

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



Week of 6 March - 12 March 2005

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International

Hardware

- **Worldwide demand for external disk storage systems posted a 4.7 percent growth last year to US\$14.1 billion from US\$13.5 billion in 2003, according to research firm International Data Corp (IDC).** This growth is taking place as EMC and Hewlett-Packard battle for market leadership, with EMC leading in worldwide external disk storage revenue for the eighth consecutive year. EMC disk storage revenues reached US\$2.9 billion, an 18.4 percent growth from sales of US\$2.5 billion in 2003, to clinch a 21.2 percent share of the global market. With this result, the company grabbed the top spot from HP, which was the revenue leader in 2002 after the company acquired Compaq Computer.

Japan

Internet

- **A Tokyo court ruling boosted Livedoor's bid to take over Nippon Broadcasting when it ruled in favor of the Internet company.** Livedoor, amassing more than 40 percent of Nippon Broadcasting System stock, had filed an injunction in a Tokyo district court to block a warrant issue that would have made Fuji TV Network the biggest shareholder of Nippon Broadcasting. The court ruling blocked Nippon Broadcasting attempt to issue new stock to Fuji TV. In another development, a report mentioned a top Fuji TV Network official as hinting of the possibility of the company forming a business tie-up with Livedoor.
- **Pasco Corp., a major aerial survey company, announced that it will start distributing precise three-dimensional maps over the Internet.** The data volume of three-dimensional maps is generally too large to be distributed online but the company has developed a format to reduce it by two-thirds. It will initially provide the service, giving it the name "Urban Planner", in the Tokyo Metropolitan area and then expand it to cover the 13 largest cities and other major urban areas of the Japan.
- **Aucnet Inc. said it expects to start auctioning used PCs by July, in its plan to broaden its auction service to used personal computers.** Aucnet, which is a leading auctioneer of used cars, will serve as an auction intermediary between businesses and volume retail stores and other bidders. It will earn revenue by charging fees. With the new privacy protection legislation taking effect in the country next month, the company has inked an exclusive sales agency agreement with a Finnish firm for the use of software that erases all data from a computer. Aucnet will also market this software on its web site.
- **Risk Monster Co., a company providing credit information to firms making corporate loans, announced that it will go public on the Osaka Securities Exchange's Hercules market for start-up companies.** Using information gathered from a private credit research agency Tokyo Shoko Research Ltd., Risk Monster is able to make a comparison of companies, classifying some 1.7 million Japanese companies into six credit categories that cover the range from "extremely high solvency" to "unable to carry out standard business deals". For the year through March 31, Risk Monster expects a pretax profit of 170 million yen (US\$1.6 million), a figure which is double that of the previous year. This is based on a 31 percent rise in sales to 830 million yen (US\$8 million)

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Semiconductors

- **Elpida Memory said it would invest 100 billion yen (US\$963.5 million) to produce chips with a circuit width of 80 nanometers with the aim of catching up with South Korean rivals.** Japan's only Dynamic Random Access Memory Maker, Elpida would introduce cutting-edge technology to produce the chips even as it expects a recovery in the global semiconductor market. With this move, the company aims at expanding its worldwide market share to more than 15 percent from its current 7 percent to 9 percent, sources said.

Media, Entertainment and Gaming

- **Jupiter Telecommunications Co., Japan's largest cable television network operator, announced it will go public on the JASDAQ Securities Exchange.** Jupiter offers Internet and telephony services through its J-Com Broadband businesses aside from operating a cable TV network. J-Com Broadband has a total of 1,906,000 households subscribing to its services. Out of this, about 761,000 people used J-Com Broadband to access the net and 773,000 tapped the J-Com telephony service. For the year through December, Jupiter expects a group of net profit of 14 billion yen (US\$135 million), a 29 percent year-on-year increase, on a 10 percent increase of the service subscribers. The company plans to use an estimated 83 billion yen (US\$800.2 million) proceeds raised from domestic and foreign markets through the IPO to repay part of its 230 billion (US\$2.2 billion) yen in interest-bearing debts.

Hardware

- **Nikon Corp. said its group operating profit for fiscal 2005 is expecting to increase 11 percent from the current projection to about 31 billion yen (US\$298.8 million).** According to the company, the increase is driven by the growing sales of semiconductor steppers, pushed by capital investments among domestic and overseas chip firms, and the profit delivered by sales of digital single-lens reflex cameras. The company projects its pretax profit will reach about 18 billion yen (US\$173.5 million). The company reported a pretax loss of 4.2 billion yen (US\$40.4 million) for the previous year.
- **Kyocera will become the first major Japanese manufacturer to leave the growing market of digital camera production as it announces the end of its production likely by the end of summer this year.** The company plans to restructure its optical and precision business, with the company planning to shift operations to such segments as camera modules used in cellular phones. A company spokesperson added that Kyocera may continue to supply some digital cameras to the overseas market although no concrete strategic plan has been drawn up yet.

Telecommunications

- **NTT East and NTT West, regional units of Nippon Telegraph and Telephone Corp., said they plan to spend a total of 780 billion yen (US\$7.4 billion) next fiscal year in order to improve their fiber-optic communications networks.** The figure is a slight decrease from the 790 billion yen (US\$7.5 billion) in spending the two units expected for the current fiscal year ending March 31. NTT East said its targeted capital expenditures would total 400 billion yen (US\$3.8 billion); NTT West said its planned capital investment for the next fiscal year would be a total of 380 billion yen (US\$3.6 billion). Both NTT East and NTT West expect their combined outlays on optical fiber networks to increase to 330 billion (US\$3.1 billion) yen next business year.

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Korea

Internet

- **Bugs Music, the country's largest online music provider, announced its plans to sell 60 percent of the company to local record companies.** The move is made with the aim of settling its protracted copyright dispute with the music industry. Bugs Music counts more than 16 million registered users and is ranked fifth among all web sites here by number of visits. The group has been providing free music-streaming services since 2000, which allow subscribers to listen to music but not to download them. The Korean Association of Phonogram Producers and 13 other recording companies filed a lawsuit accusing Bugs Music of illegally reproducing copyrighted music. The suit asked that the services of the group be blocked. Bugs Music had reached an agreement with the association but failed to satisfy the demands of other record companies. With an Internet penetration rate that approaches 70 percent, the free distribution of online music has always been at the center of copyright disputes here. As regards its plan, the online company declined to disclose the financial terms of sale or give the name of the companies involved in the deal.

Mobile/Wireless

- **Pantech Co., Korea's third-largest mobile phone manufacturer, has renewed its focus to take advantage of the current environment where third-generation mobile telephony is starting to spread in North America and Europe after a slow start.** Pantech and its sister company Curitel Communications are targeting shipments of 28 million units and US\$3 billion in overseas sales. The current move of the firm gives it the ability to market its lineup of high-end products that feature wireless Internet, built-in digital camera and mobile television functions. Pantech is expected to release 85 new models overseas this year, with most of them being marketed in North America and Europe. According to Gartner, Korea's three largest handset manufacturers – Samsung Electronics, LG Electronics and Pantech – sold an estimated 1.5 billion units.
- **KT Freetel Co., Korea's No. 2 mobile carrier, has signed an alliance with Renault Samsung Motors Co., to develop and commercialize an in-vehicle wireless data service.** The system called telematics, which is a combination of telecommunications and informatics, will provide digital multimedia broadcasts. This will allow passengers to watch satellite television programs at the same time receive wireless information on stocks, traffic and games provided by KTF. The nation's fourth-largest carmaker also signed a similar deal with the nation's top carrier SK Telecom Co.
- **Microsoft opened an engineering laboratory in Seoul to build mobile Internet solutions based on its Windows operating system.** Called Mobile Innovation Lab, the research and development facility, will collaborate with local phone manufacturers and telephony operators to develop handsets integrating the mobile versions of Windows with advanced wireless Internet software programs. Microsoft said it will invest US\$30 million in the next three years to fund the research and development activities that the laboratory will spur. Microsoft, in a statement, sees in Korea's advanced mobile telephony industry an ideal test site for the company to develop and commercialize its latest technological advancements.

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China

Mobile/Wireless

- **China Unicom has won a license to build a 250 million yuan (US\$30.2 billion) mobile network in Macau based on its code division multiple access (CDMA) technology.** The investment is the first for such investment outside the mainland and will be the only CDMA network in Macau. The company won the license from four other bidders, which included SmarTone Telecommunications Holdings and Companhia de Telecomunicacoes de Macau, which is Macau's leading operator. Unicom said it will invest 170 million yuan (US\$20.5 million) to introduce the network. It will offer only CDMA roaming in the first year before it goes citywide with its 2.5G mobile.
- **China Mobile reported a net profit of 42 billion yuan (US\$5 billion), an 18.1 percent increase from 35.5 billion yuan (US\$4.2 billion) in 2003.** The company, considered the world's largest mobile operator in terms of the number of subscribers, posted a 21.3 percent increase in sales to 192.4 billion yuan (US\$23.2 billion) from 158.6 billion yuan (US\$19.1 billion) previously. A China Mobile official was quoted as saying that, despite the intense competition and tougher regulations, there was great potential for developing the mainland mobile telecommunications market. The company said it also recorded a fast expansion in new services such as SMS, WAP and "Color Ring". Together with the forecast-beating results, China Mobile said it plans to spend US\$7.8 billion to be used for the aggressive expansion of its 2G network this year. The figure is 47 percent more than previously budgeted. Analysts, however, are questioning the decision in the light of the current technology being replaced soon by 3G. China Mobile had previously earmarked US\$5.3 billion to expand its business.

Media, Entertainment and Gaming

- **Phoenix Satellite Television Holdings said it plans to diversify by delivering programming to mobile platforms and establishing Sino-foreign television production joint ventures.** The company said it was also looking into the idea of providing video content for 3G mobile-phone operators, with the aim in mind of tapping its partnership with Hutchison as well as Internet protocol television broadcasters and broadband operators. After two consecutive years of the company posting losses, Phoenix announced a full-year profit of HK\$150.4 million (US\$19.2 million), against a loss of HK\$72.9 million (US\$9.3 million) in 2003. In another development, Phoenix announced that it applied to move its listing from Hong Kong's secondary Growth Enterprise Market (GEM) board to the city's main board.
- **Clear Media said it will invest HK\$400-500 million (US\$51.3-64 million) in order to expand its bus shelter advertising network ahead of the 2008 Beijing Olympics.** The firm, which represents the mainland operation of the world's largest outdoor media group Clear Channel, said it plans to increase the number of bus shelters from 1,800 to 3,000 over the next three years. Clear Media said it would also introduce an Olympics-related advertising package next year. The company announced a 16.3 percent year-on-year increase to HK\$95.1 million (US\$12.1 million) last year. Sales rose 10.2 percent from 2003 to HK\$538.4 million (US\$69 million). Goldman Sachs forecast Clear Media's revenues would have a 23 percent growth this year.
- **Shanghai Industrial Development Limited has entered into an agreement with Xinhua Finance, China's premier financial services and media company, under which agreement**

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Xinhua Finance Japan is appointed as strategic consultant to the firm. The agreement between a company said to be one of Shanghai's "showcase" companies and Xinhua Finance will allow Xinhua Finance Japan to provide consulting services and, at the same time, serve as a bridge between Chinese and Japanese enterprises. This agreement is important considering that trade between Japan and China has grown fast in recent years, with last year's posting of US\$213 billion, which accounts for 20 percent of Japan's total trade. Xinhua Finance provides real time coverage of Chinese and Asian equity markets, delivering an integrated platform of China-specific indices, financial news, feeds, credit ratings, and investor relations services to global financial institutions and re-distributors via leased line, Internet, and satellite technology.

Information Technology

- **Nortel Networks has announced its setting up of a supply chain center in Shanghai.** This move is the first in a series of new investments the company plans for Asia this year. According to an official of Nortel Greater China, the Asian and Greater China regions have emerged as a major supply base with "best-in class" manufacturing technologies. Nortel has, for the last six years divested most of its manufacturing activities to electronic manufacturing services suppliers. It is a strategy that has given Nortel a focus on its core marketing and product development businesses.
- **China's information technology outsourcing market is going to experience rapid growth in the coming years, according to IDC.** The research house suggests that, although the market is still at its initial stage, China's outsourcing market will grow at a CAGR (compound annual growth rate) of 36.5 percent from 2003 to 2008. The report says China is the fastest growing outsourcing market in the Asia-Pacific region, with the suggestion that the size of China's IT outsourcing market will hit US\$1.6 billion in 2008. Last year, the market value stood at US\$433.7 million, a figure which accounted for 9.9 percent of the total IT service market. The IT market encompasses outsourcing, support and training, consulting and integration – a package that is forecast to almost triple to US\$9.6 billion in 2008, compared with US\$3.6 billion in 2003.

Semiconductors

- **Shanghai-based Semiconductor Manufacturing International Corp (SMIC) is looking into buying manufacturing equipment from Japan after a planned US\$766 million loan to buy American-made machines remains unapproved by an American bank.** The United States Export-Import Bank has not approved yet the loan by several U.S. banks to that will allow SMIC to acquire chip-making equipment from U.S. suppliers. The delay was brought about by lobbyists for U.S.-based Micron Technology who argued that the loan would further boost China's chip industry and put Americans out of work. A source said a syndicate of Japanese banks would fund the purchase with a loan comparable in size to the pending loan. Around half of SMIC's chip-making equipment comes from the U.S., about 35 percent Japan and the rest from Europe.

Internet

- **Chinadotcom Corp. announced its unaudited financial results for the fourth quarter and full year of 2004.** For the fourth quarter of 2004, the Internet company reported revenues of US\$54.2 million, a 13 percent increase from US\$48 million in the third quarter of 2004. For the full year of 2004, the company reported revenues of US\$182.7 million, a 135 percent increase from US\$77.9 million in 2003. Despite revenue growth of 13 percent, the company said it posted a fourth-quarter loss of US\$8 million. It registered a loss of US\$6.2 million for the third quarter.

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Taiwan

Media, Entertainment and Gaming

- **Blizzard Entertainment announced a strategic license agreement with Soft-World International Corporation that will bring Blizzard's World of Warcraft to Taiwanese gamers.** Soft-World is considered to be one of the most experienced companies in Taiwan's game industry. It is also the No. 1 online operator in the country. Under the agreement, Soft-World will help localize the World of Warcraft content by providing feedback to the Blizzard development team. The group will also provide World of Warcraft players in Taiwan with friendly customer support in Chinese. The highly successful MMORPG has already achieved phenomenal success in its three current markets – North America, North Korea and Europe.

Hong Kong

Mobile/Wireless

- **Hoping for lower 3G operating costs, Hutchison Telecommunications International Ltd (HTIL) expects its mobile business to improve this year.** HTIL, which is 70 percent held by Hutchison Whampoa, reported a HK\$72 million (US\$9.2 million) full-year net profit for last year, which reverses a HK\$214 million (US\$27.4 million) loss in 2003. The figure beat the consensus estimate by Thomson Financial, which forecast a loss of HK\$143.1 million (US\$18.3 million). Analysts, however, said that the optimism seemed misplaced as the company's good financial performance were helped mainly by a one-off disposal, and while 3G start-up costs increased the losses for its Hong Kong mobile division.

Singapore/Malaysia/Philippines/Indonesia

Information Technology

- **The World Economic Forum, in its latest technology survey, ranked Singapore as the world's most successful economy in exploiting information technology.** The survey placed Singapore ahead of 104 other nations in its Networked Readiness Index. The accomplishments enumerated in the report are impressive. Presently, 74 percent of all households in Singapore own one or more personal computers, with 65 percent having Internet access. Eighty-one percent of all companies here use computer. Mobile penetration is at 92 percent. The World Economic Forum survey also placed Singapore as the top performer in the quality of science and math education, affordability of telephone connections and the government's infocomm technology. The report, however, pointed to one area in which Singapore lagged behind, and this was in broadband adoption. Singapore is ranked No. 11 in this category.

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United States/Canada

Internet

- **America Online said it planned to launch a net-based phone service for some of its members, an indicator, according to industry watchers, that Internet telephony is headed for the mainstream.** The AOL offering will provide competition with traditional telephone companies, cable firms and other firms that transmit calls over high-speed Internet connections rather than the usual traditional telephone network. Under this technology, customers will continue to use their traditional phones but will plug them into adapters connected to their broadband source rather than the jack provided by the telephone company.

Software

- **From its battle for rival PeopleSoft, Oracle is again caught in another war, this time with German software giant SAP to acquire Retek.** Oracle has offered to buy Retek, a U.S.-based retail software applications supplier, for US\$504 million in cash, or US\$9 a share. The offer challenges SAP's earlier offer of US\$496 million, or US\$8.5 a share. The bid from Oracle is unsolicited and comes after Retek's board has signed already a merger agreement with SAP. The merger agreement had been endorsed to Retek shareholders before the bid of Oracle came. The offer has, in a sense, upset SAP's plan to form its applications business.
- **Microsoft said it was on its way to acquiring leading collaboration software company Groove Networks.** Groove has been partners with Microsoft in providing software that allows workers separated by considerable distance to working together by means of created virtual offices. The acquisition is seen by analysts as boosting Microsoft's strategy of expanding its Office franchise beyond the more popular products like Word and Excel. After the deal is completed, the Groove organization will continue to operate from Massachusetts headquarters. Microsoft said Groove would continue to operate as a separate company until regulatory requirements have been met and the deal is finalized. Financial terms of the acquisition were not immediately disclosed.

Hardware

- **IBM's sale of its personal computer business to Beijing-based Lenovo Group was finally approved by a United States government committee.** Earlier reports showed that U.S. officials were concerned an IBM facility in the U.S. could be used as a base by Lenovo employees to engage in industrial espionage. There were also expressed worries about Lenovo filling computer orders on behalf of the U.S. government, an important IBM client. The two companies underscore one fact: the Committee on Foreign Investment had agreed to the sale about a week before its decision was due.

Semiconductors

- **Intel is calling on global information technology industry to develop more natural computing platforms in the decade to come.** The goal, according to Intel, is to come up with technologies that will be "more intuitive, intelligent and humanized", a technology therefore that will help the industry deliver products that will be easier to use and more helpful to people. A company spokesperson said that researchers at Intel were already studying the types of tasks and activities that people would expect their electronics products to perform, then using that knowledge to push hardware and software development that will be the foundation for the needed intelligent platforms.

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- **National Semiconductor reported a quarterly income falling to US\$77.4 million, from US\$93.1 million.** The company, which offers analog devices and subsystems, posted a 13 percent drop in its revenue to US\$449 million from US\$513.6 million a year earlier. The company said orders for its key analog products grew at a higher rate than its overall average.

Media, Entertainment and Gaming

- **Win Win Gaming, Inc., a Las Vegas-based operator of international lottery games and related gaming ventures, announced that it raised US\$2 million through a private placement of 4,000,000 shares of its common stock to Van Wagoner Private Opportunities Fund, L.P.** The company said it intends to use the proceeds of the financing to expand the lottery ticket distribution and sales network for its Slam Dunk lottery, which was launched in Shanghai, China in July 2004. The full-service lottery and gaming operations company said it will use the portion of the proceeds to continue to develop the infrastructure to operate wireless initiatives in China and throughout the world.

Europe

Media, Entertainment and Gaming

- **The French media and telecommunications group, Vivendi Universal, announced its return to profitability, with the company reporting net profit of US\$1 billion for the full-year last year, after a loss of US\$1.4 billion in 2003.** Last year, Vivendi performed well with an improved operating profit from US\$4.4 billion to US\$4.7 billion. Vivendi was originally a utility company. A buying spree, described by analysts as “ill-timed”, saw the company growing to rank among global media giants. The reported figures of the company exceeded analysts’ expectations of net profit hovering around US\$694.2 million.

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