

# IRG WMR



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

**Week of 7 August - 13 August 2005**

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



Week of 7 August - 13 August 2005

## Table of Contents

International	3
Japan	3
Korea	4
China	5
Taiwan	7
Hong Kong	8
Singapore/Malaysia/Philippines/Indonesia	8
United States/Canada	8
Europe	10

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



Week of 7 August - 13 August 2005

## International

### *Internet*

- **Nearly half a billion computer users around the world are going to adopt broadband technology within the next five years, according to a study conducted by Informa Telecoms and Media.** The study noted that more than 190 million users will have broadband by the end of 2005, with some 440 million becoming broadband subscribers by 2010. DSL will form the bulk at 77 percent of the worldwide market by 2010, with 323 million subscribing to the service. Informa identified Japan, South Korea, Finland and Sweden as some of the biggest broadband adopters even as it predicted that China will make up one-quarter of the world's broadband market by 2010. It also disclosed that by 2008, China is expected to overtake broadband subscriptions in the United States, a country acknowledged to be slow in broadband adoption compared with other countries. Informa, in fact, reveals, that two markets in Asia, India and China, will represent substantial growth in broadband. The report qualifies, however, that though China's numbers would be high, they will only stand for 10 percent of the country's population. Technology wise, Informa says broadband methods are not expected to change much by 2010.

## Japan

### *Internet*

- **Livedoor announced a 53 percent increase in its pretax profit to 5.2 billion yen (US\$47.5 million) in the nine-month period through June 30, the first three quarters of its fiscal year.** Its sales surged 220 percent to 52.2 billion yen (US\$477.3 million). The company said its operating profit turned black for the first time in the April-June period on a quarterly basis. Livedoor ascribed its growth to the income it derived from its accounting software developer Yayoi Co., a firm it acquired last year, and the increased bond sales at its Livedoor Securities Co. brokerage subsidiary.
- **All About Inc., a Japanese Internet information service company, announced that it received an approval to list on the JASDAQ, with the company issuing 7,200 new shares.** The company will offer the shares through the book-building method. All About Inc. said it expects 1.7 billion yen (US\$15.5 million) from the IPO, the proceeds of which it will use as working capital. For the current fiscal year through March 31, 2006, the company forecasts a parent pretax profit of 357 million yen (US\$3.4 million), net profit of 355 million yen (US\$3.2 million), and revenue of 3.3 billion yen (US\$30.1 million). Daiwa Securities SMBC is the lead underwriter of the offer.

### *Media, Gaming and Entertainment*

- **Softbank Technology Corp. and Imagica Digix Inc. said they will be jointly selling systems that will allow the instant sending of high-definition TV programming and other video content through fiber-optic networks running from TV studios to broadcast stations.** The two companies said the systems will be using fiber-optic lines owned by NTT East Corp, NTT West Corp. and others. The video content will be sent at a maximum speed of 10 gigabits per second. The system can reduce the amount of time needed to edit videos as it eliminates the physical handling of videotapes from one location to another. Through the system, films can be distributed to movie theaters.

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



Week of 7 August - 13 August 2005

## *Information Technology*

- **Dai Nippon disclosed a system that will allow users of smart credit cards to quickly change their PINS, without going through a card reissuance.** Through the new system, the new numbers can be changed through a special terminal at credit card companies' service sites. The company said it will begin offering the system in November as an ASP (application service provider), with the cost valued at 10 million yen (US\$91,000) annually. Dai Nippon expects a number of credit card companies to adopt the system with sales predicted at 300 million yen (US\$2.7 million) in three years. The system consists of special terminals and server equipment.

## *Hardware*

- **Future System Consulting Corp. said it has received orders from Shizuoka Bank for consulting services aimed at helping boost the efficiency of the bank's computer systems.** To do this, the company will set up first a system that unifies the common data of several information systems present in the bank but currently running separately. A unified database will be created to enable the bank to use existing systems while expanding the range of applications.
- **Sotec Co., a designer and manufacturer of low-priced personal computers, reported an estimated group pretax profit of 15 million yen (US\$137,000) for the April-June quarter.** The figure represents a turnaround from the loss amounting to 317 million yen (US\$2.8 million) the company posted a year earlier. The company boosted consolidated sales by 22 percent to 6 billion yen (US\$54.8 million), with the company ascribing this to the five large operators of discount appliance stores it has added to its sales network. Sotec attributed further its earnings to the strong performance of its higher-margin online PC sales business and a decline in fixed costs brought about by reduction in the number of its personnel.
- **MCJ Co., maker of made-to-order personal computers, said it will form a capital and business partnership with Arosystem Co., a rival firm.** Aimed at integrating parts procurement and production, the alliance is expected to bring the two companies' combined sales to close to 100 billion yen (US\$914.3 million) in the year through March 2006. The partnership is also seen as preparing the two to catch up with Dell Inc., a U.S. computer maker that presently leads the Japanese PC market. Arosystem is planning to increase its capital by issuing new shares that MCJ is expected to acquire. The acquisition will make MCJ the second-largest shareholder in the firm.
- **Softbank Technology disclosed its plans to initiate the offering of a low-priced computer data security service package for businesses.** The package covers checking the server's vulnerability against intrusions from outside hackers, personnel training, implementation of corrective measures and maintenance. The company said fees for the nine services will be about half of those of the similar services provided by other firms. The company cited the vulnerability detection service as an example: it costs about 1 million yen (US\$9,000) when done by other firms but will be available for about 500,000 yen (US\$4,500) from Softbank Technology.

## **Korea**

### *Internet*

- **Yonhap News Agency, South Korea's key news agency, announced the launching of its Internet broadcasting service.** The service is dubbed "Yonhap U&I News" and provides what is described as much more diversified multimedia contents. Already, Yonhap offers text, photo and video

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



Week of 7 August - 13 August 2005

news services. As the nation's largest news agency with extensive news coverage networks at home and abroad, Yonhap is expected to increase its potentials and capabilities in the Internet broadcasting sector.

- **CinTel Corp. (CinTel), Korea's leading Internet Traffic Management solution provider, announced a new security solution that is able to filter outgoing web traffic.** Through this new technology, CinTel is expected to disclose another new product that will include a web catching solution and content filtering proxy solution. CinTel's new security solution prevents leakage of confidential information via web mail, e-mail, web hard, blog or bulletin boards. Samsung Networks Inc. and Hyundai HDS have already field-tested the network solution with the company describing the test as successful. CinTel Corp. is based in the U.S. although its main business operations are in Korea.

## *Software*

- **Microsoft announced its plans to increase its spending in South Korea by 40 percent for fiscal 2006.** Without disclosing details, Microsoft's move is seen as its way of strengthening its presence in Asia's third-largest economy. The announcement came even as there remains a pending antitrust ruling on Microsoft's activities in South Korea. The country's regulator The Fair Trade Commission has still to decide whether Microsoft has violated the nation's fair trade laws and abused its dominant market position to ease out smaller companies providing competition. Daum, another South Korean company, has also filed a lawsuit against Microsoft with the Seoul District Court accusing the software giant of violating fair trade laws.

## **China**

### *Internet*

- **Yahoo has agreed to contribute its China business to Alibaba, and Yahoo would be paying US\$1 billion in cash to acquire a 40 percent stake in the Chinese e-commerce firm.** This means that the two companies will also have under its wings 3721.com, a Chinese language search engine acquired by Yahoo last year. The alliance is recognized as one of the biggest deals amidst the many investments of foreign Internet companies in China, making Yahoo the largest strategic investor in Alibaba. Alibaba has not made any statement detailing its use of the US\$1 billion investment from Yahoo.
- **Google announced an agreement it has entered into three Chinese companies to sell keyword-based advertisements for its China site.** The companies are China Enterprise, China Source and Hotsales. Selected for their national reach to small and medium-sized businesses and offering high levels of support to advertising clients, the companies will receive training from Google. The companies will then be directly selling price-per-click keywords on Google's China site. According to iResearch of Shanghai, the search advertising market in China, with its total ad revenue of some US\$148 million last year, is considered small. Still, online advertising has shown strong growth. The move of Google is seen as part of its strategy to increase the pace of its expansion in China.
- **Tom Online announced a net profit of US\$10.2 million in the three months to June, compared with US\$10.1 million a year earlier.** The company, which is one of China's largest Internet companies, said its revenue went up to US\$42.8 million from US\$30.9 million. Operating expenses for the company climbed to US\$8.4 million from US\$6.3 million a year earlier, with the increase ascribed to US\$1.2 million in management performance-related bonuses and bigger administrative, sales and marketing expenses. The company is positive it will register growth in both net profit and revenue in the succeeding years.

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



Week of 7 August - 13 August 2005

- **Shanda Interactive Entertainment Ltd. reported net income surging from 141 million yuan (US\$17.4 million) in last year's second quarter to 223 million yuan (US\$27.5 million) this year.** The company's total revenue went up from 287 million yuan (US\$35.4 million) to 539.5 million yuan (US\$65.2 million) this year. Growth has been noticeable in particular in its online games, which saw a 72 percent increase from the same period last year, and 5.7 percent from the last quarter, to 66.7 million yuan (US\$56 million). Shanda also makes casual games.

## *Mobile/Wireless*

- **China Mobile (Hong Kong) Ltd. announced a 36 percent increase in second-quarter profit, which the company attributed to the discounts it gave that helped boost the number of subscribers in the countryside.** The company posted a net income that went up to 12.8 billion yuan (US\$1.5 billion), from 9.4 billion yuan (US\$1.1 billion) a year earlier. Its sales increased to 59.6 billion yuan (US\$7.3 billion) from 44.3 billion yuan (US\$5.4 billion). The company also disclosed its sales from short text messaging services climbing to 11.6 billion yuan (US\$1.4 billion) from 6.7 billion yuan (US\$827 million). China Mobile also added in the first half 19.6 million users, a figure that represents a 69.4 increase a year ago. As of June 30, China Mobile had 223.8 million users. In a separate report, China Mobile revealed its plans to invest 110 billion yuan (US\$13.5 billion) in the next two years to build a 3G network that would cover 80 percent of China.

## *Media, Gaming and Entertainment*

- **Focus Media Holdings Ltd., a Shanghai-based commercial building advertiser, announced a second-quarter profit of US\$4.3 million, a figure more than double the US\$2 million reported a year earlier and the US\$2.6 million in the previous quarter.** The company posted for the second quarter revenue of US\$14.6 million, which represents a 128 percent increase from a year ago and 52 percent from the first quarter. Given China's fast-growing outdoor advertising market, the company predicts strong growth for the third quarter. It forecasts for the third quarter profit of US\$6.3 million to US\$6.5 million on revenue of US\$17 million to US\$17.5 million.

## *Hardware*

- **In its first quarterly report after the acquisition of IBM's computing unit, Lenovo disclosed its net profit seeing a 6 percent growth year on year to US\$48.2 million.** The company said its revenues posted a triple increase to US\$2.5 billion from US\$746.5 million. Operated mainly in mainland China, Lenovo's mobile handset business showed a 27 percent increase to US\$105.5 million and turned in some US\$3.2 million of profits the first time. Its worldwide computer shipments had a 7 percent increase year on year to 3.5 million units in the quarter, with the company attributing the good performance to its solid domestic growth. Its notebook business, getting a huge boost from IBM ThinkPad sales to firms, contributed 47.2 percent of the firm's quarterly revenues of US\$1.1 billion.
- **China Electronic Information Industry Group has consolidated under its wings a cluster of state-owned electronic companies.** With operations covering computer manufacturing, software development, electronics components, information and home appliances, display and broadcast networks, the restructured group is expected to increase the assets of China Electronic Information by some 60 billion yuan (US\$7.4 billion). The restructuring was authorized by the Assets Supervision and State Administration Commission of the State Council. The result of the restructuring is a consolidation within China Electronic Information of several firms, which include China Great Wall Computer, a stake in China Cable TV Network and six other state-owned electronics firms based in Nanjing.

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



Week of 7 August - 13 August 2005

- **Desktop computer in China marked a growth of 17.8 year on year and 5.9 percent quarter on quarter, with shipment reaching 3.4 million units in the second quarter of 2005.** China's desktop computer market has a value of 19.3 billion yuan, with domestic producers still at the top three places. Lenovo Group Ltd. holds the No. 1 position, with a market share of 31.2 percent. Founder Technology Co. follows, with 12.1 percent, and Tsinghua Tongfang Co at No. 3, with 8.8 percent of the market share.

## *Software*

- **China's software market will gain a value of about US\$6.2 billion in 2009, with the compound annual growth rate (CAGR) of 18.7 percent in the next five years, according to International Data Corp. (IDC).** The latest market research from IDC stated that China's software market size had a value of US\$2.6 billion in 2004. Placed against the CAGR of 11.2 for the Asia Pacific software market in the next five years, China's software market is perceived to possess huge growth potential, IDC said.

## **Taiwan**

### *Media, Gaming and Entertainment*

- **With Carlyle Group demanding NT\$24 billion (US\$751.3 million) and with the leading bidder, the Tom Group of Hong Kong, bent on giving only NT\$22 billion (US\$689.2million), the proposed sale of shares in Taiwan Broadband Communications has reached a deadlock.** In most reports, the Tom Group has been described as "walking away" from the deal, this after three months of talks. The Hong Kong firm had tendered its bid with the China Trust Group, a move necessitated by Taiwan's law on maintaining a ceiling of 60 percent on foreign shareholding in cable-TV networks. Industry observers underscore the fact that the penetration rate of cable TV in Taiwan is reaching almost 100 percent, with about 85 percent of all households as legal subscribers, with only about 15 percent illegally connected. Given this condition, the only way for a new investor to penetrate the market or for an existing network to increase its market share is to acquire an existing network.

### *Hardware*

- **AU Optronics Corp. (AUO), Taiwan's No. 1 manufacturer of large-sized TFT-LCD panels, reported pretax earnings of NT\$467 million (US\$14.6 million) in the second quarter.** Surpassing the corresponding figures posted in by No. 1 Samsung Electronics and No. 2 LG Philips LCD Co., Ltd., making AUO the world's most profitable panel maker since it started its mass production in 1997. The company also registered consolidated revenues of NT\$17.4 billion (US\$544.6 million) in July, a figure that represents a 9.2 percent growth from the previous month.

### *Telecommunications*

- **Despite strong protests from its labor unions, Chungwa Telecom announced the completion of its partial privatization plan.** The company said a 14 percent stake of the company was sold through American Depositary Receipts in the U.S., with a 3 percent stake auctioned on the domestic market. The union has been fighting against the privatization of the Chungwa for fear that the move would jeopardize employee benefits.

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



Week of 7 August - 13 August 2005

## Hong Kong

### *Mobile/Wireless*

- **CSL reported a 21.4 percent decline in its earning for the year to June 30 to HK\$375 million (US\$48.2 million) compared with Hk\$477 million (US\$61.3 million) a year ago.** The company, wholly owned by Telstra of Australia, said revenues went up 7.1 percent to HK\$4.3 billion (US\$553.4 million) from HK\$4 billion (US\$514.8 million). This growth in the revenue was diminished by a 12.6 percent increase in operating expenses to HK\$3 billion (US\$386.1 million), from HK\$2.7 billion (US\$347.5 million) previously. Increased subsidies on handsets and sales commissions were some of the factors used by the company to explain its less than rosy performance. Competition had also been intense in the market.

### *Media, Gaming and Entertainment*

- **Phoenix Satellite Television Holdings, Ltd. saw its earnings for the six months ending June rise to HK\$91.7 million (US\$11.8 million) compared to HK\$82.8 million a year ago (US\$10.6 million).** The company attributes the 10.8 percent increase in its first-half earnings mainly to the disposal of a property in Shenzhen. Phoenix, which is 38 percent owned by News Corp is based in Hong Kong. It aims its Mandarin-language service at mainland China viewers.

## Singapore/Malaysia/Philippines/Indonesia

### *Media, Gaming and Entertainment*

- **With a net loss of US\$31.9 million, Creative Technology went into red in the fourth quarter to June.** The digital entertainment products maker posted sales in the June quarter of US\$305.4 million, a 51 percent increase from US\$201.8 million in the same period a year earlier. Observers as well as the company explain the “dismal” performance as brought about by the ongoing competition provided by Apple’s iPod. Inventory write-downs are seen as having affected the company. Creative became famous when it launched its Soundblaster cards that transformed personal computers into entertainment machines. The company, aiming to increase its portfolio, went into the digital entertainment segment.

## United States/Canada

### *Internet*

- **Google, responding to the protests from publishers and the public, has temporarily stopped plans to make the full text of copyrighted books open to online search.** The firm said it will stop scanning copyrighted books so it could give time to owners to express their objections to the Internet search engine. Google said the halt will allow copyright holders to get in touch with the company so they could withhold books from the undertaking called the Google Print program. With regard to books, however, that fall under the category “Public Domain”, Google is continuing with its plan to work with publishers and librarians to scan them. Google said it will continue to work with publishers to encourage them to have their books “searchable.” Google will create pages for each book with advertising and links to retailers.
- **The top management of News Corp said that it plans to go into more acquisitions of online businesses in the coming months as the global media conglomerate makes the Internet a “major part” of its expansion.** The report quoted Murdoch, chairman and CEO, saying News Corp

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



Week of 7 August - 13 August 2005

is in advanced talks to buy a controlling interest in an online search firm without naming the firm. The official also said other investments would be made although they would not be going beyond US\$1 billion. On the earnings front, revenues from newspapers went up 26 percent to US\$1.1 billion. The company's operating income was reported to have more than doubled to US\$252 million. Its TV revenue posted a 6 percent increase to US\$1.3 billion, while cable-network income registered a 14 percent increase to US\$137 million.

- **E\*Trade Financial Corp, an online broker, announced that it will buy Harrisdirect, its U.S. rival, from BMO Financial Group for US\$700 million in cash.** The aim of the acquisition is to boost the company's position in the online brokerage industry now undergoing consolidation. The New York-based company also said it expects the deal to generate pretax operating synergies amounting to US\$186 million, with US\$114 million from cost cutting and US\$72 million from the additional revenues. The acquisition will bring E\*Trade to No. 3, trailing behind Charles Schwab Corp and Ameritrade.
- **Amazon.com said it is looking into entering the music and video download business.** The company has been reported to be in talks with leading record labels licensing and pricing issues for the service. Amazon is quoted describing the service as one that would sell individual tracks and offer songs on a monthly subscription basis. One record company was informed by Amazon that that it was already considering MusicNet, a music service based in New York, as a partner for the subscription component of its service.

## *Mobile/Wireless*

- **Qualcomm said it was acquiring Flarion Technologies, a wireless broadband landscape, cellular technology vendor.** The deal is valued at US\$600 million and comes with condition that, if met, could add US\$205 million to the deal. Qualcomm is known for its work in CDMA technology, a technology used by large U.S. cellular operators such as Verizon and Wireless. The company also manufactures CDMA chipsets for infrastructure equipment and phones. With the acquisition, Qualcomm can now offer cellular carriers more diversity in terms of the type of fast wireless access they offer. It is an advantage that industry observers could dramatically alter the wireless broadband landscape.

## *Media, Gaming and Entertainment*

- **The Walt Disney Co. reported for its third-quarter profits net income of US\$851 million, compared to US\$604 million in the same period last year.** The firm said its revenue went up to US\$7.7 billion in the quarter to July 2, compared to US\$7.4 billion in the same period last year. Even with the announcement that it was considering selling its ABC radio stations, the media conglomerate's bigger gains came were posted by its media network division, which includes ABC TV network and cable channels. Walt Disney disclosed that its operating income from TV channels saw a 48 percent increase to US\$325 million, with the boost coming from the higher rates paid by cable operators for ESPN and higher advertising revenue at ABC. Cable TV investment in Latin America and a video-on-demand venture were written as one-time losses.
- **DreamWorks Animation SKG disclosed a net loss of US\$3.7 million, compared with a profit of US\$146 million in the same period last year.** The company said its revenue saw a massive decline to US\$35.4 million from US\$300.3 million in the same period last year. DreamWorks admitted earlier that its profits would be deeply affected by an unexpected high number of returns of previous DVD titles. The first six months of the year saw the company registering net income of US\$42 million, compared to US\$120.7 million for the same period last year.

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



Week of 7 August - 13 August 2005

## *Hardware*

- **Cisco Systems, the world's largest maker of networking equipments, said that for the three months to July, it earned US\$1.5 billion, compared with US\$1.3 billion, in the same period last year.** The company reported an 11 percent growth in its sales to US\$6.5 billion, up from US\$5.9 billion in the fourth quarter of fiscal 2004. This is the first quarter that Cisco posted more than US\$1 billion in service sales. The company, in the same report, denied it was interested in buying Nokia. It admitted that its preference is for small, private firms in areas where Cisco is already a presence.

## **Europe**

### *Telecommunications*

- **Marconi, a British telecommunications equipment manufacturer, is said to be in talks for its acquisition by its partner Huawei Technologies in a deal that is valued at US\$1 billion.** No formal words could be taken from Huawei although reports are streaming out saying Huawei has yet to present a formal proposal to Marconi. Reports are even stating that Marconi was represented in the talks by Morgan Stanley while Huawei had UBS as its adviser. At present, the two companies have an agreement for the distribution of each other's products.

### *Mobile/Wireless*

- **Deutsche Telekom said it has agreed to buy Tele.ring Telekom Service, Austria's No. 4 mobile-phone company, for 1.3 billion euros (US\$1.6 billion), for the purpose of getting back some market share in the country.** The German company has already signed a contract to take over the unit from Western Wireless Corp. The acquisition is the biggest for Deutsche Telekom ever since it bought for US\$135 billion VoiceStream Wireless Corp, which has been transformed into T-Mobile USA. Deutsche Telekom said the acquisition would result in savings of 300 million euros (US\$373.2 million).

### *Hardware*

- **An announcement from the European's executive commission state that it had cleared the acquisition of parts of the computer monitor and flat-screen TV business of Philips by Hong Kong-based firm TPV Technology.** The two companies entered into an agreement in December to put together their personal computer monitor and flat-screen TV businesses. Under the agreement, TPV will take over the monitor business of Philips and the production of some low-end flat screen products. In exchange for this, Philips will have a 30 percent stake in TPV. The combined group is expected to become the world's largest maker of PC monitors.

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