



**LB**Investment

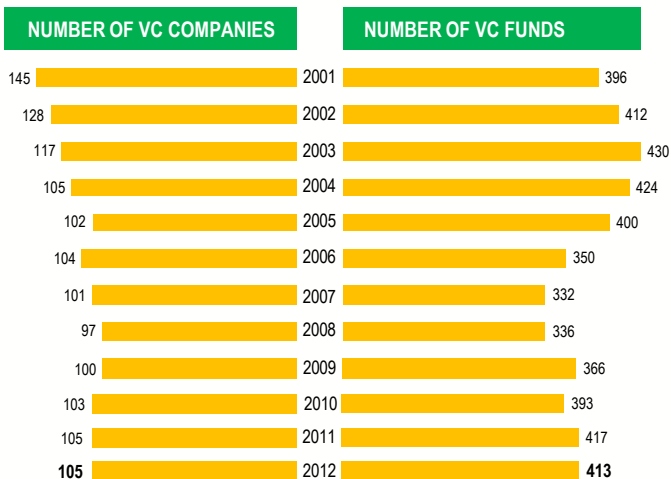
## Recent Development and Trends: **Korean and Chinese VC&PE Market**

### DISCLAIMER

This newsletter is for information purposes only. The contents in this newsletter has been mainly prepared by the information publicly available only and reflects prevailing conditions and LBI's views as of this date, all of which are accordingly subject to change. This material is confidential and may not be divulged, reproduced or redistributed without the express written consent of LBI.

LB INVESTMENT, 13FL., SHINAN BLDG., DAECHI-DONG, GANGNAM-GU, SEOUL 135-280, KOREA  
DIRECT +82 2 3467 0547 FAX +82 2 3467 0530 LB\_CHINA\_FUND@LBINVESTMENT.COM

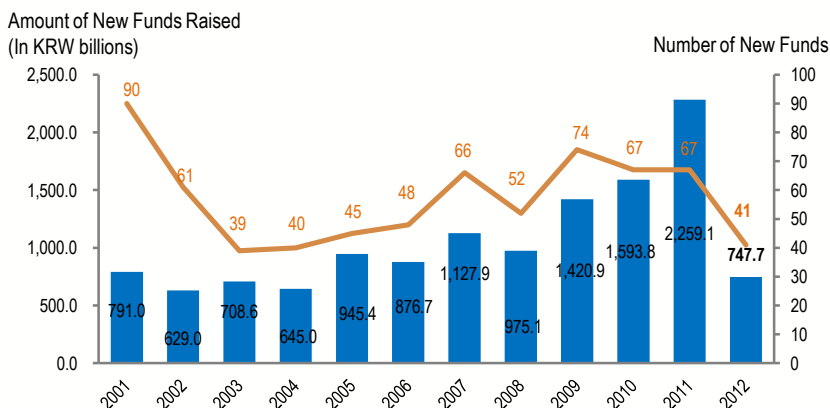
# Korean Venture Capital Industry FYE 2012



This page summarizes recent developments and trends of the venture capital industry in Korea for FQE 4Q 2012 and FYE 2012.

- Number of Korean VC companies and funds are staying still.** The Korean VC industry has become stabilized at a certain level in regards to the number of venture capital firms, but showed an increase in number of funds being established. During FYE 2012, the number of registered VCs in Korea stayed the same (six newly registered, six deregistered) at 105, together which are operating 413 VC funds.

## NEW MONEY RAISED 2001 – 2011



- New capital raising getting hard in the VC industry.** In 2012 a total of 41 funds in amount of KRW 747.7 billion were made, showing slowdown in the fund raising activity in Korea and signaling the domestic investors are cautious about the market having too much capital already.

- More money into fewer GPs.** Average number of LPs in a fund is decreasing while average size of LP commitment is increasing. In 2012 on average 4.7 domestic LPs invested KRW 3.9 billion each into 41 funds, while a 10-yr average is 5.7 LPs with average KRW 3.3 billion commitment each.

## TOP 10 KOREAN VCs BY AUM (In KRW billions)

	VC	AUM – KVF	Invested	Dry Powder
1	STIC Investment	508	304	204
2	Korea Investment Partner	490	379	111
3	<b>LB Investment</b>	<b>479</b>	<b>291</b>	<b>188</b>
4	Hanhwa VC	349	207	142
5	Intervest	322	199	123
6	Atinum Investment	297	225	71
7	M Venture	282	254	28
8	HB Investment	249	180	69
9	KB Investment	230	147	83
10	Ilsin Venture	222	154	69
	<b>Total</b>	<b>3,427</b>	<b>2,340</b>	<b>1,087</b>

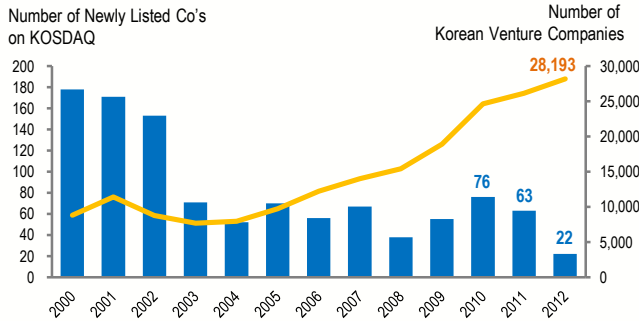
- STIC Investment has the most AUM at FYE 2012 with KRW 408 billion.** LB Investment stood at No.3 in terms of KVF AUM of KRW 479 billion. Top 10 Korean VCs have 36.5% of the all active venture fund (KRW 9,384 billion).

Source: KVCA



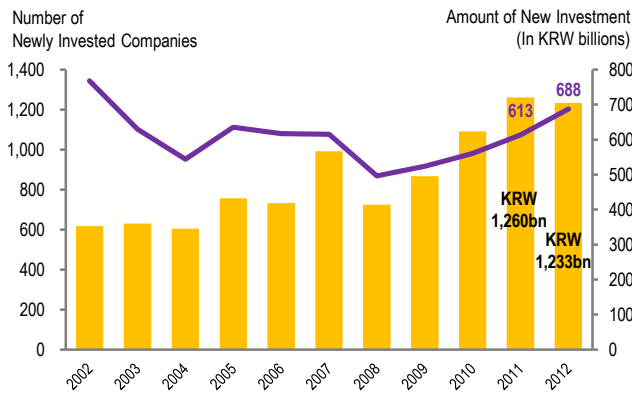
# Korean Venture Capital Industry FYE 2012 (cont'd)

## NO. OF VENTURE COMPANIES VS. NEWLY LISTED ON KOSDAQ



Source: KVCA, KRX, KOVA

## NEW INVESTMENTS, AMOUNT VS. NO. OF COMPANIES



Source: KVCA

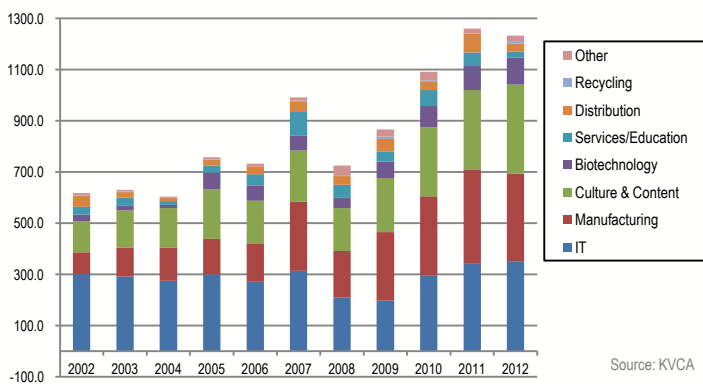
2010. In the first half of 2011, however, Korean VCs become more aggressive and invested a total of KRW 208.6bn into early stage companies, which is two-thirds of the amount spent during the entire 2010.

- Korean venture companies on the rise, waiting for the good market.** In 2012 the number of registered Korean venture companies peaked to 28,193, the highest in the past decade. However, the number of companies being newly listed on KOSDAQ was only 22 in 2012, significantly lower than the past two years. Number of venture company's IPO listing and VC-backed listing also went down from 35 and 30 in 2011 to 17 and 14 in 2012, respectively.

- Active investments, in amount and number of companies.** Since 2008 Korean VCs have been active in making new investments than the previous year. In 2012 VCs made 688 investments with a total value of over KRW 1.23 trillion, up from 613 but slightly down from KRW 1.26 trillion. Average investment per deal was KRW 1.8 million, down 13.1% from KRW 2.1 million in 2011.

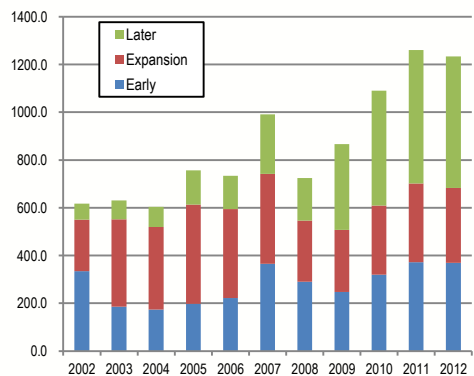
- Investment by industry and stage.** In 2012 by industry, Culture & Content (KRW 348 billion), IT (KRW 351 billion) and manufacturing (KRW 343 billion) accounted for 84.5% of total new investments by amount. By stage, Korean VCs continued the trend of shying away from early stage companies and investing in later stage companies, with only KRW 319.2bn invested in the more traditional VC early stage companies in

## INVESTMENT BY INDUSTRY



Source: KVCA

## INVESTMENT BY STAGE

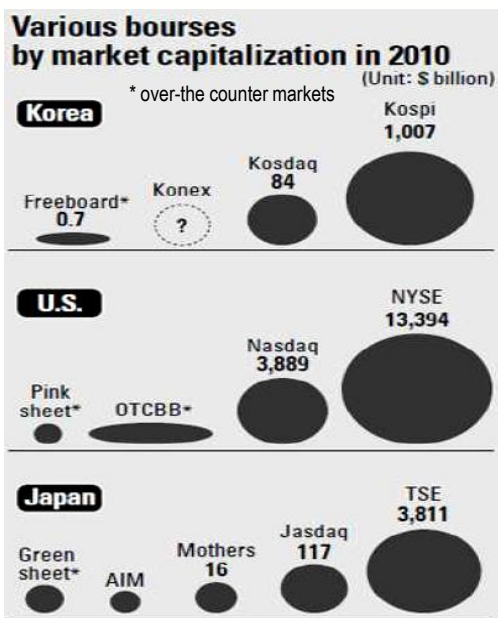


# KOREAN ECONOMY & PRIVATE EQUITY INDUSTRY

## IPO, LP NEWS & DEAL ALERT

IPO Company Name	Date	Company Business
Colentech	3/5	Medical equipment manufacturer
Winpac	3/7	Semi back-end processing (package assembly, testing, etc)
Seho Robot	N/A	Machinery manufacturer (touch/glass processor, etc)
Sammok Kangup	N/A	Springs for automobiles
LegoChem Biocsciences	N/A	In-vitro early ADME/T screening
Access Bio	N/A	In-vitro diagnostics tests for AIDS

- **VCs to fundraise KRW 2.5trn in 2013.** With the new government's aim to promote development of venture companies and start-ups in Korea, about KRW 900bn will flow in VC market by KVIC, KoFC (KRW 300bn) and NPS (KRW 200bn) this year.
- **KVIC to invest KRW 468bn in 2013**, in which the total size of the funds will add up to KRW 1trn. For the first funding "content", KVIC will set up a specific policy-purpose and will make contribution of KRW 191.5bn in April/May.



- **MKE is the new LP of KVIC.** Under the Ministry of Knowledge and Economy (MKE), Korea Institute for Advancement of Technology (KIAT) had committed in and monitored 9 VC funds since 2009 with a total size of \$1.3bn. Now these funds are transferred into supervision of the KVIC (Korea Venture Investment Corporation).
- **Banks Foundation for Young Entrepreneurs to invest KRW 50bn.** The Foundation, established in May'12, is set up to invest KRW 500bn (\$450mm) during the course of 3 years, thereby promoting entrepreneurs under 39 years old in Korea.
- **KONEX the new stock market is established.** In addition to the blue-chip KOSPI and small-cap KOSDAQ, Korea Exchange (KRX) is creating a new stock market KONEX (Korea New Exchange) for even smaller companies in June. Over 51,000 small-caps or start-ups can list in KONEX with relatively loose requirements compared to KOSPI/KOSDAQ.

- **MMAA commits to 6 GPs.** Mutual Aid Association (MMAA) selected four PEFs and two VCs for a total commitment of KRW 80bn (\$74mm), marking the first blind fund investment by a major LP in Korea this year.
- **KTPF invests in foreign PE funds.** The nation's second-largest public pension fund, Korea Teachers Pension (KTPF) assigned and committed KRW 33bn (\$30mm) each to two US-based PE funds, Hamilton Lane and Paul Capital, to increase its international PE exposure. KTPF has about \$1.6bn invested in alternative investments and about \$600mm invested in PE. KTPF is planning to increase its global PE exposure to 15% of its overall PE portfolio by 2018.
- **2013 1Q Asia-Pacific Market M&A overview.** 2013 1Q has seen a decline in M&A activity. The Asia-Pacific Market reported a total of \$108.72bn in deal volume, significantly lower than 2012 1Q, which was \$146.72bn. Deal volume was also down 25.9% and deals announced were down 10.0% compared to 2012 1Q. The average deal size was 19.0% lower as well. China was top acquirer accounting for 28.7% of the \$87.6bn in total deal value, while South Korea accounted for 13% of deal volume in the region. Kim & Chang topped the list of legal advisories in Korea during the first quarter, with a total of 20 deals amounting to \$5.7bn in deal volume.



# KOREAN ECONOMY & PRIVATE EQUITY INDUSTRY

## DEAL ALERT

- **Indian media company Reliance Big Entertainment acquires Korean gaming company.** A subsidiary of ADAG Reliance group, the Indian media company Reliance Big Entertainment, acquired a studio in Korea and a Japanese mobile game development and publishing company. The Indian conglomerate purchased a 51% stake in Bluesom Inc, a Busan-based Korean gaming studio for under \$5mm, as well as a 100% stake in Funnel Japan's gaming division.
- **Sampoong Industry for sale.** Established in 1974, the Korean auto parts maker has been under court receivership since 2012. Sampoong's annual sales were KRW 30bn last year.
- **Infinitt Healthcare to sell stake in TI Medical Systems JV to partner.** The listed Korean medical imaging software provider is selling its 70% stake in the JV TI Medical Systems, a medical equipment distribution company with exclusive distribution rights for Toshiba medical equipments in Korea, to Toshiba Medical Systems for reportedly \$7mm.
- **CJ Cheiljedang acquires 3 US food makers.** CJ acquired three US food makers for KRW 52bn: TMI Trading, Twin Marquis and Chef One Corporation, all of which were subsidiaries of TMI Food Group with specialty in dumplings and noodles. The acquisition is intent to expand food manufacturing capacity in the US.
- **PEF Skylake Incuvest to acquire Tapex.** The Korean manufacturer of industrial parts and materials is to be acquired by Skylake Incuvest for KRW 100bn (\$90mm).
- **Tongyang TS acquired by Tongyang Networks.** The listed Korean systems integrator acquired 100% of Tongyang TS, an unlisted affiliate and a heat exchange maker, for KRW 7.5bn in cash from Tongyang Inc, a listed affiliate.
- **Czech cabinet approves Czech Airline stake sale.** The Czech cabinet approved the sale of a 44% stake in the loss-making Czech Airlines to Korean Air, the sole bidder and buyer of the stake for EUR€ 2.64mm (\$ 3.4mm).
- **Shinsegae Group acquires Express Bus Terminal stake.** Shinsegae Group is to purchase a 38.75% stake in Seoul Express Bus Terminal Co, the owner of the express bus terminal in Gangnam district. They plan on creating a "Shinsegae Town" by uniting the current department store with the Central City shopping district, as well as other buildings to be built within the block. The group purchased the stake from IBK Investment & Securities consortium for KRW 220bn (\$198 mm).
- **Korean cosmetics maker Able C&C pursuing M&A.** The listed Korean low-to-mid priced cosmetic maker of Misia, Able C&C, recently announced its plan to expand through its active pursuit of M&A opportunities. The company wishes to grow to the point where they are generating around KRW 1trn by 2017. The company has set aside KRW 100bn (\$90mm) for potential acquisitions.
- **New Japanese and Korean JV, Malaysian Synthetic Rubber.** Japanese and Korean companies have come together to form a new joint venture called Malaysian Synthetic Rubber that will manufacture and market butadiene rubber in Pasir Gudang, Johor for the Asian market. Japan's Ube Industries will have a 40% stake and Mitsubishi a 10% stake in the new company, while Korea's Lotte Chemical Corp and its local subsidiary Lotte Chemical Titan Holding (LCTH) will hold the other 50%.
- **NHN Corporation makes acquisitions to expand market.** The Korean internet portal operator recently announced a series of acquisitions made with the intent to expand into the world market. NHN plans to actively expand their mobile messenger program into the Americas and China. NHN has a market cap of KRW 13trn (\$11.7bn).

# CHINESE ECONOMY & PRIVATE EQUITY INDUSTRY

## ECONOMY & MARKET UPDATE

### TREND OF CONSUMER PRICE INDEX

Feb 2012 - Feb 2013

Y-O-Y growth (%)



### CHINA'S FOREIGN TRADE SURPLUS

Feb 2012 - Feb 2013

in billion US dollars



### TREND OF PRODUCER PRICE INDEX

Feb 2012 - Feb 2013

Y-O-Y growth (%)



- **China's Feb inflation rebounds to 10-month high**, due to rising food prices during the Spring Festival season. Feb's consumer price index (CPI) gained 1.1% from the previous month. Taking the holiday effect and the increase in fuel prices in Feb into account, the rebound is largely in line with market expectations.
- **China's foreign trade recovers further.** China's foreign trade showed stronger signs of recovery buoyed by the upbeat demands from the US and the emerging markets. Exports increased 21.8% y-o-y to \$139.37bn in Feb, while imports fell 15.2% to \$124.12bn.
- **China's Feb PPI down 1.6%**, marking the 12th straight month of declines after the PPI dropped in Mar'12 for the first time since Dec'09.
- **China's economic growth at reasonable level in 1Q'13.** Facing global economic uncertainties, the Chinese government has enhanced macro-economic control and attached great importance to structural reforms. The country will maintain its proactive fiscal policy and prudent monetary policy to boost economic growth and keep prices stable. However, China's GDP growth in 2Q'13 is expected to rebound to 8% from a lower-than-expected 7.7% in 1Q.

## DEAL ALERT

- **Budget hotel chain 7 Days to go private.** Investors including its parent company Keystone Lodging Co and private equity firms Carlyle Group and Sequoia Capital will acquire the company for \$4.60 per ordinary share or \$13.80 per American Depositary Share. The go-private action is for more flexible operations.
- **Vancl acquires online apparel retailer.** The online clothing retailer acquired Crucco, a business-to-customer online apparel retailer for about RMB 10mm (\$1.6mm). Crucco will become Vancl's first sub-brand, and will continue to be operated and managed by Crucco's team. Vancl will seek more brand acquisitions this year.
- **Carlsberg Hong Kong in \$461mm Chongqing Brewery bid.** Carlsberg Brewery launched a partial takeover bid valued at Danish 2.65bn krone (\$461.5mm) for a 30.3% in one of China's largest beer makers. If the bid is successful, the Danish brewer will gain up to 60% of the shares.
- **Telecom giant on lookout for overseas M&As.** China Mobile Communications Corp, the parent company of the world's biggest mobile operator by subscriber, is seeking M&A opportunities in the global market. The only acquisition by a Chinese telecom carrier was made in 2007, when China Mobile bought Paktel Ltd, a money-losing Pakistani carrier, for \$284mm from Millicom International Cellular SA. The company had cash and cash equivalents of RMB 96.4bn (\$15.5bn) as of June 2012.



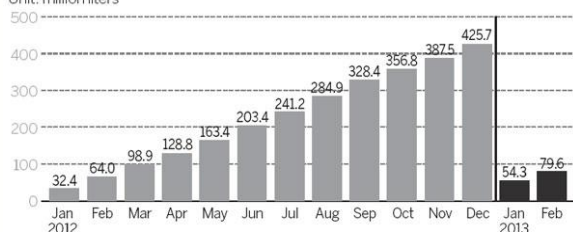
# CHINESE ECONOMY & PRIVATE EQUITY INDUSTRY

## DEAL ALERT (cont'd)

- **China sets up \$167bn State-owned railway corp.** After a decision by the top legislature to dissolve the country's Ministry of Railways, this move will revamp the troubled railway industry. The new corporation, with a registered capital of RMB 1.04trn, will be wholly State-owned and supervised by the Ministry of Transport.
- **Siemens launches RMB VC business.** As a part of Siemens Financial Services' global VC platform, the VC will mainly focus on four sectors: energy, healthcare, industry, and infrastructure and urban development.
- **Tangsteel acquires 10% Swiss stake.** Tangshan Iron and Steel Group Co, or Tangsteel, acquired a 10% stake for \$1.2bn in Switzerland's Duferco International Trade Holding, the world's biggest steel trader, in a move to further expand its overseas market. Over the past year, Duferco's steel trade volume was more than 16 million metric tons, approximately equal to the total output of Hebei Iron and Steel Group, China's largest steel company.
- **Chinese solar panel giant declares bankruptcy.** One of four largest solar module makers in China and a major subsidiary of the New York-listed Suntech Power based in east China's city of Wuxi, Wuxi Suntech declared bankruptcy.
- **PPStream denies buyout rumors.** The Shanghai-based online television video operator denied media reports that it would be acquired by rival iqiyi.com Inc, the online video unit of Internet search giant Baidu Inc. for \$350mm. In 2011, the company started preparing for IPO in the US but has not submitted an IPO application to the US SEC.
- **ICBC to buy stake in Taiwan's SinoPac.** The Industrial and Commercial Bank of China, the world's largest lender by market value, is to acquire 20% of Bank SinoPac in the first mainland investment in Taiwan's banking sector. The benchmark consideration for the stake acquisition will be around 18.7 billion new Taiwan dollars (\$625mm).

## ANNUAL CUMULATIVE WINE IMPORTS

Unit: million liters



Source: Wind Information

LI YI / CHINA DAILY

- **China Foods to buy wineries in Australia/US.** The Hong Kong-listed consumer food arm of Cofco, the country's largest State-owned food conglomerate, will buy two or three wineries in Australia and the US, in a bid to expand its wine sales while fending off competition from surging wine imports. The acquisitions, aimed at locally renowned brands, will be worth at least \$20mm and are expected to be completed within the next two years.
- **Bank of Shanghai seeks IPO in HK to raise RMB15bn,** to supplement its capital. The planned listings in Hong Kong and on the mainland are subject to the approval of the China Securities Regulatory Commission.
- **CIC eyes infrastructure investment in Europe & US.** The abundant financial firepower of the CIC, which nears \$500bn, makes it more suited to infrastructure investment, which requires massive funds but offers slower yields. Last year, the CIC purchased an 8.68% in British utility company Thames Water for \$1.8bn and a 10% stake in the operator of London's Heathrow Airport for \$720mm.
- **Dalian Wanda buys HK-listed property company.** The conglomerate with interests in property and cinema chains, has inked a deal to become the majority shareholder of a Hong Kong-listed commercial property company, which will become a listing platform for it to expand its financial clout. Hong Kong-listed Hengli Commercial Properties sold 1.8 billion of its shares to Wanda for HK\$465.5mm (\$60mm). In addition, Wanda has to buy HK\$209mm worth of the company's convertible bonds.



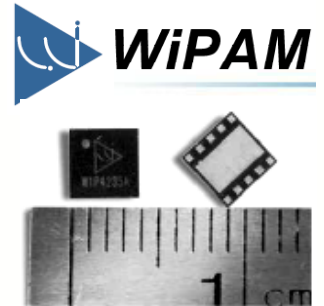
## LB NEWS UPDATE

### LB NEW PORTFOLIO COMPANIES

LB made new investments in the following portfolio companies in the past two months:

#### 1) WiPAM

- **Founded In:** Dec 2006
- **Investment Stage/Type:** Series-B/Mid-Stage
- **Industry:** RF Semiconductor
- Produces PAMs (Power Amplifier Module), inserted in smartphones to amplify the transmitter signals as a key RF component determining the power usage efficiency and battery time. Since selected as Samsung Electronic's first vendor in 2008, the company has been manufacturing WiMAX, WCDMA and subsequently LTE-based PAMs. With dramatic growth in Samsung's smartphones in NA and Europe, the company's revenue is projected to grow 3x in 2013.





## LB NEWS UPDATE

### LB RECENT INVESTMENT DEVELOPMENTS

LB expects to successfully exit 6 portfolio companies through IPOs in KOSDAQ, TSEC and NASDAQ during 2013.

1) **TESNA**

- Semiconductor test house
- Mid stage investment
- Time of investment : July 2008
- Expected IPO in KOSDAQ: 2013 2Q

2) **Erae CS**

- Manufacturer of essential parts of industrial tools, automotive, shipbuilding and plant items
- Later stage investment
- Time of investment : October 2010
- Expected IPO in KOSDAQ: 2013 3Q

3) **TOPAZ**

- LED TV & flat LED lighting manufacturer using laser and LGP (Light Guide Plate)
- Mid stage investment
- Time of investment : May 2011
- Expected IPO in KOSDAQ: 2013 4Q

4) **Youjia Mica**

- Raw materials (synthetic mica powder and synthetic coiled mica)
- Pre-IPO investment
- Time of investment: June 2012
- Expected IPO in TSEC (Taiwan Stock Exchange): 2013 4Q (Exit in 2014 1H)

