

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



Week of 5 December - 11 December, 2004

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International

Hardware

- **No current figures exist for how much e-junk is recycled, but people in the industry believe it's a sliver of the total. People simply do not know where to take their e-trash; so much of it sits in drawers.** The toxic materials many electronics contain, such as lead and mercury, present more obstacles. A National Safety Council study done four years ago found that less than 10 percent of techno trash was recycled. In part because the gadget industry is relatively young, recycling efforts tend to be scattershot: All Staples stores and some Whole Foods Market stores will take old cell phones, but few people think to take recyclables to the mall. Many cities will only pick up e-trash on scheduled hazardous waste collection days, which are often months apart. Tech recycling now was where aluminum-can recycling was 20 years ago, a Hewlett-Packard official said. Meanwhile, outmoded computers clutter closets and busted Game Boys collect dust in basements. About 2 million tons of e-trash was generated in 2001, the last year for which numbers were available, according to estimates by the Environmental Protection Agency. Organizations that monitor technology recyclers say some players in the industry are not really recycling. It is estimated that the amount of stuff people think is being recycled, 60 per cent to 80 per cent of it is being dumped in containers and sent to China, according to Silicon Valley Toxics Coalition. Most cell phone recyclers simply refurbish the phones and sell them in developing markets, such as Latin America. Some manufacturers have made recycling part of their business - Hewlett-Packard makes its scanners with a blend of new plastic and recycled soda bottles and International Business Machines collected, refurbished and re-sold about 70,000 tons of equipment last year. A few such efforts have been kept rather quiet. Motorola's website has a prepaid postage label to use on a mailer that can contain an old mobile phone from any manufacturer.
- **After achieving a small recovery this year, the global information technology industry appears to be heading for more consolidation, with major realignments expected in key sectors.** Research firm International Data Corp (IDC) has forecast that modest growth will continue next year on the strength of improved IT spending in the United States and western Europe and a strong buildup in the vast emerging economies of China and India. The modest worldwide growth in IT spending is expected to keep the pressure on technology suppliers to cut costs, target better-than-average-growth customer segments and deliver higher-value products and services. IDC cited as an example the hardware side of the enterprise IT market, where vendors will continue to see their profits squeezed by downward pricing pressure on products - from computers to displays and networking gear -, which are fast becoming commodities. Reports last week of the impending sale of IBM's personal computer business to mainland manufacturer Lenovo have added more fuel to shakeout rumors in the IT hardware sector. Market analyst firm Gartner recently reported that slower growth rates and reduced profit margins would force three of the top 10 PC manufacturers to exit the market by 2007.

Information Technology

- **Spending on information technology is expected to slow in the Asia Pacific next year, with growth in the Hong Kong hardware market contracting as companies spend less on equipment replacement.** Meanwhile, telecommunications carriers are expected to focus more on data services, as they can no longer rely on voice revenue alone for survival. IT consultant Gartner estimated enterprise spending in the Asia-Pacific region would grow 7.6 percent next year to US\$208.7 billion, compared

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with growth of 11 percent this year. The global market will still be sluggish, as chief information officers are still wary of spending, Gartner said, adding that decision makers wanted to see a standardization of various technologies before they committed any money. Gartner expected telecoms firms to transform IT service providers or expand into media content and distribution over the next five years, with the traditional model of selling voice as a standalone product becoming obsolete by 2010. This view was shared by rival research house International Data Corp, which, in a report, said it expected more telecoms firms to expand into enterprise IT.

Japan

Internet

- **Fujitsu and Cisco team up in Japan.** Japan's Fujitsu and Cisco Systems of the U.S. said they had agreed to form a strategic alliance focusing on routers and switches that would enable businesses to build advanced internet protocol (IP) networks. For Fujitsu, the alliance with Cisco, which has a 60 percent share in the worldwide router and switch market, should help it get back into the market, which earlier this year it said it would actually quit. Cisco went into the partnership because "Fujitsu is the world's best network solutions company and Japan's Internet technology is developing fast," Cisco said. The U.S. firm could defend its market dominance in Japan against inroads by Juniper Networks, which is fast gaining ground in the global market for big routers. Fujitsu and Cisco officials said they would initially focus on the Japan, but that they would target other Asian markets, including China, and eventually the global market. The first line of products from the alliance are due out in early 2005 and will be based on Cisco's latest IOS-XR operating system. Fujitsu's revenue from its network business totaled about 400 billion yen (US\$3.9 billion) in the year to March 2004, with about 40 billion yen (US\$382.6 million), or 10 percent, coming from the IP segment.
- **Kotohaco Inc. has developed a technology that helps users find the latest information on the Internet.** Utilizing the new technology, the Ibaraki Prefecture-based start-up firm, which originated at University of Tsukuba, has set up a search site dubbed "KEITAI-KOKUBAN," which can be accessed by cellular phone subscribers. The company projects the site will attract 1 million users a year. The web site searches Internet diaries known as blogs, which often provide personal impressions of stores and information on fashion. Limiting the search in this way enables users to find subjective information more easily than using Google or other search engines, which probe the entire Internet. The company's server collects the latest information put up on blogs at regular intervals. The company aims to earn money from advertisements run on the site and by selling the search technology to private companies.

Software

- **Software developer Celsys Inc. and systems builder BeMap Inc. will start to market software that enables the reproduction of high-resolution still images on third-generation cellular phones.** Image compression technology developed by Celsys enables the software to double the length and width of a picture without increasing the volume of data. The two firms will sell a set of BeView, for reproduction, and BeView Editor, which is used to create content, for around 2 million yen (US\$19,000), mainly targeting publishers and companies engaged in electronic commerce. The software will initially be compatible with the FOMA 900 series handsets of NTT DoCoMo Inc., and then be adapted for use with other 3G cell phones.

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- **Quality Corp., a Tokyo-based software developer, has launched a software package that is designed to prevent all leaks of personal data contained in information systems.** The package records operational logs and prohibits the writing of acquired data on storage media. The system consists of the three newly developed software programs -- eX CLT, which stores most operational logs of individual personal computers, including data file acquisitions and e-mail logs, QND Plus, which manages in-house PCs by verifying the number of computers used by a company, the software on each machine and basic user data, and eX WP, which prevents data being written on external storage media such as a USB memory device. With a starting price of about 12 million yen (US\$115,000) for 1,000 users, the company aims to earn 500 million yen (US\$4.7 million) in annual sales from the product.
- **Nippon Computer System Co., known as NCS, will team up with NEC Corp. to strengthen its sales network in the Tokyo area.** Through NEC and its affiliates, NCS, which currently has a strong sales system in the Osaka region, will sell packaged software products to small and midsize companies. NEC's sales division will sell NCS packaged products that serve as production management systems for plants, and NEC Infrontia Corp. will sell NCS business support systems for use in the restaurant industry. To date, NCS has been carrying out independent sales activities in Tokyo. At present, it has 70-80 customer firms, but through its partnership with NEC, it aims to raise that number to roughly 150 firms in three years. By offering NCS software, NEC aims to beef up its lineup of products for small and midsize companies, an area where it has been weak to date. NEC is the second largest shareholder in NCS, holding a 22% stake.
- **Fujitsu Broad Solution & Consulting Inc. has developed a security key to protect information on a personal computer.** With the key inserted in a USB port of a personal computer, an ordinary screen is displayed but when the device is removed, the computer switches to a special protective screen and the computer cannot be used. The new product is sold as a set consisting of a USB key and software for computer installation. When the key is inserted, the Windows operating system is launched automatically. Software can be used without entering a password or ID. When the key is removed during the use of a program such as a spreadsheet or word-processing program, the special protective screen appears. When the key is reinserted, the screen reverts to its previous state. The key, which is small enough to fit in the palm of the hand, will simplify security for users who leave their desks for a short period of time, allowing them to protect computer information by simply taking the key with them. Fujitsu Broad Solution & Consulting has begun selling Fence-AP to businesses. It has made its first sale, supplying 60,000 sets for use with personal computers of sales staff of Nippon Life Insurance Co.

Hardware

- **Two Japanese companies said they had developed a DVD that could play on both existing machines and the upcoming high-definition players, raising hopes for a smooth transition as more people dump old TV sets for better screens.** Toshiba and Memory-Tech said their disc had a dual-layered surface that could store both types of data on the same side. For consumers, that would eliminate the potential headache of having to own two types of DVD players. Both will be able to read such discs, though only the newer equipment can take advantage of the higher-resolution technology. The discs, which took six months to develop, would be able to hold 4.7 GB in the current format and 15 GB in high resolution. The new DVDs rely on the HD-DVD format, which has the backing of the DVD Forum, an international association of electronics makers and movie studios. New DVD players

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using the format are expected to hit stores by late 2005. Its competitor, Blu-Ray, is backed by Sony, its Hollywood studio and News' Fox Entertainment Group. Blu-Ray has more storage space, but HD-DVD is expected to be cheaper to produce because its technology closely resembles current DVDs. It is still unclear which will become the dominant technology.

Mobile/Wireless

- **Japanese internet firm Softbank said that it aimed to enter the mobile phone industry supplying third-generation (3G) services as more customers embrace the advanced technology.** Softbank has asked the government for access to high-speed 800 megahertz bandwidth used by 3G mobile phone services, which is currently only in the hands of mobile industry leaders NTT DoCoMo and KDDI. The bandwidth can also be used for existing second-generation services. In October, Softbank filed a lawsuit to stop the government from distributing 800mhz band access, saying the plan favored NTT DoCoMo and KDDI. The company said it would drop a provisional injunction against distribution of the bandwidth as it waits to see whether the government will allow the firm access to it. To kick off the service, Softbank would invest some 300 billion yen (US\$2.9 billion) in equipment and other infrastructure. If the government approves its plan, Softbank would become the fifth company in Japan's mobile phone industry, with NTT DoCoMo and KDDI the largest players. NTT DoCoMo has said it planned to phase out second-generation services altogether by 2012 as Japanese consumers embrace 3G services that offer features such as videophones and high-speed e-mail. However, the rest of the world has been slower than Japan to embrace 3G services as questions remain over whether customers will pay higher prices for such features.
- **KDDI Corp.'s mobile phone service booked the largest net increase in subscriptions among Japan's top three mobile phone carriers in November, according to data released by the companies and Telecommunications Carriers Association.** The cumulative number of subscribers for KDDI's "au" mobile phone service, including its second-generation service users, topped 18.5 million, compared with 18.3 million in October, said KDDI, Japan's second-largest mobile phone operator. It added a net 167,100 users in the month. Net user increases are calculated by subtracting cancellations from the number of new contracts. NTT DoCoMo Inc., Japan's largest mobile phone operator in terms of total subscribers, said it added 135,000 users in November, 32,100 short of KDDI's monthly net increase. This brought DoCoMo's total user base to about 47.6 million. The figures suggest that DoCoMo faced more cancellations for its second-generation service than KDDI did in the month, although the former added a net 504,800 users for its "FOMA" third-generation mobile services. The total users for DoCoMo's 3G services were about 7.5 million in November. KDDI, which still leads DoCoMo in 3G subscribers by a wide margin, said its total 3G users came to about 16.4 million. It added a net 294,800 3G users in November. Vodafone K.K., the Japanese unit of Vodafone Group Plc. of the U.K., continued to struggle. It had a total of about 15.2 million subscribers in November, adding only 9,900 users from the previous month. Of the total, its new 3G users rose on a net basis by 22,500 to 296,900, slightly accelerating the pace of increase from October.
- **Eleven of the 15 suppliers of paid content for mobile phones expect to boost pretax profits this fiscal year, thanks to such factors as increases in subscribership and corporate acquisitions.** But advancement in cell phone functions is forcing many content providers to make larger investments in development. Index Corp. projects that group pretax profit will soar 101 percent to 7.2 billion yen (US\$65.6 million). Overseas businesses are growing, due chiefly to the August acquisition of 123 Multimedia, a French firm. The overseas operations are expected to earn slightly more than 2 billion yen (US\$19 million) in operating profit this term, turning around from the small operating loss booked

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last fiscal year. Dwango Co. sees group pretax profit rising 14 percent to 3.4 billion yen (US\$32.4 million). Subscribership for its fee-based service will increase 3 percent to 4.5 million, and per-customer sales are expected to grow as well. Cybird Co.'s group pretax profit is forecast to rise 17 percent to 700 million yen (US\$6.6 million), thanks to new sites featuring celebrities. Sammy NetWorks Co. sees parent-only pretax profit surging 160 percent to 2 billion yen (US\$19 million) because of the popularity of its game sites featuring animated characters. Imagineer Co. aims to boost subscribership by 20 percent to 1.5 million by the end of March. Parent-only pretax profit is forecast at 400 million yen (US\$3.8 million), up 125 percent. In contrast, G-mode Co. expects parent-only pretax profit to fall 12 percent to 540 million yen. Outsourcing expenses are rising amid improvement of cell phone functions. Parent-only pretax profit at Bandai Networks Co. will likely decline 15 percent to 1.57 billion yen (US\$15 million) on increased production costs.

Telecommunications

- **Nippon Telegraph & Telephone Corp. has obtained approval from the Communications Ministry to test a wireless transmission system capable of sending data at a rate of 10 Gbps.** The signals will be transmitted using high frequencies in the 116-130GHz band, which is currently not available for commercial applications. The NTT tests will be the first in Japan permitted by the ministry to use frequencies above 100GHz. A data transmission speed of 10 Gbps is 10 times as fast as existing wireless LANs. The tests will involve a system developed by NTT's Microsystem Integration Laboratories that uses a milliwave optical light source and a specially designed receiver that reduces the generation of data errors. The prototype system can transmit data across a distance of up to 1 km. Testing will start this year to verify the technology and to investigate that frequencies prove to be the most efficient for data transmission. During fiscal 2005, NTT plans to work to increase the signal output tenfold so data can be transmitted over distances of 4 to 5 km.
- **Terilogy Co., a trading firm that imports telecommunications gear and software from the U.S. and other countries and sells them to corporate customers and telecommunications service providers, will list on the JASDAQ market.** Terilogy is well known for its ability to discover promising products made by emerging companies as well as major manufacturers. By dealing in products rival traders do not offer, the company avoids competing with them in price. About 60 percent of the firm's revenue comes from routers and switches for internal LANs. But the company plans to shift its marketing priority to the more lucrative business it enjoys with telecommunications carriers. Currently, sales to these carriers, most of which involve software for high throughput communications, make up 20 percent of overall revenue. The company intends to increase sales to these carriers to 30 percent of its total revenue in the next three years. For the year through March, parent-only pretax profit is projected to increase 39 percent to 500 million yen (US\$4.7 million) on sales of 6.5 billion yen (US\$62 million), up 9 percent. Revenue from selling more profitable telecommunications gear to domestic carriers will likely jump 68 percent to 1.8 billion yen (US\$17.1 million). Terilogy plans to boost pretax profit to 1 billion yen (US\$9.5 million) and sales to 10 billion yen (US\$95.3) in the year through March 2008. The company will use the 400 million yen (US\$3.8 million) raised through the IPO to purchase inventory and for other purposes.

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Information Technology

- **The purchase of IBM Corp.'s personal computer business by Lenovo Group Ltd. of China may force Japanese PC makers to review their business strategies further down the track.** Japanese firms are already under pressure from price competition with Dell Inc., the world's biggest PC maker. With around half the 10 or so domestic PC makers already running on operating losses, more intense price competition may even spark industry reorganization. Furthermore, Chinese PC makers will likely emerge as serious rivals because they have been improving their technological expertise by providing manufacturing services for major Japanese and U.S. brands. Japanese PC makers have been able to shield themselves from full-scale price competition, largely due to the unique domestic market, where high-value-added products with audiovisual functions enjoy strong sales. However, their rivals, including Dell and Hewlett-Packard Co., have begun tapping the lucrative market by releasing high-performance PCs.

Korea

Internet

- **Daum Communications Corp., Korea's largest portal and e-mail service provider, has announced that it will expand its business to include Internet-based telephone services, jumping on a bandwagon of telecommunication and web companies.** Daum said it minted an alliance with European voice-over Internet protocol service provider Skype Technologies SA to jointly market Internet phone services to the portal's registered customer pool that exceeds 34 million. Daum, which expects to launch PC-to-PC phone services will provide basic voice services for free and said it will work with Skype to develop premium pay services. Daum officials said it would work to connect VoIP applications to most of the portal's main services, including online communities, e-mail, real-time messenger and search.

Information Technology

- **South Korea and France made an agreement to enhance cooperation between the two countries in the IT sector, the Ministry of Information said.** This IT cooperation committee meeting will strive to form working-level committees in five areas: digital TV, policies to regulate telecommunication services and broadband, e-Society and e-Government services. The Korean government pledged to actively seek joint research projects among research institutes and private companies of the two countries, dispatch Korean Internet cooperative corps to France and participate IT exhibitions. Additionally, the officials of the two governments signed a memorandum of understanding on joint research and cooperation in online three-dimensional game technology.
- **The Ministry of Information and Communication reported that Korea and Poland agreed to increase exchanges and cooperation in the IT sector.** The two governments, through their officials, adopted a joint statement calling for the promotion of bilateral cooperation in fostering IT professionals, mobile communication, e-government and high-speed Internet service. The Korean government, in the same meeting promised to actively invite and train Polish IT personnel and dispatch Korean Internet youth corps and IT policy groups to Poland. It also asked the Poland to help Korean

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IT companies operating in Poland to expand their investments in an effort to increase bilateral trade amount in the IT sector.

Hardware

- **South Korea's top court threw out a petition by Japanese firm Fujitsu accusing South Korean rivals of unauthorized use of its patented technology to make plasma panel displays (PDP), officials said.** The Supreme Court supported the findings of a lower court that nullified a patent registered by the Japanese firm in 1995. Samsung SDI and three other South Korean companies argued the Fujitsu technology related to the display of images on PDPs was too widespread to be considered worthy of a patent. Samsung SDI officials played down the verdict, saying the Fujitsu technology at stake was already "obsolete" in the fast developing industry. The ruling came as South Korean PDP-makers are locked in intermittent rows about various patent technologies with their Japanese rivals.
- **Global and regional digital leader LG Electronics has unveiled the world's largest 71-inch Plasma Display Panel (PDP) TV.** With this breakthrough, the company aims to be the market leader with 30 percent market share in PDP modules by 2005, and the leading manufacturer of PDP television sets with 20 percent market share by 2006. LG overcame technological difficulties to successfully develop the high-definition TV with a contrast ratio of 16:9 and an embedded picture-enhancement chip XD engine. The model is sold as a package that includes a gold-decorating PDP TV, a home theatre system and a digital broadcast receiver. This breakthrough will have a tremendous impact on the flat panel display industry as the technology was considered impossible to be implemented in a large PDP TV when the company began to develop it in July last year. The global PDP TV market, estimated at 3.5 million units in 2004, will continue to expand to 6.3 million units by 2005, 10 million units by 2006, and 12 million units by 2007. LG is the market leader in the PDP TV segment in 17 countries including the UK, Germany, Spain, Australia, Saudi Arabia, and South Africa; the company aims to be the market leader in 30 countries by 2005. To aggressively explore overseas markets, LG has established digital TV production bases in three hubs – North America (Mexico), Europe (Poland), and China (Shenyang and Nanjing).
- **LG.Philips LCD expects 38 percent of its total LCD capacity will come from its sixth-generation (6G) plant next year.** The company also said it will invest more than 3.9 trillion won (US\$3.7 billion) to fund capacity expansion. The company started mass producing 6G panels this August and stated it expects to ramp up more capacity through 2005, with 6G capacity to account for 38 percent of total capacity in 2005, up from 9 percent in 2004. Currently, LG.Philips LCD's 6G plant produces mainly 17-inch LCD-monitor panels and 37-inch LCD-TV panels, and the company plans to add 20- and 26-inch LCD-TV panel production in 2005. However, once capacity is fully ramped, the company claims it will focus on producing 32-inch LCD TVs at the plant. The South Korea-based panel maker is also planning additional advanced-generation plant construction and has budgeted capital expenditure of over 3 trillion won (US\$2.8 billion) to continue construction at its 7G plant in 2005, up from the 600 billion won (about US\$569 million) that it has spent on 7G investments in 2004.

Mobile/Wireless

- **SK Telecom Co., Korea's largest mobile-phone operator, opened headquarters for telematics operations in the city of Jeju yesterday and said it will begin trial services late this month.** The central command office, named the Jeju Telematics Center, will include a systems control center, a contact center and public promotion facility to allow people to try the new services. SK Telecom earlier agreed with local car rental companies to install 500 telematics service receivers in cars starting Dec. 27.

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It will provide the services for free through February. In a related development yesterday, SK Telecom officials said that the company's bid to buy a stake of PT Excelcomindo Pratama, Indonesia's third-largest mobile-phone operator, had failed. On Wednesday, company officials told reporters that SK Telecom is competing to be named the preferred bidder to acquire part of the Indonesian company. Company officials declined further comment. Telematics refers to the wireless computing and communication systems used in automobiles with global-positioning tracking ability. The government is developing Jeju Island as the country's main test bed for advanced telematics services, which officials predict will reach 1.5 trillion won (US\$1.4 billion) in market size next year.

China

Internet

- **Ctrip filed with the U.S. SEC on December 8 to sell 2.1 million additional American Depositary Shares (ADSs).** The 2.1 million ADSs represent 4.3 million ordinary shares. Selling shareholders are Tiger Technology Private Investment Partners, Carlyle Offshore Partners II, Orchid Asia II, IDG Technology Venture Investment, Neil Nanpeng Shen, James Jianzhang Liang, Qi Ji, and Min Fan. Tiger Technology and Carlyle Offshore Partners will sell 1.2 million and 0.8 million ordinary shares, leaving them with 1,863,955 and 668,233 shares, or 5.7 percent and 2.0 percent of ordinary shares outstanding, respectively. Overall, 19.3 percent of Ctrip's ordinary shares are being offered; after the sale, the eight shareholders will own 13.4 percent of Ctrip shares. Credit Suisse First Boston and Merrill Lynch are the underwriters.
- **ZTE listed on the Hong Kong Stock Exchange, raising HK\$3.1 billion (US\$398.7 million) by offering 141 million shares (accounting for 15 percent of its expanded equity) at HK\$22 (US\$2.8) per share.** On Thursday, ZTE stocks on HKEx have been trading at HK\$23 (US\$2.9) to HK\$24.35 (US\$3.1). ZTE said that 60 percent of capital raised will be used to expand in overseas markets and the rest will be used for research and development.
- **eBayEachnet recently signed a cooperation agreement with Chinese school network operator CERNET.** College students can now logon to eBayEachnet from their school networks to trade for free. After eBayEachnet moved its servers to the U.S., China's college students had to pay an additional service fee to CERNET if they wanted to visit eBayEachnet via their school networks. eBayEachnet, according to the report, was aware of the issue before moving servers and the problem has been solved after negotiations with CERNET, whose networks cover over 1,000 Chinese colleges in 200 cities.

Software

- **China's bid to curb public sector purchases of foreign-made software is likely to derail efforts to open up the mainland market to Hong Kong technology firms.** The proposed "Implementation Rules of Government Software Procurement", drafted by the Ministry of Finance and the Ministry of Information Industry, directs all government organizations to buy duly certified "domestic" software. Although trade talks between the mainland and Hong Kong have pushed for stronger ties between the two markets, a preferential policy on software would shut out Hong Kong firms - just like multinational information technology suppliers - from highly sought government deals, experts said. There is a three-part test for software to qualify as "domestic" under the proposed rules. The first requirement is that it be manufactured in China; second, the cost of developing the software in China must account for 50 per cent of the product's market value. Finally, the software's copyright

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must be owned by a legal Chinese entity or be first registered in China. The rules also extend the definition of domestic software to cover services including IT systems integration, information system engineering and other professional technology services provided by a legal Chinese entity. They put a cap of 30 percent foreign investment in the total cost of any service. That would be bad news for Hong Kong's 700 independent software vendors, mostly small firms offering applications and IT services to the city's small market. . Gartner Asia-Pacific said China's practices might seem protectionist, but all organizations - including governments - had the right to set their own buying policies.

- **Beijing said that the Beijing municipal government might appropriate special funds to purchase Microsoft software for around 29.2 million yuan (US\$3.5 million).** The Beijing government awarded software purchase contracts to Beijing Co-Create Open Source Software, Kingsoft, Jiangmin, Reg Flag, CA and Rising. Microsoft did not receive a contract. Previously, Microsoft was close to signing the contract as part of Beijing's government software purchases. However, Microsoft lost the contract at the last minute after the government was pressured to buy more domestic software. An insider said that although Microsoft was cut out of the purchase, final contracts for domestic software vendors were not much more than before Microsoft was cut out of the contract. Microsoft (China) refused to comment.

Hardware

- **China's largest manufacturer of personal computers Lenovo Group announced it had bought the PC-making business of US-based IBM for US\$1.3 billion.** The deal includes US\$650 million in cash and US\$600 million in Lenovo shares. "This will make Lenovo the third-largest computer company in the world with annual revenues of over US\$10 billion," Lenovo said. International Business Machines (IBM) currently holds a third of the global PC-market share with 5.6 percent, behind market leader Dell's 17 percent and Hewlett-Packard's 15 percent. IBM, the world's largest diversified computer and technology service company, reportedly wants to concentrate instead on its more profitable operations. Analysts said the deal would help facilitate Hong Kong-listed Lenovo's entry into the high-end corporate clients overseas and even in China, which it seeks. Lenovo last year changed its name from Legend due to copyright issues overseas.
- **Great Wall Computer stocks hit their bottom limit after Lenovo announced its acquisition of IBM's PC business.** Great Wall Computer will sell its 20 percent stake in its joint venture with IBM, IIPC. Great Wall Computer's third quarter financial report shows that Great Wall's equity investment return from IIPC was 252 million yuan (US\$30.4 million) in that quarter, making it Great Wall Computer's most profitable asset.

Media, Entertainment and Gaming

- **Sina recently announced a new advertising format called "Narrow Ad."** The Narrow Ad system places advertisements based on the content of the article being viewed, as well as user location and interests. Narrow Ad was developed by Tixa.com. Through the end of November, over 300 media companies, including Sina, Ccidnet, Chinanews, and China Youth Online had joined Tixa's Narrow Ad alliance to promote the new advertising model.
- **Online game operator The9 reduced its proposed IPO from 6.3 million American depositary Shares (ADSs) to 6.1 million ADSs.** The indicative IPO price is still US\$13 to US\$15 per ADS. According to the The9's prospectus, the shares sold by the The9's existing shareholders will be reduced

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from 850,00 shares to 675,000 shares. Bear, Stearns & Co., CLSA, and CIBC World Markets are The9's underwriters.

- **Shanghai based online gaming company 9you (Runstar), recently received a US\$14 million investment from Carlyle, China Merchant Fortune Ventures and the Sino-Korean Wireless Fund.** An employee in 9you's general manager's office has confirmed that Carlyle has become the company's majority shareholder. The Sino-Korean Wireless Fund was jointly set up by Shanghai Industrial Investment (Holdings) and Korea's Ministry of Information Industry. China Merchant Fortune Ventures is a venture fund management company jointly set up by China Merchants Technology Holdings, affiliated with the Hong Kong headquartered Merchants Group, and Taiwan based Fortune Venture Investment Group. 9you's first online game, Korean developed MMORPG Corum, began commercial operations in July.
- **Beijing Youth Daily subsidiary Beijing Youth Media Development plans to list in Hong Kong on December 22, reports Ccidnet.** Beijing Youth Daily hopes to raise US\$90 to US\$100 million through the IPO. In 2003, Beijing Youth Media Development had one billion yuan (US\$121 million) in revenues, 800 million yuan (US\$96.6 million) of which was advertising revenue.
- **Tom-Skype is said to be very popular among Chinese online gamers.** Tom-Skype is an instant messaging (IM) software launched in China through a partnership between Tom Online and Skype. Online gamers like to use Tom-Skype instead of online games' resident IM software because, unlike resident voice functions, using Tom-Skype does not slow down the game.
- **Fashion TV signs deal to provide programming for SiTV's digital TV platform.** Shanghai Interactive Television Co., Ltd. (SiTV), one of China's three nationwide digital pay TV platform operators, has established a strategic cooperation in TV content with Fashion TV (FTV), a France-based fashion TV station. SiTV is a subsidiary of SMG (Shanghai Media Group), one of China's largest media organizations. Under the terms of their agreement, FTV will provide 3.5 hours of program material everyday to SiTV's "Channel Young" for broadcast over the company's national digital pay TV platform. This agreement is the first partnership FTV has ever had with a TV broadcaster in Mainland China. "FTV and SiTV will both obtain revenues generated from digital pay TV subscription, shared at corresponding proportions," the source explained. In late November of this year, China's State Administration of Radio, Film and TV (SARFT) and the Ministry of Commerce issued a temporary regulation that allowed foreign broadcasters to form joint ventures or co-operative companies with Chinese partners. Joint venture or co-operative firms formed between foreign and Chinese companies may produce and sell broadcast TV programs, with the exception of news and news analysis programming. As of November, SiTV had approximately 50,000 subscribers in Shanghai and approximately 400,000 in China as a whole.
- **The Chinese government has banned the sale of a PC football game, claiming that it violates Chinese law and harms China's sovereignty.** China, sensitive about issues of national sovereignty, has banned a computer sports game that classifies Taiwan, Hong Kong, Macau and Tibet as countries and has threatened to fine websites that supply the game and net cafes that let patrons download it. The game, "Soccer Manager 2005", contained content that harmed China's sovereignty and territorial integrity and violated Chinese law, the report said. It did not say who made the video game, also called "Champion Soccer Manager 2005", but said it had yet to be released nationally. Any web site that offered downloads of the game would be fined up to 10,000 yuan (US\$1,208) the report said, quoting an order from the Ministry of Culture. Cyber cafés that failed to prevent players from downloading,

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installing or playing the game would be fined as much as 15,000 yuan (US\$1,812). Taiwan, Hong Kong and Macau were listed as independent countries in the game, and the Himalayan region of Tibet, which Chinese troops occupied in 1950, is called "Chinese Tibet", which elevated it to the same level as China itself, according to the report.

- **China's National Copyright Administration News Publishing Department revealed that the Chinese government would allow foreign newspapers to be printed in China.** Another departmental official clarifies that there is a difference between newspaper printing and newspaper publishing. That is, customers can still not get the Wall Street Journal or New York Times in China although the foreign newspaper can be printed in China. The official stated that publication of foreign newspapers in China is still forbidden. At present, many foreign newspapers are printed in Hong Kong or Singapore and then enter Mainland China via China National Publications Import & Export Corporation. These foreign newspapers claim that they are willing to print newspapers in China, but no one has filed an application yet.

Taiwan

Hardware

- **Anyware Computer Accessories has signed an exclusive distribution agreement with Taiwanese mobile peripheral player i-Rocks.** i-Rocks -- which has a Taiwan-based R&D team and production facilities in mainland China -- manufactures a range of keyboards, optical mice, USB hubs, card readers and hard disk drive enclosures. Meanwhile, Anywhere was "in the process of signing" communications headset player Plantronics. The company had already taken some stock and would focus on selling the company's PC and Bluetooth (wireless) headsets. While Plantronics deals directly with the larger retail channel, Anyware would target the independent reseller channel as a result of the arrangement.

Telecommunications

- **The workers' union at Taiwan's state-run Chunghwa Telecom, the island's leading telecom operator, threatened to stage an unprecedented strike, demanding the government guarantee their rights while it pushes for the firm's privatization.** The strike threat came one day after the company's employees voted to approve a proposal to adopt the right to strike, a move apparently aimed at increasing their bargaining power in negotiations with the ministry as the company is privatized. The workers essentially want pledges on job security and salaries. Out of the 17,300 employees attending the gathering, only 176 voted against the proposal. The company has 28,000 staff. According to labor laws, any strike in Taiwan requires approval from at least 50 percent of a company's employees. The company's management said they had formed an emergency task force and readied a back-up plan but called on its staff to exercise caution to prevent inconvenience to the general public. The ministry also warned against the planned strike, as it would break laws, which bar strikes by teachers and workers in public utilities. Chunghwa employees, however, said they feared their rights would be trampled over as the ministry, the company's single largest shareholder, pushed for privatization. The ministry, which has reduced its stake in Chunghwa Telecom from 100 percent to 64.9 per cent, plans to sell a further 15 percent stake but details have not yet been fixed. In a first sale in December 2002, the ministry sold a 13.5 percent stake to companies affiliated with the Cathay and Fubon Groups.

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Hong Kong

Telecommunications

- **PCCW, the Hong Kong fixed-line incumbent that also runs wireless broadband services in Britain, is looking at an operating model that will combine fixed wireless access and mobile services in the two markets.** With the aim of offering ubiquitous broadband to customers, the model - called fixed mobile convergence (FMC) - may become the solution that will stem lost revenues to mobile operators and declines in its Hong Kong fixed-line business. A PCCW's source said emerging technology over the next 10 years all telecommunications devices would have a wireless option. The big question facing the sector was how to fill in the gap between high-speed broadband and mobility. PCCW said its team was looking at various technology choices for the much talked about WiMAX, a more advanced version of the current Wi-fi hotspots based on the 802.16 technology. PCCW announced in November last year that it was working with Intel to explore WiMAX-based broadband technologies. FMC is a combination of fixed wireless access solutions, be it WiMAX or the universal mobile telecom service time-division duplex (UMTS TDD) being deployed by PCCW's British wireless broadband business known as UK Broadband, and converge it with 3G mobile services. PCCW has more than 200 Wi-fi hotspots in Hong Kong.

Media, Entertainment and Gaming

- **The first website hosted in Hong Kong to offer legal music downloads will be launched next month in a bid to curb copyright piracy.** The site - www.eolasia.com - will charge HK\$8 (US\$1) for each song and is expected to carry more than 100,000 international, Canto and Mando-pop hits from Universal, EMI, Warner and Sony BMG, as well as local record companies. It will be operated by I-Content - co-founded by computer giant Acer and Golden Harvest - and Morningside Technologies and East-West Entertainment. The company said it was confident in the market for its music downloads, despite the popularity of sites offering illegal downloads for free. A survey by market research group TNS estimates the local music industry has lost US\$1 billion in the past 30 months through illegal downloads. The I-Content site provides files in Microsoft's WMA format with digital rights management (DRM). DRM ensures the file cannot be shared among web users and controls the number of copies burned onto CDs and other devices, such as MP3 players.
- **Tom Group will announce stakes purchase in Huayi Brothers.** Tom Group will release details of its cooperation with mainland China privately run film production company Huayi Brothers on Thursday, reports Sina quoting unnamed Hong Kong sources. Early reports said that Tom Group would purchase a 20 percent stake in Huayi Brothers for over 100 million yuan (US\$12.8 million). Insiders said that Huayi Brothers wished to sell part of its shares to two or three international companies.

Ventures/Investment

- **In looking for better ways to spend the HK\$4 billion (US\$514.3 million) remaining in the HK\$5 billion (US\$643 million) Innovation and Technology Fund (ITF), has decided to set up four research and development centers to focus on areas such as car parts and textile development.** The switch to funding research is in part to answer critics who have commented negatively on the ITF for funding "hi-tech" business projects that have produced only embarrassing losses for the government. The Innovation and Technology Commission plans to fund the establishment of R&D

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centers focusing on car parts and accessory systems; technologies aimed to enable logistics and supply-chain command; textiles and clothing; and nanotechnology and advanced materials. The government will cover the cost of initial operations of the R&D and sponsor projects.

Singapore/Malaysia/Philippines/Indonesia

Telecommunications

- **Malaysia's largest telecommunications company, Telekom Malaysia on Monday announced that it had signed a two-and-half-year term loan facility of US\$150 million.** "The facility will be used to refinance its existing term loan the company undertook four years ago," Telekom Malaysia said in a statement. It said Telekom Malaysia was able to obtain the financing at far better terms than other similar companies in the region because of its strong credit standing. The loan was provided by three offshore banks - The Bank of Tokyo-Mitsubishi, Labuan Branch; Mizuho Corporate Bank, Labuan Branch and National Australia Bank, Labuan Branch. Telekom Malaysia said the new loan would enable it to achieve significant cost savings in interest expense based on a "very competitive level of interest payable under the new facility."

United States/Canada

Internet

- **In a major shift of strategy, Symantec is pushing enterprises to adopt a holistic information security policy and abandon the piecemeal approach to data protection.** The Silicon Valley-based security giant calls this new initiative "information integrity". Symantec said a fundamental rethink in security processes was needed to both view and manage all the risks related to their digital information. Symantec was encouraging enterprises to balance the use of various available hardware, software and services used to secure their data. This would move them away from a "point solutions" approach - such as relying initially on anti-virus software on the desktop and then later installing a firewall - towards full-suite security products that can better handle increasingly complex security threats, including multifunction network appliances and managed services. The unification of security and systems management is inevitable, International Data Corp said. Market research firm The Radicati Group estimated the worldwide enterprise security market is expected to be worth US\$2.9 billion this year and grow rapidly over the next four years, reaching US\$6.6 billion in 2008. The global impact of cyber attacks has also grown steadily from US\$3.3 billion in 1997 to an estimated US\$12 billion last year, according to Computer Economics.

Telecommunications

- **Sprint Corp. and Nextel Communications Inc., in talks to merge, would create a mobile-phone company with 33 million customers to compete with market leaders Cingular Wireless LLC and Verizon Wireless.** The merged company would close Sprint's gap with Verizon Wireless, the No. 2 carrier with 42 million customers. The top three mobile-phone companies would have about 70 percent of the market should the transaction close. The deal would wed Nextel, with the highest average monthly bills and lowest rate of customer turnover, to the company furthest along in sales of advanced services such as wireless web access. Sprint and Nextel can cut costs by shutting overlapping operations and spending less on network upgrades. The wireless industry's market value may increase

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10 percent to 15 percent as a result of the elimination of a national competitor, estimated Lehman Brothers in a research note. Nextel has 15.3 million subscribers and Sprint has 17.3 million. Sprint's total does not include 3.1 million users at affiliated companies and 2.8 million added through wholesale agreements. Sprint gains access to Nextel's business customers, who pay higher monthly bills.

Software

- U.S.-based software developer PalmSource Inc. said it had entered agreement to acquire China MobileSoft Ltd. in a bid to extend its market as a software provider for cell phones and mobile devices. Under the agreement, the NASDAQ-listed PalmSource will issue approximately 1,570,000 shares of common stock in exchange for the outstanding equity and rights to acquire equity in MobileSoft, a leading Chinese mobile phone software company. Analysts estimated the deal at about US\$21.9 million, based on PalmSource's closing share price of US\$13.97 on NASDAQ. The transaction was expected to close before the end of PalmSource's third fiscal quarter ending Feb. 28, subject to approval by MobileSoft shareholders, the U.S. company said. MobileSoft, based in the eastern city of Nanjing, has developed a wide range of software for mobile phones and is working on a version of Linux optimized for mobile devices. PalmSource is the company behind Palm OS, a leading operating system powering mobile information devices. So far, about 36 million mobile phones in the world are using the system, including household brands like Samsung and Sony.

Europe

Mobile/Wireless

- **Nokia, the world's No 1 mobile handset vendor which has seen its share slipping to Asian rivals, is looking to reinforce its leadership through increased focus on the CDMA, or code division multiple access, telecommunications standard.** Having already launched 10 CDMA handsets this year, Nokia's share in the market had doubled in three years. Although Nokia's entry to the CDMA market lagged behind its rivals, it had successfully built up its product portfolio to win global market share, including in China. Since its first CDMA handsets hit the market in 1997, Nokia - based in Finland - has produced about 50 million handsets based on the standard, in 48 models. Now, the mobile giant offers 17 CDMA handset models worldwide. It introduced its mid-range CDMA2000 1X handsets, which have a five-way joystick with FM radio function, video streaming and camera functions. Nokia would not disclose how much the CDMA business contributed to the group last year, although it added that CDMA accounted for about 20 percent to 22 percent of worldwide handset revenue. IDC said Nokia's recent moves were driven by the pressure to plug the hole in its portfolio left by CDMA amid the increasing threat from Asian rivals Samsung and LG, which were eroding its leading position. Nokia is hoping that the introduction of its mid-priced handsets will plug that hole. For the third quarter this year, IDC estimated that worldwide, mobile handset shipments totaled 164.1 million, with Nokia's share at 31.3 percent, or about 51.4 million.
- **Wireless handheld system supplier O2 has added a mini model to its popular Xda lineup of integrated phones and personal digital assistants.** The company describes the O2 Xda II Mini as "two thirds the size at two thirds the price." Like its bigger brother, the Mini comes with a 1.3-megapixel camera and runs the second edition of Microsoft Windows Mobile. The model has 64 megabytes of read-only memory, 64Mb of random access memory and an Intel 416-megahertz PXA 272 processor. While the larger Xda IIs is aimed primarily at the corporate segment, O2 is targeting consumers with the mini model, claimed to be the smallest PDA phone on the market.

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Hardware

- **Royal Philips Electronics NV, Europe's largest maker of televisions, raised 550 million euros (US\$729 million) by selling more than half of its stake in Atos Origin SA, France's No. 2 computer-services company.** Philips cut its holding in Paris-based Atos Origin to 15.4 percent from 31.9 percent, the company said in an e-mailed statement today. Philips sold 11 million Atos shares to Deutsche Bank AG, Europe's third-largest bank, for “just above 50 euros” (US\$66.3) each, the company said. Amsterdam-based Philips holds shares in Atos Origin since the 2000 merger between Atos and Origin, the computer-services business of Philips. The transaction, which closed yesterday, will result in a non-taxable gain of about 160 million euros (US\$212 million) in the fourth quarter, according to the statement. Philips sold its remaining stakes in ASML Holding NV, Europe's largest maker of semiconductor equipment, and Vivendi Universal SA, the owner of the world's biggest music company. The stake sales in Atos Origin, ASML and Vivendi will result in one-time gains of about 600 million euros (US\$796 million) in the fourth quarter, the report said.

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