

## South Korea

(January 2003 to December 2003)

The most successful country, in terms of recovering from the 1997-1998 Asian Financial Crisis, there are signs that South Korea can no longer sustain its impressive economic growth. In the second quarter of 2003, the country slide into negative economic growth with China's meteoric rise as well as political instability in North Korea being contributing factors.

2003 was a year of highs and lows for South Korea. Seoul's ambition to prompt private equity investment among its domestic fund management community took shape with the formation of its first joint venture fund with Australia's Macquarie Bank. Local institutions' overwhelming support of the fund illustrated South Korea's readiness to take on non-technology investment and seek opportunities in companies in growth/development stages. Before 2003 ended, however, South Korea witnessed two of the most disastrous private equity investments that foreign investors had experienced. The demise of KEB Credit Services and the failure of LG Card took heavy tolls on Asian private equity investment records. Capping the unfortunate investment experience by private equity investors was the delisting of Korea Thrunet from NASDAQ when the latter filed for bankruptcy.

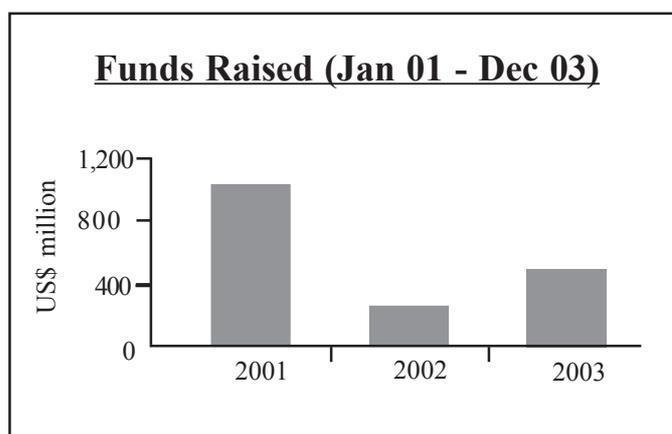
Despite the trials and tribulations, foreign private equity investors did not withdraw from deploying significant resources with two billion dollar transactions taking place in the country during the year.

**Number of Private Equity Firms:** 130 (as at March 2004)

**Number of Professionals:** 289 (as at March 2004)

### Funds

The economic growth of South Korea in 2003 might have encountered severe setbacks, but on the private equity scene, a milestone was achieved. During the year, the Korea Road Infrastructure Fund was launched. It was the first joint



venture infrastructure fund for South Korea. Jointly sponsored by Shinhan Bank and Australia’s Macquarie Bank, it had an original target of KRW500 billion (US\$398 million) and was oversubscribed. In less than 12 months, Korea Road Infrastructure Fund received more than KRW609 billion (US\$485 million) from local institutions, a underscoring local institutions’ enthusiasm to take opportunities in the non-technology sector.

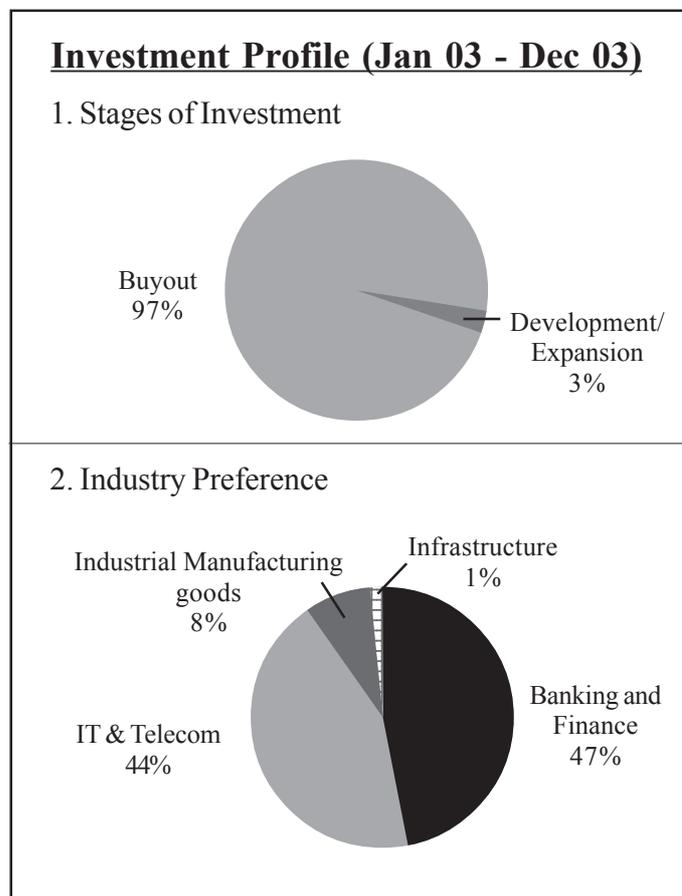
Although Korea Road Infrastructure Fund was the only private equity vehicle formed during the year, it nonetheless set the stage for Seoul to broaden non-technology investment activities in the country.

The local venture capital fund pool, supported by government’s efforts, was not disclosed.

### Investments

After enduring two years of relatively quiet investment activities in 2001 and 2002, The year saw two transactions that were over the US\$1 billion mark that helped to elevate the transaction total in South Korea to over US\$2.6 billion, the highest in recent years. The US\$1.2 billion buyout of Korea Exchange Bank by Lone Star Funds; and the US\$1.1 billion takeover of Hanaro Telecom by AIG, Newbridge Capital and Telecom Venture Group were exhibitions of foreign private equity investors’ continuous staunch interest in buyout opportunities in the country.

Similar to Japan, buyout transactions dominated the investment landscape in South Korea, which accounted for 97% of the US\$2.6 billion transaction total. But different from Japan is that in South Korea buyout transactions have all been the undertakings of foreign establishments. There was virtually no local participations.



Parallel to South Korea's intention to promote non-technology investment and seek opportunities in companies with growth and expansion potential, one infrastructure investment was recorded during the year, one of the first such transaction known to have taken place in South Korea by private equity investors.

**Estimated Amount Available for Investment:** US\$26.8 billion (as at March 2004)

### **Five Largest Private Equity Firms (by fund pool under management)**

| <b>Private Equity Firm</b>              | <b>Fund Pool (US\$)</b> |
|---|-------------------------|
| Taurus Venture Capital Co. Ltd.         | 800 million             |
| KTB Network Co. Ltd.                    | 654 million             |
| Cosmo Invest Managing Co.               | 450 million             |
| Korea Venture Fund Management Co.       | 380 million             |
| Korea Technology Investment Corporation | 130 million             |

### **Five Largest Transactions**

| <b>Investee Company</b>   | <b>Private Equity Investors</b>  | <b>Deal Size (US\$)</b> |
|---------------------------|--|-------------------------|
| Korea Exchange Bank       | Lone Star  | 1,200 million           |
| Hanaro Telecom            | American International Group, Newbridge Capital, Telecom Venture Group                           | 1,100 million           |
| Kukdong Construction Co   | Lone Star  | 207 million             |
| STX Shipbuilding Co. Ltd. | HSBC Private Equity (Asia)   | 36 million              |
| Wavics, Inc               | Walden International, Investor Growth Capital, JAFCO Asia, Springboard Harper, Newton Technology | 18 million              |