



# ORB quarterly review

September 2005 | Issue No 8

## ORB Technology Limited Performance



The Net Asset Value (NAV) per share fell from \$0.992 to \$0.976 over the quarter to September 2005, a decrease of 1.6%. While technology company share prices generally rose over the quarter, as reflected by the NASDAQ Composite in Australian dollar terms, the Fund was adversely affected by higher long term interest rates, a rise in the Australian dollar and a negative contribution from active management.

The Investment Manager has adopted a cautious approach, since the Fund's launch in October 2003, limiting the net sharemarket exposure of the Fund to the overall rise and fall of sharemarkets. As a result, the Fund has achieved only modest gains of 1.4% p.a compared with the NASDAQ Composite (in Australian dollar terms) that has risen 0.7% p.a. over the same period.

The guarantee for investors on maturity on 26 September 2011 is presently \$1.00; this guaranteed amount may rise in the future, but will not fall. The final future value of the Fund will be the total of the guaranteed amount of at least \$1.00, and the Margin Account at maturity, which is presently valued at \$0.283 per share. The value of the Margin Account will vary over time depending on investment performance and expenses.

### TechInvest Outlook

While the first two years of the life of Orb have not delivered strong investment returns, the Investment Manager continues to believe that the knowledge industries of health care, information technology and telecommunications provide an outstanding source of investment opportunity over the life of Orb Technology (see Technology Highlights below). The improvement that we

identified in the outlook last quarter faded against the backdrop of higher oil prices and concerns over lower economic growth following the devastating hurricanes in the US. The Investment Manager expects to adopt a higher net exposure to sharemarkets once they have a clearer view of the future for the technology sector beyond these events.

The Investment Manager is holding a diversified portfolio of target companies that they expect to outperform market expectations and relying on a smaller diversified portfolio of short sales to protect the NAV from possible adverse market movements as well as to seek additional returns from companies that the manager believes have poor prospects compared with market expectations.

### NAV history

Date	NAV/Share (A\$)
30 September 2005	0.976
30 June 2005	0.992
31 March 2005	0.969
31 December 2004	0.967
30 September 2004	0.953
30 June 2004	1.002
31 March 2004	0.969
31 December 2003	0.925
15 October 2003	0.950

The key factors impacting the NAV of Orb Technology during the quarter are summarised in the following table:

	Movement	Impact in Quarter on NAV
Sharemarket	↑	+
Australian dollar/ US dollar	↑	-
Active management of shares & currency	N/A	-
Long Term Interest Rates	↑	-

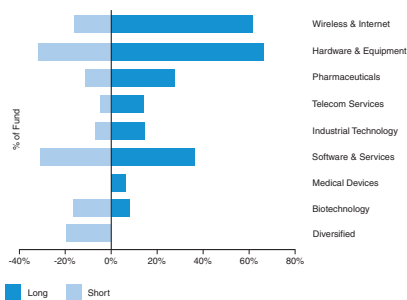
The Share price of Orb Technology Limited is published at the end of every month on our website, [www.cgil.com.au](http://www.cgil.com.au).

### Equity investment

The Investment Manager of Orb Technology, TechInvest, commenced the investment strategy in sharemarkets on 20 October 2003. Since that time the technology-oriented NASDAQ Composite (in Australian dollar terms) has gained 0.7% p.a.

During the quarter the Investment Manager made some changes to the industry sector classification for investments in the Fund. The former industry grouping, Network Services, has been separated into Telecom Services and Wireless & Internet while Environmental Services has been incorporated into Industrial Technology. Share exposure for the fund is now classified according to the following industry sectors: Hardware & Equipment, Software & Services, Wireless & Internet, Telecom Services, Pharmaceuticals, Medical Devices, Biotechnology and Industrial Technology. As at 30 September 2005, the portfolio was tilted towards Wireless & Internet, Hardware & Equipment and Pharmaceuticals, with lower weightings in Telecom Services, Industrial Technology, Medical Devices and Software & Services. Short positions were used to reduce exposure in most industry groups and in the case of Biotechnology a net short position was held. The fund's exposure to sharemarkets was also reduced by holding index securities (see table below). The maximum equity portfolio available to the Investment Manager has been in the range of 67.1% to 79.8% of NAV during the quarter. Market risk was managed by including a number of offsetting short equity positions, while retaining a net long exposure.

### ORB Technology Sector exposure as at 30 September 2005



## Currency management

The Australian dollar rose by 0.2% over the September Quarter. This currency movement reduced the value of offshore investments. There was no currency hedge in place during the quarter. The balance of Orb Technology is held in an Australian dollar denominated Fixed Deposit Account. As a result, Orb Technology is exposed to movements in the US dollar to the extent of the size of the US dollar Margin Account, which at 30 September 2005 was 29.2% of Orb Technology.

## Fixed deposit investment

Long-term interest rates rose over the September quarter to end the quarter higher than at 30 June 2005, decreasing the present value of the Fixed Deposit Account. While changes in market interest rates will impact the current value of the deposit both positively and negatively over the eight-year life of Orb Technology, the Fixed Deposit Account will accrue to a future value that supports the guarantee and rising guarantee. An interest rate swap introduced in July 2005 to partially protect the Fund against a rise in interest rates was closed later in the quarter.

## Technology highlights

There continues to be exciting changes in the technology industries covered by the Fund. These are the types of developments that give us confidence that we can identify profitable investments for Orb over its life. Some of the highlights we have identified over the past quarter are shown below.

### Telecom Services

TeleGeography, a research firm, estimates that VOIP providers offering similar services to traditional telecom

firms in America had amassed over 1.8m subscribers by the first quarter of 2005. This number is set to grow to over 7m by the end of 2006 and 17.5m by 2010. These figures do not take account of the growth of Skype, whose software permits free calls between computers. The Luxembourg-based firm says it already has 51m registered users and a further 2m that have signed up for paid services, such as voicemail and connections to landlines and mobile phones. Skype claims to carry 45% of all American VOIP traffic. (Economist 1-Sep-05)

### Wireless & Internet

Netcraft reports that the Internet grew by 2.7 million sites in June, the second-largest gain in the history of its Web Server Survey. With growth of 10 million sites in the first half of the year, 2005 should easily surpass the existing annual growth record of 16 million sites from the dot-com boom year of 2000. The growth of small business web sites, blogs, domain name businesses and online advertising are all cited as factors in the strong gains. Verisign has also reported an increase in domain name 'prospecting' in which domains are registered purely to host Google and Yahoo's advertising links. (Slashdot 1-Jul-05)

As of June, advertisers had spent \$5.8 billion to place ads online this year, \$3.0 billion in the second quarter alone, both a 26% increase over the prior corresponding periods. This record spending was once again led by ads linked to Web search results, said the Interactive Advertising Bureau, which released the report in conjunction with PricewaterhouseCoopers. Spending on search-related ads reached \$2.3 billion, a 27 percent increase compared with the same period last year. Overall, search ads accounted for 40 percent of Internet ad sales, in line with last year. Banner ads and classified listings were the next-biggest ad categories, attracting 20 percent and 18 percent of the spending, respectively. (News.com 26-Sep-05)

### Software & Services

In an effort to constrain the growth of open source software, Microsoft has stepped up its program of patenting software ideas. Its 3,370 pending software applications and 3,955 granted patents

include such groundbreaking ideas as "adding and removing white space from a document" and "creating a note related to a phone call". All software published in the United States is already protected by strong copyright and trademark protection, but this does not prevent other authors from accomplishing the same task with an original program. Patents will. (New York Times 31-Jul-05)

### Hardware & Equipment

Secure optical data storage could soon literally be at your fingertips thanks to work being carried out in Japan. Yoshio Hayasaki and his colleagues have discovered that data can be written into a human fingernail by irradiating it with femtosecond laser pulses. Capacities are said to be up to 5 mega bits and the stored data lasts for 6 months - the length of time it takes a fingernail to be completely replaced. (Slashdot 6-Jul-05)

Gartner, an IT research group, forecast that one billion mobile phones a year will be sold in 2009, an increase of 33% on this year's estimated sales. Much of the growth will come from emerging markets due to the falling cost of handsets. India is set to overtake China as the second-biggest market (behind the United States) in 2009, accounting for 13% of global sales. (Economist 22-Jul-05)

The cost of big-screen televisions, which has been steadily dropping by about 25 percent a year, is now expected to fall even more sharply this autumn. In the US, full-featured plasma TV's with 50-inch screens that sold for \$20,000 five years ago could edge close to \$4,000. A liquid-crystal-display version and a rear-projection TV with a digital light-processing chip will be considerably less, closing in on \$1,800. \$2,000 is about what a colour TV cost in the late 1960's, adjusted for inflation. (New York Times 20-Aug-05)

### Biotechnology

US scientists have apparently created "miracle mice" that can regenerate amputated limbs or damaged vital organs, making them able to recover from injuries that would kill or permanently disable normal animals. The experimental animals are unique among mammals in their ability to re-grow portions of their heart, toes, joints and tail. When cells from the test mouse are injected into ordinary mice,

they too acquire the ability to regenerate. (Australian 29-Aug-05)

The 2005 edition of the Technology Review R&D Scorecard shows that worldwide corporate R&D spending is picking up. R&D spending among the biotech companies on the list shot up by an average of 69 percent over the previous year. (TechnologyReview 30-Aug-05)

The chimpanzee genome has now been sequenced and there are no immediately obvious genes - present in one, but not the other - that account for such characteristic human attributes as intelligence or even hairlessness. Human and chimp genes differ by only 1.2% over the course of some 3 billion pairs of the genetic "letters" in which the language of the genes is written. In fact, almost a third of the shared genes (each of which is several thousand letters long) are identical in the two species, despite their most recent common ancestor having lived 6m years ago. 585 genes showed differences large enough to have been the result of natural selection for change, and it is among these that the vital human/chimp differences may be found. (Economist 1-Sep-05)

### Industrial Technology

Stirling Energy Systems has signed a purchase agreement with Southern California Edison (SCE), to install a 20,000-dish array that will cover 4,500 acres. The plant will be capable of generating 500 megawatts of electricity - more than all other U.S. solar projects combined and making this the largest solar installation in the world. Each collector has a 37-foot-diameter array of mirrors to focus the sun's rays on the Stirling engine, which turns the heat into rotational torque for electricity generation. According to SCE, this plant will require no subsidy in order to compete with conventional power sources. (Slashdot 11-Aug-05)

## ORB INTERNATIONAL ENHANCED INCOME (YIELDS) and (YIELDS2)



Both the YIELDS and YIELDS2 Investments have exposure to the Income Plus Trading Strategy whilst at the same time guaranteeing

the capital value of \$10 if held to their respective maturities.

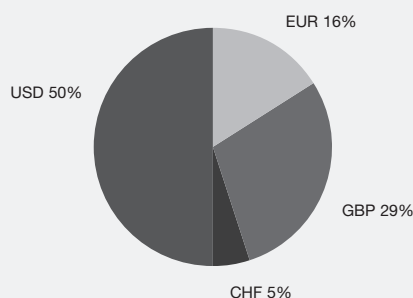
### Income Plus Trading Strategy

For the quarter ending 31 August 2005, the Strategy Price Return in Australian Dollars was +1.43%. This compares with +1.64% for the AUD Price return of the Dow Jones Global Titans Index. During April the Income Plus Trading Strategy (IPTS) distributed income of 2.04%.

The Financial Sector (37% of assets invested) positively impacted performance over the quarter as did the Energy sector (13% of assets invested). The Healthcare sector (20% of assets invested) and Telecommunications sector (23% of assets invested) negatively affected performance.

The Australian Dollar was mixed over the period. Against the USD it was 0.08% lower over the quarter, 0.375% lower against EUR and 0.649% higher against GBP.

### Currency Distribution<sup>3</sup>



### Top Ten Holdings<sup>(4)</sup>

Company	Sector	Currency	Country
Barclays	Financial	GBP	UK
HBOS	Financial	GBP	UK
HSBC Holdings Plc	Financial	GBP	UK
ING Groep NV	Financial	EUR	NL
Altria Group Inc.	Consumer Noncyclical	USD	US
Merck & C.	Consumer Noncyclical	USD	US
Royal Bank of Scotland	Financial	GBP	UK
Royal Dutch Shell	Energy	EUR	UK
SBC Communications Inc.	Telecommunications	USD	US
Verizon Communications	Telecommunications	USD	US

## YIELDS

As at 31 August 2005, the value of YIELDS as traded on the Australian Stock Exchange was up 1.38% for the quarter. The Fair Market Value was up 1.24%. This is largely attributable to the strengthening portfolio value in AUD over the quarter. The allocation to the IPTS remained steady over the quarter at 58%. The Gap Measure stood at 19% as at 31 August 2005.

A distribution of 10.44 cents per YIELDS occurred over the quarter. This payment saw YIELDS trade on an ex-distribution basis on 13 July 2005 and a distribution was paid to holders on 16 August 2005.

### Factors impacting the performance of YIELDS:

**Appreciation of the AUD v USD since commencement.** This has impacted both the value of the dynamic portfolio and the recent distribution. The AUD/USD rate has risen sharply from 0.7025 cents on 30 July 2004 (Issue date) to 0.7552 cents as at 31 August 2005. Over the quarter however the AUD/USD has depreciated slightly from 0.7558 to 0.7552.

**Allocation to the Income Plus Trading Strategy.** YIELDS has a current allocation of 58% to the IPTS. Two de-leverage events have occurred since issue.

**Historically Low Option Volatilities.** With global option volatilities currently at low levels, the ability for the IPTS to generate 12% has been adversely impacted.

## YIELDS2

YIELDS2 was issued on 6 December 2004 and also invests in the IPTS.

During the 3 months ending 31 August 2005, the value of YIELDS2 as traded on the Australian Stock Exchange was down 0.75%. The Fair Market Value was up 0.8%. The allocation to the IPTS remained unchanged since the issue date at 100% and the Gap Measure stood at 16% as at 31 August 2005.

A distribution of 19.03 cents per YIELDS2 occurred over the quarter. This payment saw YIELDS2 trade on an ex-distribution basis on 13 July 2005 and a distribution was paid to holders on 16 August 2005.

## Factors impacting the performance of YIELDS2:

**Historically Low Option Volatilities.** With global option volatilities currently at low levels, the ability for the IPTS to generate 12% has been impacted.

**Depreciation of the AUD v USD since commencement and over the quarter.** This has impacted both the value of the

dynamic portfolio and the recent distribution. The AUD/USD rate has fallen from 0.7729 cents on 6 December 2004 (Issue date) to 0.7552 cents as at 31 August 2005. Over the quarter however the AUD/USD has depreciated slightly from 0.7558 to 0.7552.

**Allocation to the Income Plus Trading Strategy.** YIELDS2 has a current allocation of 100% to the IPTS.

(1) Return figures are calculated as a % change over the period, include income distributed by the Strategy and assume no reinvestment over life. (N.B. The % coupon paid on the Note is not the same as the % income distributed by the Strategy as the coupon is among other things a function of the allocation to the Strategy). Yield is based on value of Strategy as of beginning of period. (2) Percentage change of each currency holdings within Strategy versus AUD over the past month, using currency weightings as of end of month. (3) Breakdown as of beginning of month using live weights and prevailing exchange rates and showing the exposure of the Strategy holding to the currencies listed. (4) Top ten holdings shown alphabetically as of last rebalancing (5) Price performance showing sector returns as measured in the stocks' respective local currencies over the past month, using live weights as of beginning of month. (6) Breakdown as of beginning of month using live weights reflecting the relative value of each stock/sector as of that time in percentage of the value of the total Strategy holding.

(i) Bid Price is the ASX market bid price of YIELDS (ASX code: YLDSO1) as at the respective month end. This price reflects the highest market bid in the security as at the close of trading. In the event of no higher bids this price may represent Citigroup's market bid price for YIELDS. On the Issue Date the initial value of YIELDS was AUD 9.64 per unit. (ii) Price return and total return since Issue Date are calculated as a % change in price versus the YIELDS Value at the beginning of the reference period net of any upfront fee and other ongoing fees. Total return figures include distribution paid and assume no reinvestment over life. (iii) YIELDS Distribution % is calculated as the total distribution declared per unit during the period as a % of the value of YIELDS at the beginning of the period. % figures are not annualised. (iv) This is the AUD amount collected to date per YIELDS unit for the next quarterly distribution. This amount is an estimate as of month end, based on available information at the time and assumes the current allocation remaining constant. It is for indication only and may be subject to change. (v) Strategy and BP monthly change are estimates and are calculated using beginning and end of month Citigroup bid prices and allocations to the Strategy. (vi) The Dynamic Portfolio Reference level is the indicative value of the Net Portfolio Unit NAV as at the respective month end and has been derived from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. It is for indicative purposes only and subject to change. (vii) If the Gap measure rises above 25%, an "up-leverage" event will occur; a fall of the Gap measure below 15% would lead to a "de-leverage" event. MoM means month on month change. Figures are calculated using month end data. Charts are based on month end data.

Source: Bloomberg (DJGT Index and exchange rates) and Citigroup Global Markets Limited.

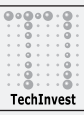

## Disclaimers

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## ORB summary as at 30 September 2005

### ORB Technology Limited

Net Asset Value	A\$0.976	Investment Manager	Guarantor
Capital Guarantee	A\$1.00		
Issue date	October 2003		
Maturity date	September 2011		

### ORB International Enhanced Income (YIELDS)

Closing price (ASX)	A\$8.74	Issuer	Guarantor
Capital Guarantee	A\$10.00	 Citigroup Global Markets Australia Pty Limited	 Citigroup Global Markets Holdings Inc.
Issue date	30 July 2004		
Maturity date	22 July 2010		

### ORB International Enhanced Income (YIELDS2)

Closing price (ASX)	A\$9.12	Issuer	Guarantor
Capital Guarantee	A\$10.00	 Citigroup Global Markets Australia Pty Limited	 Citigroup Global Markets Holdings Inc.
Issue date	6 December 2004		
Maturity date	6 December 2010		

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