



LBInvestment

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



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MAJOR KOREAN LP STATUS



Total AUM: \$386bn (Oct'12)
Asset Allocation to Alternative Investment:
 5.9%(2010) → 7.8%(2011) → more than 10.0% (Target)
Main Purpose: Profit

Year	Fund Title/Strategy	Total Commitment	No. GPs
2009	Mezzanine (CB/BW) Fund	\$1.3bn	8
2009	Venture Fund	\$190mm	9
2010	Growth Capital Fund	\$900mm	9
2011	Pan Asia Fund	\$900mm	6

2012 Will continue to invest actively in VC/PE but without contest for specific asset class or investment strategy



Total AUM: \$35bn (Dec'11)
Main Purpose: Create jobs and strengthen national economy by promoting SMEs and new growth engine industries (policy-driven)

Year	Fund Title/Strategy	Total Commitment	No. GPs
2010	New Growth Engine Industry Fund	\$1.5bn	15
2011	New Growth Engine Fund	\$400mm	4
2011	SME & Venture Fund	\$300mm	12
2011	Young Entrepreneur Fund	\$30mm	3

2012 May not invest in blind funds due to less-than-expected GP investment level and too many KoFC funds in the market. But will continue to invest in project funds

- Two pillars of Korean LPs, NPS (National Pension Service) and KoFC (Korea Finance Corporation), may choose to go separate ways in future level of local GP commitment

- NPS continues to be the biggest investor of local private equity industry. NPS is currently ranked the 4th in terms of AUM, after Japan's GPIF (Government Pension Investment Fund), Norway's GPF (Government Pension Fund Global) and Netherland's ABP, growing its AUM 5% from \$367bn to \$396bn in 2012. A significant number of asset management and investment advisory companies already heavily rely on the fund from the NPS. While NPS' alternative investment is expected to account for more than 10% of the total portfolio by 2016, its target AUM in alternative investment will amount to \$45.6bn, up 52% from \$30bn. NPS also acknowledges and expects to extend fund life from local average fund life of 7-8 years to global standard fund life of 10 years.

- KoFC will not sponsor blind funds in 2013 but will focus on investing in more project funds. KoFC has made \$3.6bn commitments to local GPs across 66 VC/PE funds in the past few years. This sums up to a total AUM of \$7.6bn with investments from other minor LPs. Such liquidity in the market led to high valuation and often competition amongst funds sponsored by KoFC. As such, KoFC recently announced it would focus on project funds, especially on overseas/cross-border investments (to support SMBs' efforts to tap into the overseas market) and local bio/ pharmaceutical industry.

KOREAN ECONOMY & PRIVATE EQUITY INDUSTRY

IPO & DEAL ALERT

IPO Company Name	Date	Company Business
Avatec	11/6	Display panel coating
CJ Hello Vision	11/9	Cable TV operator
YMC	11/15	IT Parts manufacturer
Maxrotec	11/16	Industrial/ gantry robot systems
GMB Korea	11/20	Automobile precision parts/ bearings
DGENX	11/22	Automobile parts
Wooriro	11/27	Optical telecom devices
SBIAxes	12/17	Payment gateway
CS elsolar	12/27	OLED material manufacturer
Sammock Spring	N/A	Specialized spring manufacturer
Fortis	N/A	Satellite/cable settop box manufacturer
I-Sense	N/A	Blood glucose monitoring device
Wooree E&L	N/A	LED Packaging

- Korea to ease KOSDAQ-listing requirements for SMBs, venture start-ups.** Korea's financial regulators and Korea Exchange (KRX) have mapped out policies to loosen eligibility requirements for local SMBs and venture start-ups to float their shares on the junior KOSDAQ, so that more companies can raise fresh funds for investments via IPO. The move is seen as part of the authorities' efforts to breathe a new life into the nation's freezing IPO market. Number of newly-listed companies in Korea dropped to 26 in 2012, less than a third from last year's 78.

- KOSPI could reach up to 2,380 next year,** according to global investment banks, due to better internal and external economic conditions next year. Korea's GDP growth rate is likely to be around 3%, higher than the estimated 2.3% growth of this year.

- ING Group to sell South Korean asset management unit** in order to offload its Asian

operations to repay the state debt. ING Group's Korean asset management business is the largest one among its Asian fund management units, managing about \$24bn in total, of which \$17~19bn came from ING Life.

- Tongyang Group plans to sell off most of its non-core business units.** Korea's mid-sized conglomerate Tongyang Group sets to undertake massive restructuring in its effort to improve its financial structure. Tongyang's restructuring plan includes stake sales of non-core business units, including all affiliates in the unit of construction materials (Tongyang Cement & Energy), home-appliances (Tongyang Magic), textiles (Hanil Synthetic Fiber), construction and power plants, which are Tongyang Inc., holding company of Tongyang Group's five major business units, but excluding cement, thermal power generation and finance units, which are considered the company's future growth engine. If the scheme pays off, Tongyang would raise around \$2bn by 1H 2013. The work for finding potential buyers of Tongyang Cement & Energy and Tongyang Magic has already begun.
- SK Group partners with Carlyle Group** in its effort to tap into the global market. The partnership will create synergy effects by incorporating SK Group's extensive experiences in business management and expertise in energy and ICT industries into the Carlyle's M&A expertise and wider network accessible from 600 investment experts.
- EA selling Neowiz stakes to raise up to KRW 54.5bn.** The listed Californian game giant is selling its stakes in two South Korean online game services companies: a 12.5% stake in Neowiz, a listed Korean internet company and a 14.7% stake in Neowiz Games.
- Headland acquires stake in YoungToys.** The former Asian PE branch of HSBC recently bought a 96.5% stake in YoungToys, a Korean toy company for KRW 1.44trn. To date, Headland PE Fund 6("HPEF6") has made eight investments and two exits.



KOREAN ECONOMY & PRIVATE EQUITY INDUSTRY

IPO & DEAL ALERT (cont'd)

- **Sambo Motors to acquire Plakor, Najeon and Czech Plakor.** The listed South Korean auto parts maker will acquire Plakor, Najeon and Czech Plakor from ARRK for an undisclosed price. ARRK, the listed Japanese molds manufacturer, identified Sambo this past October as the preferred bidder and Sambo set up a special purpose company for the anticipated acquisition.
- **Inhwa Precision acquires Haedong Industries.** The listed Korean ship parts maker acquired 100% of Haedong Industries KRW 13.5bn. Haedong Industries is a Korean metal mold equipment maker.
- **Wooshin Systems in talks to acquire Shinki,** a private Korean engineering plastics and polypropylene producer. Wooshin Systems is a Korean automotive body welding and assembly systems maker. The price of the sale is expected to be around KRW 60bn.
- **Daewoo Shipbuilding & Marine Engineering acquires stake in KLDS Maritime.** A 74% stake in KLDS Maritime, Panama-based ship operating subsidiary, was acquired by DSME for KRW 168.6bn.
- **Daechang Metal acquires a majority stake in U&S.** The listed Korean ship parts maker acquired a 66.53% stake in the private Korean LNG plant facilities maker for KRW 6.1bn. The deal will diversify Daechang's business profile and create synergy with its existing business.
- **SK E&S to purchase stake in Eurasia Tunnel.** The listed Korean LPG supplier purchased a 18.77% stake in the private, Turkey-based undersea tunnel developer for KRW 56bn.
- **QCP VI PE Fund acquires a 42% stake in Taihan Fiberoptics.** The listed Korean optical fiber maker sold a 42.16% stake of the company to QCP VI Project, a local PE fund for KRW 27.16bn. Q Capital Partners is the GP of QCP VI Project PEF.
- **Daemyung Enterprise acquires Ghiahn Corporation.** The listed South Korean asset management company acquired 100% of its privately-held ISN and retail affiliate for KRW 19.8bn, to assist the company enter new business segments.
- **Woongjin Passone to be acquired by SkyLake Incuvest.** The South Korean PE fund was chosen as the preferred bidder for a stake in the education service provider affiliate. The sale could be as much as KRW 100bn.
- **STX Corporation to sell STX Energy to ORIX** through a stock exchange announcement as well as issuing exchangeable bonds. STX plans to raise around KRW 360bn through the sale.
- **Li & Fung to buy apparel maker.** Hong Kong's Li & Fung Group is reportedly in talks to acquire South Korean children's apparel maker Suhyang Networks for roughly KRW 200bn (\$183.73mm).

CHINESE ECONOMY & PRIVATE EQUITY INDUSTRY

ECONOMY & MARKET UPDATE

TREND OF CONSUMER PRICE INDEX

Nov 2011 - Nov 2012

Y-O-Y growth (%)



CHINA'S FOREIGN TRADE SURPLUS

Nov 2011 - Nov 2012

in billion US dollars



Chinadaily.com.cn

Source: General Administrations of Customs of China

- China's FDI inflow fall quickens in Nov'12** for the 10th time in 11 months, as labor costs rose and an economic slowdown dragged growth down for seven quarters in a row. In the first 11 months of 2012, China attracted \$100bn in FDI, down 3.6% y-o-y. FDI from the US climbed 6.3% during the period, with that from Japan expanding 11.3%. However, FDI from the eurozone fell 2.9% from 2011.
- China's Growth forecast to exceed 7% in 2013.** China's economy is likely to grow by 7.7% in 2012 and accelerate to around 8.5% in 2013 partly due to favorable factors such as the effects of China's pro-growth policies and recovering external demand. China's economy expanded 7.4% y-o-y in 3Q, slowing from 7.6% in 2Q and 8.1% in 1Q.
- China's inflation shows slight rise in Nov'12**, rising from 2% from Nov'12, due to a rise in investment and industrial growth. **China's exports also rose 2.9%.** The growth of China's exports and imports slowed in Nov'12 y-o-y, causing the country's monthly trade surplus to contract to \$19.6bn.

IPO & DEAL ALERT

- China Gas to buy Fortune Oil's operations for \$400mm.** The supplier of natural gas to 172 Chinese cities will buy the HK-based Fortune Oil's Chinese natural gas operations, well above its current market value of £ 181mm (\$293mm). Buying Fortune Oil's gas business will give China Gas pipelines across seven provinces, a coal bed methane block in Shanxi province and compressed and liquefied natural gas operations
- PetroChina buys into BHP Billiton's Australia LNG project.** Asia's biggest oil producer agreed to buy the international mining giant's shares of liquefied natural gas project in Australia at a price of \$1.63bn - the biggest overseas acquisition by the company in 2012 - to further expand its foreign assets. BHP Billiton will sell its 8.33% interest in the East Browse JV and 20% interest in the West Browse JV, located off western Australian.
- PetroChina also pays Encana \$2.2bn for shale gas JV.** PetroChina will pay Canada's largest natural gas producer, C\$2.2bn (\$2.2bn) for a 49.9% stake in a rich Alberta shale gas prospect owned by the Canadian company. Two companies tried to set up a C\$5.4bn JV on British Columbia gas assets in 2011, but the deal fell through over reported disagreements about asset value and development pace.
- PPR acquires Chinese luxury brand.** PPR, one of the top three luxury groups in the world, acquired a majority stake in promising Chinese fine jewelry brand Qeelin to expand its global business and luxury market in China. Cost of the acquisition was not disclosed but is said to be a similar size to its acquisition of Balenciaga in 2001.
- China's Wanxiang wins A123 auction.** China's largest auto-parts maker bid \$260mm for assets of California-based car-battery maker A123 Systems, winning a bankruptcy auction. The assets purchased may include A123's automotive segment, energy-grid storage business, commercial business and the United States government business.

CHINESE ECONOMY & PRIVATE EQUITY INDUSTRY

IPO & DEAL ALERT (cont'd)

- **CNOOC acquires Nexen for \$15.1bn.** China's biggest offshore oil producer acquired Calgary-based Nexen, which explores western Canada's oil-rich tar sands and operates production rigs in the North Sea, the Gulf of Mexico and Nigerian waters. It is believed to be the most valuable acquisition of a foreign company by a Chinese enterprise. The deal is still undergoing a regulatory review in the US, regarding Nexen's assets in the Gulf of Mexico.
- **China Youngman Automobile buys 29.9% stake in Spyker for \$12.95mm.** Two companies will also establish a joint venture, in which Youngman will invest €25mm to take a 75% stake. This venture will launch its first vehicle, a super sports utility vehicle, in 2014.
- **HSBC selling share in insurer.** HSBC Holdings, the largest European bank by market value, announced plans to sell its 15.57% stake in China's Ping An Insurance to a Thai conglomerate. Charoen Pokphand Group owned by the Thai tycoon Dhanin Chearavanont, will pay \$9.39bn for HSBC's stake in China's second-biggest insurer by market value. In China, Charoen Pokphand has invested in agriculture, retail, automotive, IT and a variety of other sectors.
- **ICBC completes Argentinian bank stake purchase.** The Industrial and Commercial Bank of China, the world's largest lender by market value, completed the purchase of an 80% stake in Standard Bank Argentina and its two affiliates, from the Johannesburg-based Standard Bank. The deal, ICBC's biggest takeover in nearly 4 years, is expected to cost no more than \$650mm.
- **Fusheng Industrial acquires German compressor manufacturer.** The Taiwan-based leading Chinese producer of air compressors acquired ALMiG Kompressoren, as Fusheng expands its global business.
- **Oerlikon to sell textile divisions.** The world's largest maker of textile machinery sold its natural fibers and textile-components units to China's Jinsheng Group as part of the biggest sale.
- **Chinese investors buying bulk of AIG unit.** A group of Chinese investors is buying up to 90% of American International Group's airplane-leasing business, International Lease Finance Corp. All told, the \$5.3bn deal would be the biggest acquisition of a US company by China. The Chinese consortium - New China Trust Co, China Aviation Industrial Fund and P3 Investments Ltd - agreed to acquire 80% of ILFC for \$4.23bn, with an option to acquire an additional 9.9% stake. Once finalized, the deal will top China Investment Corp's \$3bn purchase in 2007 of a stake in US private-equity firm Blackstone Group making ILFC the world's biggest lessor of aircraft.
- **Grey buys ArtM Communications Group.** Grey Group, one of the largest global communications networks, is to acquire, on conditional regulatory approval, a majority stake-holding in ArtM Communications Group, a leading full-service integrated communications company in China. The event, costing RMB 203mm (\$32.2mm), will help Grey boost its service capabilities and presence in China.
- **China-led group agrees to mine deal.** A consortium led by Hebei Iron and Steel Group, China's biggest steelmaker by output, is to buy a controlling stake in South Africa-based Palabora Mining, from international mining giant Rio Tinto. The world's third-largest miner by market capitalization will sell a 57.7% to the consortium for \$373mm.
- **Sinopec agrees Nigerian oil deal.** China Petrochemical Corp, also known as Sinopec and Asia's largest petroleum and petrochemical company, is to buy a block of oil in Nigeria for \$2.46bn via a 20% stake in France's Total ADR.

LB NEWS UPDATE

LB NEW PORTFOLIO COMPANIES

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

1) Nature Republic

- **Founded In:** September 2009
- **Investment Stage/Type:** Growth Cap
- **Industry:** Cosmetics
- One of the fastest growing local low-to-mid priced one-brand cosmetic companies in Korea. Founded by Chung, Woon-ho who had founded and successfully sold the currently biggest (by number of stores) local one-brand cosmetics company, the Faceshop, to the global PE shop Affinity, then subsequently to LG Life & Health. With vast experience in the industry and extensive real estate network by the CEO himself and other key members of the company, Nature Republic has shown over 100% growth in revenue every year in the past 3 years, with number of stores growing from 84 in 2009 to near 400 in 2012(E).



2) Bio Protech

- **Founded In:** May 2005
- **Investment Stage/Type:** Series-C/Mid-Stage
- **Industry:** Medical equipment
- Produces medical supplies/healthcare parts that are being used for various body sensor tests, such as electrocardiogram sensor and transcutaneous electrical nerve stimulation. Current major clients include global medical clients like GE Healthcare and Medline, as well as big distributor and GPOs (Group Purchasing Organization), and company is heavily relied on exporting, with 97% of the revenue coming from overseas.



3) UUCUN

- **Founded In:** May 2005
- **Investment Stage/Type:** Series-C/Early-to-Middle Stage
- **Industry:** Mobile advertising (UUadv) and app market place (UUdev)
- UUCUN became a top WAP-based mobile ad network in China in early 2011. Since November, 2011, UUCUN entered into a new business area: customized Android Market as a backend host for many middle-to-low end Chinese smart phone makers or design houses, like TCL, Changhong, Longcheer, etc.



4) Handy Soft

- **Founded In*:** December 2011
- **Investment Stage/Type:** Series-A/Mid-Stage
- **Industry:** Software
- * Merger between Handy Soft (founded in 1997) and Dasan Networks (founded in 2003) was completed in December 2011 after Dasan acquired 100% share of Handy Soft in July 2011.
- Company's legacy business comes from developing softwares such as Groupware, BPM (Business Product Management) solutions and Public/Banking SI (System Integration), but is currently expanding into new areas like Mobile, Security, Cloud and Big Data. More than 60% of revenue comes from public institutions like SOEs and government/national agencies, with the rest from banks and corporations.



LB NEWS UPDATE

LB NEW PORTFOLIO COMPANIES (cont'd)

5) Nano Biosys

- **Founded In:** February 2009
- **Investment Stage/Type:** Series-B/Mid-Stage
- **Industry:** Medical equipment
- Developed extremely fast real-time PCR for quantitative analysis of infectious diseases and food pathogens. Company's "UltraFast LabChip Real-time PCR G2-3 System" combines Lab-on-a-Chip (LabChip) technology with real-time PCR technology, reducing size, weight and running cost by using economical disposable plastic LabChip. Also developed "UltraFast LabChip Sample Prep system", which greatly reduces sample prep time (10-15 min to isolate DNA/RNA from 12 samples), size and running costs.



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) **Maxrotec**

- Manufacturer of wireless gantry robot system and cylinder block of car engine
- Later stage investment
- Time of investment : May 2011
- Expected IPO in KOSDAQ: 2012 4Q (Exit in 2013 1Q)

2) **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 1H (Exit in 2013 2H)

3) **TESNA**

- Semiconductor test house
- Mid stage investment
- Time of investment : July 2008
- Expected IPO in KOSDAQ: 2013 1H

4) **GCT**

- LTE & WiMax chip set solutions for 3-4G mobile handset
- Early stage VC investment
- Time of investment: September 2011
- Expected IPO in NASDAQ: 2013 2H

5) **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 2H

6) **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 2H

