

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



Week of 17 October - 23 October, 2004

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International

Internet

- **Just as the introduction of the PC in the early 1980s and the mobile phones in the early 1990s changed the lives of people, home networking will drive the next major wave of digital media and communication for consumers, according to British market research group Infonetics.** After almost a decade of talk, it could start to become as real as early next year. Electronic companies have been talking for years about the “smart home”, but futuristic products like the “Internet fridge” have remained expensive, fringe items. What is different now is that companies are investing real money in improving entertainment and communications services that consumers are willing to pay for, centered on video and music, while throwing in Internet telephony at very low cost. Research group Ovum forecasts that the number of networked homes worldwide will mushroom to 121 million by 2008. For starters, consumers will need digital-ready TVs, and will probably prefer flat-screen models. A home network also requires a broadband router to hook up to the Internet and a wireless access point to connect to various TVs and other gadgets without a jumble of cables. There should also be a box that can deliver and record digital TV programs and movies, and a digital vault to store films, games, music and pictures. Because of the rapid pace of advances in digital technology, the upgrade cycle for these devices will also be faster than for current home electronics, which are replaced only once every five to ten years. Computer makers and consumer electronics producers are all vying to take center stage in the living room.

Software

- **Software in Japan, China and South Korea will join to develop an Asian version of the shareware Linux operating system and related software.** The work is part of a broader effort by governments and companies in the three countries develop a standard Asian operating system that will be widely adopted in the region and challenge the dominance of Microsoft Corp. Miracle Linux Corp., which counts NEC Corp. and Oracle Corp. Japan, as investors, as well as Red Flag Software Co. of China and Haansoft Inc. of South Korea will jointly develop software for the system, dubbed Asianux, and promotes its adoption for electronic government systems in Asia. Haanson will participate in a joint project already being pursued by Miracle Linux and Red Flag. The Asianux operating system will adopt the same basic design as Linux, but will have functions for certain specific Asian document forms, languages, expressions, numerals and units. Miracle Linux will develop core operating system technologies, Red Flag will work on screen display, and Haansoft will take charge of application software, including that for documents and calculations. The three companies will disclose core technologies for the operating system and applications they develop through forum in order to promote adoption and improvement by other software firms. They will also market products they develop under their own brands.

Hardware

- **Worldwide sales of computers rose 9.7 percent in third quarter 2004 compared with the figure for the same period last year, with Dell of the United States the sector leader with 16.8 percent of the market, the Gartner research institute said.** Unit sales came to 46.9 million in the July-September period against 42.8 million in the second quarter and 42.7 million in the third quarter of 2003. But the gain was weaker than Gartner analysts had predicted because of a slowdown in U.S. sales,

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which increased 5 percent rather than an expected 8 percent. After Dell in the sales table, the leading computer manufacturers were Hewlett-Packard, with 15 percent of the market, IBM, 5.6 percent, Fujitsu and Fujitsu Siemens 3.6 percent and Toshiba, 3.4 percent.

Japan

Software

- **Morpho Inc., a startup founded in May, has developed a software program that can create a fluid video stream from the set of still images.** With this program, a set of 36 photos of a car taken at different angles, changing by a constant 10 degrees, can be converted into a virtual movie that depicts the car rotating in a complete circle. The software generates the video after analyzing the ways in which the subject of the picture and the background change from still to still. The result is more realistic than video created using 3-D computer graphics and far less costly to produce, since large volumes of data are not required calculating multiple instances of light reflection off the subject. With 3-D computer graphics, a one-minute video can cost as much as 100 million yen (US\$929,000). With the new software, costs can be reduced to by two-thirds to four-fifths. Since the video clips are less costly to make, the program lends itself to interactive video games, where the context of the video differs depending on how the game plays out. Other possible applications include the creation of realistic walkthroughs of homes for sale, and a mechanism for digital cameras to compensate for hand unsteadiness. University of Tokyo Edge Capital Co. (UTECC), a venture capital firm founded by the University of Tokyo to invest in academic startups, recently made a capital investment of 50 million yen (US\$464,000).

Internet

- **Internet portal site operator Excite Japan Co. will go public on the JASDAQ over-the-counter stock market.** It will be the second listed company to earn most of its revenue from the portal business after Yahoo Japan Corp, which went public in 1997. Excite offers portal services primarily targeting urban residents in their 20s and 30s. In contrast with Yahoo, which provides a full line of services. Excite is trying to offer “fashionable, hypersensitive” services. Excite relies on revenue from advertisements on its portal site for about half its sales. The second-largest amount of revenue comes from fees related to managing online community sites, distributing ringer melodies to mobile phone users and online games. Starting next year, Excite will also provide music over the Internet. The Tokyo-based company intends to balance revenue from ads, fees and other services, such as electronic commerce, in three to five years. Excite, which more than doubled its parent-only pretax profit for the year ended March 31, foresees a 76% jump to 550 million yen (US\$5.1 million) for the current business year. Sales are projected to grow more than 30 percent this fiscal year, as they did last year, to 6.5 billion yen (US\$56.2 million). The company plans to use more than 4 billion yen (US\$37.2 million) in proceeds from the initial public offering to reinforce existing businesses and invest in facilities for new operations. Initial public offering is 3,500 shares, with secondary shares of 1,500 shares. Offering period is Oct. 25-28. Lead manager is Mizuho Investors Securities Co.
- **Yahoo Japan, the nation’s top Internet portal and online auctioneer, said interim net profit jumped over 60 percent as broadband use and advertising revenue increased sharply.** In the six months to September, group net profit rose from 62.2 percent from a year earlier to 16.9 billion yen (US\$155 million), with sales up 54 percent to 51 billion yen (US\$480 million). Broadband Internet users in Japan were up 43.5 percent as of the end of August. The company said net profit for the second

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quarter to September rose 46 percent to 8.6 billion yen (US\$80.6 million) due to a sharp rise in advertising revenue, with sales up 51 percent to 26.5 billion yen (US\$248.5 million). Softbank owns 41.9 percent in Yahoo Japan and Yahoo! of the United States holds 33.5 percent. For the third quarter to December, Yahoo Japan forecast a net profit of 8 billion to 9.3 billion yen (US\$75 million-87.2 million) on revenue of 27.5 billion to 30 billion yen (US\$258 -281.1 million). The company did not provide a forecast for the year to March 2005.

Hardware

- **Toshiba Corp. plans to release laptop computers equipped with next-generation DVD drives at the end of next year.** This is the first time that a major personal computer maker has revealed details of a product that is compatible with one of the next-generation DVD formats. Toshiba's new laptops will play regular DVDs and compact discs in addition to HD-DVD discs. The major electronics firm plans to release the new PCs in December of next year under its Qosmio brand, which offers high-end models for home use. It hopes to price the new PCs at the same level or less than current high-end DVD-equipped models, which sell for about 200,000 yen (US\$1,900) to 300,000 yen (US\$2,800). Toshiba aims to ship 1 million units of the HD-DVD laptops in the first year by using its position as Japan's largest laptop PC supplier and by marketing new models in Europe, the U.S. and China. Two to three years after the new models are launched, Toshiba hopes that laptops compatible with the next-generation DVD format will account for nearly half of its home-use models.
- **Toshiba's strategy to quickly release laptops compatible with the HD-DVD next-generation DVD format is seen as a countermove to Sony Corp's announcement that it will make its next game console compatible with the Blu-ray Disc format.** With Toshiba and Sony each moving to unveil products in the competing formats, any opportunity to unify the standard for next-generation DVDs is expected to take a step backward. The biggest key in determining which format becomes the standard is seen squarely in the hands of the U.S motion picture industry, which is the source of the software. Although the Blu-ray camp has succeeded in getting mid-size movie studio Twentieth Century Fox Film Corp. to join its alliance earlier, major studios such as Walt Disney Co. and Time Warner Inc. have not yet committed to either format. So, now Toshiba and Sony, each a leader in their respective camps, have kicked off attempts to make their format the de facto standard by releasing products heeling to their strengths. The reason these firms choose PCs and game consoles as instruments to further their causes is that the markets for those products are much larger than home electronics. While about 16 million DVD recorders have been sold worldwide, PCs are expected to account for sales of around 200 million units in 2005, and cumulative shipments of Sony's PlayStation 2 have surpassed 70 million units.
- **NEC Corp. will release desktop PCs with built-in HD-DVD drives at the end of 2005.** The HD-DVD is a next-generation optical disc format that NEC is promoting in concert with Toshiba Corp. NEC will include the HD-DVD drive on models of its Valuestar line of desktop PCs. The company also plans to release a notebook with an HD-DVD drive but it has not decided on a marketing date.
- **Japanese electronics giant NEC said it had begun selling the world's fastest supercomputer.** NEC claimed its SX-8 is the most powerful 'vector-type' supercomputer, with a sustainable data processing speed well beyond IBM's recently unveiled Blue Gene/L supercomputer. IBM's Blue Gene is capable of a sustained data processing speed of 36.0 teraflops, or one trillion floating-point operations per second. NEC said its newest SX series model had a peak processing speed of 65 teraflops and a sustainable performance of roughly 90 percent that speed or 58.5 teraflops. The Tokyo-based

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electronics maker aims to sell or rent 700 models in the first three years. The monthly rental fee for the SX-8 is a minimum 1.2 million yen (US\$10,700) and the purchase price is 130 million yen (US\$1.21 million).

Mobile/Wireless

- **KDDI Corp. has jointly developed a low-cost shipping management system that uses mobile phones with GPS (Global Positioning System) functions.** KDDI aims to cultivate demand for the system among small and midsize shipping companies that do not have systems of their own. The system, known as iGPS Cargo, allows users to obtain location information on delivery trucks and the like in real time and to respond promptly to changes in shipping destinations. Mobile phones with GPS functions are distributed to delivery staff. Via a system server, a delivery center or shipper can monitor delivery progress via personal computers. The system fee for a system with 20-30 mobile phones will be about 100,000 yen (US\$932) a month. Separate communication charges for the mobile phones will apply. KDDI developed the system with Kibun Fresh System Co., which is a distribution subsidiary of Kibun Foods Inc. and KTSys Consulting Co., which provided the distribution management system that served as base.
- **Tu-Ka Cellular Tokyo Inc. and two other Tu-Ka group firms will market stripped-down phone handsets that allow users to talk over the phone but offer no Internet or camera capabilities.** The phones will have the simplest possible design and relatively large buttons, including clearly marked "On" and "Off" switches so they are user-friendly for the elderly. When reception is bad or the battery runs low, a light turns on to alert users. For the sake of simplicity, no written instruction manual will be prepared. The new handsets can be kept on standby mode for 840 hours and offer 240 minutes of conversation between charges. Because the terminals do not have LCD screens, their batteries can last 50-100% longer than those used in most phones. The new phones, made by Kyocera Corp, are expected to be priced at 3,000 yen (US\$28) to 5,000 yen (US\$47).

Korea

Internet

- **South Korean Internet-related shares such as NHN Corp. and Daum Communications Corp. dropped after Neowiz Corp. reported third-quarter results that fell significantly short of some analyst's expectations.** The weaker-than-expected results in Neowiz and NHN prompted investors to keep away from Internet stocks.
- **South Korean cell phone web content provider WiderThan.com Co. said it has acquired U.S.-based Ztango.** The acquisition of Ztango, a mobile multimedia and messaging vendor, will give WiderThan.com a crucial gateway for its expansion plans in the United States, company officials said. Financial terms of the deal were not disclosed.

Mobile/Wireless

- **South Korea's Samsung Electronics said it had developed the world's first mobile phone equipped with a state-of-the-art five-megapixel camera.** The latest model, called the SCH-S250, has a charge-coupled device camera and high-sensitivity flash, which allow users to take high-quality pictures. It can also function as camcorder. Samsung said it has cooperated with Japan-based Asahi Pentax to develop a camera module customized for the mobile phone. The phone's 92 MB onboard

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memory can store up to 100 minutes of video while 32 MB auxiliary memory is included as a standard feature. Shutter speed is as fast as 1/1,000th of a second and permits the user to photograph landscapes as well as subjects as close as 10 centimeters. Samsung, the world's third-largest handset maker, said the new phone would help the company maintain its leadership in the high-end of the market. The SCH-S250 phone also features an MP3 player, a TV function and mobile banking. South Korea's top mobile carrier, SK Telecom said it would introduce 10-megapixel camera phones produced by Samsung by the end of the year.

- **LG Electronics Inc., Korea's second-largest electronics-maker, reported a 36 percent increase in its third-quarter profits, beating analysts forecasts thanks to a jump in its mobile phone handsets.** Stronger overseas demand for mobile handsets and higher-end commercial electronics goods boosted profits to 304.4 billion won (US\$265 million). Sales rose 24 percent year-on-year to 6.1 trillion won (US\$5.4 billion) with operating profit increasing 91 percent to 353.4 billion won (US\$312 million) in the July-September period, beating market expectations. Analysts had projected the firm's operating profit would range 270 billion (US\$237 million) to 330 million won (US\$289.7 million) on sales of 6 trillion (US\$5.3 billion) to 6.2 trillion won (US\$5.4 billion). The company also owes the record earnings to an increase in the sales of telecommunications equipment. In May, LG said it won an order to supply Hutchison Whampoa Ltd. with 3 million so-called 3G mobile phones until the end of the year. The company is a latecomer to a crowded mobile phone industry, where it competes with market leaders Motorola Inc. and Nokia.
- **SK Telecom Co. introduced a new service that allows customers to trade stocks using their mobile phones.** The "m-Stock" services, provided under an alliance with Tong Yang Investment Bank and SK Securities Co., is available to SK Telecom subscribers who own handsets equipped with the company's wireless credit-card payment system Moneta. To use the wireless stock exchange services, SK Telecom customers must set up trading account with Tong Yang Investment Bank or SK Securities and install integrated circuit chips stored with account information on their Moneta-equipped phones. SK Telecom is currently in negotiations to expand the m-Stock services to include Daewoo Securities Co. customers and plans to connect their stock exchange applications with customers using the mobile M-Bank services, company officials said. With mobile-phone operators looking for new services with greater average revenue per user, wireless financial services that provide banking, credit card and stock-exchange functions have been a fast-growing sector. The number of Koreans using their mobile phones for bank transactions exceeded the 1 million mark this year, according to industry figures. According to the Financial Supervisory Service mobile banking transactions amounted to 2.2 trillion won (US\$1.9 billion) during the second quarter this year, up 58.1 percent from the first quarter. SK Telecom, the country's largest mobile-phone operator, has more than 420,000 customers signed up for its M-Bank services.

China

Internet

- **Shares in Tom Online dropped 8.9 percent yesterday, a week before its scheduled third-quarter results announcement, after mainland rival Linktone said its earnings would come in below expectations.** The decline comes on the heels of failed discussions between the company and global instant messaging giant ICQ on a possible partnership. Nevertheless, Tom Online planned to launch an instant messaging application to round out its online portfolio of services, which include games and

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content downloads for mobile phones. Shanghai-based Linktone said it expected third-quarter net income of US\$2.7 million to US\$2.9 million, against previous guidance of US\$4 million to US\$4.2 million. Revenue will be between US\$13.1 million and US\$13.4 million, down from previous expectations of US\$13.7 million to US\$14.3 million. The NASDAQ counter dropped 13 percent to US\$7.85, its lowest level in two months. Linktone and other firms such as KongZhong, Sina.com and Sohu.com have experienced a slowdown in SMS revenue after a government crackdown on pornography and mobile phone spam.

- **Tom Online will release instant messaging (IM) software under its own brand by the end of this year.** According to the source, Tom Online's partner is Skype, a Sweden-based Internet phone service and instant messaging service provider. Skype announced that peak concurrent users of its IM software Skype TM reached 1 million. Tom Online said in the past that the company's IM strategy has two major steps: combining IM with Tom Online's free e-mail service and bundling IM with Interactive Voice Response (IVR).
- **Services similar to those provided by PayPal – which enables Internet users to send cash to each other via e-mail – have yet come to China.** Industry players say this has limited the growth of mainland e-commerce in general and Internet auctions in particular, and the virtual market will not truly take off until buyer and seller can easily exchange money online. There are signs, however, that PayPal-like services may soon be available in China. PayPal always has the option of buying a mainland rival: eBay entered the China market by acquiring an established player EachNet. In fact, eBay operated its own payment services in the United States before deciding to close them and buy the more popular PayPal. One company described as the PayPal of China is Pay88. Launched in March by Chongqing-based Cqbbbs, the firm provides online payment solutions to small and medium-sized shops, but so far not to Internet auctioneers working from home. While the ability to zip cash around China via e-mail would aid the nation's e-commerce development, one company, Smartpay, believes there is a better method: short text messages. In a country where mobile phone penetration far exceeds PC penetration this would seem to make sense for both online and offline transactions.

Telecommunications

- **China's Huawei group has signed a deal to supply the Brazilian and Chilean subsidiaries of Spanish telecommunications giant Telefonica with high-speed Internet routers.** A Telefonica spokesperson confirmed the Chilean deal but was unaware of the Brazilian link-up. The report said that the deals would allow Huawei to gain a foothold in the Latin American telecom market, which analysts see as having above average growth potential. Huawei Technologies, headquarters in Shenzhen and with 22,000 employees as the end of 2003, is present in some 50 countries worldwide as a total network solutions provider.
- **China Netcom Group (Hong Kong) sees itself as a regional player able to capture surging demand for high-speed data traffic, setting it apart from close rival China Telecom.** But the company is likely to have its work cut out trying to convince the investment public as it heads towards a US\$1 billion to US\$1.5 billion dual listing in Hong Kong and New York. Having acquired bankrupt undersea cable carrier Asia Global Crossing – renamed Asia Netcom – two years ago, Netcom became the only Chinese carrier to own a telecommunications business outside the country. Now it hopes to use Asia Netcom to tap into the Asia-Pacific region's estimated US\$3 billion international data revenues. A source said Netcom was looking into other expansion opportunities abroad either through acquisition or business co-operation with foreign partners. Part of its regional expansion plan is illustrated by its

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parent China Network Communications Group's talks with PCCW to acquire its fixed-line asset, although the deal has been stalled because of a huge difference in valuation. Netcom is forecasting current full-year profit to reach at least 9.1 billion yuan (US\$1.1 billion).

- **A regulation concerning voice over IP (VoIP) will be released soon, according to a source in the Ministry of Information Industry (MII).** According to the regulation, VoIP will still be classified as a telecom value added service but no longer as a basic telecom service. Once the regulation is released, Internet service providers (ISPs) will be able to develop VoIP businesses legally and will be able to compete with fixed line operators on an equal footing. Currently, many companies provide VoIP services without government approval. Beijing Communication Corporation (BCC) planned to launch a broadband phone in August, but the service was prohibited before launch.
- **China's No. 2 telecommunications equipment supplier ZTE Corp is on track to become the first mainland A-share company to list in Hong Kong after it was revealed that China Minsheng Banking Corp's listing ambitions had run into delays due to shareholder resistance.** The Shenzhen-listed A share, which revived its once-aborted H-share plan in the summer, now hopes to receive the go-ahead from the Hong Kong stock exchange in the middle of next month, paving the way for a December launch of a US\$350 million offering sponsored by Goldman Sachs. ZTE's timetable is likely to clash with a string of companies aiming to sell shares before the Christmas holiday, including national carrier Air China, Beijing Youth Daily, a subsidiary of Taiwan-listed Hon Hai Precision Industry's telecommunications equipment unit FoxConn International Holdings and wireless network equipment provider Shenzhen Powercom. These companies are expected to raise about HK\$12 billion (about US\$1.5 billion). The company plans to sell 160 million H shares or up to 20 percent of its share capital in Hong Kong. ZTE plans to use the listing proceeds to finance its expansion in overseas markets and to develop new products and technologies. ZTE reported a 163.5 percent year-on-year surge in first-half profit to 513.2 million yuan (US\$62 million). International sales quadrupled to 2.1 billion yuan (US\$242.49 million).

Mobile/Wireless

- **An official of the Information Industry of the country notes that there are too few 3G handsets available.** The official said he hopes that Chinese mobile makers launch the R&D and manufacturing of 3G cell phones as early as possible. China cannot afford to miss the chance when the 3G development was obviously gaining momentum in the global market. In China, the slow development of 3G mobiles had delayed the 3G licensing process. Effective policies would be necessary as the report attributed the supportive policies at the budding stage of the homemade cell sector by the government to the high-speed growth of the sector in the past five years.

Media, Entertainment and Gaming

- **The mainland, worried that young people are being corrupted by foreign online games, plans to spend up to US\$240 million to develop healthy indigenous online games that stimulate thought, instead of simply exploiting violence.** The plan was to develop 100 high-quality games over the next four years at a cost of between 1 and 2 billion yuan (US\$121 and US\$242 million). Nearly 50 businesses were involved in the program, attracted by preferential policies for taxation and financing, quoting the Press and Publication Administration. The mainland's 200 million young people make it the world's most promising market for online games, with predictions that revenue could reach 9.3 billion yuan (US\$1.1 billion) by 2006, up from the current estimate of 1.3 billion yuan (US\$157.1 million). The Professional Commission of Online Games will launch a national club for game players and build a

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server of suitable games, recommending “healthy games to juveniles as an effort to clean up the online environment.” It will also rate online games according to their levels of “pornography, violence, horror, social morality and cultural implications”.

Information Technology

- **Information technology giant IBM is ready to grab shares in the IT-related market of China’s small and medium-sized enterprises (SMEs) with most products at affordable prices.** IBM, to boost this intention, opened its first world-class research center for SMEs in Beijing. The research center will develop technologies and solutions aimed at SMEs, one of the fastest growing sectors in IT spending, to serve the Chinese market and leverage the new products around the world through its global research network. SMEs make up more than 99 percent of the total number of Chinese companies. The application of IT in their operation will create a huge market. The IT spending of China’s SMEs will probably reach US\$6.7 billion, according to IBM’s greater China group. The revenues from SMEs account for almost one-third of IBM China’s total amount. And IBM is seeing this figure grow. IBM will work together with local partners, such as independent software vendors (SVS) to make products and technology more suited to local markets. The company also launched new products, including solutions for retail stock replenishment and order & payment, which are co-produced with Efuture, a software development company specializing in providing retail solutions. IBM’s advantage in the SME market lie in providing comprehensive solutions instead of cheaper hardware.

Taiwan

Hardware

- **Two Taiwanese technology equipment makers are eager to enter Hong Kong equity markets to raise up to HK\$1.5 billion (US\$193 million) by the end of the year.** Foxconn International Holdings, a subsidiary of Hon Pai Precision Industry, was looking to tap between US\$103 million and US\$154.1 million with an initial public offering being arranged by Goldman Sachs and UBS. The company hopes to gain regulatory approval next month and list the shares by the end of the year. Foxconn mainly makes telecommunications networking and mobile equipment. It was estimated to have net earnings of more than HK\$400 million (US\$51.4 million) last year. Juteng International Holdings, which makes casings for computers and other consumer products, hoped to raise about US\$34 million from the main board in December. The company had revenue of about US\$64.2 million last year and customers include Asus, Sony and Apple. Juteng is moving towards developing niche, 0.5mm laptop casings – the thinnest in the world – which cost at least five times more than the more widely available 1.2mm to 1.8mm casings. The company’s two production bases in Jiangsu province had the capacity to make one million casings a month. Juteng was counting on the robust growth of laptop sales in China that was expected to increase from US\$13.2 million last year to US\$39.7 million in 2008 at a compound annual growth rate of 25 percent.

Internet

- **Overture, a U.S. search-based advertising agency, which opened in Taiwan, could give a boost to the Internet advertising market in China.** Its Taiwan launch includes strategic alliances with Yahoo!, MSN and Taiwan sites Seednet, China Times.com and UDN.com, giving it access to 80 percent of the island’s Internet market. Overture gained prominence last year when Yahoo bought it for US\$1.8

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billion, a move designed to give Yahoo! access to a niche dominated by search engine Google. Overture's business model is to match search queries with client offerings, allowing for more targeted advertising, a model made famous by Google which has no banner ads on its site and which provides topic-based ads to other sites. To date, the China online advertising model revolves around banner ads and paid subject links on a site's homepage. The U.S. market has quickly taken to search-based, cost-per-click advertising as an alternative, more cost-effective method. With the online advertising market maturing, portals have turned to non-ad revenue to boost income. Yahoo! Taiwan said non-ad services such as auctions and personals continued to grow as a proportion of total income.

Hong Kong

Mobile/Wireless

- **SmarTone Telecommunications Holdings, Hong Kong's third-largest mobile network operator, is laying the groundwork for a launch of third-generation (3G) mobile phone services to rival those of Hutchison Telecommunications.** SmarTone, one of the city's four 3G license holders, has been cold calling existing subscribers to register their interest in 3G services – a marketing technique Hutchison used about before its official launch in January. Hutchison is the only company to have launched 3G services. SmarTone would not comment on the cold calls but a spokesperson said it would launch services this year. The operator had 1.1 million customers in June and a monthly churn rate of 2.6 percent, which, it claimed, was lower than the industry average. As of June 30, Hutchison had more than 94,000 3G subscribers in Hong Kong. Keen competition in the 3G markets is expected in the months ahead as rivals prepare services to take on Hutchison. After Hutchison recently announced it had renewed mobile-phone content distribution rights for English Premier League football content, CSL later issued a press release stating it had also won a non-exclusive contract to distribute league highlights.
- **The government is getting tougher on external telecom services (ETS) providers who offer IDD services without a license, as part of efforts to placate fixed-line operators who claim “tens of millions of dollars” of revenue is lost every year.** In a letter to fixed-line operators, the government said it would help carriers recover lost IDD revenue from rogue operators. The letter was understood to have been sent to PCCW, Wharf T&T, New World Telecom and Hutchison Global Communications. At the moment, those caught providing IDD services without a license are typically charged with summary offense at the magistrate's courts.
- **Wharf T&T is withdrawing from further investment in the residential market and will build its network only to the business sector.** It will now reach households through sister firm i-Cable Communications' last mile set-up. Confident of Wharf's next generation network, the company said it would grow its residential market share to double digits quickly, from 8 percent now. Such an aggregate goal was attainable, according to a company official, because, by leasing the last mile from i-Cable's co-axial network, the company could reach the approximately two million families it covered, or nearly 95 percent of Hong Kong households, by the end of next year. In monetary terms, renting from its sister company is seen as cheaper than leasing the last mile from PCCW.
- **PCCW had the strongest credit profile among the city's fixed-line operators, Standard & Poor's said, but its future would be determined by its ability to grow broadband revenue to offset the declining value of its traditional network.** Telecommunications incumbents in developed markets

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must embrace new technologies, such as voice over Internet protocol (VoIP), to survive, S&P said. The credit rating agency has PCCW's BBB rating on credit watch pending the outcome of a possible merger with the mainland's No. 2 fixed-line operator China Netcom. It projects PCCW's revenue from local voice services and IDD calls to continue falling. VoIP is a threat to incumbent operators because the technology can provide voice telephony at a fraction of the cost of a traditional call over a copper network. PCCW is vigorously opposing networks by rival HKBN to offer VoIP over its Netvigator broadband network. Regional incumbents such as Singapore Telecom and Telstra, meanwhile, have placed the technology at the core of their development strategies. PCCW, in contrast, has been non-committal over when will roll out its VoIP service even though the company could provide them over its existing broadband pipeline with little additional investment.

Hardware

- **Many local firms operating in densely packed business locations are expected to embrace a new shoebox-sized external disk-storage system that can hold more data than bigger storage devices.** The space-saving TotalStorage DS6000 series from IBM offers 680 gigabytes of capacity that scales up to 67.2 terabytes. Its range of enterprise storage features is also found in storage market leader EMC's fridge-sized DMX800 system, which has a smaller maximum capacity of 17.5 TBs. An official of IBM China/Hong Kong said local interest should step up in the first quarter of next year when volume shipments start. Targeted at all industries, the DS6000 series can connect to Unix, Linux and Intel hardware environments, and IBM's own zSeries and iSeries servers running on PowerPC chips. Minimum configuration for the DS6000 starts at 500 GBs for as low as US\$97,000.

Software

- **Information security systems supplier Symantec, powered by key acquisitions, is carving a larger niche in the data-management software market.** The company will soon release its LiveState Recovery line in Hong Kong, comprising software products that deliver rapid and reliable disk-based recovery of failed server and desktop systems to their operative state.

Media, Entertainment and Gaming

- **Television Broadcasts (TVB) is putting up its advertising rates by an average of 12 percent next year, an increase industry players say is too high.** The rate card is only a framework, according to the company. The rates are subject to a system where advertisers can bid for their favorite spots. The 12 percent rise is an average combined calculation. The rate card for next year is 10 percent higher than the one announced in July this year, when the broadcaster raised its rates by 10 percent after seeing a significant improvement following the SARS outbreak.

Singapore/Malaysia/Philippines/Indonesia

Software

- **Five major software companies have banded together under a new initiative to offer up to 40 percent discounts to companies here, to help them prepare for the new copyright legislation that takes effect in January.** In an unprecedented move, the Intellectual Property Office of Singapore (IPOS) has brought together software giants Adobe, Autodesk, Macromedia, Microsoft and Symantec as initial partners for its Business Software Licensing Program. It will allow companies to procure, at discounts of between 11 percent and 38 percent, software ranging from operating systems to antivirus

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tools, to publishing applications, and design products. The Software Licensing Program aims to help businesses ensure that they have the right software licenses for their needs. When the new copyright legislation is enforced beginning 2005, companies that willfully and significantly infringe copyright could face criminal prosecution. In a global piracy survey conducted by the industry body Business Software Alliance early this year, it was found that about 43 percent of the software installed in PCs here are illegal. The use of illegal software is estimated to have cost the business software industry about US\$90 million in revenues last year from Singapore alone.

Semiconductors

- **According to Semiconductors and Electronics Industries in the Philippines Inc. (SEIPI), the industry still expected at least 10 percent export growth in 2004 despite a slowdown.** In August, electronic products, used as components in electronic exports, fell 2.9 percent from a year earlier to US\$1.4 billion. For the eight months to August, electronic exports were up 9.3 percent. New investment in the industry from January to May had hit US\$300 million, a sharp improvement over the US\$230 million posted for the whole of 2003. At the same time, the government was finally taking steps to help by making more power available, starting work on vital infrastructure and taking steps towards more flexibility in labor policies, which was sought by many electronics investors. All major semiconductor companies had set up facilities in the Philippines.

Telecommunications

- **Singapore's second-largest telecom firm MobileOne (M1) announced net profits in the third quarter rose 3.6 percent to S\$37.2 million (US\$22.3 million) on higher revenues.** Despite the gain in earnings, the company warned of possible margin erosions in the coming months due to higher expenses related to the launch of the carrier's 3G network and marketing campaign. A company official said the carrier was maintaining its forecast of single-digit growth in net profit for 2004.

United States/Canada

Internet

- **Google's new PC search tool is seen as posing risks.** People who use public or workplace computers for e-mail, instant messaging and web searching have a new privacy risk to worry about – Google's free new tool that indexes a PC's contents for quickly locating data. If it is installed on computers at libraries and Internet cafes, users could unwittingly allow people who follow them on the PCs, for example, to see sensitive information in the e-mails they have exchanged. That could mean revealed passwords, or viewed web pages detailing online purchases. Google Desktop Search, released for a "beta" test phase for computers running the latest Windows operating systems, automatically records e-mail one reads through Outlook, Outlook Express or the Internet Explorer browser. And, it finds Word, Excel and PowerPoint files stored on the computer. According to a privacy and security consultant, it is a very powerful tool for locating information on the computer but, on the flip side, it is a perfect spy program.
- **eBay Inc. shares shot up 6 percent after the online marketplace operator posted a 77 percent leap in third-quarter earnings.** The company that also reported a 52 percent rise in sales said it added new customers at its second-highest rate ever. It cited growth in the UK as "spectacular" and said South Korea and China were also contributing to growth. Powered by the strong growth, eBay added 11 million new users to its auction and commerce web sites, which are now used by 125 million people

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worldwide to sell everything from cars to toys. The company also said sales growth of computers and books in the U.S. accelerated. eBay said it expected 2004 sales to total US\$3.3 billion, US\$65 million higher than its prior estimate and slightly above the US\$3.2 billion expected by analysts. It expected to earn as much as US\$1.20 a share this year, 3 cents higher than the last estimate it gave and matching analysts' consensus estimate. For next year, eBay expects to earn US\$1.50 a share on sales of US\$4.2 billion. Analysts currently expect eBay to earn US\$1.6 per share on sales of US\$4.3 billion.

- **Google shares traded as high as US\$162.15 in after-hours action –the highest level in the stock's brief history.** Shares had closed up 6 percent to US\$149.38 in daytime trading on the NASDAQ. Google, which went public in August at US\$85, said it earned a third-quarter profit of US\$52 million, or 19 cents per share, in the third quarter compared with US\$20.4 million in the year-ago period. Excluding a one-time noncash charge of US\$201 million related to a previously announced settlement of warrant and patent disputes with Yahoo, as well as an associated tax benefit and stock-based compensation, Google said it earned 45 cents per share. On that basis, analysts had expected Google to earn 56 cents per share. Compared to Yahoo, Google's search revenue appears to be growing faster. Google-owned sites generated US\$411.7 million, up 99 percent from last year, and up 20 percent from US\$343.2 million generated in the second quarter. Google's proprietary sites generated 51 percent of total revenue. Google's partner sites, through its AdSense Program, contributed US\$384.3 million.

Mobile/Wireless

- **Motorola, the world's second-largest maker of mobile phones, said third-quarter profit quadrupled as new handset models increased sales.** The shares fell after the company said it lost market share. Net income was US\$479 million, from US\$116 million a year earlier. Sales rose 26 percent to US\$8.62 billion. The company that sped up the introduction of new phones to bolster sales now faces increased competition from Nokia, which is cutting phone prices. After increasing Motorola's share of the global mobile-phone market for two quarters, Motorola gave back some ground in the third period. Revenue this quarter may be as low as US\$9.3 billion, compared with the average analyst estimate of US\$9.5 billion. Motorola's gross margin widened to 36.2 percent from 34 percent.
- **Lucent Technologies, the largest U.S. maker of telephone equipment, had its first profitable fiscal year since 2000 as fourth-quarter earnings more than tripled on sales of gear to speed wireless networks.** Profit rose to US\$348 million from US\$99 million a year earlier. The company slashed costs and focused on wireless equipment and products that allow high-speed Internet access. Sales in the wireless unit, boosted by a six-year, US\$5- billion Verizon Wireless contract, rose 75 percent to US\$41.1 billion. Revenue from the Lucent unit that sells equipment to landline phone companies fell 14 percent to US\$741 million. Gross profit margin narrowed to 41 percent during the quarter from 43 percent a year earlier.

Europe

Mobile/Wireless

- **Ericsson, the world's biggest producer of mobile phone networks, said market growth would slow next year, sending its share price down sharply despite reporting a big jump in the third-quarter profit.** Lower than expected orders in the quarter only added to concerns for future sales, analysts said. Orders in the three months rose 3 percent to US\$4 billion from a year ago, but fell 13 percent versus the second quarter, because of lower demand from China where the authorities are

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moving to cool capital spending in the fast-growing economy. The merger of two big U.S. mobile operators Cingular and AT&T Wireless, both large clients of Ericsson, reduced orders from North America. Ericsson's gross margin eased to 47.1 percent in the third quarter from 47.8 percent in the second due to the seasonal dip in sales, but above analysts' expectations of 46.2 percent.

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