

Media Sector

4th Quarter 2006

China Media M&A Quarterly

Highlights

- WPP Group makes strategic investment in the Chinese advertising sector.

Following the acquisition of Black Arc Advertising in the third quarter of 2006, Ogilvy & Mather Worldwide, a subsidiary of WPP Group, acquired 70 percent of Beijing Century Harmony Advertising Co. Ltd.

- Citigroup acquired a 6.9 percent stake in Sina Corporation.

Shanda Interactive Entertainment, the Nasdaq-listed Chinese online games company, sold more than a third of its stake in the leading local Internet portal to Citigroup Global Markets.

- Xiamen based mobile TV operator Towona Corporation completed its second round of fund raising.

Towona raised a US\$35 million Series B round from Chengwei, Walden, and CDH.

- Carlyle Group injected US\$20 million into Time Share Advertising & Communications (TSM).

TSM is the first outdoor media company in China that provides low-cost advertising using idle outdoor billboard space across the country.

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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”)

New Media M&A transactions continue to dominate in the fourth quarter of 2006. There were no significant transactions in the Newspaper/Magazine/Book Publishing, Radio Production & Broadcasting, and Television Production & Broadcasting sector.

TRADITIONAL MEDIA

Corporate Marketing / Public Relations

Global advertising conglomerates, such as WPP Group, are making numerous acquisitions to capitalize on China’s growing economies and burgeoning middle class. Following the acquisition of China’s leading real estate-related advertising and promotion agency, Ogilvy & Mather Worldwide acquired a stakes in Beijing Century Harmony (BCH), an Internet advertising agency in October. Based in Beijing with a branch in Shanghai, the five-year-old company employs 93 people. BCH had unaudited revenues of US\$1.8 million for the year ended December 31, 2005.

In December of 2006, Ogilvy & Mather Worldwide acquired a 49 percent interest in Beijing Raynet Advertising Co., Ltd, an advertising agency founded in 2001 with offices in Beijing, Shenyang and Changchun. At the time of acquisition, Raynet employed 131 people and had unaudited revenues of US\$5.0 million for the year ended December 31, 2005. Its clients include top Chinese brands such as China Netcom, Liaoning Mobile, Liaoning Netcom, Mengniu Dairy and Shanghai Xinjiegou. In addition, WPP Group’s wholly owned subsidiary, Bates Asia, acquired 51 percent of Chengdu Apex Advertising Co., Ltd. for an undisclosed sum.

WPP Group’s series of acquisitions in the fourth quarter reinforced its strategy of expanding its networks into fast-growing markets and its regional strategy of focusing resources on Mainland China. China is one of the fastest-growing markets for WPP Group worldwide; moreover, they are now the largest advertising agency player in the country.

Selected Corporate Marketing / Public Relations Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 7, 2006	GSR	Co-op Land Co.	3.0	NA	NA	Home decorating and furnishing media and integrated marketing service provider; founded in 1999; headquartered in Beijing with offices in Shanghai, Shenzhen and Foshan; total staff of 105
December 1, 2006	Ogilvy & Mather Worldwide ⁽¹⁾	Beijing Raynet Advertising Co., Ltd.	NA	49.0	NA	Advertising agency with offices in Beijing, Shenyang and Changchun
November, 2006	Bates Asia ⁽¹⁾	Chengdu Apex Advertising Co., Ltd.	NA	51.0	NA	Integrated marketing communications agency, with offices in Chengdu, Xi’an and Chongqing
October 19, 2006	Ogilvy & Mather Worldwide ⁽¹⁾	Beijing Century Harmony Advertising Co. Ltd.	NA	70.0	NA	Internet advertising agency; based in Beijing with a branch in Shanghai; total staff of 93

(1) Subsidiary of WPP Group Plc [LSE: WPP]

Indoor / Outdoor Advertising

Since the successful IPO of Shanghai-based Focus Media, venture capital investors have been increasingly more interested in the out-of-home flat screen advertising market in China. In 2006, there were a flurry of investments in companies that run advertisements on networks of LCD and plasma screens installed in commercial spaces and vehicles.

Mobile TV operator Towona Corporation received its second round of fund raising, with total capital of US\$35 million, from Chengwei Ventures, Walden International and CDH Investments. Developed from Xiamen, Towona moved its operating headquarters to Beijing in April 2006. Towona runs programming and advertisements on LCD screens it places in public buses. The company currently has displays in 25 cities and expects to have a network of 50,000 screens by October 2007.

One of the strongest players in the out-of-home flat screen advertising market is Shanghai based in-store LCD advertising company CGEN Digital Media. The company was the first to enter the hypermarket flat screen advertising market and remains a strong competitor in this niche, having locked up a partnership with French chain Carrefour's stores in China and recently won a contract with UK-based Kingfisher's home improvement chain B&Q. In early December, CGEN closed a US\$24 million third round of funding from six investors led by Merrill Lynch Asia Pacific Corporate Principal Investments, which invested US\$20 million.

Another notable transaction in the sector was Carlyle Group's investment in Time Share Advertising & Communications (TSM). The global private equity firm injected US\$20 million into TSM, which is the first media company in China to provide low-cost advertising using idle outdoor billboard space across the country. TSM's innovative business model offers advertisers significant cost and time savings by using idle slots available at over 80 percent of outdoor billboards nationwide via a single contact point that manages contract negotiation and media placement. Compared to the traditional year-long, single-location contracts, the cost savings to advertisers can reach as much as 50 percent. This deal is Carlyle Group's second investment in China's out-of-home media advertising space (after Target Media which was acquired by Focus Media [Nasdaq: FMCN]) where it believes there is exceptional growth potential in this sector.

Selected Indoor / Outdoor Advertising Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 26, 2006	Gobi Partners Inc., NIF SMBC Ventures Co. Ltd., Oak Investment Partners, Sierra Ventures	Digital Media Group Co. Ltd.	32.5	NA	NA	Operates digital media networks inside subway systems in Hong Kong, Shanghai, Beijing, Tianjin, Nanjing, Shenzhen and Chongqing
December 16, 2006	Chengwei Ventures, Walden, CDH	Towona Co.	35.0	NA	NA	China's leading bus DTV media operator
December 7, 2006	Merrill Lynch, TDF Capital, JAFCO Asia, Redpoint, Sumitomo, and Hotung	CGEN Digital Media	24.0	NA	NA	Large network-based In-Store TV operator with 65% market share of premium hypermarkets nationwide, which reaches over 64 top tier cities
November 21, 2006	Carlyle	Time Share Advertising & Communication	20.0	NA	NA	Outdoor media operator, with 36 branch offices in provincial capital cities across China

Music Production & Distribution

Following Hurray Holding's investments in Huayi Brothers Music and Freeland Music last year, the Chinese WVAS provider acquired a 30 percent stake in an independent Chinese record label, Beijing New Run Entertainment. New Run Entertainment specializes in music production and distribution for its portfolio of artists which include some of the most popular singers in China such as Pang Long, Nanhe Wendou, Chang Hai and Han Dong. Hurray also plans to increase its investment in New Run next year based on New Run's near term performance.

Selected Music Production & Distribution Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
November 9, 2006	Hurray! Holding Co., Ltd. [Nasdaq:HRAY]	New Run Entertainment	2.3	30.0	7.5	Focuses on music development and production and record distribution, as well as the agency business for its artists

NEW MEDIA

Ecommerce, Search, and Portals

Ecommerce, Search, and Portals continued to be the most active sectors for M&A and private placement activities in the fourth quarter of 2006.

Shanda, a Nasdaq-listed interactive entertainment media company [Nasdaq: SNDA], sold an aggregate of 3.7 million ordinary shares of Sina Corporation, China's leading internet portal, to Citigroup for US\$99.1 million. Following the sale, Shanda continues to hold 6.1 million Sina shares, representing approximately a 11.4 percent stake in Sina. The transaction marked Shanda's reversal from earlier efforts to win control of the company.

Chinese media company Helio Media Group's classified advertising website, Sosoko.com, received funding from D&H Capital and Asian Groove's Hong Kong subsidiary Powerway. Media observers widely regard Sosoko as a Chinese commercial knock-off of the successful Craig's List in the U.S. Sosoko.com has captured almost 70 percent of Shanghai's classified advertising market and growth prospects appear even greater in other cities where there are fewer competing services.

The Ecommerce sector also received significant attention from investors in the fourth quarter. Due to China's recent emergence and rapid expansion of the online payments market, PayEase and SmartPay successfully raised capital in their latest rounds of fund raising. Both companies have built strong businesses by focusing on the unique qualities of the domestic Chinese market where most consumers do not own credit cards. PayEase delivers mobile payments via SMS as well as over the Internet. SmartPay also provides remote payment services to consumers and intermediaries in China. The Company focuses on merchants with large, recurring transaction volumes including mobile and utility billings and airline ticketing. The Company uses ubiquitous "remote" mobile and fixed telecommunications devices to process payments, utilizing SMS (short messaging services), WAP (wireless application protocol) and IVR (interactive voice protocol) based applications.

Other private placement deals included, Mapbar, an online map service provider's latest round of financing from WI Harper and IDG Venture. Mapbar provides maps for over 1,000 sites in China, including search engine Baidu and online travel services provider Ctrip.

Selected Ecommerce, Search, and Portals Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 19, 2006	Emay Softcom Technology	itry.cn	5.0	100.0	5.0	Online marketing company providing product promotion services
December 12, 2006	Evolution Capital, RRE Ventures LLC, The Lunar Group	Smartpay Jieyin Ltd. ⁽¹⁾	10.0	NA	NA	Mobile payment solutions and IT services provider in China
December 4, 2006	IDG Technology Venture Investment, WI Harper Group	Mapbar Inc. ⁽¹⁾	10.0	NA	NA	Digital mapping technology developer. Also provides online and mobile mapping service through a branded Web site
November, 2006	Zhongsou	ccoo.cn	NA	100.0	NA	Conglomerate of local city portals, covering more than 800 3- or 4-tier cities
November 26, 2006	Finet Group Ltd. [HKSE: 8317]	PRnews.cn	NA	50.0	NA	Business press release online distributor
November 10, 2006	Northern Light, NEA	Redbaby	10.0	NA	NA	Leading online retailer of baby products in China, with offices in 12 cities, total staff of 800
November 8, 2006	Citigroup	Sina Corporation [Nasdaq: SINA]	99.1	6.9	1,436.5	China leading portal operator and WVAS SP
November 6, 2006	Zcom	Myrice	NA	100.0	NA	Entertainment portal with wireless service
November 3, 2006	JL McGregor & Company	Pacific Epoch	NA	100.0	NA	Shanghai-based independent research company, focusing on companies, market developments, new products and technologies, regulations and competition affecting various industries in mainly China
November 2, 2006	Chinabyte	pc365.com.cn	NA	100.0	NA	IT portal with high penetration in East China market
November 1, 2006	D&H Capital, Asian	Sosoko.com	15.0	NA	NA	Categorized online search

Selected Ecommerce, Search, and Portals Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
	Groove					services provider and advertising website
November 1, 2006	WI Harper, Capinfo	PayEase	14.5	NA	NA	Online payment platform services and solutions provider, based in Santa Clara
October 26, 2006	Walden, DT Capital, China Merchants & Fortune Assets Management	cars.com.cn	15.0	NA	NA	China's leading online car insurance brokerage platform, headquartered in Shanghai, with offices in Beijing, Guangdong, Jiangsu, Zhejiang and Sichuan
October 24, 2006	Office Depot [NYSE: ODP]	AsiaEC	NA	>50.0	NA	Leading dealer of office products and services, via channels like internet, direct mail and contract sales, headquartered in Beijing with offices in Shanghai, Guangzhou and Shenzhen
October 23, 2006	NA	sinomen.cn	1.0	NA	NA	Blue-collar & rural labor force HR-related services & information website
October 1, 2006	SAIF	AD-Union	12.0	NA	NA	Leading internet marketing company from restructuring and integrating 13 channel companies
NA	ECVV	made-in-cn.com	NA	100.0	NA	China manufacturing-related B2B e-commerce website

(1) Series B Financing

Online Entertainment

In the fourth quarter, activities in the online entertainment sector remained robust. The Online Game sector in China is attracting attention from domestic and foreign investors. According to IDC, revenues for online game subscriptions in China are predicted to increase from US\$673 million at the end of 2006 to US\$2.1 billion by the end of 2010, growing at a compound annual growth rate of 36 percent.

Leveraging the rapidly growing consumer market in China, CDC Games has become a leader in online and mobile game operations in China and has plans to enter other markets in Asia through strategic investments. The company invested in Gorilla Banana Entertainment to help distribute their first game, Red Blood, a free-to-play MMORPG based on an immensely popular comic book series in Korea. Planned launch for the game is 2008.

Earlier in the quarter, CDC Corporation moved CDC Games from within China.com Inc. to become a direct business unit of CDC Corporation. China.com Inc., which is listed on the Growth Enterprise Market of the Hong Kong Stock Exchange, is a 77 percent owned subsidiary of CDC Corporation. The restructuring took effect through an agreement whereby CDC Corporation acquired 100 percent of CDC Games from China.com Inc for a purchase price of US\$110 million. Additionally, CDC Corporation will pay up to US\$25 million to China.com in the event CDC Games completes a successful listing on certain recognized stock exchanges within the next 12 months.

Online community searching service and blogging service providers were also popular targets for private placements in the fourth quarter. Qihoo raised US\$25 million in the initial close of its latest round of financing. The company is the leading user-generated content (UGC) search engine and personalized aggregation portal for Internet and mobile platforms in China. The site aggregates popular content from news sources, blogs, online communities, bulletin board services, video and photos to deliver real time entertainment and lifestyle information. Highland Capital Partners led the round with participation from Redpoint Ventures and earlier investors Sequoia Capital China, Matrix Partners and IDG Ventures. In conjunction with financing, a number of investors will join Qihoo's Board of Directors.

Selected Online Entertainment Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 19, 2006	CDC Games ⁽¹⁾	Gorilla Banana Entertainment	1.6	NA	NA	Korea-based MMO game developer
December 12, 2006	Sutter Hill, Farallon Capital, Chengwei Ventures	yoqoo.com	12.0	NA	NA	Online video sharing and distribution platform founded in June 2006
December 5, 2006	CDH	Hero108	10.0	NA	NA	Online game software developer
November 23, 2006	IDG-Accel	jiaoyou.com	2.7	NA	NA	SNS website
November 21, 2006	CDC Corporation [NASDAQ: CHINA]	CDC Games	110.0	100.0	110.0	Online and mobile games operator
November 20, 2006	Sequoia, SIG	Lanxue Digital (Frog Leon)	1.5	NA	NA	Cross-media comic image operator, marketing and promoting its Frog Leon both online and offline
November 15, 2006	Highland, RedPoint, Matrix Partners, Sequoia, and IDG	Qihoo ⁽²⁾	25.0	NA	NA	China's leading online community search service provider
November 10, 2006	JAIC, Cyber Agent	blogbus.com	3.0	NA	NA	China's leading blog services provider
November 5, 2006	NA	Nu Channel	4.0	NA	NA	Distributor of online interactive magazine, with Xplus platform combining distribution, subscription, magazine making and uploading together for users
October, 2006	IDT, JAIC, Cyber Agent	iPartment (www.ipart.cn)	3.0	NA	NA	Web 2.0 Avatar SNS website
October 30, 2006	Alibaba Group	koubei.com	NA	NA	NA	Online classified listing and community website, offering local information mainly on apartment rentals, restaurants and entertainment
October 23, 2006	Oak Pacific Interactive	xiaonei.com	NA	100.0	NA	China's leading college social networking site

(1) A business unit of CDC Corporation [Nasdaq: CHINA]

(2) Series B Financing

WVAS

With more than 350 million mobile subscribers and the development of 3G networks, there is exponential growth potential in the wireless and WVAS sector. And it is no surprise that venture capitalists continued their investments in China's wireless and WVAS market in the fourth quarter.

Waps.cn raised US\$8 million in first-round funding from Sequoia Capital. It has been reported as Sequoia's first deal in the China mobile sector. Waps.cn provides wireless marketing platform for WAP service providers. Their products and services include WAPS AdMonster and WAPS AdAnywhere, a wireless advertising management and monitor platform.

Selected WVAS Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 6, 2006	Staenberg Venture Partners	mInfo, Inc. ⁽¹⁾	3.4	NA	NA	Provides mobile search and wireless information services to subscribers in China
November 28, 2006	CDC Mobile Media Corporation ⁽²⁾	Timeheart	15.7	100.0	15.7	Mobile value-added SP providing service through PDA, WAP, IVR, and MMS, business mainly

Selected WVAS Transactions						
Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
November 27, 2006	Sequoia Capital Partners	Waps.cn ⁽¹⁾	8.0	NA	NA	covering Northeast and West China Provides wireless marketing platform for WAP service providers
October 25, 2006	PacificNet [Nasdaq: PACT]	MOABC	NA	20.0	NA	Leading provider of mobile social networking, mobile entertainment and mobile internet portal in China
October 7, 2006	Simax Investment Holdings Ltd. ⁽³⁾	Hurray [NASDAQ: HRAY]	5.8	5.02	114.7	China's leading WVAS company

(1) Series A Financing

(2) Wholly-owned subsidiary of China.com Inc. [HKSE: 8006], subsidiary of CDC Corporation [Nasdaq: CHINA]

(3) Sub-subsidiary of Taiwan Mobile [TAIEX: 3045]

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