



**LB**Investment

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

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## KOREAN MAJOR LP – Vol.10: Various



### Military Mutual Aid Association (MMAA)

- As one of the four major pension funds in Korea, the Military Mutual Aid Association (MMAA) was established in 1984 for the purpose of promoting stable life and healthy financial welfare for the professional military. The MMAA has about 170,000 members, KRW 8bn AUM and 10 subsidiary business units including Cheil Food & Beverages, Dukpyung Hill View Country Club, Gongwoo ENC, etc, and also has equity stakes in 3 companies including Woongjin Kukdong Construction and Megabox.. The MMAA's investment asset stood at about KRW 1.9bn, a 23.7% of the entire asset at FY 2010, while Cash & deposits took KRW 4.3bn, a 53.2%.



### Korea Teachers Pension Fund (KTPF)

- Upon enactment of the Private School Teachers Pension Law in 1973, Korea Teachers Pension was established in 1974 to efficiently manage and operate the pension system, and to welfare of private school teachers and their families. With over \$12 billion assets, KTPF's Business of Fund Operation team invests in domestic securities (21%), domestic bonds (62%), alternative investments (14%) and others. KTPF recorded an NAV of 12.7% and 10.5% in 2009 and 2010, respectively.



### LIG Insurance

- Established as Pan-Korea Insurance in 1959, LIG Insurance has evolved into a major non-life insurance player with sales of KRW 6.6trn and assets of KRW 11.6trn at FY 2010. LIG has taken the lead in advancing the Korean non-life insurance industry with its innovative products including "Magic Car Service", the industry's first emergency roadside program in 1996. LIG's investment portfolio is comprised of Cash & Deposits (6.0%), Loans (36.7%), Bonds (34.7%), Equities (10.6%) and Real Estate (12.0%) as of FY 2010. The company notes it plans to diversify investment portfolio through alternative assets more so in the near future.



### Samsung Life Insurance

- Largest insurer in Korea, a Fortune Global 500 company and a subsidiary of the Samsung Group, Samsung Life Insurance was founded in 1957, and quickly grew and attained a market leading position. Samsung Life was a private company from its foundation until it went public in May 2010, and it is now one of the country's most valuable companies by market capitalization of KRW 17.4 billion. Samsung Life's investment portfolio is comprised of bonds (56%), loans (20%), stocks (13%), investment properties (4%) and others, and the company recorded an adjusted investment yield of 6.2% and 7.4% in 2009 and 2010, respectively.

# KOREAN ECONOMY & PRIVATE EQUITY INDUSTRY

## LP NEWS & MARKET UPDATE

KOREAN MAJOR LPS COMMITMENT TO PEFs (2009~2011)				
YEAR	LP	THEME	No. GPs/ Consortium	TOTAL COMMITMENT
2009	Ministry of Knowledge & Economy	New Growth Engine	5	KRW 110bn
	National Pension Service (NPS)	Mezzanine Fund	6	KRW 700bn
2010	Korea Finance Corporation (KoFC)	New Growth Engine	15	KRW 1,500bn
	NPS	Blind Fund	9	KRW 850bn
2011	NPS	Pan-Asia	8	KRW 900bn
	NPS	Matching Fund	10	KRW 200~ 400bn per fund
	KoFC	New Growth Engine	4	KRW 400bn
	Military Mutual Aid Association	N/A	TBD	KRW 50bn
	Korea Post Office	N/A	4	KRW 400bn

Year 2011 marks the 7<sup>th</sup> meaningful year since adaptation of PEF in Korea, especially considering the average life of Korean PEFs is 7 years. While Korean major LP commitments have consistently grown for the past three years, domestic PE activities were not so active last year. Despite regular M&A deal flow and PEFs' trials, not many made it to closing for a few reasons including: 1) global economic downturn from the Lehman Brothers to the recent European crash, 2) 'put option' or 'buy back' clause are no longer considered attractive, 3) not as many restructuring opportunities as previously anticipated, and 4) increased competition with conglomerates in the M&A market.

TOP 10 VCs with MOST VENTURE FUNDING (2011)		
GP	TOTAL FUNDING (KRW bn)	DETAILS (Anchor LP, Total Commitment in KRW bn)
LB Investment	143.1	LB Cross-Border Fund II (NPS, 71.5) KoFC-LB New Growth Engine Fund (KoFC, 71.6)
Sovik Venture Capital	138.64	Sovic Movies Fund (Unknown, 15) Sovic Global Contents Fund (Unknown, 123.6)
STIC Investment	138.5	STIC Pan-Asian Technology Fund (NPS, Unknown)
Atinum Investment	125	2011 KIF-Atinum IT Fund (KIF, 25) Atinum Pan-Asian Fund (NPS, 100)
Interinvest	110	Korea-Singapore Hightech Fund III (Unknown, 110)
Lindman Asia	100	Lindman Pan-Asian New Growth Fund (NPS, 100)
Softbank Ventures	87.5	SB Pan-Asian Fund (NPS, 87.5)
Aju IB	80.1	Aju-KoFC 2011 Fund VIII (KoFC, 45) Aju Agrigento Fund I (Unknown, 20) Aju-New SME Fund II (Unknown, 6) Aju New Renewable Energy Fund (Unknown, 2.1) Aju New Renewable Energy Fund II (Unknown, 2) Aju New SME Fund III (Unknown, 5)
SL Investment	80	2011 KIF-SL IT Fund (KIF, 30) KoFC Green/New Growth Engine Fund (KoFC, 50)
Hanhwa Venture Capital	72.5	2011 KIF-Hanhwa IT Fund (KIF, 25) KoFC-Hanhwa Pioneer Champ 2011 (KoFC, 47.5)

NPS' Pan-Asian Fund made 30% of total domestic VC funding in 2011. After fierce competition, 8 GPs (6 VCs+3PEs) were chosen for the NPS' Pan-Asian Fund, which was attractive not only due to its big ticket size, but also for its approval to invest in the Pan-Asian region up to 45% of total fund. Among domestic VCs, LB Investment raised the most with KRW 143.1bn, without NPS' Pan-Asian funding, as it had received NPS' commitments for its Cross-Border Fund II in 2010, closed in early 2011.

More smaller domestic pensions investing in alternative investments in 2012, including the Government Employees Pension Service (GEPS) that announced its plan to invest KRW 180bn (15.9% of total asset) this year.



# KOREAN ECONOMY & PRIVATE EQUITY INDUSTRY

## IPO & DEAL ALERT

Name	IPO Date	Company Business
Dong-a PharmTech	1/20	Pharmaceutical
K -Top REITs	1/31	Real estate investment company
Namhwa Construction	1/31	General civil engineering construction (road)
Neuros	2/15	Turbo machinery, engine & software
Saram In HR	2/21	HR/Recruiting database website
Huvis	2/23	Advanced material (fiber)
China Green Paper Packaging Group	TBD	Total packaging solution
Vissem Electronics	3/22	LED Display system

- Nexon to purchase a stake in Moyasoft.** The Korean online game developer is buying a 19.99% stake in the Korean social gaming company to help expand into overseas markets and co-develop exiting Nexon titles into mobile games. This investment comes after Nexon's \$1.17bn IPO on Tokyo Stock Exchange, the biggest IPO of 2011.
- Vogo sells Novita to Kohler.** The local PE fund has successfully completed their first exit with their sale of Novita, a Korean bidet manufacturer, to Kohler, an American bathroom and kitchen fixture manufacturer, in a deal worth KRW 90bn at a 200% IRR.
- Hyundai Group to buy Banyan Tree Seoul.** Ssangyong E&C and adviser Woori Investment and Securities have selected Hyundai Group as the preferred bidder to sell its 95% stake on the luxury resort in Seoul for KRW 160bn.
- Hana's purchase of KEB stake wins regulatory approval.** The Financial Services Commission has finally approved Hana Financial Group to buy Lone Star's 51.02% stake in Korea Exchange Bank for \$3.5bn. This marks the end to the American PE fund's battle to exit from its 8-year investment in KEB. Hana is also planning to purchase an additional 6.25% stake from the Korea Export-Import Bank, giving the bank a total of 57.27% in KEB, giving the bank the control of the Korea's largest overseas banking network as well as the second-largest local operation.
- Caffé Bene inviting global PE for pre-IPO round.** After opening their first US store in NYC, Korea's number one coffee chain is reportedly reviewing proposals from a few global PE funds for investments for KRW 30-40bn. The company plans to open 30 more stores in the US.
- Woongjin to sell Coway.** In the efforts to restructure the company and focus on the solar power business, Woongjin Holdings is selling its 29.89% stake Woongjin Coway, Korea's number one home environment products company specialized in water purification for KRW 1.5trn. Goldman Sachs, the sell-side advisor, divided the potential buyers into domestic and international strategic buyers and international PE funds.
- KI-ITC selling smart e-book technology.** Kaist Institute for Information Technology Convergence (KI-ITC) is selling its smart e-book interface system to IT conglomerates, some of which may include Samsung Electronics, LG Electronics and Kyobo Book Center, the country's biggest bookstore operator.
- Samsung to spin-off LCD division,** and setting up a new company, Samsung Display, with KRW 750bn in paid-in capital. This spin-off will allow Samsung to move away from LCD and focus on OLED technology, which is expected to become a larger part of the display market. The new spin-off company may merge with Samsung's mobile OLED manufacturer, Samsung Mobile Display.
- Vogo to raise KRW 750bn.** The domestic PE fund, founded in 2005 and currently managing assets totaling KRW 1.2trn, is looking to set up a new fund to invest in SME buyouts and distressed assets in Korea. Vogo's investments include Tongyang Life, BC Card, iRiver, LG Siltron and Novita, of which the firm completed the sale.

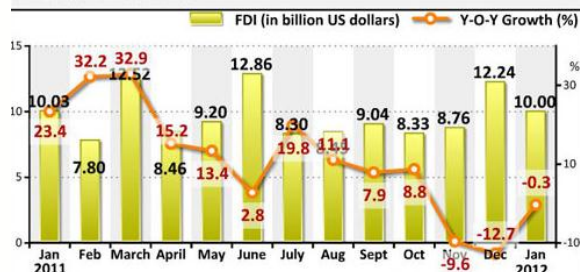




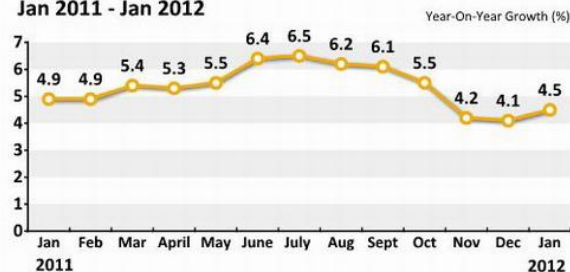
# CHINESE ECONOMY & PRIVATE EQUITY INDUSTRY

## ECONOMY & MARKET UPDATE

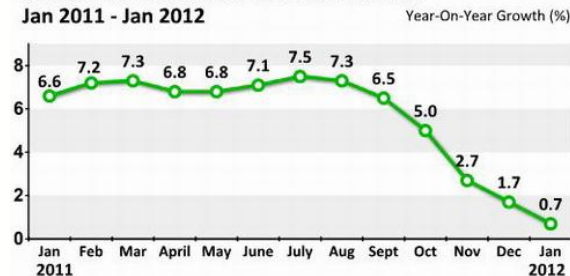
**TREND OF FDI**  
Jan 2011 - Jan 2012



**TREND OF CONSUMER PRICE INDEX**  
Jan 2011 - Jan 2012



**TREND OF PRODUCER PRICE INDEX**  
Jan 2011 - Jan 2012



Chinadaily.com.cn

Source: National Bureau of Statistics of China

- China's FDI falls 0.3% in Jan'12.** China made actual use of \$9.997bn of Foreign Direct Investment in Jan, down 0.3% y-o-y. China's FDI peaked in Jun'11, using \$12.86bn.
- CPI up 4.5%, PPI up 0.7% in Jan'12.** Growth rate of CPI was the highest in three months, mainly boosted by temporary food prices surges due to traditional Chinese Lunar New Year holiday. This rebound is not expected to change the CPI's downward trend for 2012. Sharp decline in PPI growth was due to a significant decrease in international prices of raw materials and domestic demand.
- China's exports drop 0.5% in Jan'12,** the first decline in two years as a week-long holiday distorted trade figures. Exports reached \$149.9bn in Jan'12, while imports declined sharply 15.3% y-o-y to \$122.6bn. Such figures were affected by an earlier Chinese Lunar New Year, which fell in Jan this year and cut 4 business days off the month.
- CPI up 4.2%, PPI up 2.7% in Nov'11,** further weakening from 5.5% and 3.6% y-o-y in October, respectively, due to falling food prices and fell on future economic uncertainties. Food prices, accounting for 1/3 of the basket of goods used to calculate CPI increased 8.8% in Nov. Sharp decline in PPI growth was due to a significant decrease in international prices of raw materials and domestic demand.
- Yuan-denominated lending continues to decrease,** raising concerns over market liquidity and economic recession in China. Chinese lenders lent 738bn yuan (\$117.3bn) in Jan'12, the lowest level since Jun'01. Between 2009~2011, new yuan loans in the first month of the year were all above 1trn yuan.
- Chinese' overseas M&A deals hit a new high in 2011.** According to PWC, total number and sum of overseas M&A deals made by Chinese enterprises reached a record high, standing at 207 and \$42.9bn, respectively. Some research reports predict that the value of outbound M&A deals by Chinese companies will amount to \$1trn in the next 10 years. As of Jan'12, some of large overseas acquisitions disclosed include: Sany Heavy Industry taking Putzmeister, Germany's largest concrete pump maker, for E324mm (\$426mm); Guangxi-based Liugong Machinery purchasing Huta Stalowa Wola, a Polish construction equipment manufacturer, for 335mm yuan; Shandong Heavy Industry buying a 75% stake in Ferretti Group, one of the world's largest luxury yacht makers; and China State Grid buying a 25% stake in REN-Redes Energeticas Nacionais, Portugal's power and gas grid operator, E387mm.
- Overseas Direct Investment reached \$4.4bn in Jan'12,** up 59.9% y-o-y, involving 355 overseas companies in 87 countries and regions.

# CHINESE ECONOMY & PRIVATE EQUITY INDUSTRY

## IPO & DEAL ALERT

- **485 companies line up for IPO for 75 under preliminary examination** in the main board and SMEB and ChinNext. Among 50 companies under preliminary examination for listings on the main board and SMEB, many well-known firms appear such as Shengjing Bank, Dalian Bank, Shanghai Bank and other five city commercial banks. According to PWC, as much as 300bn yuan (\$47.6bn) are expected to be raised through about 40 IPOs in 2011.
- **2,272 wealthy families and individuals invested in PE in 2011.** While the number and amount of fundraising of VC & PE funds increased rapidly last year, the number and amount of LPs in China also skyrocketed to 4,930 and \$757.63bn, and half of that were wealthy families and individuals. Famous private entrepreneurs include Liu Yunfeng Fund (founded by Ma Yun, Chairman of Alibaba Group and Yu Feng, Founder of Target Media), and Yao Ming, famous sports star.
- **CNPC to bid for stake in natural gas venture.** China National Petroleum Corp, the country's biggest energy producer, offered to purchase as much as 15% stake in Woodside Petroleum's Browse liquefied-natural-gas project in Australia for \$1.5bn, seeking to develop shale-gas resources at home.
- **Alibaba Group to go private?** Alibaba has made a proposal to the Board of Directors of Alibaba.com, a B2B website, to privatize the company. Per share price of HK\$13.5 is equal to its IPO price in 2007, and is 45.9% premium to its closing price at the day of announcement. Alibaba Group currently holds 73.45% of Alibaba.com, and the company will need to spend HK\$17.9bn to acquire the remaining 26.55% shares.
- **Shanda gone private.** Shanda Interactive Entertainment completed the merger with Premium Lead Company and New Era Investment Holding, the wholly owned subsidiary of Premium. Shanda is now a subsidiary of Premium, a commercial company incorporated in Virgin Islands, UK.
- **LVMH fund buys stake in Chinese fashion brand.** As an increasing amount of international capital is being invested in the world's second-largest luxury market, LVMH followed the path, and together with CITIC Group, bought a 10% stake in Ochirly at a \$2bn valuation. The HK registered investee is a women's clothing company with more than 800 stores in 28 provinces and cities and annual revenue of 250mm yuan (\$39.7mm) in 2009.
- **CNGGC to buy stake Xinjiang gold firm.** The China National Gold Group Corp buying a 51% stake in a Xinjiang-based gold company for 108.5mm yuan (\$16.8mm), giving the country's largest gold producer access to a gold mine in Toli county in northwest China's Xinjiang Uygur autonomous region. The mine is estimated to have 9,600kg of gold.
- **Sany Heavy Industry & Citic Fund to acquire Putzmeister.** In efforts to acquire one of the famous German engineering machinery producers and the top notch brand in concreting machinery in the world, Sany Germany is paying E324mm for a 90% equity stake, while Citic Fund will acquire the rest of 10%.
- **BlueFocus to acquire Kingo.** The first listed company in public relationship sector of China is paying 430mm yuan to purchase Kingo Advertising & Communication.
- **Sinochem to invest \$1bn on oil company.** China's fourth biggest oil producer is buying stake in Tepma BV which has stake in Cusiana oil field and in Colombian pipelines, from the French oil company, Total SA,. Sinochem bought a 10% stake in five offshore oil blocks in the Espirito Santo basin in Brazil in Jan'12 and a 40% stake in Brazil's Peregrino offshore oilfield from the Norway-based Statoil for \$3.07bn in 2011.
- **Sinopec to buy Devon's shale interest for \$2.2bn.** One of the Chinese refiner giant's subsidiary, Sinopec International Petroleum Exploration & Production Corporation (SIPC) is to acquire one-third of Oklahoma-headquartered Devon's interest in five new venture plays in the US.



# LB NEWS UPDATE

## LB RECENT INVESTMENT DEVELOPMENTS

LB expects to exit 7 portfolio companies through successful IPOs in KOSDAQ, ChiNext, NYSE and NASDAQ during 2012.

### 1) SECUVE

- OS-level security system
- Late stage investment
- Total Investment Amount: KRW 1 billion in December 2010
- Expected IPO in KOSDAQ: 2011 4Q (Exit in 2012 1Q)
- Expected Return: 2~3X

### 2) TESNA

- Semiconductor test house
- Mid stage investment
- Total Investment Amount: KRW 3 billion in July 2008
- Expected IPO in KOSDAQ: 2012 1Q (Exit in 2012 3Q)
- Expected Return: 4~5X

### 3) GCT

- LTE & WiMax chip set solutions for 3-4G mobile handset
- Early stage VC investment
- Total Investment Amount: KRW 2 billion (KRW 1.3 billion in September 2001 and KRW 700 million in November 2002)
- Expected IPO in NASDAQ: 2012 1Q (Exit in 2012 4Q)
- Expected Return: 4~5X

### 4) Maxrotec

- Manufacturer of wireless gantry robot system and cylinder block of car engine
- Later stage investment
- Total Investment Amount: KRW 1.9 billion in May 2011
- Expected IPO in KOSDAQ: 2012 2Q (Exit in 2012 3Q)
- Expected Return: 2~3X

### 5) PPStream

- Online video streaming service
- Mid stage investment
- Time of investment: April 2008
- Expected IPO in NYSE: 2012
- Expected Return: 5~10X

### 6) CIS

- No.1 roll press M/C manufacturer
- Later stage investment
- Total Investment Amount: KRW 7.2 billion in April 2011
- Expected IPO in KOSDAQ: 2012 4Q
- Expected Return: 3~4X



# LB NEWS UPDATE

## LB RECENT INVESTMENT DEVELOPMENTS

LB expects to exit 7 portfolio companies through successful IPOs in 2012 (cont'd).

### 7) Innofidei

- Solution provider to enable China mobile TV broadcasting standard (CMBB) and 4G data terminal (TD-LTE)
- Early stage investment
- Time of investment : July 2008
- Expected IPO in ChiNext: 2012
- Expected Return: 3-5X