with shipments rising 34 percent to 153 million units in the first quarter as consumers in emerging markets embraced mobile communications for the first time.

Software

- **SAP AG Chief Executive Henning Kagermann said the German software company is not for sale** and can continue to go it alone, but he did not entirely rule out a combination with another company. The surprise disclosure this week that Microsoft Corp. and SAP held secret merger talks raised a tricky question for the longtime German king of corporate software. Any mega-combination of SAP with titans such as Microsoft or IBM Corp. would face daunting regulatory hurdles, both in the U.S. and Europe, given SAP's dominance of corporate software.

Telecommunications

- **Deutsche Telekom AG faces claims for damages from 32,000 shareholders over allegations that the German telecommunications company misstated the value of assets in the prospectus for a**

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€15 billion (US\$18.5 billion) share sale in June 2000. The combined damages sought exceed €100 million (US\$120.1 million). The German system, which does not have class-action suits, is impractical for dealing with mass proceedings like the unprecedented flood of Deutsche Telekom cases.

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