

e-newsletter

Media Convergence Asia-Pacific is happy to send you this CONFIDENTIAL newsletter about recent developments in the region. This regular newsletter will be sent to media companies' CEO's and senior executives.

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Didier Guérin
President

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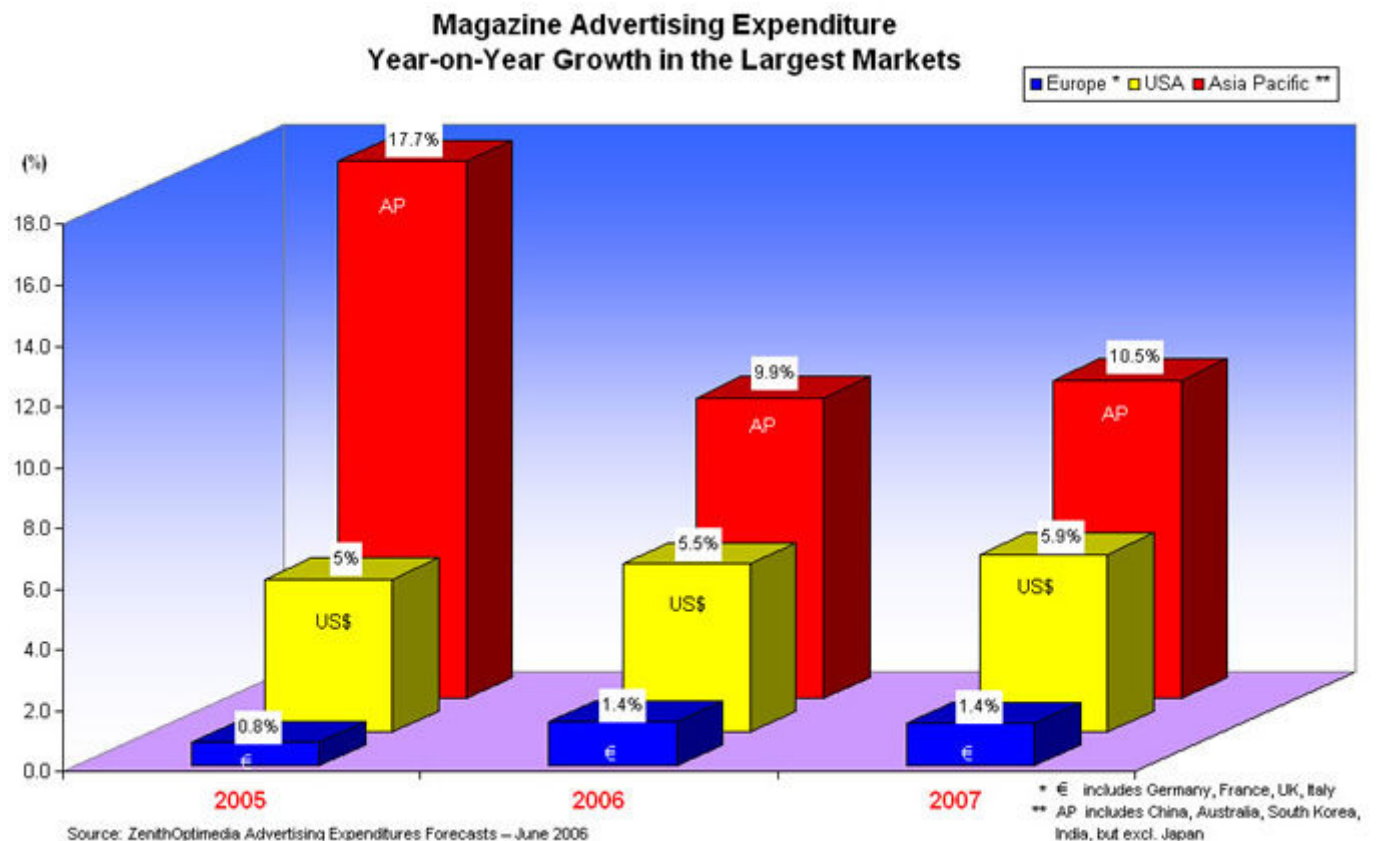
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2007 Asia-Pacific Magazine Advertising Forecasts

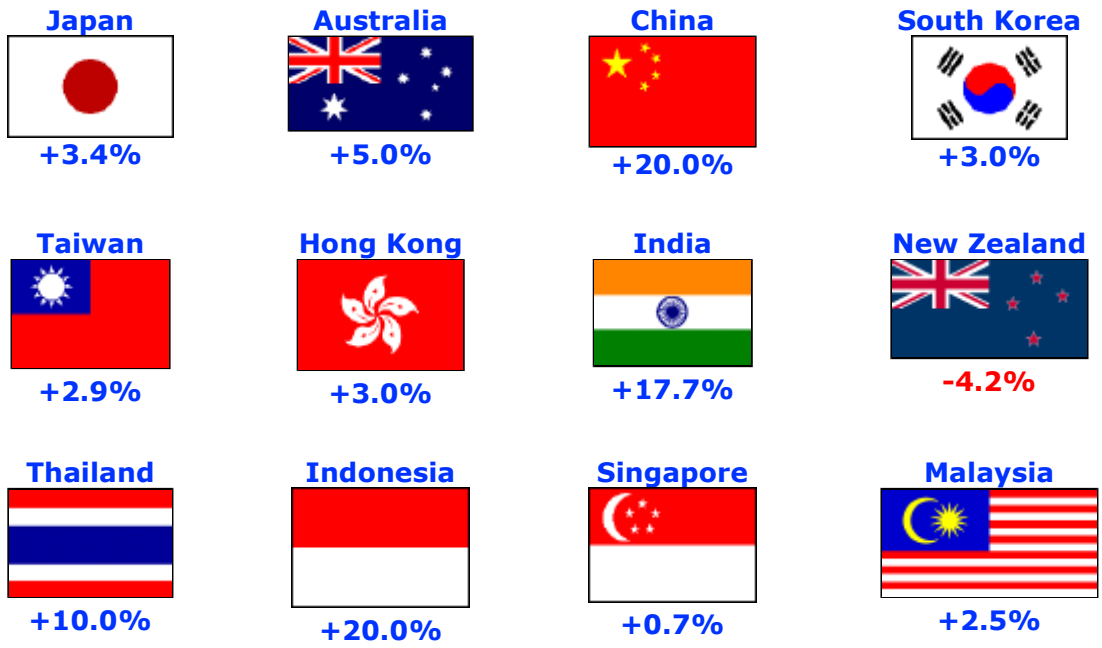
- **Another consecutive double-digit growth expected: + 10.5%**
- **China still leads the expansion of the industry**
- **India is next**
- **Watch for Indonesia**

In its latest *Advertising Expenditure Forecasts*, **ZenithOptimedia*** predicts the four largest markets in the region (excluding **Japan**), **China, Australia, South Korea** and **India** - will again experience significant growth in magazine advertising spending in 2007. The Asia-Pacific markets are expected to see an increase of 10.5%, compared with a growth of 5.9% in the **US** and 1.4% in the four largest magazine markets in **Europe**. As usual, a good portion of the growth is fuelled by **China**, which is forecast to see its magazine advertising market expand by a massive 20% in 2007.

***ZenithOptimedia** is one of the world's leading global media services agencies, with 170 offices in 65 countries. The annual *Advertising Expenditure Forecasts* report is based on the company's tools for strategy development and implementation (ZenithOptimedia Optimisation of Media), which have been designed to add value and insight. The following analysis has been prepared by **Media Convergence Asia Pacific**, which has isolated the magazine industry data from ZenithOptimedia's *Forecasts*. All figures are in current prices.





Country by Country Projections for 2007

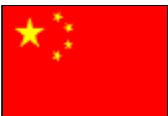



2007 Magazine Advertising Forecast in Asia Pacific by Country


Source: Zenith Optimedia Forecasts - June 2006


JAPAN		Growth over previous year	Magazine Advertising (in million Yen and at current prices)
	2005 2006 2007	-0.6% 0.3% 3.4%	394,500 395,700 409,300


AUSTRALIA		Growth over previous year	Magazine Advertising (in million A\$ and at current prices)
	2005 2006 2007	9.5% 4.5% 5.0%	727 760 798


CHINA		Growth over previous year	Magazine Advertising (in million RMB and at current prices)
	2005 2006 2007	22.1% 23.7% 20.0%	2,487 3,077 3,693


SOUTH KOREA		Growth over previous year	Magazine Advertising (in million Won and at current prices)
	2005 2006 2007	22.4% 3.0% 3.0%	333,945 343,963 354,282


TAIWAN		Growth over previous year	Magazine Advertising (in million NT\$ and at current prices)
	2005 2006 2007	2.3% 5.0% 2.9%	6,545 6,872 7,072


HONG KONG		Growth over previous year	Magazine Advertising (in million HK\$ and at current prices)
	2005	14.8%	2,735
	2006	7.0%	2,927
	2007	3.0%	3,015


INDIA		Growth over previous year	Magazine Advertising (in million Rupees and at current prices)
	2005	27.3%	10,560
	2006	14.4%	12,086
	2007	17.7%	14,230

NEW ZEALAND		Growth over previous year	Magazine Advertising (in million NZ\$ and at current prices)
	2005	16.6%	260
	2006	1.5%	264
	2007	-4.2%	253

THAILAND		Growth over previous year	Magazine Advertising (in million Baht and at current prices)
	2005	25.3%	7,670
	2006	10.8%	8,500
	2007	10.0%	9,350

INDONESIA		Growth over previous year	Magazine Advertising (in billion Rupiah and at current prices)
	2005	10.4%	1,211
	2006	13.0%	1,368
	2007	20.0%	1,641

SINGAPORE		Growth over previous year	Magazine Advertising (in million Sing\$ and at current prices)
	2005	2.9%	96
	2006	3.2%	99
	2007	3.1%	102

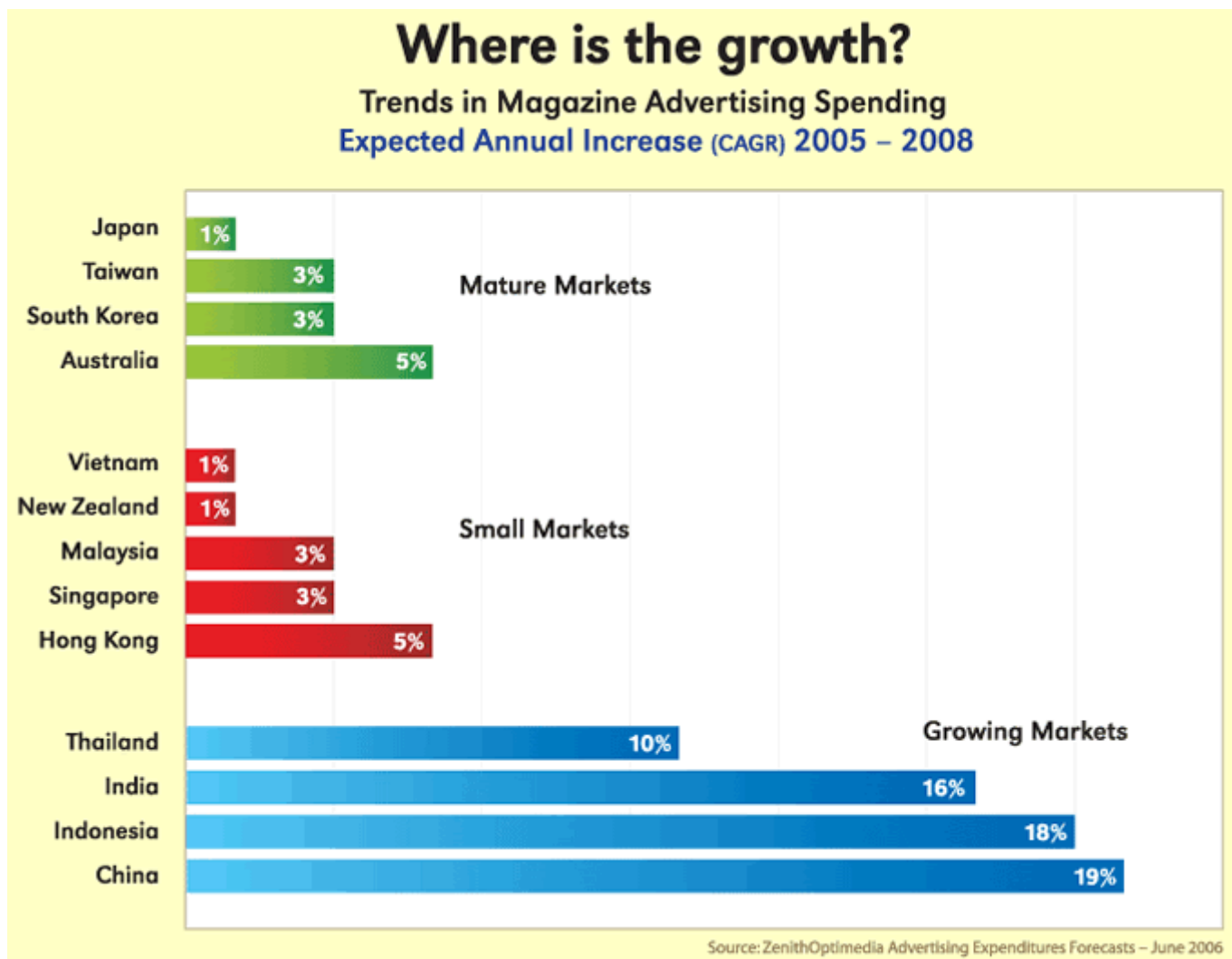
MALAYSIA		Growth over previous year	Magazine Advertising (in million Ringgit and at current prices)
	2005	-5.3%	160
	2006	1.3%	162
	2007	2.5%	166

A specific analysis country by country can be provided by **Media Convergence** upon request. Please address your inquiries to Linda@mediaconv.com

Projected average growth 2005 – 2008: How to decide where to invest in Asia-Pacific?

Media Convergence Asia-Pacific has developed a simple matrix to predict the growth rates for magazine advertising in 19 countries in the region.

Using this methodology, the magazine industry in the Asia-Pacific region can be segregated into four main market categories, reflecting their existing size and the expected growth in magazine advertising spending from 2005 to 2008:



1. **The Mature Markets** – countries expected to experience a modest average CAGR from 2005-2008
2. **The Growing Markets** – countries expected to experience a robust growth of more than 10% annually from 2005-2008
3. **The Small Markets** – countries whose growth is constrained either by a relatively small population or restricted expansion of advertising spending
4. **The Long Term Opportunities** – countries which currently have annual magazine advertising spending of less than US\$10 million

For a more complete analysis: Read Didier Guérin's article in **FIPP's** *World Magazine* issue – December 2006: www.fipp.com

Projected average growth 2005 – 2008: How to decide where to invest in Asia-Pacific?

How did we do it ?

We used market data from **ZenithOptimedia**'s latest annual *Advertising Expenditure Forecasts* and calculated the average growth factor over a four-year period (with two years of actual data and projected figures for the next two years), or the average advertising spending compound aggregate growth rate (**CAGR**) between 2005 and 2008.

The Mature Markets – countries expected to experience a modest average **CAGR** from 2005-2008:

- **Japan: +1%**. Return to positive territory after seven years of negative growth in the last decade
- **Australia: +5%**. Solid growth fuelled by a series of innovative new product launches
- **South Korea: +3%**. Decent growth despite fierce competition with the highly-developed Korean Internet
- **Taiwan: +3%**. Good growth of magazine advertising market share (11.4%) compared with the other media

The Growing Markets – countries expected to experience a robust growth of more than 10% annually from 2005-2008:

- **China: +20%**. Still the record growth in the region
- **India: +16%**. Solid growth despite a slight erosion in its market share of advertising compared with the other media
- **Thailand: +10%**. Steady growth and the Asian record for increasing advertising market share compared with the other media
- **Indonesia: +18%**. The second largest growth in the region

The Small Markets – countries whose growth is constrained either by a relatively small population or restricted expansion of advertising spending:

- **Hong Kong: +5%**. Restricted by its small and ageing population
- **New Zealand: +1%**. Also challenged by its small population
- **Singapore: +3%**. Limited population restricts growth potential
- **Malaysia: +3%**. Another nation with a relatively small population

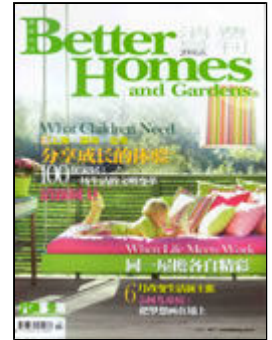
The Long Term Opportunities – countries which currently have annual magazine advertising spending of less than US\$10 million:

- **Vietnam**
- **Pakistan**
- **Bangladesh**
- **Sri Lanka**
- **Cambodia**
- **Myanmar**
- **Laos**

Magazine Developments in the Asia-Pacific region:



In **China**, *Sports Illustrated* was launched in September 2006 by **SEEC** under a copyright agreement with **Time Inc.** The bi-weekly magazine, which retails for RMB10 (€1.00 or \$1.25), is expected to increase its frequency to weekly before the 2008 Olympic Games. Earlier in May, **SEEC** also launched a local edition of *Better Homes and Gardens*, under another copyright agreement with **Meredith Corporation**. This is the second of the seven sisters US mass market magazines to enter China (after **Hachette's** *Woman's Day* - launched in 1994).



Still in **China**, *Focus* was launched in September 2006 by **Gruner + Jahr China**. The local edition follows the concept of the popular science and technical, but easily accessible, magazine – also known in **Germany** as *P.M.*, in **France** as *Ça m'intéresse*, in **Spain** as *Muy Interesante* and in **Italy** as *Focus*. The Chinese *Focus-Xinzihe* retails at RMB10 (€1.00 or \$1.25) and expects to deliver a circulation of 200,000 copies. Separately *SHAPE* was launched in **China** in September 2006 by a joint-venture between **Singapore Press Holdings** and **Mediasky**, under a licence agreement from the US-based **Weider Publications**: cover price of RMB10 (€1.00 or \$1.25).



In **Indonesia**, the local edition of *Shape* was launched in November 2006 under a direct licence agreement between **Weider Publications** and **Super Silver Media**, with a cover price of Rupiah 32,000 (€2.75 or \$3.50). Earlier in April, **Velvet Silver Media** drove the controversial launch of the Indonesian edition of *Playboy*, the first appearance of the famous men's entertainment magazine to be published in a Moslem country. With a cover price of Rupiah 50,000 (€4.00 or \$5.50), *Playboy Indonesia* – which carries no nudity or no erotic content – has reached a local circulation record in excess of 100,000 copies.



In **India**, *Men's Health* was launched by the **India Today Group** with a print run of 50,000 copies. This is the 37th edition of the US-based men's magazine. Separately **India Today Group** launched a local edition of the *Harvard Business Review*. And from its joint-venture company with **Sorabjee Aviomotive Communications (SAC)**, **Haymarket** has introduced *What Car? India* and *What Hi-Fi? Sound & Vision India*. The two titles, which retail for Rupees 30 (€0.50 or \$0.65) and Rupees 100 (€1.70 or \$2.25) have a circulation of 60,000 and 50,000 copies.



OK! was also launched as a monthly in **India** in May 2006 by **VJM Media** at a cover price of Rupees 100 (€1.70 or \$2.25) and with an expected circulation of 25,000 copies. This is the 12th edition of the British magazine. In September 2006, **Australia's** *OK!* switched frequency from a monthly to a weekly, just two years after its successful launch. This is the first example of an international magazine which was adapted to a monthly from its original weekly concept and then reverted to the mother magazine's original frequency.



In **India**, **Condé Nast** wholly-owned subsidiary will launch a local edition of *Vogue* in September or October 2007. The magazine, which took more than two years of intense development, received an authorization from the Indian Government in June 2006, along with *Glamour*.



In **Korea**, the local editions of *Men's Health* and *Arena* were launched in March 2006 by **Design House** and **Seoul Cultural Publishers**. Retailing at Won5,000 (€4.15 or \$5.45) and Won6,000 (€4.95 or \$6.55), the licencees from **Rodale** and **Emap** reported a circulation of between 40,000 and 60,000 copies a month. Both magazines received a substantial support from advertisers, including the new comer to Asia, *Arena*, which published 1,039 pages of advertising in its first ten issues.



In other markets, **Haymarket** has licenced its monthly soccer title, *Four Four Two* in three countries. In **China** the licence is held by **Guanxi Fly Media** and the magazine has established a circulation of 30,000. In **Hong Kong**, the magazine is licenced to **Soccer Asia Interactive**, with 10,000 copies sold each month. And in **Indonesia** the licence is held by **Silver Sport Media**, with a circulation of 45,000 copies.



In **China**, **Hachette Filipacchi Media** also launched a local edition of *Psychologies*. The monthly magazine carries a cover price of RMB 20 (€2.00 or \$2.50). Separately, **Hachette Filipacchi Media** relaunched its younger women title *Xuanse* launched in 2004, as a more mature and affluent magazine under the name *25 Ans Xuanse*.

Also, **Hearst Magazines International** will launch *Esquire* in **Indonesia** in February or March 2006 with its local licensee **Media Esquirindo International** and at the same time, in the **Philippines**, *Town & Country* will be launched by **Summit Media**, also the licensee for *Cosmopolitan*.

Other magazines launches in Asia were: *Maxim* by **ABS CBN** in the **Philippines** ♦ *Disney Adventure* by **Infomedia** in **India** ♦ *Arena* by **Mediacorp** in **Singapore** ♦ *Gramophone* by **Haymarket** in **China** ♦ *Top Gear* by the JV between **BBC Worldwide** and the **Times Group** in **India**.



Mergers and Acquisitions in Asia-Pacific:

CHINA IS HOT



After an investment of about €50 million (\$66 million) and two years of negotiations in **China**, **Gruner + Jahr** has concluded an agreement for the merger of the successful fashion and beauty magazine *Ray Li Fushi Meirong*, along with three other monthly titles under the *Ray Li* brand (a women's title, a living magazine and a young women publication) with the **G+J/CLIP** portfolio of four titles: *Parents*, *Fitness*, *Car & Moto* and *Focus*. When all these entities are merged, **G + J** should become the second largest magazine company in **China**.



Launched in September 1995 in a copyright agreement from **Japan's Shufunotomo** (owner of *Ray*, the successful young women magazine in Japan), *Ray Li* is one of the most established fashion magazines in China. The company also operates a powerful women's portal with six million unique visitors a day.

PRIVATE EQUITY PUSHES MULTIPLES UP IN AUSTRALIA

More than A\$10 billion (€6 billion; \$8 billion) was spent on media mergers and acquisitions in **Australia** following Federal Parliament's decision in October 2006 to dramatically change the local media ownership laws. Restrictions on foreign media and cross-media ownership have been relaxed. But the two-out-three rule will apply. Foreign companies will be allowed to own TV stations or newspapers, but no group will be allowed to own more than two of the old media (TV, newspapers and radio) in metropolitan and regional markets.

Just a few days after the final vote in the Federal upper house, major transactions with private equity companies were announced across all sectors of the Australian media landscape:



James Packer

James Packer's **PBL** put 50% of its TV, magazine and Internet assets in a new company with private equity firm **CVC Asia Pacific** in exchange for A\$4.5 billion (€2.5 billion or \$3.5 billion) in cash. The **PBL CVC** deal was done at a multiple of 11.5 times historical EBITDA (earnings before interest, tax, depreciation and amortisation).



Rupert Murdoch

In mid October 2006, Rupert Murdoch's **News Corp** spent A\$385 million (€230 million or \$300 million) to acquire 7.5% of **John Fairfax Holdings** (publisher of *The Sydney Morning Herald*, *The Melbourne Age* and the *Australian Financial Review*, plus magazines like *BRW*). **News Corp** paid a multiple of 20.2 times price earnings ratio. Almost at the same time, Kerry Stokes' **Seven Network** purchased about 3% of **Fairfax**, which reacted in December by spending A\$2.9 billion (€1.7 billion or \$2.3 billion) in a friendly takeover of **Rural Press** (publisher of 240 regional newspapers). The move reduced **News Corp's** stake to about 5% and increased **Fairfax** market capitalisation to A\$7 billion (€4 billion or \$5.5 billion) but it created the most expensive direct transaction at a multiple of 14.5 times **Rural Press** expected 2007 EBITDA.





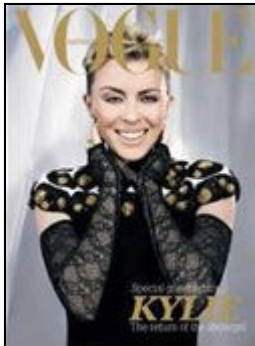
Kerry Stokes

Meantime, Kerry Stokes' **Seven Network** bought 14.9% of **West Australian Newspapers** (owner of the leading newspaper in Perth, along with various radio stations and regional newspapers) for A\$343 million (€204 million or \$270 million). **Seven** paid a multiple of 17.5 times price earnings ratio. Furthermore, **Seven** created a joint venture with **Kohlberg, Kravis, Roberts & Co (KKR)**, **Seven Media Group**, which will own 50% of **Seven's** television, magazine and online businesses. These assets were valued at A\$4 billion (€2.3 billion or \$3.1 billion) representing a multiple of 13.3 times **Seven's** historical EBITDA. The purpose of the transaction was clearly presented to develop a new vehicle to pursue further media opportunities in **Australia** and **New Zealand**.



AND MORE TO COME

How will these private equity firms unlock value? By selling off pieces or making drastic operational changes? Although it is uncertain when the **Australian** Government will proclaim the new media laws – probably not before March 2007 – James Packer and Kerry Stokes are sitting on a war chest of respectively A\$4 billion (€2.3 billion or \$3.1 billion) and A\$3 billion (€1.8 billion or \$2.3 billion) to acquire media assets.



Still in **Australia**, **News Corp's** local subsidiary, **News Magazines**, has purchased Michael Hannan's **Federal Publishing Company (FPC)** for A\$170 million (€101 million or \$134 million). **FPC** publishes 23 magazines including *Delicious*, *Notebook*, *Super Food Ideas* and owns the **Condé Nast's** licences of *Vogue*, *Vogue Living*, *Vogue Entertaining & Travel* and *GQ*. **News Magazines** - with its newspaper-inserted magazines - becomes the third largest magazine publisher in the country with a 7% market share.



TWO DISCREET DEALS



Separately, in **China**, **Media Convergence** believes that Kerry Stokes' investment company, **Australian Capital Equity**, has acquired indirectly a substantial holding (but less than 50%) in *The Shanghai Daily*, the powerful daily English language newspaper, from the **Wenhui-Xinmin United Press Group**.

In **Hong Kong**, **Next Media's** Chairman and majority shareholder, Jimmy Lai, sold 12.1% of his share in the company he founded for about HK\$750 million (€73 million or \$96 million). Earlier, the publisher of *Apple Daily* and *Next Magazine* – whose **Taiwan** operation is now profitable – announced that in its last financial year (ending in March 2006), **Next Media** earned HK\$440 million (€43 million or \$57 million) on revenue of HK\$3.32 billion (€323 million or \$427 million). Jimmy Lai still owns 74% of **Next Media**.



Famous Quote

"Magazines are the most personal form of mass-communication."

Christie Hefner
Chairman, Chief Executive Officer
Playboy Enterprises International Inc.
Phoenix, Arizona, October 23, 2006



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