

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



Week of 31 October - 6 November, 2004

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## International

### *Internet*

- **Online shoppers look at 33.8 percent more pages (10.3 pages in 2004, vs. 7.7 in 2003) this year than last, according to DoubleClick's "E-Commerce Site Trend Report".** While they may be looking at more, they are spending a bit less this time on commerce sites (0.5 minutes), a 10 percent decline, averaging only 4.4 minutes per session. This decline represents a 14 second (32.6 percent) decline in time spent per individual page, from 43 seconds last year to 29 seconds in 2004. One potential reason for the drop, the report says, is the increase in broadband users, which has risen to over half the U.S. online population. Cart abandonment continues to be a problem for online retailers though it appears to be leveling off. There was a 63 percent gain in the percentage of visitors who made purchase in a given session, from 2.9 percent in 2003 to 4.3 percent in 2004. Average revenue per visit was also up (33 percent) to US\$4.26 from US\$3.19 last year.
- **Tech firms scramble to deal with spyware problems, which have become especially pernicious, leaving companies to respond to customers who do not necessarily realize they have spyware.** Spyware generally refers to programs that land on computers without their owner's knowledge. They can deliver hordes of pop-up ads, redirect people to unfamiliar search engines or in rare cases, steal personal information. Users most often get them by downloading free games or file-sharing software – and consenting to language buried deep within a licensing agreement. Some companies have begun offering spyware detection tools – Yahoo's is free, while AOL and Earthlink limit key features to paid subscribers. Anti-spyware software that Hewlett-Packard began shipping with new computers in June comes with a 30-day free trial; it is about US\$20 a year after that. Dell will have similar software by the holidays. Most tools leave it to users to decide what to do with any programs found. Advertisers are responding, too. After using the criticized delivery methods for nearly two years, Verizon Communications suspended those campaigns in July.
- **A new Internet worm is spreading quickly, threatening to overload computer systems around the world by generating copies by e-mail, security experts said.** California-based Panda software issued a "red alert" for the new variant of the Bagle worm. Messagelabs, another security firm, said it intercepted nearly 90,000 copies of the worm on Friday, which uses disguised addresses appearing to come from a legitimate friend, associate or family member. The spoofed subject header will contain greetings such as 'Hello', 'Thank you' and 'Thanks', and the viruses spread when e-mail attachments named 'price', 'Price' or 'Joke' are opened, Messagelabs said.
- **New research from web analytics firm WebSideStory said usage of Microsoft's dominant Internet Explorer (IE) has dropped slightly.** The research firm found that IE use declined by 2.6 percent (for all versions) between June and October 2004. By contrast, the aggregate of all Netscape and Mozilla variants gained a positive 2.5 percent from 3.5 percent in June to 6.0 percent at the end of October. The firm also said other alternative browsers such as Opera and Apple's Safari picked up the rest of the slack with a 0.1 percent gain.

### *Semiconductor*

- **Global semiconductor sales rose 1 percent in September from the prior month to US\$18.4 billion.** This brings the increase in the first nine months of the year to 33.2 percent, the Semiconductor

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Industry Association said. Worldwide microchip sales for the third quarter of 2004 amounted to US\$55.2 billion, an increase of 3.2 percent from the same period in 2003. For the first nine months of the year, sales totaled 157.6 billion dollars, up 33.2 percent from the same period in 2003. Chip sales in Europe and Asia were up by 4.1 percent and 1.6 percent respectively, while sales in Americas and Japan declined by 1.7 percent and 0.5 percent respectively. The same industry group updating in annual forecast for 2004-2007, said that a less favorable supply-and demand balance for memory products is putting a damper on an otherwise record-breaking semiconductor sales forecast. The group said it is anticipating record sales of US\$21.4 billion in 2004 followed by essentially flat sales in 2005. Still, the Asia-Pacific market is expected to be the hottest overall growth sector, with 2007 anticipated to show off 16.2 percent gains to about US\$111 billion. That would be double or nearly double what the rest of the world is expected to produce in the same time frame (Americas – US\$44.3 billion, Europe – US\$47.2 billion and Japan – US\$57.1 billion).

## Japan

### *Internet*

- **Market research firm Code Com Inc. has developed a system that measures the effectiveness of advertising by using two-dimensional bar codes printed on ads to encourage consumers to visit related web sites.** When consumers use their camera-equipped cellular phones to capture bar code images, a simple operation connects them to advertisers' sites via Code Com's server. Novelty gifts are used to spur consumers to use the bar codes to access the sites. Code Com is marketing the system to companies that use lots of advertising, such as supermarkets, restaurants and real estate firms. Each bar code incorporates not only the address of the web site but also information about the medium in which the bar code was printed as well as the location and period of the ad placement.

### *Software*

- **High Availability Systems Co. (HAS) has become the Japanese sales agent for software products from Singapore firm i-Sprint Innovations Pte., a developer of enterprise application security solutions.** To date, the company has focused on developing large-scale computer systems on behalf of Hewlett-Packard Japan and other client. The sales agreement with i-Sprint is part of the firm's plan to place more emphasis on software sales. HAS will market two i-Sprint products: a program that monitors system administration activities to protect against misdeeds by the systems administrator, and a program that integrates the management of authentication and access authorization to all enterprise systems. Both software products are already being sold in North America. HAS is the first to market them in Japan.

### *Mobile/Wireless*

- **The growth in ADSL (asymmetrical digital subscriber line) subscribership is slowing, with an increasing number of broadband customers switching to fiber-optic service.** Monthly net subscriber growth for DSL service, which mainly involves ADSL, fell to 190,000 in September, down from the December 2002 peak of 528,000 and totaling less than 200,000 for the first time in three years, according to Communications Ministry figures. The Softbank Corp. group, which offers the Yahoo BB ADSL service, recorded a net gain of 64,000 subscribers in the month, less than half the level of a year ago and below 70,000 for the first time since May 2002. Nippon Telegraph and Telephone Corp.'s regional carriers also saw a slowdown in subscriber growth, registering a net gain of 83,500 in

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September, and the lowest since January 2002. Fiber-optic services have been increasing their customer base, with total subscriptions topping 1.6 million. While the overall broadband market has recorded lackluster net subscriber growth, the fiber-optic segment has steadily marked gains of nearly 100,000 per month. Fiber-optic service features a maximum connection speed of 100 Mbps, twice as fast as that for ADSL.

## *Hardware*

- **Trend Micro Inc. announced that it will begin selling toward the end of December an externally attached appliance that will guard ATMs, point-of-sale registers and the like from viruses.** The equipment will market the Trend Micro Network VirusWall 300 appliance, which can connect to up to four pieces of equipment. The appliance is expected to cost slightly less than 100,000 yen (US\$947). The company is aiming to sell 30,000 units a year, marketing them to financial institutions and firms in the retail sector.
- **Sumitomo Electric Industries said it booked strong interim earnings thanks to surging sales of its electrical components and automotive products.** For the six-month period ended September, Japan's largest producer of wire and cable booked a group of net profit of 9.2 billion yen (US\$85.4 million). Strong sales of printed circuit and compound semiconductors, as well as automotive products such as wiring harness helped its operating profit more than double to 33.1 billion yen (US\$313.7 million) from 14.3 billion yen (US\$135.7 million). But sales of the company's optical cable wires fell sharply, dragging down the performance of its information and telecommunications-related business. The segment booked an operating loss of 12.1 billion yen (US\$114.2 million) during the period amid a prolonged slump in global demand for long distance telecommunications products.

## *Semiconductors*

- **Optoelectronics Co., a manufacturer of barcode scanners, will go public on the JASDAQ market.** The company, which boasts expertise in laser-based readers, also supplies modular components for such devices. The firm has roughly 80 percent of the domestic market for component modules used in laser barcode readers, officials said. For the year through Nov. 30, the company expects consolidated sales to rise 16 percent from fiscal 2003 to 8 billion yen (US\$75.8 million), as sales of barcode readers used at cash-register counters at convenience and supermarket stores are growing in Japan and Europe. The firm estimates its group pretax profit at 800 million yen (US\$7.5 million), up 33 percent. Overseas sales as percentage of total sales stood at 53 percent for fiscal 2003, but marketing efforts in the U.S. were rather weak given its huge market. The company aims to boost U.S. sales by releasing two-dimensional barcode readers that employ CMOS image sensors. Initial public offering is 700,00 shares; secondary sale is 300,000 shares. Lead manager is Shinko Securities.
- **Elpida Memory Inc., a venture between NEC Corp. and Hitachi Ltd., sold 102 billion yen (US\$960 million) of shares in an initial public offering, raising the maximum it sought on optimism its investment plans will help it weather a slump in chip demand.** Tokyo-based Elpida sold 29.2 million shares at 3,500 yen (US\$33) apiece, the company said in a statement. Investors had been offered the stock for as little as 3,000 yen (US\$28). The company is raising funds to invest in new facilities to keep up with budget-spending rivals such as South Korea's Samsung Electronics Co. The company is forecasting its first profit this year on a doubling of sales for chips used in cellular phones and personal digital assistants. Elpida sold 66 billion yen (US\$626.2 million) of shares in November to NEC, Hitachi, Intel Capital, California-based Kingston Technology Corp. and other investors. The company also borrowed 100 billion yen (US\$949 million). The IPO proceeds will be used for

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construction of a new plant in Hiroshima. Of the 29.2 million shares sold, 42.5 percent went to overseas investors. The company had planned to sell 11.2 million shares, or 38.3 percent overseas. The sale may be increased by 2.7 million shares.

## *Information Technology*

- **NTT Data Corp. said its group net profit grew strongly in the fiscal half ended Sept. 30 after booking a large restructuring related loss last year.** The computer system development unit of Nippon Telegraph & Telephone Corp. said its group net profit was 8.2 billion yen (US\$77.5 million), up from 4.0 billion yen (US\$37.4 million) a year ago. Revenue rose 6.8 percent to 381.8 billion yen (US\$3.6 billion) from 357.3 billion yen (US\$3.3 billion) a year ago. Group revenue increased due to a higher number of subsidiaries and a lump-sum payment by a client. NTT Data's operating profit from the system integration business, in which the company sells or leases data communications systems, declined almost 20 percent, it said. The company left unchanged its earnings forecasts for the full year to March. It continues to expect 16 billion yen (US\$151.6 million) in group net profit and 830 billion yen (US\$7.8 billion) in revenue.
- **Nippon System Development has joined forces with NEC System Integration and Construction Ltd. in security services for corporate networks.** The companies will build systems that automatically route personal computers that are trying to connect to an internal network to a quarantine server, where the computers are evaluated for security status. They plan to begin providing their services toward the end of November and will aim for sales of 1 billion yen (US\$9.4 million) in three years. NEC System Integration will supply roaming gateways, which are key components of such systems, and Nippon System Development will chiefly carry out sales and system construction. The firms will also consider collaborating in other areas.

## *Mobile/Wireless*

- **Japan's communications giant, NEC, hopes its runaway success in the global 3G mobile communications market can be emulated in China, which is the world's most dynamic telecoms market.** NEC is reshuffling its business and preparing to beef up localization in China to ensure it will have a better position in the upcoming 3G market, NEC China said. NEC has integrated its telecoms units in Guilin, Xi'an, Tianjin and Wuhan into a single entity. NEC has been the largest provider of both 3G WCDMA base stations and mobile phones in the world. By August, NEC, in partnership with Germany-based Siemens, has signed WCDMA equipment supply orders with 31 3G operators in 16 countries. NEC controls more than 52 percent of the global 3G WCDMA mobile phone market. However, the firm's share of the 2G/2.5G mobile equipment and cell phones in China is much lower. NEC held a mere 3-percent share of China's mobile phone market.

## *Telecommunications*

- **Telecom giant Nippon Telegraph and Telephone (NTT) planned to spend more than five trillion yen (US\$47 billion) to bring a fiber-optic network to half of Japan's fixed-line subscribers, a news report said.** Under the plan, NTT would upgrade the communications lines serving 30 million households and offices to fiber-optic lines by 2010, affecting half of the nation's fixed-line telephone subscribers. The major expansion in fiber-optic technology would be a big boost for the use of videophones and video transmission via the Internet and spur development of products such as broadband-compatible televisions. NTT hopes the broadband communications network would



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enhance its competitive edge over its rival KDDI and other telecom carriers in the sector. Immediate confirmation of the report was not available.

- **Shares in Nippon Telegraph & Telephone Corp.'s real estate unit fell on the first day of trading because of concern about its business outlook.** NTT Urban Development Co., based in Tokyo, and NTT raised 89.1 billion yen (US\$840 million) selling shares at 450,000 yen (US\$4273), the highest price sought. They fell as much as 2.7 percent to 438,000 yen (US\$4,159) and traded at 446,000 yen (US\$4,235). The sale is part of the efforts of NTT, the former government monopoly for domestic phone services, to dispose of assets unrelated to its phone businesses as it faces increased competition especially from new entrant Softbank Corp., which is luring customers by cutting fees. NTT Urban sold 132,000 shares and NTT, Japan's largest phone company, sold 66,000.

## *Media, Entertainment and Gaming*

- **Daiki Sound, which operates a nationwide distribution system for music CDs produced by independent record producers, will go public on the JASDAQ market.** The Tokyo-based company distributes its original catalog listing some 17,000 CDs from more than 600 independent producers, with a product number and bar code assigned to each of them, to more than 2,000 music software stores in a bid to secure orders and wholesale CDs. The company generates 80 percent of its sales from the wholesale business. With growth in the data service business, the company expects consolidated pretax profit to jump 56 percent to 430 million yen (US\$4 million) for the year ending August 2005. Initial public offering is 1,500 shares; secondary sales are 1,500 shares. Lead manager is Mitsubishi Securities.

## **Korea**

### *Internet*

- **Daum Communications Corp. reported sales of 49.5 billion won (US\$44.5 million) for the third quarter, up 5.4 percent quarter-on-quarter and a 30.3 percent increase from the year-earlier period's 37.9 billion won (US\$34.2 million).** However, the company saw its operating profit drop 14.6 percent from the second quarter at 10 billion won (US\$9 million), due to greater spending on marketing and services development. The company's third-quarter net income figure was not available. Daum is the operator of daum.net, Korea's largest portal in registered user terms, and the free e-mail service hanmail.net. The company reported 141 billion won (US\$127.5 million) in revenue and 25 billion won (US\$22.6 million) in net income last year. The 140.5 billion won (US\$127.1 million) in revenue through January-September this year is a 40.4 percent increase year-on-year. Analysts remain skeptical about Daum's US\$95 million acquisition of U.S. portal Lycos Inc. and the drop in third-quarter profit will likely renew worries on whether the company can recover from its heavy spending when it is quickly losing growth momentum domestically.
- **Yahoo! Korea introduced an upgraded version of its Gugi search service, giving users the option of sorting information by ratings and allowing greater use of natural language in search words.** The upgrade features an Internet-based callback system for small businesses, which allows users to post their contact details for businesses that do not have a Web page. Yahoo! Korea hopes the system will attract advertising revenue from small and midsize businesses that do not have a strong online presence. The marker for local search is currently worth over 100 billion won (US\$89 million). Yahoo! Korea plans to expand Gugi's database of businesses to 3 million by year's end from the current 500,000.

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## *Telecommunications*

- **KT Corp., Korea's largest fixed-line telephony and Internet service operator, said that it had a net income of 310.3 billion won (US\$279.2 million) in the third quarter on revenue of 2.9 trillion won (US\$2.6 billion).** Operating profits were reported at 510.6 billion won (US\$462 million), down 11.7 percent quarter-on-quarter, but a significant recovery from the loss of 481.9 billion won (US\$436 million) during the same period last year. The third-quarter net income is a 45.6 percent increase from the second quarter. KT saw its broadband Internet customers increase by 480,000 this year to exceed 6 million in September. Internet services generated 624.2 billion won (US\$564.8 million) in the third quarter, up 9.4 percent year-on-year. With slow growth prospects in market where three-quarters of households have high-speed Web links, KT plans to focus on portable Internet services to strengthen its position in the mobile-phone market.
- **Dacom Corp., a fixed-line operator, said that its third-quarter net profit more than doubled from a year earlier, thanks to revenue from its Internet data and e-business operations.** Its net profit for the three-months ended September 30 jumped to 12.4 billion won (US\$11.2 million) from 5.5 billion won (US\$5 million) a year earlier. Revenue rose 9 percent to 270.4 billion won (US\$244.6 million) from 247.7 billion won (US\$224.1 million) a year ago, according to a filing to the Financial Supervisory Service. Dacom, the telecom affiliate of Korea's second-largest conglomerate LG Group, has struggled to maintain its competitiveness in a fixed-line market dominated by KT Corp. Dacom said in a statement that third-quarter revenue from its Internet data business rose 17 percent from a year earlier to 126.9 billion won (US\$114.8 million), while revenue from its e-business operations rose 19 percent to 18.4 billion won (US\$16.6 million). Revenue from its fixed-line telephone business declined 1 percent year-on-year to 115.7 billion won (US\$104.6 million).

## *Software*

- **Antivirus software developer AhnLab Inc. will provide its latest security solutions to Japanese online game operator Gamepot Inc.** Under the agreement, AhnLab will provide to Gamepot its security program AhnLab Hackshield, which provides protection against the breaching of log-in information for game users. Terms of the contract were not disclosed. It is the second overseas expansion of Korea's leading Internet security solutions company, which signed a contract with Philippine online game provider Digital Media Exchange Inc. in August to provide anti-hacking solutions.

## *Mobile/Wireless*

- **LG Telecom Ltd., Korea's smallest mobile-phone carrier, said that its third-quarter net income rose 63 percent to 44 billion won (US\$39.4 million) on revenue of 788.4 billion won (US\$713.4 million).** Third-quarter operating profit rose 21.3 percent from a year ago to 68.4 billion won (US\$62 million). That was 21.3 percent more than a year ago and nearly 277.5 percent more than the second quarter due to less spending on marketing and increased sales in non-voice applications such as mobile banking. The results were in line with the carrier's outlook. As of September, LG Telecom saw its customer pool grow to 5.7 million, accounting for 16.1 percent of Korea's 36 million mobile-phone users. The company had a 14.4 percent market share at the end of last year. LG Telecom's mobile-banking product, BankOn, has been an important revenue source, according to company officials. The average revenue per user for BankOn users was around 49,000 won (US\$43.8) in the third quarter, 32 percent higher than the company's average customer.

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## *Media, Entertainment and Gaming*

- **NCSoft Corp, the world's largest online game software company said that its net income for the third quarter more than doubled as more people at home and abroad play its popular online game Lineage II.** In the three months to Sept. 30, net income jumped 220 percent from a year ago to 22.5 billion won (US\$20 million), the company said in a statement to the Korea Stock Exchange. Third-quarter operating profit also jumped 150 percent to 28.7 billion won (US\$26 million), the company said. Sales rose 73 percent to 63.7 billion won (US\$57.6 million). The rise in profit and sales was mainly led by Lineage II's successful debut in foreign markets, NCSoft said. Looking ahead to the whole of 2004, NCSoft said it expects to meet its sales target of 250 billion won (US\$226.2 million)

## **China**

### *Internet*

- **Internet media company Netease.com Inc. said its third-quarter net profit rose on revenue gains from online advertising and gaming amid a crackdown by Beijing on mobile messaging companies.** Its net profit increased to US\$13.2 million from US\$10.2 million in the year-ago period. Revenues rose 15.4 percent to US\$28.8 million, but fell short of analysts' consensus estimate of US\$30.6 million, according to Reuter Estimates. Netease and rivals like Sohu.com and Sina Corp. are trying to lessen their reliance on mobile phone services, following a year-long government crackdown on controversial content such as pornography and spam.
- **Eachnet.com will not purchase the rival Sina.com, according to Eachnet official.** Both Eachnet and Sina are NASDAQ-listed Chinese language portals. According to Eachnet's quarterly financial report, in the previous three fiscal months, the dotcom company has recorded growths of 15.4 percent and 11 percent respectively revenue in gross revenue and net profit compared with the same period of last year. Its total income reached US\$28.8 million. Upbeat about the online game business, Eachnet plans to introduce a new game in January with which it expects to bring the total income in the fourth quarter to between US\$32 million and US\$32.8 million.
- **Netscaler, Inc. announced that Sina Corporation has deployed NetScaler 9000 Series application delivery systems to optimize the performance and enhance the security of Sina.com, China's largest portal and one of the world's busiest Internet sites.** NetScaler's impressive customer now showcases the world's four highest-traffic Internet properties – Google, Yahoo!, MSN and Sina.com. The growth and complexity of today's generation of business-critical applications as well as the need for a smarter, more secure application infrastructure led to Sina.com's decision to deploy NetScaler's comprehensive application delivery systems.
- **China closed 1,600 Internet cafes and fined operators a total of US\$12 million for letting children play violent games and for other violations, the government said.** China encourages Internet use for education and business but bans sexually oriented content on Chinese sites and tries to block access to foreign sites deemed pornographic and subversive. The country has the world's second-largest population of Internet users after the United States, with 87 million people online. In addition to those shut down permanently, some 18,000 Internet cafes have been ordered to "stop operation for rectification", the source said.
- **51job, Inc., a leading provider of integrated human resource services, announced a total revenue increase of 71.4 percent year-over-year, with a net income increase of 117.8 percent year-over-**



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**year to 25.3 million yuan (US\$3.1 million).** Gross margin expanded to 54.5 percent from 44.6 percent in the third quarter of 2003. Total revenues for the third quarter ended September 30 were 135 million yuan (US\$16.3 million), a 71.4 percent increase from 78.8 million yuan (US\$9.5 million) for the same quarter in 2003. Net revenues, which reflect total revenues less business taxes and related surcharges, increased to 128.1 million yuan (US\$15.5 million) in the third quarter of 2004 from 75.4 million yuan (US\$9.1 million) in the same period last year. The revenue growth was driven primarily by continued volume growth in the company's recruitment advertising businesses. Print advertising revenues for the third quarter of 2004 grew 59.3 percent to 77.4 million yuan (US\$9.4 million) from 48.6 million yuan (US\$5.8 million) for the same quarter in 2003. Online recruitment services revenues for third quarter of 2004 were 34.5 million yuan (US\$4.2 million) from 48.6 million yuan (US\$5.8 million) for the same quarter in 2003. Executive search revenues for the third quarter of 2004 increased 65.7 percent to 8.1 million yuan (US\$1.0 million). 51job also provides a number of value-added human resource services, including training, proprietary software applications, business process outsourcing and salary surveys.

## *Software*

- **chinadotcom corporation, a leading integrated enterprise software and mobile applications company in China and internationally, reported revenues of US\$48.3 million including from acquisitions, an increase of 123 percent from US\$21.7 million reported in the same period in 2003 and an increase of 7 percent from US\$45.1 million reported in the previous quarter.** Software and consulting services revenue totaled US\$38.3 for the quarter including a one month contribution of US\$6.0 million for September 2004 from Ross Systems, representing a 185 percent increase over the US\$13.4 million reported in Q3 2003 and 10 percent increase over the US\$34.7 million reported in Q2004. Mobile services and application revenues totaled US\$6.8 million for the quarter, a 15 percent increase from the US\$5.9 million reported in Q3 2003 and a 10 percent decrease from US\$7.6 million reported in Q22004. The decrease in mobile services and applications revenues is attributable to challenging market conditions in China, increased regulatory policies and a temporary suspension of services commencing in mid-August by China Mobile of Go2joy SMS services. After restructuring and merger-related expenses, net loss was US\$6.2 million compared to Q2's net loss of US\$0.6 million. Operating losses in Q3 totaled US\$7 million, while Q2's operating loss was US\$2.4 million.

## *Mobile/Wireless*

- **Beijing Communication Corp is planning to introduce "Little Smart" wireless phones equipped with removable personal identity module (PIM) technology early next year to further consolidate its market share.** The PIM card is a small module, similar to GSM SIM (subscriber identity module) card, which stores the subscriber's account information. By storing information on a PIM card instead of programming it directly into a phone, subscribers can easily buy a new phone and simply move the PIM card containing all of their information from their old phone to a new phone without having the operator perform any programming. Analysts believe operators will benefit from PIM card technology because it will make the management of the PAS service more efficient and decrease operating costs associated with technological personalization of PAS handsets.
- **Canadian communications giant Nortel Networks will continue focusing on developing all standards in China for the third-generation mobile communications technology.** There are three 3G standards: Europe-initiated WCDMA, U.S.-backed CDMA2000 and China's TD-SCDMA. Nortel

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is the world's only telecoms gear maker that supports all three standards. Industry observers expect all three standards will be adopted in China, which will result in enormous business opportunities for Nortel. Chinese regulators have yet to indicate when they will issue the 3G licenses. Industry observers widely expect the licensing to occur next year. Unlike its rivals – such as Nokia, Motorola, Siemens and NEC, all of which make both telecoms equipment and mobile phones – Nortel only manufactures equipment.

- **Samsung Electronics is aggressively expanding its mobile phone portfolio in China in a bid to grab an even bigger share of the local market.** The South Korean group will launch an additional nine handset models before year's end. That will bring to 30 the number of cell phone models launched by Samsung in China. That is in stark contrast with most Chinese handset manufacturers, and even some major global players, who have been slow to introduce new models in China, due to slowdowns in their operations. Citing statistics released by Germany-based research firm GFK earlier this year, a company official said Samsung controls 44 percent-share of the market for GSM phones that cost more than 3,000 yuan (US\$361). The firm holds 34.1 percent of the market for CDMA phones that cost more than US\$361 in China.

## *Media, Entertainment and Gaming*

- **China's market for MP3 players is on a good roll, thanks to an increasing demand for on-the go entertainment.** About 10 million MP3 players are expected to be sold this year in the Chinese mainland, according to an official of Taiwan-based AT Chip Corp, a major designer of MP3 chips. That would represent a 250 percent increase year-on-year. In contrast, 50 million MP3 players are expected to be sold globally, up 25 percent year-on-year. Global shipments are expected to reach 50 million units next year, and 80 million units in 2007. Prices of MP3 players in the Chinese mainland continue to fall. The average price of an MP3 player fell from 1,100 yuan (US\$133) last year to 700 yuan (US\$84) in the first half of the year, indicates Beijing-based data tracking firm CCW Research.

## *Information Technology*

- **Reuters, one of the world's top information and trading solutions providers, has watched its share of China's financial technology market grows rapidly, and steadily, over the past year, due mainly to marketing strategies.** Reuters last month signed a contract with China Foreign Exchange Trade System (CFETS), the country's interbank foreign exchange trading intermediary, regarding the provision of an integrated foreign exchange trading system. That was Reuter's second major deal in China. Last year, the information company sold a subscription to its 3000 Xtra trading system to Shanghai Gold Exchange. Although Reuters began penetrating China's financial technology market last year, the firm quickly solidified its foothold and began preparing to expand its market share, suggest industry analysts.
- **The mainland market for payment services is heating up with the entry of a new platform developed by China Communication and China UnionPay.** The Beijing public payment platform service (BPPPS) allows bankcard holders to settle telephone, utility, tax and other bills via the Internet and fixed-line and mobile phones. In addition, users will be able to pay bills at more than 10,000 point-of-sale or automated teller machines to be installed throughout Beijing by the end of next year. BPPPS will soon to head to head with SmartPay, a service that allows mobile-phone users to settle bills via short text message. The company is eyeing a market that includes 4.5 million households, 3.5 million fixed-line users, 10 million mobile phone subscribers, 1.8 million Internet users, 40 million China UnionPay cardholders and 2.6 million car owners. Beijing residents pay an estimated 2.4 billion utility and tax bills

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every year. China Communication was aiming to capture 5 to 10 percent of the potential market. Shenzhen-based Suda – a Sino-foreign joint venture between China Communication and Hong Kong-listed HK 6 Holdings – will provide technical support, maintenance and management services for BPPS.

## *Telecommunications*

- **The mainland's No. 2 telephone equipment maker ZTE may have doubled its profit in the past quarter but it still recorded a negative cash flow of 730.2 million yuan (US\$88.2 million) due to a sharp jump in payments to its suppliers.** The Shenzhen-listed company said that during the three months to September, it paid 2.0 billion yuan (US\$241.7 million) for inventory, representing a 37.3 percent increase from the previous corresponding period and a 5.1 times increase from the June quarter. ZTE is heavily geared, with a total debt of 11.8 billion yuan (US\$1.4 billion). Its total assets stood at 17.5 billion yuan (US\$2.1 billion) at the end of September. Although the negative cash flow may alarm potential investors, the company also reported that it had cleared a major hurdle to its long delayed Hong Kong share offering, having been cleared by the China Securities Regulatory Commission (CSRC) to sell up to 162.2 million H shares to overseas investors. But ZTE is still waiting for approval from Hong Kong Exchanges and Clearing before marketing of shares can begin. Goldman Sachs is the sponsor for ZTE's US\$350 million H-share offer.

## **Taiwan**

### *Hardware*

- **Acer, Taiwan's top personal computer maker, said its net profit for the first three quarters to September fell 34.8 percent to NT\$3.8 billion (US\$114 million).** However, consolidated sales for the nine months rose to NT\$154.1 billion (US\$4.6 billion) from NT\$103.8 billion (US\$3.1 billion) previously. The lower-than-expected net profit, which accounted for only 52 percent of the full-year forecast of NT\$7.3 billion (US\$221.7 million), reflected a loss incurred by unit Wistron and a delay in the disposal of holdings in invested companies, it said. The company added that it was ready to make up the shortfall in the fourth quarter.

## **Hong Kong**

### *Mobile/Wireless*

- **SmarTone Telecommunications will launch 3G services next month, becoming the city's second mobile operator to offer highs-speed mobile data service.** The company said it was aiming for coverage similar to its 2G network by the first quarter next year, with MTR tunnel coverage by the year's end. Hutchison Telecom, the first company to launch a WCDMA service in January this year, has yet to extend its 3G network into MTR tunnels. Of the 7.7 million mobile subscribers in the city, 1.2 million – 14 percent – had subscribed to 2.5 or 3G services in August. The city's other two licensees, CSL and Sunday Communications, plan service launches next year.
- **Hong Kong mobile phone operators said there was no need for special legislation to regulate unsolicited text and multimedia messages in their industry, despite junk mail – or spam – being a key nuisance for Internet users.** A voluntary code of practice implemented by the city's six mobile operators in December 2001 was sufficient to limit unsolicited promotional messages, they said. In a June consultation paper, the Office of the Telecommunications Authority (OFTA) proposed new

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legislation to combat spam e-mail, saying laws should also be considered for unsolicited mobile messages. In response, Hutchison Telecom, CSL, SmarTone and China Resources Peoples Telephone said none were needed, claiming spam was insignificant issue compared with the Internet, where an estimated 50 percent of all e-mail traffic in Hong Kong is unsolicited.

## Singapore/Malaysia/Philippines/Indonesia

### *Telecommunications*

- **Singapore Telecommunications (SingTel) said that its net profit for the second quarter to September rose 62 percent year on year to S\$766 million (US\$459 million).** The earnings, better than analyst's forecasts, were boosted by Australian unit Optus and other regional associates as well as the lifting of accounting requirements for companies to amortize goodwill arising from acquisitions. Revenues for the second quarter were 9.5 percent higher at S\$3.1 billion (US\$1.8 billion), a company statement said. Overseas operations contributed 74 percent of group revenue in the second quarter and 66 percent of earnings before interest, tax, depreciation and amortization.
- **Seven Asia-Pacific mobile phone operators with a combined total of over 56 million subscribers formed an alliance creating a unified regional network.** The Bridge Mobile Alliance was formed by Bharti of India, Globe Telecom of the Philippines, Maxis of Malaysia, Optus of Australia, Taiwan Cellular Corp, Telkomsel of Indonesia and Singapore Telecommunications (SingTel). They will subscribe for an equal number of shares and hold one permanent board seat in a joint venture called Bridge Mobile Pte Ltd, which is expected to invest up to US\$40 million over three years. Based in Singapore, it will be the largest mobile joint venture in the Asia-Pacific market and is expected to be operational by the first quarter of 2005. Other mobile operators as well as strategic partners such as technology and applications vendors will be offered membership in the alliance. In addition to establishing a regional mobile infrastructure and common service platform, Bridge Mobile will also develop new products and services on a regional basis. According to the statement, the seven operators have the potential to achieve a combined total of over 300 million subscribers "in the near future".
- **State investment firm Temasek Holdings said that it raised S\$800 million (US\$480 million) from the sale of a tiny fraction of its shares in Singapore Telecommunications (SingTel).** The sale was implemented after SingTel, Southeast Asia's largest telecom group, announced a 62 percent annual rise in net profit to S\$766 million (US\$463 million) in its second quarter ending September as overseas units boosted earnings. The shares sold by Temasek represented about 2 percent of SingTel's outstanding shares. After the placement, Temasek still controls 62.7 percent of SingTel, part of a global portfolio worth about S\$90 billion (US\$54.4 billion).

## United States/Canada

### *Internet*

- **Google was initiated at "reduce" at UBS due to valuation and several factors that the firm believes will push down the stock in the near term.** The analyst said Google is pouring massive amounts of money into capital expenditures, possibly more than US\$400 million by 2005. This is far different than the strategy followed by Yahoo. Instead, Google's strategies resemble tech giants,

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Microsoft. An analyst, however, said that the basic idea is that Google's infrastructure and knowledge base, not just its search technology, is its strategic competitive advantage.

- **Shares of MarketAxess Holdings Inc. jumped 60 percent in their market debut after the financial services firm's initial offering priced above its expected range.** The offering of 5 million shares was expected to price between US\$8.50 and US\$10.50 per share. MarketAxess provides a platform for the electronic trading of corporate bonds and other fixed-income securities. The company's clients are primarily broker-dealers and institutional investors and access the platform with a direct connection over the Internet. UBS Investment Bank served as lead underwriter for the offering.

## *Mobile/Wireless*

- **Verizon Wireless has agreed to pay US\$3 billion to buy the remaining licenses of a bankrupt wireless firm, allowing Verizon to expand its network capacity in big markets such as New York and Los Angeles.** Under the deal, Verizon will acquire valuable licenses in 23 markets around the country that belong to NextWave Telecom. The sale will go through once NextWave completes its bankruptcy reorganization.

## **Europe**

### *Mobile/Wireless*

- **Nokia issued new forecasts for itself and the telecom industry, saying global handset sales would grow by 10 percent year-on-year in 2005, to 693 million units.** At the same time, the company reiterated its view that global handset volume would reach 630 million units in 2004, of which a third would be made by Nokia. The firm also repeated also its long-term market share of 40 percent, up from around 30 percent currently. By 2008, more than 600 million camera handsets and 200 million smart phones would be sold annually.

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