

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



Week of 7 November - 13 November, 2004

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International

Internet

- **Attractive cost savings and the increasingly sophisticated features of voice over Internet Protocol (VoIP) are prompting more companies and households to switch to broadband telephony from traditional fixed-line networks.** There are various ways in which IP telephony can be deployed, but in recent years a growing number of service providers have departed from the practice of deploying VoIP over a leased line or a managed virtual private network to offer telephony solutions plugged directly into the public Internet. With the switch, however, comes a host of growing risks, network security experts warn. International Data Corp (IDC) forecasts revenue from VoIP services in Asia (excluding Japan) to grow to just under US\$10 billion this year from US\$3.9 billion last year, after year-on-year growth of 39.5 percent from US\$2.8 billion in 2002. The ability of providers to make money out of VoIP network security solutions depends on how well they can sell the fear, uncertainty and doubt for potential security risks of VoIP. Gartner estimated the overall market for IT services would grow at a five-year compound annual growth rate of 25.4 percent to US\$1.8 billion by 2007 from just US\$722 million last year.

Mobile/Wireless

- **Global mobile-phone users subscribed to code division multiple access services broke the 200 million mark as of September, riding rapid growth in the Asia-Pacific region.** The CDMA development group reported that 29 million new code division multiple access subscribers were added in the third quarter of 2004, bringing the worldwide customer total to 227 million. Among the 29 million added in the third quarter, 15 million accounted for 2.5-generation and third-generation CDMA2000 services, which provides data applications atop of voice services. Asia-Pacific remained the largest and fastest growing region for code division multiple access services with 96 million subscribers, accounting for 42 percent of the total subscribers. Korea led all countries in the region with 36 million subscribers, followed by China with 25 million and Japan with 18 million. Developed by U.S. chipmaker Qualcomm Inc., code division multiple access is the No. 2 industry standard for wireless services, provided by 90 operators in 46 countries. The alternative global system for mobile communications platform, developed by European operators, accounts for more than 70 percent of the world's digital wireless market.

Hardware

- **The world's toughest computing problems are tackled on bulky supercomputers, used for such complex tasks as meteorological modeling, human-genome mapping and nuclear-blast simulation.** The new top 500 list showed that the number of high-performance systems in China rose to 17 from a nine a year ago. According to an expert, if China becomes an exporter of supercomputers, there will be pressure on U.S. and Japanese firms since the world market for supercomputers is not yet large. In Asia, China is still behind Japan, which has 30 systems in the new top 500. Hong Kong has one machine and Taiwan has two systems among the 87 supercomputers in Asia that made the list. Europe has 127 systems in the top 500. There has been a major shuffle in the latest top 10 ranking, as IBM's new BlueGene/L system in the U.S. Department of Energy became the new industry leader, with a record performance of 70.7 teraflops (trillions of calculations per second).

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After holding the No. 1 position since 2002, Japan's NEC Earth Simulator dropped to No. 3 behind the Columbia system built by SGI for a NASA laboratory.

Japan

Internet

- **The Development Bank of Japan has extended the first loan in this country that accepts rights to an auction web site as collateral, bank officials said.** A total of 200 million yen was loaned to real estate auction firm IDU Co., whose shares are traded on the Tokyo Stock Exchange's Mothers market for emerging companies. The firm set up at the web site to auction apartments owned by Dia Kensetsu, which is rehabilitating under the supervision of the industrial Revitalization Corp. of Japan (IRCJ). IDU will use the money it has borrowed to develop new computer systems.
- **Softbank Corp. continued to narrow losses in the fiscal first half as its broadband business expanded further and its costs for attracting new subscribers shrank.** For the first six months ended in September, the Japanese broadband Internet service provider booked a group loss of 6.1 billion yen (US\$7.2 million), much narrower than a 77.3 billion (US\$731.8 million) loss for the same period last year. Softbank's revenue from the broadband infrastructure division, which comprises Internet connection and Internet telephony services, grew 79 percent to 96 billion yen (US\$908.3 million). Its operating loss in the division was 34.7 billion yen (US\$328.1 million), but the company said the loss narrowed by about 15 billion yen (US\$14 million) from a year ago. Earlier this year, Softbank purchased the fixed-line telephone company Japan Telecom Co., but the revenue and profit of the fixed-line will be reflected in the Softbank's group earnings from the fiscal second half.
- **Rakutenchi sharply narrowed its group net loss for the three months ended September as profits from its online shopping mall and travel-related services grew.** Rakutenchi booked a group net loss of 7.7 billion yen (US\$73 million) for the quarter, a significant improvement from the year-earlier loss of 27.5 billion (US\$260 million). The total transaction value on its "Rakutenchi Wichita" online shopping mall grew more than 75 percent on year in September. That led the improvement of group-wide earnings during the quarter. On an operating level, the flagship shopping mall business grew 69.9 percent on year to 1.6 billion yen (US\$15.3 million), while the segment's sales rose 75.2 percent to 5.2 billion yen (US\$48.7 million). The performance of the firm's travel and entertainment business, which includes revenue from travel and ticket reservation services, also boosted its bottom line. Steady expansion of Route's online franchise pushed group sales to 11.1 billion yen (US\$104 million) for the quarter, up from 4.2 billion last year (US\$39.8 million).
- **Japan's top mobile phone carrier NTT DoCoMo said it had agreed to buy Inter-touch (BVI), a Singapore-based holding company of Internet providers, for US\$70 million.** The providers supplied high-speed broadband links for business travelers across Asia-Pacific, Europe and elsewhere via wired and wireless LAN broadband services at 155 hotels in 28 countries worldwide. The acquisition will enable DoCoMo to offer more options for Internet connection to its customers while they are traveling abroad.

Software

- **Software developer HyperGEAR Inc. has teamed up with Fujitsu Ltd. Subsidiary PFU Ltd. and developed software for use in automatic document digitalization and time stamp issuance.** The firms expect demand to rise on the part of the companies wanting to ensure the trustworthiness of

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their electronic documents with time stamps given that the Japanese government aims to implement by April 2005 legislation that will authorize the electronic storage of corporate financial documents and the like. The new software is for installation in copiers or similar equipment. The software will go on the market for 998,000 yen (US\$9,400). The developers expect to sell 150 copies in their first year of offering the software.

Mobile/Wireless

- **NTT Communications Corp. linked its wireless LAN network with firms such as major U.S. cellular phone service firm T-Mobile USA Inc., which operates the nation's largest public wireless LAN service.** In addition to having its own network of base stations in airports and other facilities, T-Mobile USA is connected to wireless LAN networks of locations such as Starbucks coffee shops, Borders Bookstores, and American Airlines and United Airlines airport lounges. NTT Com currently operates a public wireless LAN service in Japan, and subscribers to this service can now enjoy high-speed wireless Internet access at those T-mobile sites when they travel to the U.S. NTT Com also linked its network with major telecom companies in Australia, Singapore and Malaysia that belong to the Wireless Broadband Alliance, which seeks to promote roaming throughout the world's wireless LAN networks. NTT Com had offered wireless Internet access overseas before, but in limited areas.

Hardware

- **IBM Japan Ltd. plans to cut domestic prices of external storage systems by as much as a 90 percent in an attempt to double its market share here.** The unit of U.S. computer giant IBM Corp. plans to cut prices of its DS4000 series midrange disk systems. It recently slashed prices by 20-60 percent. The biggest discounts would apply to DS4300, which has a capacity of 2 terabytes. When switching over from a competitor's product, the price would be 2.6 million yen (US\$24,600) – a discount of 90 percent and less than half the price of the competition. The global market for external storage systems was about 5 trillion yen (US\$47 billion) in 2003. The leader is Hewlett-Packard Co. of the U.S., with an estimated market share of 23 percent, and IBM follows with 20 percent. But in the Japanese market, IBM Japan is in third place with a share of 12 percent, trailing Hitachi Ltd. and Fujitsu Ltd.
- **Sun Microsystems Inc. has entered talks with five Japanese personal computer makers to promote and popularize its Java Desktop System (JDS).** JDS is an integrated bundle of desktop software that includes an office suite, a browser and an e-mail program and runs under the Linux operating system. PCs built with JDS are meant to be an inexpensive alternative to the hegemony of Windows PCs. According to an official, talks have begun with Fujitsu Ltd., NEC Corp., Sony Corp., Toshiba Corp. and Matsushita Electric Industrial Co. The official said the cooperation of Japanese PC makers is essential for the popularization of JDS. However, he conceded that some Japanese PC makers do not intend to release JDS products. The Ministry of Economy, Trade and Industry is supporting the adoption of Linux operating system and other open-source software and has certified JDS as an alternative software package for PCs in schools. The Information-Technology Promotion Agency has also selected JDS for testing in elementary schools and middle schools. Sun will leverage this to promote the use of JDS among government agencies and financial institutions.

Semiconductors

- **JMNet Inc. which offers startup and maintenance services for semiconductor manufacturing systems, will go on public on the Fukuoka Stock Exchange's Q-Board market for start-up firms.** The company develops software packages and designs system LSIs on consignment. It has

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signed a contract with Applied Materials Inc., the largest U.S. semiconductor manufacturing equipment maker, over the business of contracting out the startup and maintenance of the U.S. firm's products. The business accounts for some 50 percent of JMNet's sales. In addition to the core business, the firm's software business is also making a good showing. JMNet expects about 170 million yen (US\$1.6 million) in parent-only pretax profit in the current fiscal year through February 2005, up 250 percent on sales of 1.8 billion yen (US\$16.6 million), up 40 percent. The company plans to funnel the money it will raise from upcoming initial public offering mainly into R&D and repayment of borrowings. It will also develop LSIs on its own and market them. It will also build a food traceability system. It plans to "enter the Chinese market", an official said.

Information Technology

- **KDDI Corp. will form an alliance with BT Group Plc in international data communications services for corporate clients.** KDDI will manage Japanese marketing of the U.K. group's frame relay, IP-VPN (Internet protocol virtual private networks) and other data communications services. The tie-up will also enable the Japanese firm to tap BT's global communications network for use in expanding its service areas and bolstering its service lineup. The two partners also plan to create a joint venture in Japan that will build, manage and maintain information systems linking clients' main offices with their branches and factories both inside and outside Japan. This venture will provide telecommunications as well. The planned firm will first serve Japanese clients only, but it is expected to expand its business turf to China and other Asian markets later.

Telecommunications

- **Nippon Telegraph & Telephone Corp. said its group net profit grew 3.1 percent in the fiscal first half ended Sept. 30 helped by profits from the sale of a portion its shareholdings in NTT DoCoMo.** The Japanese telecom giant's interim group net profit increased to 344.6 billion yen (US\$3.2 billion) from 334.3 billion yen (US\$3.1 billion) a year earlier. But its group operating profit dropped 5.8 percent to 787.8 billion yen (US\$7.4 billion yen), as its group revenue slipped 1.7 percent to 5.3 trillion yen (US\$50.3 billion) from 5.4 trillion yen (US\$51.2 billion). In addition to its mobile phone service unit DoCoMo being hurt by phone service fee discounts, NTT's fixed-line business units – NTT East Corp., NTT West Corp. and NTT Communications – also posted lower revenues in the half.

Korea

Telecommunications

- **Hanarotelecom Inc. saw its third-quarter operating profit drop nearly 40 percent from the second quarter to 25 billion won (US\$22.6 million) due to increased spending on marketing.** The company's third-quarter net income was down 98.9 percent quarter-on-quarter at 200 million won (US\$181,800). The third-quarter revenue was 358.4 billion won (US\$325 million), a 1.3 percent drop from 363.1 billion won (US\$330 million) in the second quarter. Hanarotelecom, Korea's No. 2 fixed-line telephone and Internet service provider, has been upping its marketing efforts following the introduction of its long-distance and international call services in July. The company has also been attempting to attract customers from fixed-line market leader KT. Corp., with fixed-line number portability applied to the largest customer markets. Third-quarter marketing costs came to 91 billion won (US\$82.7 million), up 8 percent from the second quarter. The third-quarter operating profit is a

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38.5 percent drop from the 40.7 billion won (US\$37 million) during the second quarter and down 40.8 percent year-on-year. Hanarotelecom controls 23.6 percent of the broadband Internet service market, following KT which has 50.9 percent share.

- **KT Corp, South Korea's largest fixed-line telecommunications company, reported a third-quarter of 310 billion won (US\$280 million), reversing a year-earlier net loss of 497 billion won (US\$455.3 million).** Operating profit was 510.6 billion won (US\$467.7 million) following a loss of 481.9 billion won (US\$441 million) as sales rose 4.6 percent to 2.9 trillion won (US\$2.6 billion). The operating profit was below market expectations and KT attributed the weaker-than-expected performance to increased depreciation costs. KT's loss during the third quarter of last year was caused by restructuring and severance payments. For the first nine months of this year, KT's net profit rose 15 percent to 865.4 billion won (US\$792.2 million) on sales of 9.9 trillion won (US\$9 billion), up 3.1 percent. KT serves 95 percent of the country's fixed-line phone market but revenues from fixed-line services have dwindled in the face of growing competition from mobile and other formats. Internet sales stood at 624 billion won (US\$571.4 million) in the third quarter, up 1.2 percent from the previous quarter and up 9.4 percent from a year ago.

Internet

- **Four companies have applied for Internet-based telephony service licenses, the Ministry of Information and Communication said.** These companies are Samsung Networks Inc., Anyuser.Net, Great Human Software Co. and Moohanet Korea. Among the companies, Anyuser.Net has passed the test for voice quality requirements, set by the Telecommunications Technology Association, allowing them to start VoIP services as early as next month under the Internet protocol dialing prefix 070. Government officials predict Korea will complete its transition to IP-based telephony by 2010, while generating 5.3 trillion won (US\$4.6 billion) in service revenue by then. The country's two major fixed-line operators KT Corp. and Hanarotelecom Inc. plan to introduce full VoIP services during the first half of the year. According to International Data Corp., Korea's IP-based telephone equipment market will grow to 257.9 billion won (US\$226 million) by 2008 from an expected 70.3 billion won (US\$63.8 million) this year.
- **US financial giant Citigroup had jumped into the battle to take control of Korea Thrunet, South Korea's third-largest broadband Internet provider.** A Citigroup's unit, Citibank Financial Products, handed in a letter of intent to buy Thrunet, along with two South Korean companies – Dacom and Hanaro Telecom. Thrunet with 1.2 million subscribers, or 11 percent of the market, has been up for sale since it sought court protection last year. Its first tender in 2003 failed because of low bid prices. Officials said the price would be higher than that of the first tender due to Citigroup's participation. Foreign investors are not allowed to own more than 49 percent of a strategic local telecom company like Thrunet but Citigroup could form a consortium to stay in the auction. Dacom, an affiliate of South Korea's second-largest conglomerate LG Group, and Hanaro, the country's No. 2 broadband Internet operator, regard Thrunet as crucial for their fight against market leader KT Corp. Hanaro's share of the broadband Internet market stands at 23.7 percent, compared with KT's 50.6 percent.

Media, Entertainment and Gaming

- **Samsung Electronics Co. has formed a partnership with Danish audio systems maker Bang & Olufsen to enter the high-end home theater market in Europe.** Under the partnership with B&O, Samsung will supply its digital light-processing projectors to be part of the European company's

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home theater solutions. It is Samsung's first partnership with another company in the home theater area. B&O, a maker of high-end audio components, is popular among audiophiles for its high-quality sound and unique designs.

- **TU Media Corp has applied for a license for satellite-based mobile television services.** The company, 30 percent owned by mobile-phone carrier SK Telecom Co., had hinted that it would pull out of the mobile television business after the country's broadcast regulator said it will block relaying extraterrestrial television programs on mobile receivers. SK Telecom and its Japanese partner Mobile Broadcasting Corp., backed by electronics giant Toshiba Corp., launched the world's first satellite for mobile television use in March. TU Media, expected to handle the mobile television services and provide them to the country's three mobile-phone operators, is the only company to have applied for a license. Trial services are expected to start early next year after the Ministry of Information and Communications completes the license review process. TU Media said they are planning to provide 14 video and 24 audio channels through their mobile broadcast services.

Information Technology

- **The South Korean government said it will spend a total of 2 trillion won (US\$1.8 billion) on five information-technology (IT) projects a part of efforts to improve and enhance the economy.** The public investment will be utilized to upgrade the national disaster management system and promote automobile information services known as telematics. The government's economic stimulus package for IT industry will also assist the nationwide database network project.

China

Internet

- **Yahoo installs 1,000 search-engine servers from the United States in its bid to build a dominant position in the mainland market through new products, acquisition and alliances.** Existing players are watching this "invasion" with unease. Cash-rich Yahoo! has market capitalization of US\$45 billion against about US\$1 billion for NASDAQ-listed Sohu, Sina and NetEase. Few sectors in the mainland are more open to foreign competition than the Internet – with the critical exception of content. But the same censorship rules apply to all players, Chinese and foreign. This openness gives Yahoo! with its billions freedom to acquire its rivals to obtain a bigger market share. Yahoo! aims to become the No. 1 player in China's search and e-mail service market within two to three years. According to Shanghai Research, China online market research firm, the mainland Internet search market will be worth 840 million yuan (US\$181.4 million) this year, and 2.3 billion yuan (US\$279.8 million) next year, up from 500 million yuan (US\$60.4 million) last year. Yahoo! also wants to expand into online auctions and games, announcing a joint venture with Sina in January.
- **Tom Online's net profit dived in the third quarter as gross margins declined due to investment costs and slowdown in wireless service.** The Beijing-based company saw its net profit for the three months to September drop by 27.6 percent to US\$7.2 million from the second quarter. Total revenue grew only 1.7 percent to US\$31.3 million. The gross margin was down at 43 percent in the third quarter – against 51 percent in the previous quarter and 48 percent a year ago – as a result of the slowdown in interactive voice response (IVR) service. The firm would continue to seek acquisition opportunities especially in Internet assets with rich content and high traffic. The company expects total revenue to increase 5 to 8 percent in the fourth quarter. Sales from its cash-cow short messaging

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service will drop to less than 50 percent of total turnover in this quarter from 52 percent in the third quarter. Revenue from wireless application protocol and 2.5G service will grow 5 to 10 percent quarter to quarter and it will contribute more than 50 percent of the top line by June next year. Online advertising – which had sales of US\$2.4 million in the third quarter – will stay flat until the end of the year due to seasonal factors, all these according to the firm. It said it had no plan to stop operating commercial enterprise solutions, despite low sales, of US\$719,000, in the third quarter.

- **ICQ, the No. 1 global instant messaging company, is searching for a mainland partner with which to expand its service and increase its active user base in China by as much as 28 times in four years.** By the end of next year, the Israel-based company said it was confident of having a significant presence in China, where it presently only has 500,000 active users and six million registered users. By 2008, it expects to have eight to 14 million active users. ICQ, a division of America Online, saw discussions with Tom Online collapse last month, with the Beijing-based firm announcing its team-up with Luxembourg-based Skype Technologies – a peer-to-peer Internet telephony service provider. Media monitoring house iResearch estimated China had 5.5 million concurrent IM users last year. Shenzhen-based Tencent Technology, which had changed the name of its IM service tool OICQ to QQ three years ago due to AOL's accusations of intellectual property rights infringements, had a market share of 74.3 percent last year, followed by MSN at 11.2 percent, NetEase's PoPo at 4 percent and Yahoo! messenger at 2.3 percent. ICQ ranked only No. 8, with a 1.9 percent market share. A crucial factor to ICQ's success in the Chinese market would be compatibility with other IM services.
- **eBayEachnet CEO, Shao Yibo, stepped down from his post but retained his position as chairman of the board of directors.** Shao's successor has not been named yet. In eBay's third quarter report, the company said that eBayEachnet's registered users have grown to 8.6 million. The report also said that 2004 trade volume would hit US\$340 million. Industry insiders, however, questioned the relevance of the number saying that active users – those that had completed at least one trade in the last year – numbered less than 3 million, about the same as TaoBao, ebayEachnet's biggest competitor.
- **NC Sina's Lineage II began charging and recorded 100,000 concurrent players two hours after the commercial launch, the company reports.** Sina began selling prepaid cards the first day of November and sold 2.4 million yuan worth of cards. The Lineage II players are mostly in Shanghai, Zhijian, Jiangsu, Guangdong, Fujian, Hebei, Chongqing and the Northeastern cities. NC Sina is a joint venture between the game's Korean developer NC Soft and Sina.
- **Ctrip.com, a consolidator of hotel accommodation and airline tickets in China is reporting strong growth for the third quarter.** According to the report, its net revenues grew by 12 percent quarter-on-quarter to 90.5 million yuan (US\$10.9 million). Net revenues increased by 64 percent year-on-year, benefiting from a growth in all product lines. Operating income grew by 13 percent quarter-on-quarter to 41 million yuan (US\$4.9 million), and by 53 percent year on year. Net income grew by 22 percent quarter-on-quarter to 38.3 million yuan (US\$4.6 million) and by 87 percent year-on-year.
- **China Finance Online Co. Limited, a leading Chinese online financial information an listed company data provider, announced strong growth for the third quarter of 2004.** Its net revenues grew by 183 percent year-on-year and 25 percent quarter-on-quarter to US\$1.3 million. Gross margin was 94 percent, compared to 87 percent for the same period in 2003 or 93 percent for the previous quarter. Net income margin increased to 77 percent from 60 percent for the same period in 2003 or 71 percent in the previous quarter. Following the end of the quarter, China Finance has completed its

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initial public offering of American depositary shares and reported receipt of approximately US\$60.2 million from the offering, after deducting underwriting expenses and estimated offering expenses.

Mobile/Wireless

- **The mainland's home-grown third-generation (3G) mobile technology has suffered a major setback by failing to yield satisfactory performances in comprehensive field trials designed to help the government determine its licensing strategy.** The failure may prompt the government to further delay the issue of 3G licenses if it decides to wait until the home-grown system is ready. It may also affect how the ministry determines standards and how many licenses are granted. Key problems included lack of workable handsets, dubious stability and poor reliability of TD-SCDMA's core network. Only one TD-SCDMA handset – a prototype produced by Datang Mobile, a unit of Datang Telecom Technology & Industry Group – was available for trial. State-owned Datang Group, the advocate of China's 3G system, is not expected to produce its first commercial TD-SCDMA mobile phone until June next year at the earliest.
- **PalmOne denied persistent reports that the manufacturer of personal digital assistants (PDAs) had withdrawn from the China market.** Mainland media reported the U.S.-based company had closed its Shanghai office and co-operation with Chinese manufacturers Lenovo and Founder and Taiwan's Acer Computer had ceased. According to the firm, China is an important manufacturing base for PalmOne but selling those products in the mainland has been a more difficult task. PalmOne just sells PDAs in China, with the manufacturing done by Taiwanese companies.
- **Alcatel Shanghai Bell (ASB) and Datang Mobile concluded a strategic partnership agreement to jointly develop the TD-SCDMA standard both in China and internationally.** According to the agreement, ASB will invest a total of US\$32.4 million in Datang Mobile including shares and participation in the industrialization of TD-SCDMA, one of the three internationally acknowledged standards for the 3G mobile communications. The partnership is considered a milestone for the development of 3G technology 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.
- **Chinese online game operator Shanda Interactive Entertainment Ltd. reported robust growth in the third quarter with the sustained growth of its key services and diversified business lines.** Shanghai-based Shanda saw its revenues in the third quarter reach US\$44.9 million, rising 133 percent year-on-year and 23 percent quarter-on-quarter. Net profits were US\$20 million. A company official said that the continuous growth of the company's major businesses-massive-multi-player online role playing games (MMORPG) and casual games were the two major growth engines. The MMORPG business grew by 19 percent quarter-on-quarter to US\$34.3 million while revenues from casual games reached US\$7 million, 19.9 percent higher than the 2nd quarter.

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- **U.S. film giant Warner Bros said it will set up its first movie production joint venture in China with state-owned China Film Group and the privately run Hengdian Group.** The new company, Warner China Film, would produce, market and distribute Chinese language feature films, TV movies and animation, under new rules issued in December that permit foreigners to invest in film and television production companies. Warner will hold 30 percent of the new venture, while China Film Group, the country's largest, will own 40 percent, with eastern Zhejiang province-based conglomerate Hengdian Group taking the remainder. Production budget in China will range from 12-50 million yuan (US\$1.5-6.0 million). The venture recognizes the potential market in China with its 1.3 billion consumers.

Software

- **Red Hat is opening its first office in China as part of its effort to tap demand for the low-cost software in developing markets.** The Beijing office plans to work closely with other vendors in the region, including IBM Corp, Hewlett-Packard Co., Intel Corp, Dell Inc. and Oracle Corp. Establishing local support for the company's university training program on open source development and Linux usage is one of Red Hat Beijing's first initiatives. Red Hat's other facilities in the Asia-Pacific region include offices in Singapore, Japan, Korea, Hong Kong and Malaysia.

Telecommunications

- **China Netcom Group has raised US\$1.1 billion ahead of its dual listing in Hong Kong and New York after pricing its share offer in the middle of the indicative range.** This confirmed its status as the third-largest Hong Kong initial public offering this year. The shares were priced at US\$8.48 apiece, including brokerage, transaction and trading fees, according to Goldman Sachs. Excluding these fees, the price was US\$8.39, which is just above the mid-point of the US\$7.80 to US\$8.91 price. The American depository shares were priced at US\$21.81. One ADS equals 20 Hong Kong shares.
- **China Telecom has tapped Cisco as the primary equipment vendor of core and service routers for its new IP network.** The project, known as ChinaNet Next Carrying Network, or CN2, is ambitious. When completed, it will connect more than 200 cities and provide premium services to corporate customers nationwide. Financial terms of the deal were not disclosed. Cisco has been increasing its presence in China. In September, the company earmarked US\$32 million over the next five years for an R&D center in Shanghai, where engineers will focus on products for service providers. The engineers will have plenty of opportunities to field-test equipment, because Chinese telecom carriers are rolling out wire line and wireless services at a rapid pace due to strong demand and a hot economy.

Taiwan

Telecommunications

- **Taiwan's leading telecommunications operator, Chungwa Telecom, said it had a net profit of NT\$43.5 billion (US\$1.3 billion) in the 10 months to October or 4 percent ahead of its full-year target of NT\$41.4 billion (US\$1.2 billion).** Sales in the 10 months rose 2.1 percent from a year earlier to NT\$151.8 billion (US\$4.6 billion), with the company attributing the growth to its Internet and mobile businesses.

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- **The German semiconductor maker Infineon settled a technology transfer dispute with former Taiwanese partner Promos Technologies.** Promos is to pay Infineon US\$156 million in four installments through April 2006 in exchange for the rights to use dynamic random access memory (DRAM) technologies owned by the German group. Under the terms of the deal, the Taiwanese firm would still be able to develop its own 0.12-micron and advanced technologies, a Promos statement said. The statement said the company's earnings projection for 2004 would not be affected by the payments as it had already provisioned them. All outstanding litigations would be withdrawn.
- **The world's leading contract microchip maker, Taiwan Semiconductor Manufacturing Company (TSMC) said its October sales slipped 0.9 percent from September to NT\$22.9 billion (US\$698 million).** Compared with the sales earlier, sales were up 13.1 percent. In September, TSMC sales fell 1 percent from August but were up 22.5 percent year-on-year. Sales for the 10 months to October rose 30.8 percent at NT\$215 billion (US\$6.5 billion). TSMC said it expected fourth quarter to December wafer shipments to fall by single-digit percentage points from the third quarter. Gross profit margins were projected to fall to 42 percent to 44 percent in the fourth quarter from 46.1 percent in the third. Meanwhile, its rival and second ranked United Microelectronics Corp said its sales for October fell to NT\$10 billion (US\$305.2 million) from NT\$11.8 billion (US\$359.8 million) in September but were up 31.3 percent year-on-year. UMC sales for the 10 months to October rose to NT\$99.2 billion (US\$3 billion) from NT\$68.8 billion (US\$2 billion) previously. UMC said it expected its sales in the fourth quarter to December to fall 5 percent to 17 percent sequentially, before recovering during the ensuing months.

Hong Kong

Mobile/Wireless

- **Media reports that Hutchison Telecommunications International Ltd. (HTIL) is planning to cut jobs and salaries resulted in the stock closing above its offer price for the first time since its debut on the main board.** Analysts, however, questioned the accuracy of Chinese press reports. A spokesperson refused to comment on the rumors but said that the firm is continuously reviewing business and operations and looking for ways to streamline operations in order to remain competitive and to achieve optimal efficiencies. An analyst with a French investment bank said it made sense for HTIL to implement cost-cutting measures in Hong Kong because the city presented a more mature environment where it could sustain belt-tightening measures such as outsourcing non-core operations and relocating back offices.
- **SmarTone Telecommunications, which launches its third-generation mobile services next month, has entered into an agreement with Japanese consumer electronics maker Sanyo for supply of tailor-made 3G handsets.** The company has similar arrangement with Japanese electronics giant Sharp, which provides 2.5G handsets exclusively to SmarTone. The alliance boosted SmarTone's handset revenue considerably last year. Sanyo will provide brand-unique 3G handsets to SmarTone, which remains free to use other suppliers as demand arises. The new partnership, according to an official, does not exclude existing partnership with Sharp. Last year, the company's handset sales grew a strong 58 percent. Sanyo it has targeted a production capacity of at least three million 3G handsets, with a choice of six models all based on the WCDMA standard. SmarTone will be Hong Kong's second provider of 3G services. Hutchison Telecom launched third-generation mobile services in the city in January.

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Internet

- **Hong Kong must outlaw spam e-mails or watch businesses lose billions of dollars a year as the city lags behind other countries in tackling the menace.** Businessmen, industry players and consumer watchdogs have overwhelmingly called for a law against senders of spam e-mail, a part of a package of measures to stop the tidal wave of unsolicited electronic messages. Many of them pointed out that Hong Kong was already falling behind other countries such as Australia, Thailand, Singapore, Japan, Malaysia, the U.S. and European Union members in bringing in legislation.

Singapore/Malaysia/Philippines/Indonesia

Mobile/Wireless

- **Singapore Telecommunications plans to spend US\$118 million to raise its stake in Globe Telecom of the Philippines to 45 percent from 40 percent in its Asian expansion drive.** It is buying the shares from Ayala Corp, the Philippines largest conglomerate, which will cut its stake to 35 percent and use the proceeds to repay debt. Ayala and SingTel each raised their stakes in the Philippines second-largest phone company to 40 percent after they bought the bulk of German phone giant Deutsche Telekom's 24.8 percent stake in Globe in October last year. SingTel said it agreed to buy seven million shares of Globe at 950 pesos (US\$16) each, a 5 percent discount. Ayala, - the country's largest business group with interests in property, banking, utilities and car dealerships – will trim its debts of 54.8 billion pesos (US\$7.5 billion) by 6.7 billion pesos (US\$118 million) following the sale. The company estimated the move would save it 730 million pesos (US\$12.9 million) a year in interest costs. Analysts said SingTel's purchase was part of its long-term strategy to grow offshore earnings. Operations outside Singapore generate about 75 percent of its revenues and two-thirds of its pretax earnings.

Information Technology

- **CyberNET Group of the United States had forged a joint venture with the Philippines' Ayala conglomerate to offer information technology outsourcing services globally.** CyberNET is taking a 60 percent controlling interest in AyalaPort, an IT services subsidiary of Ayala to form a new firm called CNG Global Data Hub that will spearhead the company's expansion in East Asia. Ayala will retain a 30 percent interest in the company but will no longer take part in its management. The company officials would not disclose how much CyberNET was investing in the company but said they expected revenues to double in 2005. CyberNET, formed in 1999, provides IT outsourcing services and business processes, with annual revenues exceeding US\$300 million. Ayala Port, a data center operator set up in 2000, posted 74 million pesos (US\$1.3 million) in revenues last year.

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United States/Canada

Internet

- **Microsoft finally debuted its own web search technology, hoping to challenge Google's long dominance of the field with results tailored to a user's location and answers from its Encarta dictionary.** Google signaled that it was ready for a fight, that it would nearly double the amount of web pages available to search through its site. The Microsoft search engine, offered in 11 languages, will initially be available on a special "test" site. Microsoft has long offered a search engine on its MSN site, but the technology behind was powered by subsidiaries of Yahoo. Microsoft also plans to offer by year's end a test version of its hotly anticipated technology for quickly locating e-mail, web pages and other files on desktop computers. Google launched a similar product last month. Hoping to steal some of Microsoft's thunder, Google nearly doubled the size of its search engine index to more than 8 billion web pages.
- **Online auction powerhouse eBay Inc. has scooped up Dutch classifieds website Markplaats, as part of an effort to expand its classifieds trading activities and grow internationally.** The California-based company said that it plans to increase its e-commerce activities in the Netherlands with the acquisition but will continue to operate the web site as a separate business. Netherlands is a growing Internet market, with business-to-consumer e-commerce expected to reach US\$25 billion by 2007, according to IDC. eBay said it paid approximately US\$290 million in cash to the site's owner. The acquisition is just the latest in a series of investments that eBay has made in the classifieds market.
- **Google does not appear in a rush to tackle one Wall Street's most basic equations – the stock split.** This widely used market maneuver is designed to make a stock more affordable to the masses, something that would appeal to an egalitarian-minded company like Google, whose shares crossed the US\$200 threshold for the first time. Stock splits have become commonplace in corporate America that investors almost reflexively expect them whenever a company's share approaches US\$100. But Google officials have already made it clear that they intend to defy stock market conventions – an objective that would be furthered by eschewing stock splits.
- **America Online will invest an undisclosed amount in an upstart that threatens to lure customers away from the industry's most dominant players, such as Orbitz, Expedia and Travelocity.** It is announcing that it is taking a minority stake in Kayak Software Corp., one of a handful of companies whose software allows travelers to simultaneously scour the offerings of thousands of individual airline, hotel and car rental sites. The investment in Kayak is part of a larger strategy at AOL to establish standalone businesses that attract an audience beyond its Internet service customers. In September AOL unveiled InStore, a comparison shopping site.

Software

- **The success of Oracle Corp's US\$8.8 billion hostile takeover bid for rival software maker PeopleSoft Inc. may be a cliffhanger as investors wait.** Oracle recently sweetened its all-cash offer to US\$24 per share from US\$21 per share, but PeopleSoft again rejected the bid. Oracle has warned it will walk away from its offer if less than half of PeopleSoft shareholders tender their shares. Despite raising its offer, Oracle executives in recent months have painted PeopleSoft as a business with a bleak future – pointing to PeopleSoft's current-year earnings growth prospects, which have been cut by about a third since early this year as customers delayed or withheld buying decisions. PeopleSoft projected 2005 earnings per share, excluding items, of US\$1.05 to US\$1.10. Analysts polled by Reuters Estimates

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had forecast full-year 2005 earnings per share, excluding items, of US\$0.76. J.P. Morgan called PeopleSoft's earnings and software license revenue forecasts "overly aggressive" and said PeopleSoft was counting on expense controls in areas like research and development that could jeopardize revenue.

- **Microsoft is giving a one-time US\$3 dividend that's part of the company's plan to return some of its US\$64.4 billion cash horde back to shareholders.** However, Microsoft will not hand out the cash unless shareholders allow the company to alter its stock compensation plans, so employees who hold stock options and stock awards are not hurt by the dividend payout.

Hardware

- **Dell said its third-quarter profit rose 25 percent compared with a year ago s the top PC maker boosted sales of its personal computers, laptops and other gear by 18 percent.** Dell earned US\$846 million on revenue of US\$12.5 billion for the period ended Oct. 29. This meets the average estimate of analysts surveyed by Thomson First Call. Going forward, Dell expects to earn US\$13.5 billion in revenue for its fourth quarter. These estimates are in line with current analysts' forecasts. During the quarter, Dell said it shipped over 8 million computers including servers, notebooks and desktop units. Dell said the notebook shipments did well, rising 35 percent a year ago. Dell said the peripherals and software sales rose 37 percent over the year-ago period.

Europe

Mobile/Wireless

- **After a four-year wait, Vodafone finally rolled out mass-market third-generation (3G) mobile telephone services.** Vodafone live! will be available in 12 European countries and Japan. The range of 10 new 3G handsets will offer services including video calling, full track music download, 3d games and mobile television. The phones will have faster download speeds and improved quality of sound and images, with a two mega pixel camera and stereo speakers. Handsets will be supplied by Sharp, Motorola, Sony Ericsson, NEC, Nokia and Samsung. Hutchison 3G was the first company to launch the new services in Europe in March 2003 but has had a checkered start. In July, French operator Orange launched 3G data card services for laptop computers in Britain, and plans to introduce the new handsets some time this year. British rival mmO2 hopes to unveil 3G products in the first quarter of 2005.

Software

- **The European Union said it was pressing ahead with an anti-trust case against Microsoft despite the company settling its differences with two groups that supported the EU action.** The European Commission said the settlements reached between the software giant and Novell, and with the Computer and Communications Industry Association (CCIA), do "not change any elements of Microsoft's conduct in the market". Microsoft said earlier that it would pay a settlement of US\$536 million to Novell to resolve an anti-trust dispute between the companies involving Novell's NetWare operating system. Novell agreed to end its claims that Microsoft had harmed NetWare and also to withdraw from participation in the European Commission's case against Microsoft. Separately, Microsoft said it also reached an agreement to settle its differences with CCIA.

Telecommunications

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- **Deutsche Telekom, Europe's leading telecommunications group, said it planned to resume paying dividends this year after its shareholders had gone empty-handed for the past two years.** In a statement, the firm said it planned to pay shareholders 0.62 euros (US\$0.79) to every share held. Deutsche Telekom also raised its forecast for net profit this year to around 3.2 billion euros (US\$4.1 billion) from a previous forecast of 2.5 billion euros (US\$3.2 billion). Underlying profits, as measured by EBITDA, were expected to amount to at least 19.2 billion euros (US\$24.9 billion). In the third quarter alone, Deutsche Telekom booked bottom-line net profit of 1.4 billion euros (US\$1.7 billion), compared with 508 million euros (US\$659 million) a year earlier. Underlying profits rose to 5.3 billion euros (US\$6.8 billion) from 4.7 billion euros (US\$6.1 billion).

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