

## Media Sector

1st Quarter 2006

## China Media M&A Quarterly

### Highlights

- NASDAQ-listed Focus Media Holdings, the largest out-of-home advertising network operator, acquired 100% of Target Media Holdings for US\$325 million.

Target Media is the second largest out-of-home flat-panel display advertising network operator in China in terms of number of commercial locations and number of flat-panel displays installed in its network.

- Oak Pacific Interactive, formerly ChinaInterActive Corp., raised a new round of financing of US\$48 million from a group of leading global private equity and venture capital firms led by General Atlantic LLC.

Oak Pacific is a provider of next generation communication, content distribution, and community Internet platforms, including entertainment portal mop.com, social networking site UUme.com, IT portal DoNews.com, and online game portal wowar.com.

- Singapore-listed Singapore Press Holdings, a leading media company with print, Internet, and broadcasting platforms, invested US\$26 million for a 35% stake in the outdoor advertising unit of TOM Group.

TOM Outdoor Media Group operates a network of advertising billboards and provides street furniture and transport advertising services. Its billboard network covers a total of 300,000 square meters across 60 Chinese cities.

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## INTRODUCTION

We are pleased to present our inaugural quarterly review of cross-border Media & Entertainment M&A activity in China, focusing on notable transactions in the (i) Traditional Media and (ii) New Media sectors. This report summarizes and highlights notable M&A and private placement activities of interest to venture capital, private equity, and strategic buyers/investors. Our review is divided into two broad sectors, which are further separated into individual sub-sectors.

### TRADITIONAL MEDIA

- ◆ Corporate Marketing / Public Relations
- ◆ Indoor / Outdoor Advertising
- ◆ Music Production & Distribution
- ◆ Newspaper / Magazine / Book Publishing
- ◆ Radio Production & Broadcasting
- ◆ Television Production & Broadcasting

### NEW MEDIA

- ◆ Ecommerce, Search & Portals
- ◆ Online Entertainment
- ◆ Wireless Value-Added Services (“WVAS”)

## TRADITIONAL MEDIA

### Corporate Marketing / Public Relations

During the first quarter, we witnessed a surge in M&A activity in this sector, which has been fuelled by the heavy demand for traditional as well as non-traditional advertising services. According to Nielsen Media Research estimates, Chinese advertisers already spend about US\$37 billion on traditional media, such as television, radio and outdoor billboards, and this does not include other non-conventional marketing services, like direct marketing, sales promotions, and event planning. In an effort to provide a broader offering of services, multinationals are buying up Chinese companies that specialize in these non-traditional advertising services. In the latest example, Paris-based Publicis Groupe announced the purchase of an 80% stake in Shanghai-based Betterway Marketing Solutions in March. Earlier in the same month, WPP Group’s subsidiary JWT bought a 65% stake in Sapphire Bright Ltd., owner of Shanghai Always Marketing Services Co., Ltd. In addition, Shanghai Power Force Marketing Services Co. Ltd and NYSE-listed Omnicom Group bought a majority stake in Unisono Fieldmarketing, a field marketing service provider focused mainly on consumer goods and pharmaceutical companies. These acquirers have been attracted by the enormous growth potential of advertising in China, which many industry executives believe will overtake Japan as the world's second-largest advertising market behind the U.S. by 2010.

Selected Transactions						
Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 10, 2006	Enjoy Media Holdings	Jinan HuiZhi Advertising Ltd	1.1	60%	1.8	Event marketing consulting services
January 26, 2006	Nurun Inc.*	China Interactive	NA	100%	NA	Marketing agency designing integrated communications strategies, Web development, and online loyalty programs
March 10, 2006	JWT (WPP Group)	Sapphire Bright Ltd.	NA	65%	NA	Owner of two leading promotional and merchandising companies in China
March 15, 2006	Omnicom Group	Unisono Fieldmarketing	NA	NA	NA	Field marketing and merchandising services provider
March 30, 2006	Publicis Groupe	Betterway Marketing Solutions	NA	80%	NA	Provider of marketing services based in Shanghai with 360-employees

\* Subsidiary of Quebecor Media Inc. listed on the Toronto stock exchange. Services include the implementation of technological platforms and the integration of Internet technologies with customers' transactional and legacy systems.

### Indoor / Outdoor Advertising

Focus Media, operator of the largest out-of-home advertising network in China with 60,000 screens in 75 cities, made another high-profile acquisition this quarter following its US\$183 million acquisition of Shanghai Framedia Advertising in October last year. In a move to consolidate its market leading position, Focus Media acquired Target Media Holdings, the second largest

out-of-home flat-panel display advertising network operator in China<sup>1</sup>, for US\$325 million. The acquisition immediately added over 25,000 flat-panel displays in 16,652 locations to Focus Media's network across China. Another notable transaction during the first quarter was Singapore Press Holdings' (SPH) strategic investment in TOM Group's outdoor media unit. The strategic partnership is expected to provide SPH with a foothold in China's outdoor media sector and TOM's Outdoor Media Group in turn will benefit from SPH's media expertise and resources.

Selected Transactions						
Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 9, 2006	Focus Media Holdings	Target Media Holdings	325.0	100%	325.0	Shanghai-based out of home advertising firm with 25,000 screens
February 22, 2006	Enjoy Media Holdings	Guangzhou Elevator Advertising Ltd	0.6	51%	1.2	Elevator advertising company
March 9, 2006	Enjoy Media Holdings	Guangzhou U&D Advertising	2.2	60%	3.7	Outdoor advertising company
March 28, 2006	Singapore Press Holdings	TOM Outdoor Media Group	26.0	35%	74.3*	Outdoor media network operator with billboards, unipoles, street furniture, and transport advertising

\* Implied value does not include TOM's shareholder loan of US\$30.8 million.

### Television Production & Broadcasting

After acquisitions in the software solutions and mobile media services space last quarter, media investment-company Sun New Media Inc. acquired a sports TV producer and broadcaster in China. China Sport TV brings a number of key assets to Sun New Media, including TV production capacity and TV production equipment. The new unit is expected to enhance Sun New Media's existing traditional media unit and support the company's development of other interactive marketing content. Separately, Navstar Media Holdings, a leading provider of television content in China traded on the OTC market, raised US\$1 million from VFinance Inc., a financial services provider based in Florida. The company later acquired a 70% stake in Beijing Broadcasting and Television Media, a television programmer including TV series, movies and TV specials.

Selected Transactions						
Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
February 6, 2006 (Series A)	VFinance Inc.*	Navstar Media Holdings	1.0	NA	NA	TV and film content production, licensing, and distribution company
February 16, 2006	Sun New Media Inc.	China Sport TV Productions Ltd.	1.8	100%	1.8	Sports television producer and broadcaster in China
March 16, 2006	Navstar Media Holdings	Beijing Broadcasting and Television Media	1.5	70%	2.1	China's leading television programming content production company

\* Provides research, investment banking, brokerage and trading services.

### NEW MEDIA

#### Ecommerce, Search & Portals

M&A activity in the sector remained strong in the first quarter. Social networking and online matchmaking companies drew attention from both strategic and financial investors as social networking sites and online matchmakers represent an immediate market entry channel in China for foreign strategic investors as well as an unique investment opportunity for venture capital firms. According to technology consultancy iResearch, the online dating market in China is estimated at US\$12.5 million (RMB100 million) and it is expected to grow over the next three years to reach US\$81.6 million (RMB653 million) by 2009. For the year ended 2004, there were 6.5 million active dating service users in China and this figure is expected to rise to 29 million by 2008. Meetic.com, a European online dating company, established a foothold in the China market by acquiring a 70% stake in eFriendsNet Entertainment, a China-based social-networking website, for US\$20 million. eFriends is the operator of Yeeyoo.com, currently the largest online dating website in China with more than 4 million registered users. On the venture capital side, Baihe.com, a matchmaking website, raised US\$9 million from two venture capital firms, National

<sup>1</sup> In terms of the number of commercial locations and flat-panel displays installed.

Enterprise Associations and Northern Light Venture Capital this quarter. Baihe received its initial investment of US\$2 million from the Mayfield Fund and GSR Ventures in 2005. Another notable transaction is the US\$20 million funding of Qihoo.com by Zhou Hongyi, former President of Yahoo! China, and a consortium of venture capital firms.

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Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 18, 2006	Meetic.com	eFriends Net Entertainment Corp.	20.0	70%	28.6	Operator of China's leading social network website YeeYoo.com
February 6, 2006	PacificNet Inc.	Beijing iMobile	1.8	51%	3.5	Information portal and e-commerce distributor for mobile phones and accessories
February 12, 2006	SAIF Partners	Bj.58.com	1.0	NA	NA	Local community classifieds and forums website
March 10, 2006	Sequoia Capital, Dinghui Venture Capital, IDG, and Zhou Hongyi.	Qihoo.com	20.0	NA	NA	Operator of Web 2.0-based online community website
March 13, 2006	TOM Online	Hjism.net	1.3	80%	1.6	Martial arts-themed literature website with more than 400,000 registered users, 4,000 writers, and 10,000 stories
March 20, 2006	Dragon Groove Inc.	51auto.com	5.0	NA	NA	Provider of used car information and search services
March 28, 2006	Charles River Ventures	Wangyou.com	NA	NA	NA	Operator of a Web2.0-based online interactive community
March 29, 2006	National Enterprise Associations, Northern Light Venture Capital	Beijing Baihe	9.0	NA	NA	Online matching and dating websites operator

### Online Entertainment

The most notable transaction in the sector was Oak Pacific's US\$48 million private placement from a consortium of global private equity and venture capital firms, which included General Atlantic LLC, Doll Capital Management (DCM), Technology Crossover Ventures (TCV), Accel Partners, and Legend Capital. Oak Pacific indicated that it will use the new round of financing to acquire additional digital entertainment assets and to build brand awareness in the online advertising, WVAS, and online broadband entertainment sectors. Another notable transaction was the acquisition of Beijing 17game Network Technology by CDC Games Ltd, an operating unit of CDC Corporation. 17game is a MMORPG provider whose latest online game, Yulgang, was named by China e-Game Industry Association as the most innovative game of 2005.

Selected Transactions						
Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
March 6, 2006	SAIF Partners, WI Harper Group	Radio.cn	10.0	NA	NA	Online radio station operator and blog service provider
March 7, 2006	General Atlantic, DCM, TCV, Accel Partners, Legend Capital	OAK Pacific Interactive	48.0	NA	NA	Operator of Web 2.0-based online community and advertising sites: mop.com, uume.com, and donews.com
March 23, 2006	CDC Games Ltd.	Beijing 17game Network Technology	18.0	52%	34.6	China's leading online MMORPG games developer and operator
March 24, 2006	NCSOFT Corp.	NC Sina*	NA	51%	NA	JV between Sina and NCSOFT, online game developer and publisher in China
March 29, 2006	Asian Groove HK Fund	Tkgame.com	5.0	NA	NA	Online game information and news provider with 9 million users

\* Existing JV

**WVAS**

Overseas listed companies such as Hong Kong-listed Tencent, NASDAQ-listed Kongzhong, Linktone, and Focus Media, and London stock exchange-listed Monsternob, were active in the wireless value-added service M&A arena during the first quarter. In a strategic move to enter China's mobile advertising market and away from its core competency in the flat-panel display advertising network, Focus Media acquired 100% of Dotad Media Holdings Ltd, China's leading mobile phone advertising service provider. Through Dotad's WAP-based advertisement delivery platform on China Mobile and China Unicom's mobile networks, Focus Media immediately claimed about 80% of the WAP-based advertising delivery market in China. In addition, following its high-profile purchase of ATOP Century Ltd. a supplier of ring tones and pictures to mobile users in China, for US\$100 million in the second quarter of 2005, Lancashire-based Monsternob Group plc acquired M-Dream, another China-based mobile game and WVAS provider for US\$35 million. Monsternob plans to use M-Dream as a development center for new mobile phone games and entertainment software. Other M-Dream wireless products and services include MMS, ring back tone, IVR, mobile TV, and mobile animation services.

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<b>Date Announced</b>	<b>Lead Investor(s) / Buyer</b>	<b>Target</b>	<b>Transaction Value (US\$ mm)</b>	<b>%</b>	<b>Implied Valuation (US\$ mm)</b>	<b>Description of Target</b>
January 18, 2006	Linktone Ltd.	Ojava Overseas Ltd	3.4*	51%	6.7	A leading mobile game developer and game publisher in China
January 16, 2006	Tencent Inc.	Joymax Development	NA	100%	NA	SMS-based WVAS provider through mobile mass mailing
January 26, 2006	KongZhong Corp.	Sharp Edge Group Ltd.	35.0**	100%	35.0	China's leading 2.5G WVAS provider
January 23, 2006	Monsternob Group	M-Dream China Co Ltd.	35.0	100%	35.0	Development and exploration of mobile games and entertainment software
March 7, 2006	Focus Media Holdings	Dotad Media Holdings Ltd.	30.0***	100%	30.0	China's leading mobile phone advertising service provider

\* Upfront payment of US\$1.8 million and an earnout payment of US\$1.6 million  
 \*\* Upfront payment of US\$7 million and an earnout payment of up to US\$28 million  
 \*\*\* Upfront payment of US\$15 million and up to US\$15 million in FMCN stock

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