

Media Sector

2nd Quarter 2006

China Media M&A Quarterly

Highlights

- China Mobile, the largest mobile phone operator in China with over 260 million subscribers, acquired a 19.9% stake in Phoenix Satellite Television Holdings for US\$164.9 million.

Phoenix Satellite Television Holdings is a Hong Kong-listed broadcaster operating in four business segments: (i) TV programs and commercials broadcast; (ii) program production and ancillary services; (iii) Internet services, and (iv) other activities, which include merchandising services, magazine publication, and distribution.

- Recruit Co., Ltd., a leading human resource provider in Japan, acquired a 15% stake in 51jobs for US\$109.2 million.

NASDAQ-listed 51jobs, Inc. is a leading provider of integrated human resource services in China with a strong focus on recruitment related services. 51job's nationwide office network spans 24 cities in China.

- AIM-listed MonsterMob Group PLC, the leading wireless content provider in UK, acquired 100% of W-Infinity for US\$81.5 million following the acquisitions of two Chinese WVAS companies in 2005 and the first quarter of 2006.

W-Infinity is a provider of mobile content services such as ring tones, games and wallpaper through SMS messages in 27 of China's 31 provinces from six offices.

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INTRODUCTION

We are pleased to present our quarterly review of cross-border Media 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 / Community
- ◆ Online Entertainment
- ◆ Wireless Value-Added Services (“WVAS”)

TRADITIONAL MEDIA

Corporate Marketing / Public Relations

M&A activities remain robust in the Corporate Marketing/Public Relations Sector after a strong first quarter, partly driven by an increasingly competitive landscape. Following the acquisition of two promotional and marketing companies in the last quarter, advertising giant WPP Group continued to build up its marketing research capabilities in China by acquiring 95% of All China Strategic Research Co., Ltd. (“ACSR”) and 75% of Beyond Communications. Existing Chinese law places limits on some polling and research activities and restricts foreign ownership of research companies to 95%. ACSR will be folded into the existing offices of WPP’s subsidiary Millward Brown, while Beyond Communications will be a part of Bates Asia, another WPP subsidiary. The acquisitions will add a new roster of MNCs to WPP’s client base, including P&G, Unilever, and Wal-Mart China.

WPP’s competitors have also been active in beefing up their presence in China. A.C. Nielsen, a market research firm, recruited 300 new staff this year and expanded its survey system to include 100,000 Chinese Internet users by the end of 2006. Meanwhile, Aegis Group PLC acquired 70% of New Voice Ltd. for approximately US\$9.8 million, with the rights to acquire the remaining 30% starting in 2012 for a maximum of US\$5.8 million. In addition, Aegis’ subsidiary Synovate will open its sixth Chinese office in Hangzhou this year.

Selected Transactions						
Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 15, 2006	WPP Group PLC [LSE: WPP]	All China Strategic Research Co., Ltd.	NA	95.0	NA	Market research company, offering qualitative and quantitative research on brand effectiveness and retail management solutions
June 14, 2006	Xinhua Finance Ltd. [TSE: 9399]	Shanghai Hyperlink Market Research Co., Ltd.	6.1	51.0	12.0	Market research company specializing in the research of consumer market trends
May 15, 2006	Bates Asia (WPP Group)	Beyond Communications Hong Kong Ltd.	NA	75.0	NA	Corporate and marketing communications firm
May 4, 2006	Aegis Group PLC [LSE: AGS]	New Voice Ltd.	9.8*	70.0	14.3	Public relations, brand consultancy, marketing and event planning service provider in China

* Transaction value of £5.4 converted at GBP1=USD1.82

Indoor / Outdoor Advertising

After two high profile deals over the past year, NASDAQ-listed Focus Media, operator of the largest out-of-home advertising network in China with 60,000 screens in 75 cities, consolidated its position as the leading digital display advertising service provider in China by acquiring Shanghai Pinone Advertising Company. The acquisition was made through Shanghai Framedia Advertising, which Focus Media acquired in October last year for US\$183 million. Framedia has acquired an aggregate of 10 elevator advertisers in China and commands a 95% market share in the elevator frame advertising market¹. Earlier in the year, Focus Media purchased Target Media Holdings, the second largest out-of-home flat-panel display advertising network operator in China², for US\$325 million. Separately, Intel Capital announced the acquisition of 4 separate companies, one of which is in the advertising sector, on the same day. Intel Capital has now invested in 12 Chinese companies since its US\$200 million China Technology Fund was first established in June 2005.

Selected Transactions						
Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 26, 2006	Intel Capital	Campus Media Inc	NA	NA	NA	Operator of an advertising network in university cafeterias across China
June 18, 2006	Shanghai Framedia Advertising (Focus Media)	Shanghai Pinone Advertising	NA	100.0	NA	Elevator frame advertising company
June 14, 2006	Aegis Group PLC	Gain Concept Advertising Agency Ltd.	1.5*	25.0	6.0	Advertising and media services provider
June 7, 2006	Lumacom Ltd. [ASX: LUM]	Vertigo China Ltd.	0.4	100	0.4	Provider of outdoor advertising media services such as design, fabrication and installation of large format signage, light boxes, neon, and LED signage

* Aegis acquired a 50% interest in Gain Concept in 2000 for up to £3.1 million (US\$5.6 million). The Group also has a call option to acquire a further 25% for fixed cash consideration of £0.8 million (US\$1.5 million).

Newspaper / Magazine / Book Publishing

London Stock Exchange-listed Incisive Media, the business information group that publishes Investment Week, Post Magazine, Risk, Your Mortgage, Unquote, and Legal Week, entered the Asian publishing market with the purchase of AVCJ Group Limited, a Hong Kong-based provider of financial newsletters, conferences, and databases to the Asian private equity and venture capital communities. Total consideration for the transaction is up to US\$15 million, with the initial consideration of US\$3 million in cash and US\$3 million in Incisive Media stock payable upon the completion of the transaction. The deferred consideration of up to a maximum of US\$9 million will be paid subject to certain AVCJ performance targets.

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June 16, 2006	Incisive Media plc [LSE: INM]	Asian Venture Capital Journal	Up to 15.0	100	Up to 15.0	Information provider and researcher in the Asian venture capital, private equity, and M&A markets

¹ Source: Pacific Epoch

² In terms of the number of commercial locations and flat-panel displays installed.

Television Production & Broadcasting

A notable transaction in the Television Production and Broadcasting sector this quarter was China Mobile’s investment in Hong Kong-listed Phoenix Satellite Television, a unit of News Corp’s STAR Group. The strategic rationale behind the transaction was for China Mobile to gain access to various content for its mobile service and for the companies to jointly develop, market, and distribute wireless media products and services ranging from music, broadband interactivity, and social networking to multimedia value-added products. As a result of the transaction, STAR Group’s interest in Phoenix will be reduced to 17.6% from 37.5%.

Separately, Sequoia Capital China announced two investments in a one-week span. The venture capital firm invested US\$7.5 million in Hunan Greatdreams Cartoon Media, the second largest cartoon company in terms of production based in Hunan province. In a separate deal in the online entertainment sector, Sequoia invested US\$12 million in 51.com, a social networking portal.

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June 8, 2006	China Mobile Ltd. [SEHK: 941]	Phoenix Satellite Television Holdings [SEHK: 8002]	164.9	19.9	828.6	Satellite television operator and broadcaster
May 18, 2006	Sequoia Capital China	Hunan Greatdreams Cartoon Media Co. Ltd.	7.5	NA	NA	China’s second largest cartoon production company based in Changsha, Hunan

NEW MEDIA

Ecommerce, Search, and Portals

Compared to the first quarter, new media M&A activities increased in the second quarter. The most notable transaction in the sector was Japan’s leading human resource services provider, Recruit’s US\$109 million purchase of 15% of 51job’s issued and outstanding common shares. Recruit has an option to purchase up to 40% of 51job over a three-year period. According to an Analysys International estimate, China’s online recruitment market reached US\$18.5 million in the first quarter, equivalent to a 6.6% quarter-over-quarter increase. A thorough understanding of the local culture is critical in the HR industry. As a result, foreign HR firms have been using M&A of local firms as a route to enter the lucrative Chinese market.

As for Ecommerce websites, China’s leading online retailer Dangdang raised US\$30 million from four private equity investors including DCM-Doll Capital Management and Walden International. NASDAQ-listed company Global Sources completed the purchase of a 10% equity share of HC International, creating the largest B2B media strategic partnership in China to date. The second quarter also saw the online payment platform industry grow rapidly. 99 Bill Corporation, the first company in China to offer email-and-mobile-phone-number-based online payment platforms, and solutions, raised US\$15 million in its Series B funding from Lightspeed Venture Partners and its return backers, DCM and Peninsula Capital Management.

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Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 26, 2006	DCM, Walden International, etc.	DangDang.com	30.0	12.0	250.0	Leading B2C / C2C e-commerce platform of books, audio/video, software, IT, electronic home appliances, cosmetics, toys, and accessories
June 15, 2006	Impress Holdings, Inc. [TSE: 9479]	Chinabyte Technology Co., Ltd.	10.0	Up to 20.0	50.0	Leading Information Technology portal based on www.yesky.com and www.chinabyte.com
June 15, 2006	NA	Netkoo.com	2.5	NA	NA	Company search engine services provider
May 26, 2006	Global Sources Ltd. [NASDAQ: GSOL]	HC International, Inc. [SEHK: 8292]	9.9	10.0	99.0	Business information provider through catalogues, search engine services, market research, and printed periodicals

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Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 16, 2006	Webs-TV Digital International Corporation	ADSL Business of GigaMedia Ltd. [Nasdaq: GIGM]	17.9	NA	NA	Taiwan-based provider of broadband and online entertainment services
April 26, 2006	Lightspeed Venture Partners, DCM, Peninsula Capital Management	99 Bill Corporation	15.1	NA	NA	Email and mobile phone number based online payment platform operator
April 16, 2006	Michael J.G. Gleissner	Sina [NASDAQ: SINA]	NA	6.4	NA	China's top web portal
April 11, 2006	American Pacific Ventures, Startup Capital Ventures, Authoris Capital	Zero2IPO Holdings, Inc.	1.5	NA	NA	Provider of advisory services in private equity including investment and fundraising advisory, IPO and M&A, and management consulting services
April 7, 2006	Design Exchange [TSE: 4794]	Lele.com	NA	100.0	NA	Online search engine of WVAS services provided by other companies
April 5, 2006	Recruit Cosmos Co., Ltd. [JASDAQ: 8844]	51job [NASDAQ: JOBS]	109.2	15	728.0	China's leading online integrated HR services provider

Online Entertainment

Investors appear to be actively investing in Web2.0 enterprises for their tremendous growth potential. Web2.0 refers to web services that allow users to collaborate and share information online. Of note was Toodou.com, a major player in Web2.0 that raised US\$8.5 million in the Series B funding from Granite Global Ventures, JAFCO Asia, and IDG, the investor of its Series A round.

After its recent investments in Qihoo.com and Dianping.com, both Chinese Web2.0 companies, Sequoia Capital has announced to invest a further US\$4 million in 51.com, a social networking site, by October 2006. The fund is still actively looking for additional investment targets among online community providers. In addition, Ufeel.com, the first domestic multimedia blog platform, received strategic investment from Korea High Tech Investment (“KHI”). This is the first investment of its kind in China for KHI.

WPP group has been acquiring in the new media sector as well. Its wholly-owned operating company GroupM acquired 49% stake in Beijing Hua Yang Lian Zhong Advertising Company. Previous investors of Hua Yang Lian Zhong include HSBC. Intel Capital invested in Winking Entertainment, a game developer for multi-platform devices. This is one of the four new investments made by Intel Capital in this quarter.

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June 26, 2006	Intel Capital	Shanghai Winking Entertainment Ltd.	NA	NA	NA	Online gaming software developer
June 8, 2006	KHI	Ufeel.com	NA	NA	NA	Multimedia blog platform
May 18, 2006	BETonSPORTS [AIM: BSS]	Hooball.com	38.0	100.0	38.0	Online gambling platform
May 17, 2006	Sequoia Capital Partners	51.com	4.0	Approx. 20.0	20.0	Chinese social networking and blog portal
May 16, 2006	GroupM (WPP Group)	Hua Yang Lian Zhong	NA	49.0	NA	Media investment management agency, specializing in online and interactive media
May 15, 2006	Granite Global Ventures, IDG, JAFCO Asia	Toodou.com	8.5	NA	NA	Classified podcasting community

WVAS

Of note this quarter was MonsterMob’s US\$81.5 million acquisition of W-Infinity, a mobile content provider with strong regional presence. Prior to the transaction, MonsterMob had acquired the ring tones and pictures supplier ATOP Century Ltd. for US\$100 million in the second quarter of 2005 and mobile game and WVAS provider M-Dream for US\$35 million in first quarter 2006.

Following the lead of other listed companies, NASDAQ-listed TOM Online acquired Infomax, one of China’s largest TV mobile value-added service providers for USD\$75 million. Infomax has an exclusive multi-year license with China Central Television’s Economic News and Lifestyle channel (CCTV-2) to provide wireless interactive services through all its programs. The purchase is believed to further strengthen TOM Online's leadership in China's wireless Internet market.

Selected Transactions						
Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 12, 2006	TOM Online [NASDAQ: TOMO]	Gainfirst Asia Ltd. (Infomax)	75.0	100.0	75.0	Wireless interactive products and services provider to China's TV audience
April 13, 2006	MonsterMob Group [LSE: MOB.L]	W-Infinity Communications	81.5	100.0	81.5	Beijing-based mobile content provider to 27 provinces in China

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