

**Standards and Guidelines for Book-Running
Lead Management, etc.**

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KOFIA

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Purpose

The “Standards and Guidelines for Book-Running Lead Management, etc.” specifies important matters for the book-running lead manager in signing the book-running lead management agreement (or underwriting agreement), investigating and examining the issuer in good faith, as well as references related to the handling of major work processes of the book-running lead manager and the underwriter, such as book-building and subscription. These standards are also intended to provide accurate and complete information to investors by ensuring that the lead manager fully understands the information and risks concerning the issuer through a thorough inquiry into the company and by making sure that such information is included in the registration statement accurately and fully.

Details of the book-running lead manager’s duties and the procedure may differ depending on the issuer’s characteristics, market circumstances, risks involved in the public offering and the relationship with the underwriter, so the details and procedure cannot be standardized and regulated. While these standards can be useful to the book-running lead manager as a reference in managing the offering, they may not be applicable to all public offerings considering that the scope of its work is broad and that the process is organic, and not mechanic.

Therefore, complying with these standards does not guarantee that the lead manager fulfilled its responsibilities with due care and vice versa. As such the book-running lead manager should appropriately apply these standards when managing the offering by taking into consideration the characteristics of the issuer and market circumstances.

These standards are provided to the book-running lead manager as a guidance, not as a mandatory requirement, in carrying out its work as a book-running lead manager of an issuer.

Note

1. These standards and guidelines are based on the rules and regulations on the primary market system as of June 2021. Therefore, as there may be frequent changes in the primary market system, it is advisable to check whether relevant rules and regulations have been enacted or revised before referring to these standards.
2. These standards and regulations are applicable when a financial investment company underwrites stocks for an IPO or a paid-in capital increase by a stock-listed corporation.
3. Unless otherwise stated in these standards and guidelines, materials on the past three years of business shall be requested to the issuer and materials on future business shall be requested for two years if necessary.
4. These standards and guidelines deal with the major work processes and business procedures carried out by the book-running lead manager and the underwriter, such as book-building and subscription for publicly offered shares, from the time before entering into the book-running lead management agreement (the underwriting agreement in the case of a paid-in capital increase).

General Principles for Book-running Lead Management

1. The book-running lead manager shall act in good faith in managing the offering.
2. The book-running lead manager shall make efforts to collect the information needed to have a better understanding of the issuer.
3. The book-running lead manager shall make efforts to request truthful and accurate information from the issuer.
4. The book-running lead manager shall not unfairly benefit from its work other than its fair share of fees.
5. The book-running lead manager shall not divulge the issuer's internal information to the third party or utilize the information for purposes other than to improve the business management of the issuer.
6. The book-running lead manager shall not disturb the underwriting order, such as acting in a superior position to the issuer, etc.

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Part 1. In the case of an IPO

I. Before entering into the book-running lead management agreement

Before entering into the book-running lead management agreement, an overall review of whether the issuer can be listed is necessary, followed by a consultation with the issuer on the details of the agreement. In this case, in order to prevent disputes going forward, the book-running lead manager shall provide general explanations on important matters such as underwriting fees, book building, methods of deciding publicly offered prices, and the preparation of the registration

1. Inquiry and consultation in regard to the listing requirements and etc.

A. Explanation of the listing process

- The book-running lead manager shall provide a detailed explanation to the issuer on the listing procedure of the KOSPI market and KOSDAQ, and consult the issuer on which market to be listed on, the listing procedure and timeline.

B. Questions and answers related to each listing requirement

- The book-running lead manager shall inform the issuer of the listing requirements pursuant to the Listing Regulations, ask questions on each requirement and confirm with the issuer.

C. General review of whether the issuer can be listed

- A general review shall be conducted based on a set of questions and answers related to the listing requirements to find out whether the company can be listed, and the book-running lead manager shall request, when necessary, additional materials for further review.

D. Consultation on underwriting fees and other important matters

- Although it may not be possible to decide the specific details on underwriting fees, book building, methods of deciding publicly offered prices and the preparation of the registration statement, etc., the book-running lead manager shall provide a general explanation on such matters in order to prevent disputes in the future.

2. Review of whether the company is subject to the restrictions on lead manager

■ Review whether the company is subject to the restrictions on lead manager pursuant to the Underwriting Regulations

- Under the current Regulations on Securities Underwriting Business, etc. (hereinafter referred to as “Underwriting Regulations”), lead manager restrictions may apply to certain companies that are an interested party of an issuer in order to ensure fair issuance of securities and investor protection. The lead manager shall check the Underwriting Regulations and confirm with the issuer if the lead manager is subject to any of the restrictions.

3. Checking the issuer’s credibility

■ Evaluation of the issuer’s ethical standards

- Before entering into the book-running lead management agreement, the book-running lead manager shall confirm through appropriate methods the ethical standards and credibility of the issuer, the issuer’s largest shareholder and its executives (the term shall apply *mutatis mutandis* to executives pursuant to the Financial Investment Services and Capital Markets Act, hereinafter referred to as the “Capital Markets Act”, or the Commercial Act).

II. Entering into the book-running lead management agreement

1. The process of entering into the book-running lead management agreement

- As prescribed by [§3] of the Underwriting Regulations, the parties shall enter into the book-running lead management agreement by going through the following process.
 - A. The issuer submits the underwriting request to a financial investment company.
 - B. A financial investment company (the book-running lead manager) that received the underwriting request checks whether the issuer has entered into an agreement with any other financial investment companies.
 - C. The book-running lead manager enters into a book-running lead management agreement at least two months prior to the scheduled date of the submission of the application for preliminary review. (Provided, That this shall not apply to cases where the Association deems inevitable such as listing transfers, listing of special purpose acquisition company, and etc.)
 - D. The book-running lead manager reports to the Association by the fifth business day from the date of entering into the book-running lead management agreement.

2. Details of the book-running lead management agreement

After entering into the book-running lead management agreement, the book-running lead manager and the issuer shall execute their rights and obligations in good faith. However, in conducting corporate due diligence, different opinions may arise on matters such as deciding the scope of material submission, etc., and in some cases, undermine the relationship between the issuer and the book-running lead manager. Thus, the details on the scope of material submission, reasons for cancellation of the agreement, and matters to be handled when disputes arise shall be clearly stated as much as possible in the book-running lead management agreement.

prescribed by the Regulations on Securities Underwriting Business, etc.

- As [§3(2)] of the current Underwriting Regulations prescribes that the book-running lead management agreement shall include details related to the confirmation of the materials on business management and financial standing and the on-site investigation, the book-running manager shall check the details prescribed by the regulations and apply them.

B. Matters regarding the submission of the issuer's materials.

- The book-running lead manager shall specify the scope of material submission when entering into the book-running lead management agreement as there are cases where the issuer does not submit the materials requested by the book-running lead manager

for reasons such as the protection of trade secrets, etc. when the book-running lead manager conducts corporate due diligence.

C. Matters on handling false information or omission in the materials submitted by the issuer

- The materials submitted by the issuer to the book-running lead manager after entering into the book-running lead management agreement serve as the basis for preparing the registration statement. Therefore, it is necessary to state the liabilities for false information and omission in the submitted materials.

D. Matters on handling false information or omission in the registration statement or investment prospectus prepared by the issuer

- When the investigation results indicate that details stated in the registration statement are false or that some details have been omitted, the book-running lead manager shall request to the issuer the correction of the registration statement such as modification, addition, removal, etc. of the stated details. It is recommended that the book-running lead manager state that the underwriting agreement may be cancelled when the issuer does not accept the request without justifiable reason.

E. Matters on the cancellation and modification of agreement

- In entering into the book-running lead management agreement and in the course of the IPO process, the book-running lead manager and the issuer can disagree on many fronts, and in some cases, this has led to the cancellation of the book-running lead management agreement. In this case, reasons for cancelling or changing the agreement shall be stated clearly as not mentioning or overly restricting the right to cancellation of the book-running lead manager or the issuer may lead to disputes.

F. Matters on the book-running lead manager's non-disclosure obligations

- As [§16] of the current Underwriting Regulations prohibits the lead manager from divulging to a third party the internal information obtained in the course of implementing a book-running lead management agreement or utilizing it for purposes other than to improve the business management of the issuer, it is recommended to check the Underwriting Regulations and mention it in the book-running lead management agreement.

G. Matters on handling other matters not stated in the agreement

- While it would be ideal to state all rights and obligations of the issuer and the book-running lead manager in the book-running leading management agreement, as it is not possible, specific details on ways to handle matters not stated in the agreement shall be decided. For example, both parties could agree to the following statement: when there is an objection from either party on matters not decided in the agreement, it shall be resolved through consultation, and when it is not resolved through consultation, it shall be resolved according to commercial practices.

H. Matters on the competent court

- Stating the competent court is not mandatory, as it shall be determined as prescribed by a relevant law unless stated otherwise in the agreement. However, for the sake of both parties' convenience, the book-running lead manager and the issuer can include it through consultation.

I. Matters on the term of the agreement

- It is recommended to designate a specific term (i.e. the term of this agreement shall be 'a' years from the date of entering into the agreement) and state it in the agreement to prevent future disputes.

J. Other important matters when entering into the book-running lead management agreement

- Matters other than the aforementioned matters that are deemed important or necessary by the book-running lead manager or the issuer shall be stated in the book-running lead management agreement based on the consultation of both parties.

III. After entering into the book-running lead management agreement

When conducting corporate due diligence, a financial investment company shall refer to the guidelines that lay out the process to comply with when conducting due diligence and the details such as the Model Guidelines for Due Diligence of Financial Investment Companies published by the Financial Supervisory Services or these standards and guidelines.

1. Prior preparations for corporate due diligence

A. Arrangement of personnel in charge

- The book-running lead manager shall foster industry professionals at ordinary times and arrange personnel who has experience working in the same field as the issuer's business or has been in charge of underwriting of a company in the same or similar industry as the issuer, so that he/she can conduct due diligence in good faith.
- Personnel in charge of due diligence shall meet the following requirements:
 - A person that is holding stocks or equity-linked securities issued by the issuer shall be excluded from conducting due diligence of that company;
 - A person that does not fall under the scope of interested parties of the largest shareholder of the issuer pursuant to [§84] of the Enforcement Decree of the Capital Markets Act.
 - In the case of underwriting or arranging an invitation, a person that does not violate the requirements (its relationship with the issuer or whether it is subject to the restrictions on the lead manager) prescribed by the Underwriting Regulations.
 - A person who does not have any grounds for disqualification as designated by the lead manager.

B. Preparing a plan for due diligence

- Prepare a detailed plan that includes the number of personnel, timeline, the scope of due diligence, methods and other details.

C. Preparing a checklist for due diligence

- Prepare an appropriate checklist that takes into consideration the characteristics of the issuer by using a list of requested materials and important matters to review stated in these standards and guidelines for reference.

D. Preparing a "list of materials requested for submission"

- After reviewing the requested materials on the list of "materials requested to the issuer and matters to review," the book-running lead manager shall prepare a "list of materials requested for submission" by taking into account the issuer's characteristics and its circumstances and send a form requesting the materials for submission to the

issuer. When additional materials are needed during the process of due diligence, the lead manager shall request them to the issuer in writing and store the materials that they have received.

E. Confirm with the relevant organizations on the issuer's credit and any violations of laws and regulations

- The book-running lead manager shall confirm with a relevant party in writing the history of litigation and violations of laws and regulations of the issuer, the issuer's largest shareholder and executives; inquire the Credit Information Collection Agency about the credit information of the issuer, etc. through necessary procedures such as the consent of the issuer, etc. to find out the current status of loans, guarantee of debt, any arrears or violations of financial transaction laws and regulations; and use it for reference when supporting the preparation of the registration statement.

For a thorough understanding and analysis of the issuer, it is important to a secure sufficient amount of materials other than those submitted by the issuer by searching the internet news websites and public disclosure websites, or through other relevant organizations (the Association, etc.). Active efforts are needed to request objective, detailed and accurate materials from the issuer. Among materials related to financial conditions, accounting and tax, when it comes to matters that can be confirmed, it is recommended to confirm the facts when visiting the issuer with due care. Also, in the case of materials that are important to investors in making investment decisions but may be unfavorable to the issuer such as dual contracts, contingent liabilities, etc., it is necessary to confirm with the issuer when conducting an interview with its executives and/or employees or when requesting materials for submission as the issuer may try to conceal or minimize such materials. Materials submitted by the issuer may be in not only writing but also different forms such as electronic documents or files.

2. Materials requested to the issuer and major matters to review

A. General materials

- ① Representative director's confirmation
 - A document that includes a confirming statement that the materials submitted to the book-running lead manager are true.
- ② Company introduction
 - A document confirming the company's general information such as the date of establishment, purpose of establishment, company history, details of business, etc.
- ③ Articles of incorporation and internal regulations
 - Confirm the details of the articles of incorporation and internal regulations on matters related to the issuer's financial conditions, such as restrictions on stock issuance and transfer, securities issuance limits, securities issuance procedure, stock options, company pension scheme, etc.
- ④ Minutes of the general meeting of shareholders, etc.
 - Confirm whether the general meetings of shareholders, the board of directors, committees, etc. are held regularly and confirm the details of resolution.
- ⑤ Certified transcript of register (including the suspended transcript)
 - Confirm the details of the certified transcript of register such as the establishment date, the total number of outstanding stocks, capital, essential business, stock options, stock-related corporate bonds, personal details of former and current executives (work experience, whether they are holding a concurrent position, etc.).
- ⑥ Documents submitted to the Financial Services Commission and an administrative agency
 - Confirm the results of the submission (the delivered documents) and the details of documents submitted to the Financial Services Commission at the time of securities issuance, and documents submitted to the administrative agency such as applications for the designation of venture business, documents related to permission, authorization, license, qualification, and the Korean Intellectual Property Office related documents on intellectual property rights, etc.
- ⑦ Materials concerning the directions and orders issued by the administrative agency (review of them)
 - Identify the details on the amount of penalty paid to the relevant authority for violating the law excluding violations of the traffic law and the date it was paid, administrative agency's direction (order) and investigation details including a tax investigation, measures taken by the company and other related materials.

⑧ Documents related to disputes (including civil petition documents)

- Identify the details of the civil petition letter, documents concerning litigation (litigation concerning the company, executives, and the largest shareholder, including pending litigation), details and results of disputes and litigations.

⑨ Documents exchanged with external experts

- Identify the details of the documents (reports, letters, etc.) exchanged with (sent to or received from) external experts (certified public accountants, law firms (lawyers), patent attorneys, certified appraisers, management consulting firms, etc.), especially in regard to the details pointing out what is deemed to be in the economic interest of the company or deemed to be a problem of the company.

B. Materials regarding the organization and employees

① Materials regarding the organization's composition and their current roles

- Identify organs within the company, the organs' method of composition, method of resolution, and their authorities, obligations and roles, as well as the authorities, obligations and roles of the company's organizations such as organizations for administration, business management, accounting, public disclosure, etc.

② Current status of internal control tools

- Verify the internal control organizations including an audit office (audit committee) and internal auditors (whether they are working full-time, the date of appointment of the auditor, work experience of the auditor, personal details, whether the auditor is an affiliated person of the company, etc.).
- Identify whether the internal control system and the audit organization are independent from the representative director.
- Identify whether the independence of the external auditor from the issuer is secured (details on the guarantee of independence) and whether the auditor is related to the interests of the issuer (whether the auditor is holding the issuer's stocks, stock-related corporate bonds and stock options, and whether there are any payment guarantees and lending or borrowing of money between the auditor and the issuer, etc.).
- Identify the current status of audit activities (internal audit regulations, audit log, official internal documents, etc.).
- Materials regarding the risk management system (risk management measures in the event of an economic crisis or natural disaster, materials related to the management system of derivatives and exchange risk, current operations of internal control tools).

③ Materials on the current status of executives and/or employees and wages

- Verify the current status of executives and/or employees, wage register by corporate

ranks and by individuals, wage payment documents and withholding receipt, and identify standards for wage and piece wage rates.

④ Materials on the current status of executives

- Verify changes in its executives.
- Identify the largest shareholder, executives and their relationship with one another, their work experiences, equity shares, and roles of each executive, etc.
- Review work experiences and any violations of law of the largest shareholder and executives.
- Verify the credit information of the largest shareholder and executives.
- Verify the history of fund transactions with the largest shareholder and executives. (Verify cash withdrawal and deposit history of the company's passbook and ledger records, etc.)

⑤ Materials on the current status of R&D personnel and R&D activities

- Verify duties, work experiences and major field of studies of R&D personnel.
- Verify the proportion of R&D personnel to total corporate employees.
- Verify R&D results (including commercialization trends, etc.), expected effects, and future plans.
- Verify the current status in regard to coordination with external agencies and external assistance.
- Verify the employment status of core technology R&D personnel, their reasons for leaving the workforce and the possibility of them leaving.
- Identify the current status of R&D facilities and their management conditions.
- Identify R&D spending, methods of procuring financial resources, future investment plans, etc.

⑥ Materials related to the terms and conditions of employment such as collective agreements, employment contracts, etc.

- Identify the details of the collective agreements and employment contracts.
- Review whether there are any violations of labor laws and regulations including the Labor Standards Act, such as the minimum wage, regulations banning the discrimination of employees on the basis of gender, nationality, religion, or social status, etc.

- ⑦ Materials on the current status of the labor union and industrial disputes in the recent three years
- Identify the composition and current activities of the labor union; handling of industrial disputes, including the causes of the industrial disputes, the resolution procedure and what they have agreed on, etc. in order to find out labor and management relations and the work environment.
- ⑧ Materials on the holding of the disciplinary committee and the results
- Identify the details of the issuer's disciplinary committee meeting and the results of the meeting.
- ⑨ Materials related to the financial statement, equity shares, etc. of related companies (including the enterprise group, parent company, subsidiary company, affiliated company, joint venture company, overseas corporation)
- Verify the financial statement (consolidated financial statement), balance sheet of the settlement of accounts, certified copy of register, etc. of related companies.
 - Verify the current status of mutual investments of the issuer and the related companies.
 - Verify the independence (the ability to make business management decisions independently, etc.) of the related companies from the issuer.
 - Verify how appropriate the nature of trading between the related companies and the issuer is, the stability of trading relationship, and how financially troubled the related companies are.
 - Review how much of an effect the business performance, sales performance and financial standing of the related companies have on the issuer.

C. Materials regarding business operations and contracts

- ① Materials explaining the sales system
- Verify the current status of the issuer's distribution channels (wholesaler, distributor, etc.).
 - Verify the sales revenue by each distribution channel and the proportion of it to the total sales revenue.
 - Identify the stability and efficiency of the distribution channels (the validity of the grounds for outsourcing and subcontracting, etc.).
 - Verify the characteristics of major buyer companies or supplier companies (their relationship with the issuer, etc.).

- Identify the sales power (competency of sales personnel, sales organization, sales performance, etc.).

② Various contracts, etc.

- Review the content of the following contracts such as the execution date, details of the rights and obligations and details of the sanctions on the violation of the contract and identify cases of breach of contract and how they were handled.
 - Contracts (including employment contracts, non-compete agreements, etc.) with interested parties such as the largest shareholder, executives and/or employees, and the details of trading (review the fairness of funding, donation, guarantee, internal trading, etc.; fairness of the issuance of equity related corporate bonds and the offering of stock options, etc.)
 - Consignment sales contracts including agency contracts, etc.
 - Venture capital investment contracts
 - Joint investment (co-investment) contracts, partnership agreements, strategic alliance agreements, etc.
 - Sales contracts such as order contracts or supply contracts, etc.
 - Agreements on pledge of company assets
 - Purchase agreements including agreements with the purchaser or supplier (subcontractor) of raw materials, etc.
 - Standard form contracts with customers, letters of guarantee and copies of the terms and conditions, etc.
 - Details of what has been agreed on in an oral contract or what has been affirmed in regard to rights and obligations provided to a third party by the issuer, waiver of rights and obligations of the company, etc.
 - Debt (loan) agreements with financial institutions and private money lenders, etc.
 - Materials related to investments such as acquisition (disposal) of shares (assets), etc.
 - Agreements on acquisition by transfer, transfer of business or merger, etc.
 - Materials such as oral or written contracts, written oaths, agreements, written agreements, etc. related to the issuance of securities (stocks, bonds, etc.).
 - Repayment agreements and other agreements that can have an effect on shareholder's rights
 - Agreements on acquisition by transfer, transfer and access agreements related to intellectual property rights and technology.
 - Materials related to the handing over of voting rights or granting of proxy voting rights, which can have an effect on the exercise of voting rights.

- Lease agreements on personal and real property
- Advisory, delegation and entrustment agreements, etc.
- Agreements and letters exchanged with foreigners, foreign companies and foreign governments
- Other important contracts of the issuer

③ Materials on marketing

- Identify the details of the analysis of marketing strategies and target markets, product (including goods and services) pricing methods, provision of subsidies, explanation of product warranty and purchase services policy, advertisements of the issuer (on daily newspapers, magazines, TV broadcasting, the Internet, etc.).
- Review the possibility of the business being suspended or the revenues significantly falling due to external factors.

④ Materials related to the fairness of the business

- In the cases where the issuer has engaged in unfair collusions (practices restricting competition) with its competitors, identify and review the details.
- Identify and review the details of regulations (recommendations or oral contracts) on the restriction of competition prescribed by the cooperative, federation, and the association it is affiliated with.
- Review the possibility of disputes arising due to the violation of business rights, etc.
- Identify the payment of consideration in relation to its business, such as the offering of payment guarantees, collaterals, etc. and the provision of business entertainment.
- In the cases where transactions with customers, suppliers, buyers, etc. have been abnormally suspended, verify the details of the cases and the grounds for the suspension.

D. Materials related to the financial standing, accounting and tax

Materials regarding the issuer's financial standing, accounting and tax are the most important materials that investors consider when making investment decisions. The book-running lead manager, therefore, should verify whether the statistics in the issuer's financial statements and audit reports have been accurately recorded in the registration statement, check if its financial ratios are appropriate, and order the issuer to make corrections if there are any deficiencies identified. If there are any materials related to profit and loss presumptions, the lead manager shall place a particular focus on reviewing whether the presumptions are appropriate.

In regard to the materials on the financial standing, accounting and tax, the lead manager shall have an external auditor review such materials and sign a confirmation document. Among the materials mentioned below, the book-running lead manager shall only confirm the matters that have not been confirmed by the external auditor or other special matters. The lead manager, in particular, should examine whether the external auditor has looked over the issuer's liabilities, etc. incurred after the date that the audit report has been prepared (the time quarterly, half-yearly reports have been prepared if they have been prepared after the preparation of the audit report) to the date the registration statement has been submitted.

* In the United States, in regard to the parts that have been prepared by a certified public accountant and for which an audit certificate has been issued, the book-running lead manager is not to be held liable¹ for misstatement or omission in a registration statement as they are deemed as parts that have been overseen by an expert.

① General Materials

- a. Review materials such as audit reports (financial statement, statement of comprehensive income, statement of changes in equity, cash flow statement, supplementary statement, etc.); half-year review reports; quarterly review reports; consolidated audit reports; a list of tangible and intangible assets; tax-related materials (value added tax register documents, etc.); sales subsidiary books; transaction ledger, purchase ledger, sales ledger, cashbook; and other materials (including monthly and quarterly financial statements after the closing entries of that business year).

➔ See “Annex 2. Methods of Financial Ratio Analysis”

b. Materials related to funds and accounting

- Examine how fund related documents such as the collection of accounts receivable and settlement of accounts payable are kept, review the details of the records (deposit passbook, etc.), and check how appropriate they are.
- Review how the deposit and withdrawal documents; deposit and withdrawal procedures; bills, checks and vouchers, etc. are managed and review if the

¹ Escott vs. BarChris Construction Corp. Case of the U.S.

assignment of tasks has been carried out appropriately.

- Verify whether the history of accounts receivable and accounts payable from and to the client companies is regularly monitored.
- Identify any accounting practices (changes in revenue recognition methods, accounting treatment for research and development costs, depreciation methods, etc.) that are different from those of its competitors.
- Identify the current status of the adoption of the computerized accounting system.
- Review whether tasks are assigned appropriately between the personnel in charge of accounting and those in charge of funds and whether there are appropriate tools to keep one another in check.
- Review the details of changes in the accounting methods.
- Identify any changes in external auditors and check the audit period.
- Review if there are any factors undermining the independence of external auditors.

c. Materials regarding stocks and shareholders

- Check the list of shareholders (the number of minority shareholders; stocks held by executives and/or employees of venture capital companies, executives and/or employees of the book-running lead manager and those in charge of corporate financing, auditors, legal advisors, etc.; etc.) and identify the shareholder structure.
- Check the stocks, etc. held by the largest shareholder, etc. and changes of them.
- Check the status of dividends (dividend trends) over the last 5 years.
- Check the details of capital increases (the date, the amount of capital raised, etc.) following the issuer's establishment and records of using the funds and review whether the capital increase was appropriate (how appropriate the third-party allotment was) and the use of funds was appropriate.
- Identify the details of inducement of foreign capital and relevant materials (details of the contract, whether there is any dual or fake contract, etc.).
- In the cases where the shareholder's name does not match the name of the person actually holding the shares or where there is a person with the right to request a transfer of name for other stocks, the grounds for them.
- Check the changes in shareholders and if there are any affiliated persons among the shareholders.
- Check the details regarding the offering of stock options and exercising of them.
- Review the materials related to the employee stock ownership association (the date of

its formation, its members and allotment history, etc.) and whether the allotment is appropriate (allotment to an unqualified person, etc.).

- Check the public disclosures (disclosure facilities, letters sent to the shareholders, press releases, holding of meetings, etc.) regarding the shareholders and examine the extent to which shareholders participate in corporate management.

d. Details of the business plan

- Check the goals for each section of the business plan and if the goals were met.
- Review whether the business plan is reasonable and appropriate (the likelihood of success for the new business considering the entry barrier and market size, etc.)

e. Materials explaining how the issuer plans to use the funds raised in the IPO

- Check the materials explaining how the issuer plans to use the funds raised in the IPO (materials indicating in detail the funds for facilities, operations, refunding, etc.).

② Sales materials

- Check export data; unit price by product; monthly exports by volume and value; monthly revenues from each buyer by volume and value; and the proportion to total revenues and review the growth and stability of revenues.
- Check data related to competition including the market share by product at home and abroad.
- Check revenue data by product, by region and by client company and the revenue data of affiliated companies.
- Check accounts receivable (the accounts receivable aging categorized by date), data regarding the collection of accounts receivable and transaction terms related to sales (payment terms, etc.). (Check profit margin per product if possible.)
- Major client companies' history of credit grade changes.
- Review if the revenue is appropriate by confirming the credibility of contracts that has a high order backlog (whether there are any dual or fake contracts, etc.).
- Check the estimation of the allowance for bad debts and the non-performing receivables.
- Check the profit models such as changes of market prices for major products and the prime cost ratio, etc.
- Check changes in the percentage of revenue from each product and the plan to diversify products.
- Check exchange rate risk management system and export terms (in the cases where

the proportion of export and import is significant).

③ Purchase materials

- Check data on import.
- Check prime cost ratios and changes in the prime cost.
- Check the supply value and volume, and its proportion to the total supplies by each supplier company.
- Check changes in the volume of raw materials.
- Check transaction terms related to purchasing (payment terms, etc.). (Check profit margin per product if possible.)

④ Liabilities materials

- Check the documents verifying the liabilities (which include borrowed money, promissory note, maximum loan, funding from home and abroad, finance lease, etc.) such as pledged notes receivable or corporate bills provided as collateral, loan agreements, written contracts, confirmation documents, etc.
- Check the current data (board meeting minutes, data on underwriter of bonds, the terms and conditions for issuing, date of issuance, the amount issued, etc.) on the issuance of equity linked notes and review whether the exercise prices and the issuance were appropriate.
- Check the current data on liabilities owed to creditors other than financial institutions and the relevant materials.
- In the cases where there are preferential rights or hypothec in regard to the issuer's assets, check the details of them (details on provisional seizure, seizure, court's order, hypothec, collateral transfer, superficies, right to lease on a deposit basis, easement, lien, pledge right, applicant; and the amount, terms and conditions of credit and the reasons for borrowing, etc.).
- Check payment guarantees and collateral provided to other companies.
- Identify data on the provision of collateral (including bill and real estate) or guaranteeing (including pledging of one's property) with a third party company or an affiliated company.
- Review the priority ranking of hypothecs.

⑤ Materials on profit and loss estimation (request them if necessary)

- Check estimated income statement materials.

- Check detailed materials that provide the grounds for such estimation.
- Check any plans to acquire or dispose of tangible assets
- Check short-term and long-term plans to repay the loans (including details of the method of paying interest, interest rates, etc.).

E. Materials related to production

① Product documentation for each product

- Check the details and features of the product, its manufacturing process, its competitive advantage, how long it took to commercialize it, the product's profit model and production cost, etc.

② Current data on the production capacity, production patterns, and production process, etc.

- Check the complete view of the factory, the layout of machinery and equipment, production facilities, production yield by product and by process, and identify how skilled the production workers are (whether they have qualification certificates, etc.).

③ Uses and sources of raw materials

- Identify the process of purchasing raw materials and the ability to secure raw materials (stability of material flows).

④ Materials related to intellectual property rights (core technologies), etc.

- Check the details of the application for intellectual property rights (patent, utility model rights, design rights, trademark, etc.) at home and abroad, Patent Gazette, registration certificates, etc.
- Check the details of IPR-related access agreements signed with a third party.
- Review the details of objections filed against the issuer in relation to IPRs, the cases that administrative agencies are deliberating on or check the possibility of objections being raised.
- Review any violations of IPRs, even in cases where no legal action had been taken.
- Review if there are any restrictions on IPRs.
- How standardized, credible and commercialized its tech gadgets are.
- Check the details of the documents that the issuer received from another company in regard to violations of trade secrets of that company.
- In the case where there has been a technology assessment by a specialized assessment agency, review the details of that assessment, the life cycle and competitiveness of the technology.

- Check how standardized, credible and commercialized its tech gadgets are and the gadgets' barriers to imitation.
- Documents related to various IPRs such as how self-sufficient the issuer is in terms of developing its technologies.

⑤ Details about the companies with competing technologies

- Check the details on the companies with competing technologies, how technologically advanced they are, and the data comparing the issuer's technologies with the competing technologies, etc.

⑥ Details on the outside awards

- Check the details on the outside awards the issuer received in regard to its technologies and products.

Materials on the issuer's industry shall be obtained through various channels other than just the issuer such as through organizations related to the issuer, including the Association and research institutes, online searches, media outlets, etc.

F. Materials related to the industry the issuer belongs to

① Industry analysis report; trade and commerce publications; its competitor's prospectus, etc.

- Review the industry size and its growth potential.
- Identify the entry barrier and potential companies that may enter the market.
- Identify long and short term industry prospects.
- Check the possibility of the growth rate of the industry the issuer belongs to worsening (due to a more heated competition or growth of an alternative industry, etc.).
- Identify how sensitive the industry is to cyclical changes in business conditions and seasonal changes.
- Identify where the issuer is in terms of its industry's life cycle.
- Review the reputation of the issuer within its industry.
- Identify major disputes related to IPRs within the industry.
- Identify various industry data submitted by the issuer.

② Regulations related to the industry the issuer belongs to

- Check the details of the regulations that apply to its industry.
- Check recent issues that can be problematic to the industry and the details of the related regulations.

③ Materials on its industry's accounting practices.

- Check its industry's accounting practices (changes in revenue recognition methods, accounting treatment for research and development costs, depreciation methods, etc.) that may be unique to that industry.

④ Business practices

- Check transaction practices (selling on credit, dumping, commissions, etc.) of the issuer and its industry in regard to a product and review if the transaction practices are problematic.

G. Other various materials

① Materials required to check other listing requirements

- The book-running lead manager shall request, check and review the necessary materials such as the KRX's preliminary evaluation checklist, etc.

3. On-site visit of major facilities

A. Places to visit

- The headquarters
- Production plants (in the cases where the production plants are located overseas, the lead manager shall decide on whether to visit the plants, how many inspectors should make a visit, the scope of the inspection, etc. after taking into consideration the significance and costs of visiting the plants.).
- Supplier and buyer companies (the lead manager shall decide on whether to make a visit, how many inspectors should make a visit, the scope of the inspection, etc. after taking into consideration the significance of the supplier and buyer companies and their relationship with the issuer.).

B. Matters to inspect when making a visit

- When visiting the issuer and the supplier companies
 - How the facilities are managed, how much of them are being used, the production process and production capacity, etc.
 - Sales data such as revenue performance and to what extent the issuer depends on a buyer company.
 - Current status of assets including non-liquid assets, liquid assets (inventory assets), etc.
 - Company culture and work environment.
- When visiting a sales office
 - Office culture and work environment.
 - Sales data including sales performance, etc.
 - How satisfied the sales office is with the transactions with the issuer.
 - How satisfied customers are with the service and product.

4. Interviewing executives and/or employees

C. Persons to be interviewed

① Executives and/or employees of the issuer

- Interview the executives and/or employees of the issuer

② The largest shareholder

- Interview the largest shareholder when necessary, such as in the case where the

representative director is not the largest shareholder, etc.

③ External experts in charge of the issuer

- External experts that have entered into a contract with the issuer such as external auditors, legal advisors, law firms, certified appraisers, management consulting firms, etc. (in the case of experts other than external auditors, conduct interviews when necessary).

④ A third party related to the issuer

- A third party related to the issuer could range from a creditor, supplier, distributor, competitor to a customer, but decide who to be interviewed as the case may be, since it might not be possible to conduct interviews with a creditor, competitor or customer.

D. Matters to check when conducting an interview

While there may be various questions to ask depending on who is being interviewed, it is important to ask questions focusing on the competency (expertise, determination, leadership, etc.) of the executives, employees' skills (expertise, mastery) and job satisfaction levels, company risks and prospects, evaluation on the company's competitiveness, etc. when interviewing the executives and/or employees. Specific matters to check are mentioned below. Also, it is recommended that the lead manager keeps a record of important details that come up during the interview when the lead manager deems that the details can affect investment decisions.

① When interviewing the executives

i. Management philosophy, company values and the purpose of its establishment

- Business philosophies of the founder, the management philosophy (company values) and the reason behind its establishment.

ii. Competencies and skills of the executives

- Past work experience and current title (including whether the executive is currently holding title in other companies).
- How strong their presence is within the company and their expertise and determination in carrying out their duties.
- Leadership among the employees.
- Past and current record of legal disputes and the details.
- The stability of the management rights (the company's share structure, etc.).
- Any problems within the company and difficulties in managing the company (its financial status, management interference from a third party, etc.).

- Evaluation of the risks that the company is currently facing.
 - Whether there are any shareholders hostile to management and the grounds for their hostility.
 - Any transactions with the company and the details.
- iii. The company's future plans
- The company's short and long term goals.
 - The company's business prospects and the underlying rationale.
 - Plans for M&A or partnership and the underlying rationale.
 - Plans for launching new business and the underlying rationale.
 - Its views on the protection of shareholders rights and relevant plans (dividend plans).
 - Financial forecasts of the company.
- iv. Competitiveness of the company
- Details on the competitive edge (production cost, price, technology, etc.) of the company over its competitors.
 - Major factors behind the company's growth and the reasons.
- ② When interviewing the employees (one-on-one interview without other executives or employees present)
- If there are any job dissatisfactions (stability of employment, etc.) and difficulties.
 - (In the case of sales personnel) how much support they are getting from the company in carrying out sales activities, if they have any difficulties, and how satisfied they are.
 - Evaluation of the risks that the company is currently facing.
 - Evaluation of management's leadership.
 - The company's performance prospects.
- ③ When interviewing the largest shareholder
- Any dissatisfactions with the management of the company.
 - If his/her shareholder's rights have been violated in the past.
 - Evaluation of the risks that the company is currently facing.
 - To what extent he/she is involved in the management of the company.

- How satisfied he/she is with the company's shareholder policy.
- Evaluation of the company and management.
- The company's performance prospects.

④ When interviewing the external auditors (certified public accountants)

- Evaluation of the company's internal control system regarding accounting.
- How appropriate the company's accounting methods are and the problems, if there are any.
- How appropriate the company's way of handling accounting materials is.
- Evaluation of the company and management.
- Evaluation of the risks that the company is currently facing.
- Details that confirm that matters related to the company's financial conditions and accounting have been correctly represented in the preliminary review application, when it's deemed necessary by the lead manager. In particular, details that confirm that any changes to the issuer's financial standing, such as contingent liabilities, etc. that incurred after the date that the audit report has been prepared (the time quarterly, half-yearly reports have been prepared if they have been prepared after the preparation of the audit report) to the date the preliminary review application has been prepared have been examined.

⑤ When interviewing the advisory lawyers (in the case where there are legal advisors)

- Details of past legal advices related to the company.
- Any problems with the company's way of doing business or the way the company is managed.
- How disputes involving the company such as legal cases related to intellectual property rights and business rights will unfold in the future.
- Evaluation of the company and management.
- Evaluation of the risks that the company is currently facing.
- Details confirming that there is no legal flaw in the matters mentioned in the preliminary review application that may become legally problematic, when deemed necessary by the lead manager.

⑥ When interviewing the creditors, suppliers and distributors

- Evaluation of the company and management.

- Evaluation of the terms and conditions for transactions with the company.
- Evaluation of the product quality and the price.
- Whether the issuer would be able to repay its liabilities before their maturity.
- Any problems with the company's distribution structure (a question for suppliers and distributors).
- Evaluation of the risks that the company is currently facing.

⑦ Competitors and consumers

- Evaluation of the company and management.
- Evaluation of the company's competitiveness (a question for competitors).
- The issuer's violations of rights, if there are any, and the possibility of disputes or legal action arising with the issuer.
- Evaluation of the brand popularity, product quality and the price.
- Evaluation of the risks that the company is currently facing.

The book-running lead manager shall provide guidance to the issuer to make sure that information that the manager has obtained during the due diligence, etc. has been accurately stated in the registration statement, etc.

IV. Preparing the registration statement, etc.

1. Steps for preparing the registration statement, etc.

- A. The issuer shall prepare the preliminary review application following consultation with the book-running lead manager and submit it to the KRX.
- B. After the preliminary review application is approved, the issuer shall prepare a first draft of the registration statement by taking into account the results of the preliminary review.
- C. The book-running lead manager shall inspect and review the information in the first draft of the registration statement in a prudent manner, and instruct the issuer to make changes to the statement when necessary.

① The inspection and review shall be carried out with “the amount of care one can expect from a reasonable person in managing his/her wealth.” In particular, in the case where a significant amount of time has passed after the submission of the preliminary review application, the review and inspection shall focus on any changes made after the submission of the application.

② Secure enough time to inspect and verify the details mentioned in the registration statement.

* Time for inspection and verification here refers to the actual time that can be dedicated to the inspection and verification regardless of whether an underwriting contract has been established.

③ It is advisable that the inspection and verification are carried out by individuals with experience and knowledge required when carrying out such tasks.

④ In order to verify whether details the issuer intends to include in a registration statement are accurate, a proper inspection shall be carried out on the information provided by the issuer.

⑤ Reasonable efforts in accordance with the characteristics of the information shall be paid in conducting the inspection and review along with collecting general information available on the market, such as checking additional information by conducting an interview with the issuer or asking questions to the issuer, asking for an expert’s opinion on his/her field of expertise, listening to the opinion of a third party (product buyers, competitor companies, etc.) that provides objective information about the issuer’s industry, and conducting an independent verification of important materials submitted by the issuer, etc.

⑥ The lead manager shall conduct a face to face interview with a person in a managerial position of an issuer at least once in order to better understand the business of the issuer and how it is operating and address any questions related to the information the issuer intends to include in

the registration statement.

⑦ In the cases where the issuer's basic information (information disclosed at any time in the past, information in press releases, etc.) that has an important effect on the stock prices has been misrepresented, possibly misleading the market, or where there has been any changes made to the information at the time of the inspection, it shall be examined whether such information has been properly corrected in the registration statement, etc.

⑧ Stricter inspection and verification shall be carried out for issuers that are financially troubled or not managed transparently.

* When the issuer intends to undertake a public offering of securities to finance a new business unrelated to its current operations that the company is suffering a loss from, it shall be strictly inspected and verified whether the issuer's arguments, opinions and predictions made in regard to the new business are truthful or misleading by taking into consideration the authenticity of the related contracts, the technologies and workforce of that company and the market circumstances.

⑨ In the cases where the result of the inspection indicate that information in the registration statement, etc. is inaccurate or that important information has been omitted, the book-running lead manager shall request correction, addition, removal of information in the registration statement to the issuer, and when the issuer does not comply with the request, consider terminating or suspending the underwriting contract.

* Include a clause in the underwriting contract granting the book-running lead manager the right to unilaterally terminate the contract when the issuer and the book-running lead manager cannot come to an agreement in regard to what has been included in the final draft of the registration statement.

D. The book-running lead manager shall go over the details of the registration statement with an expert in that field (executives of the issuer, a lawyer or certified public accountant, etc.), and have the issuer make the necessary corrections.

E. After a final review and correction of the registration statement with the issuer and the book-running lead manager, submit the statement through the electronic disclosure (DART) system.

F. As an IPO can proceed upon the acceptance of the registration statement, newspaper advertisements or online postings can be displayed after the statement has been accepted.

2. Materials to request when preparing the registration statement

A. A confirmation from the issuer's representative director and the concerned executive

- A document confirming that information in the registration statement is accurate.

B. A confirmation of an external auditor

- A document confirming that matters related to financial conditions and accounting have been properly represented in the registration statement. (In particular, include a part that confirms that any changes to the issuer's financial standing, such as

contingent liabilities, etc. during the period from the date that the audit report has been prepared (the time quarterly, half-yearly reports have been prepared if they have been prepared after the preparation of the audit report) to the date the registration statement has been prepared have been examined.)

C. A confirmation of a legal advisor (law firm)

- A document confirming that there is no legal flaw in the matters included in the registration statement that may become legally problematic.

V. Matters to consider when managing the IPO process of a foreign company

More thorough verification, analysis, review of a foreign company and its home country is crucial when managing the IPO process of a foreign company compared to when managing that of a domestic company.

The book-running lead manager shall carry out its duties after being fully aware of the matters to consider for each step.

1. Matters to consider before entering into the book-running lead management contract

A. (Review of whether the company is subject to the restrictions on lead manager) There are cases where the lead manager or an interested party of the lead manager are holding shares of the foreign company through direct investment, investment cooperatives, private equity funds etc.

○ Thus, the book-running lead management contract shall be signed after the lead manager thoroughly goes over whether it falls under any of the restrictions laid out in the Regulations on the Financial Investment Business or the Association's Regulations on Securities Underwriting Business, etc.

B. (Check whether foreign capital investments are allowed) Check whether the issuer's area of business falls under the category of industries where foreign capital investments are limited or prohibited in its home country.

* (i.e.) check if the industry is listed as the prohibited or limited sectors in the catalogue for the Guidance of Foreign Investment Industries of China.

C. (Check the credibility of the issuer) Check the issuer's social reputation and credibility by making a visit to the issuer, conducting interviews with its largest shareholder and executives and/or employees, searching the internet news websites and public announcement websites, or through other relevant organizations (the Association, etc.).

2. Matters to consider when entering into the book-running lead management contract

A. It is important to clearly state ways to handle the situation in the cases where there are misstatements or omissions in the materials submitted by the issuer, the registration statement or investment prospectus prepared by the issuer.

B. It is recommended* that the book-running lead management contract should be prepared in Korean and issuer's home country's official language for a clear understanding of the contract.

* When reporting to KOFIA on the signing of the book-running lead management contract, submit a copy of the contract translated into Korean if there isn't one prepared in Korean.

- Also, it should be stated which language prevails if there are any disagreements on how to interpret the contract due to language differences.
 - * (i.e.) Korean prevails; or English or Chinese prevails.
- It is necessary to define the competent court as it is a contract between two companies with different home countries.

3. Matters to consider after entering into the book-running lead management contract

A. (Preparing for corporate due diligence)

- (personnel involved in due diligence) Adequate number of experts that are knowledgeable about the issuer's home country's legal, tax, and financial systems shall be appointed. (It is advisable that the lead manager prepares fully for due diligence by outsourcing experts when it doesn't have enough experts available internally.)
- (planning for due diligence) As it may require more time and manpower to conduct corporate due diligence in the case of a foreign company's IPO than that of a domestic company, it is advisable to allocate sufficient time and manpower for the IPO.
- (preparing a list of materials to be requested)
 - (to the issuer) Materials related to its organization; business; financial standing, accounting and tax; production; its industry; corporate governance; and letters of certificate related to any violations of the law on currency exchange or sanctions, etc.
 - (to an administrative authority) Materials related to licenses granted to the issuer, etc.
 - (to external organizations) When changing the corporate governance to undergo IPO in a foreign country, external organizations' confirmation letters related to the legality of the changes.
 - (others) Materials that should be requested to related organizations (associations).

※ Check the foreign issuer's articles of incorporation to see if there is anything in conflict with Korea's Commercial Act or Listing Regulations.

B. (Corporate Due Diligence)

- (Verifying the materials) Verify the accuracy of the materials by comparing the materials submitted by the issuer with the materials obtained from the issuer's home country's administrative authority, external organizations and other related organizations, and by having the materials checked by experts, etc.
 - In the case of the company profile and materials related to its financial standing, accounting and tax, check the documents submitted by the issuer against the audit reports submitted to the administrative authority, a certificate for full payment of taxes, cash-in-hand and deposit.

- In the case of a foreign company, it is necessary to check the shareholder structure since there are many cases where a parent company of a subsidiary company currently operating in Korea intends to go public.
 - * In the case of share transfers between a parent company and its subsidiary, it is necessary to check for any supplementary agreements or dual contracts other than the contract approved by the administrative authority regarding the change in its shareholder structure.
- (Visiting major facilities) Onsite visits to the headquarters, production facilities, supplier companies and distributors can help confirm information that cannot be confirmed by materials or by checking the accuracy of the submitted materials.
 - (the headquarters and production sites) The concerned personnel of the issuer, experts of the lead manager and auditors shall accompany due diligence.
 - (distributors) Visit the distributors to check the sales revenue against the accounting ledger by examining the onsite sales environment (interviewing the customer, etc.) and daily sales in volume, etc.
 - * Take into consideration the sales structure (direct selling, selling through intermediaries, etc.) and the accounts receivable collection period.
 - (others) Visit the main bank, etc. to check the deposit balance and the amount of debt at a certain period (its most recent business year, etc.).
- (Interviewing) Conduct interviews with the issuer's largest shareholder, executives and/or employees, external experts, suppliers, distributors and its main bank.
 - Considering that there is a difference between the domestic law and the foreign company's home country's law, it is necessary to seek legal advice from a law firm operating in the home country of the issuer or its subsidiary company and a Korean law firm.

4. Matters to consider when preparing the registration statement, etc.

- A. Refer to the submission methods and forms for the registration statement and the application for the listing eligibility review of a foreign company's IPO provided by the Financial Supervisory Service or the KRX.**
- B. Enter into a disclosure agent agreement with the lead manager.**
 - Under the Listing Regulations, acting as a disclosure agent is mandatory for a period of two years after the listing. (Provided, That the provision does not apply to the case where the foreign company has established an office in Korea and a Korean-speaking person who is responsible for disclosure works fulltime in the office.)

Part 2. In the case of a Paid-in Capital Increase

I. Background

- [§125] (Liabilities for Damage Caused by False Descriptions, etc.) of the Financial Investment Services and Capital Markets Act stipulates that the registrant (issuer) of the registration statement, the underwriter (book-running lead manager) or the person who delivered an investment prospectus should be liable for damage sustained by any purchaser of securities due to material misstatements or misleading omissions in the registration statement and the investment prospectus. In the case of a best-efforts offering, the intermediary of public offers and sales should deliver the investment prospectus and conduct due diligence.
- Therefore, the book-running lead manager or the person who delivered the investment prospectus has the responsibility to check, to a certain degree, whether material misstatements or omissions is in the registration statement, etc.

In addition, when a stock-listed corporation raises capital through a rights offering and a shareholder-priority offering, autonomy is provided for the calculation of the offering price, which is the acquisition price of the investor, and financial investment companies are required to conduct stricter due diligence, placing more responsibility on the book-running lead manager in accordance with the enforcement of the Financial Investment Services and Capital Markets Act. However, considering the fact that a registration statement is submitted within a short period of time after the resolution of the board of directors, the time and scope of investigations on the issuer led by the book-running lead manager may be limited compared to IPO. Still, the lead manager should faithfully carry out investigation and inspection of the issuer, and the intermediary of public offers and sales should be cautious about details in the registration statement and the investment prospectus.

II. Scope

- The issuer has five options for a paid-in capital increase: a rights offering, a shareholder-priority offering, issuing forfeited shares after rights offering, a third-party allotment (allotment to persons with special interest) and a public offering.

1. Rights Offering

- A rights offering is a method of issuing new stocks to existing shareholders. In general, a financial investment company is not involved as an underwriter, and the issuer directly makes a public offering (relevant statutes such as the Financial Investment and Capital Markets Act stipulate that when a KOSPI-listed corporation raises capital through a public offering, the corporation should preferentially allocate 20 percent of its stocks to members of employee stock ownership associations, and when a KOSDAQ-listed corporation raises capital through a public offering, the corporation should preferentially allocate up to 20% of its stocks to members of employee stock ownership associations.

* In a rights offering, the board of directors decides ways to deal with forfeited shares (third-party allotment, etc.), which occur as a result of offering shares to existing shareholders and members of employee stock ownership associations.

2. Issuing Forfeited Shares through Public Offering after Rights Offering

- In this method, forfeited shares that occurred in the rights offering will be offered to ordinary investors. In the phase of a rights offering, the issuer leads the procedure, and in the phase of offering forfeited shares, a financial investment company usually serves as an underwriter using methods such as firm-commitment underwriting or best-efforts offering.
- If forfeited shares occur again after issuing forfeited shares, under the firm-commitment underwriting method, the underwriter subscribes forfeited shares, and under the best-efforts offering method, the board of directors of the issuer decides ways to deal with forfeited shares.

3. Shareholder-Priority Offering

- A shareholder-priority offering is a method of granting priority subscription rights to existing shareholders (members of employee stock ownership associations are included in the case of a stock-listed corporation). In general, if there are unsubscribed shares, a financial investment company serves as an underwriter from the initial stage, choosing between firm-commitment underwriting and best-efforts offering.

4. Public Offering

- In this method, new stocks are issued to an unspecified number of people, excluding preemptive rights in accordance with the articles of incorporation, so there is no procedure involving existing shareholders, making capital increase possible in a relatively short period of time compared to the shareholder-priority offering.
- Since raising capital through a public offering involves an unspecified number of ordinary investors, it is usually in the form of indirect offerings in which a financial investment company serves as an underwriter, instead of direct offerings by the issuer

5. Third-Party Allotment (for people with special interest)

- This is a method of increasing capital by granting preemptive rights to the third party pursuant to the article of incorporation, involving people with special interest to the company such as institutional investors and client companies.
- In cases where a stock-listed corporation issues new shares through a third-party allotment, the corporation needs to submit a registration statement as the process is considered a public offering

with the possibility of resale. (However, when the corporation makes deposition of such securities at the Korea Securities Depository (KSD) immediately after the issuance and enters into an agreement with the KSD to the effect that such securities will not be withdrawn or sold within one year, and when the corporation consequently executes in full, it is not considered a public offering.)

- When a corporation increases capital through a third-party allotment, the issuer directly offers shares since the subscription is for a limited number of people who have a special interest in the corporation.

- These standards and guidelines focus on the work process of the book-running lead manager of a stock-listed corporation in cases where a financial investment company, as an underwriter (book-running lead manager), takes part in a paid-in capital increase using the above-mentioned methods of capital increases including issuing forfeited shares through public offering after rights offering, shareholder-priority offering, public offering, etc. However, if a financial investment company, as an underwriter (book-running lead manager), takes part in a paid-in capital increase through a rights offering and a third-party allotment, the company may also refer to these standards and guidelines.

Currently, in the case of a paid-in capital increase by a stock-listed corporation, it usually takes about two to three days to conclude a best-efforts agreement or an underwriting agreement and to submit a registration statement after the resolution of the Board of Directors is made, making it important to conduct a preliminary investigation on the issuer before entering into an underwriting agreement. It is therefore advisable to take the following steps before signing an underwriting agreement.

III. Before entering into the underwriting agreement

1. Prior preparations for investigations and preliminary investigations on the issuer

A. Referring to public disclosure systems

- A stock-listed corporation has an obligation to disclose major business affairs, periodic reports and audit reports under relevant statutes such as the Financial Investment Services and Capital Markets Act. The book-running lead manager should check the details of disclosures available on the electronic disclosure system (dart.fss.or.kr) operated by the Financial Supervisory Service and the public disclosure system (kind.krx.co.kr) operated by Korea Exchange, and confirm with the issuer or relevant institutions if there's any questionable matter.

B. Referring to publications

- Information about the issuer and the industry where a stock-listed corporation belongs should be collected through various methods such as searching the Internet and obtaining publications about the industry (trade and commerce) as well as research papers by analysts.

C. Writing a list of materials requested for submission

- Considering the characteristic and circumstances of the issuer, the book-running lead manager should write and send a list of materials requested for submission to the issuer, based on the following example materials. It may request additional materials to the issuer and keep them during the investigation.

2. Reviewing the possibility of successful paid-in capital increase

- Through consultations and preliminary investigation, the book-running lead manager should check the status of the primary market, the issuer's financial conditions, adequacy of the size of financing, expected discount rates of offering prices, funding plans, and it should also review the possibility of the forfeiture of shares by reviewing and advising the validity of the draft of the registration statement written by the issuer.

3. Consulting with the issuer on important matters

- The issue schedule should be set in consideration of the issuer's funding needs, the status of the primary market and the time it takes to review the registration statement. The methods of underwriting (firm-commitment underwriting, etc.) or best-efforts offering should be discussed.

The book-running lead manager should consult with the issuer about important matters such as the size of issuance and underwriting fees in consideration of the risks associated with underwriting.

IV. Entering into the underwriting agreement

(If not entered into the book-running lead management agreement)

As the Financial Investment and Capital Markets Act does not distinguish between a paid-in capital increase and IPOs in terms of the liability for damages caused by incomplete information in the registration statement, and as the Act requires keen attention of the book-running lead manager in regards to writing a registration statement, the lead manager is deemed to have an obligation to conduct due diligence. Therefore, it is advisable to enter into a book-running lead management agreement before conducting due diligence as in the case of IPO, and even without the agreement, it is advisable to have the issuer state and guarantee that the information submitted to the book-running lead manager has no material misstatements and that all important matters are

1. The Process of Entering Into the Underwriting Agreement

- A. Confirm the issuer's intention for a paid-in capital increase
- B. Consult with the issuer about important matters regarding a paid-in capital increase such as the method of underwriting, and conduct preliminary investigations on the issuer and review the possibility of a successful paid-in capital increase, etc.
- C. Provide support and advice to the issuer in regards to writing a registration statement
- D. Adopt a resolution on the paid-in capital increase at the board meeting or the general meeting of shareholders
- E. Enter into an underwriting agreement which includes rights and obligations of the issuer and the book-running lead manager
- F. Check the format and important matters in the registration statement such as whether the details correspond with the details in audit reports.
- G. The issuer submits the registration statement to the Financial Supervisory Service.

As a securities company does not enter into the book-running lead management agreement but only enters into the underwriting agreement with the issuer for a paid-in capital increase through a best-efforts offering, it is advisable that the following statements related to the book-running lead management agreement are included in the underwriting agreement in a bid to conduct stricter due diligence.

2. Details of the Underwriting Agreement

A. Material submission by the issuer

- At present, the underwriting agreement between the financial investment company and the issuer does not specify matters related to materials that the issuer should submit to the book-running lead manager, which makes the grounds for the investigation on the details of the registration statement weak, so it is recommended that the grounds for material submission should be defined in the underwriting agreement.

B. Material misstatements or omissions in the documents submitted by the issuer

- In most cases, the book-running lead management agreement, which is for IPOs, states the issuer's liability for submitting materials with misstatements or omissions, it is therefore advisable that the underwriting agreement for the paid-in capital increase also state such responsibility.

* In addition, if the book-running lead manager conducted investigations on the issuer without entering into the book-running lead management agreement, it is recommended that the lead manager insert clauses in the underwriting agreement that state there were no misstatements or omissions in the materials or statements submitted by the issuer before entering into the underwriting agreement.

C. Material misstatements or omissions in the registration statement or investment prospectus prepared by the issuer

- When the investigation results indicate that details stated in the registration statement are false or that some details have been omitted, the book-running lead manager shall request correction of the registration statement to the issuer which includes the modification, addition and removal of the stated details. It is recommended that the book-running lead manager state in the agreement that the underwriting agreement may be canceled when the issuer does not accept the request without justifiable reason.

D. Cancellation and modification of the agreement

- Reasons for cancellation or termination of the agreement should be stated clearly as the book-running lead manager and the issuer may come into conflict in the process of the paid-in capital increase.

E. The book-running lead manager's non-disclosure obligation

- The agreement should clearly state that it prohibits the book-running lead manager from divulging to a third party the internal information obtained in the course of investigation on the corporation or utilizing it for purposes other than to improve the business management of the issuer.

F. Handling matters not stated in the agreement

- While it is advisable to state detailed rights and obligations of the issuer and the book-running lead manager on the underwriting agreement, as it is not possible to do so for practical reasons, specific ways to deal with matters not stated in the agreement should be decided. For example, both parties could agree to the following statement: when there is an objection from either party on matters not decided in the agreement, it shall be resolved through consultation, and when it is not resolved through consultation, it shall be resolved according to commercial practices.

G. The competent court

- Stating the competent court is not mandatory, as it shall be determined as prescribed by a relevant law unless stated otherwise in the agreement. However, for the sake of both parties' convenience, the book-running lead manager and the issuer can include it through consultation.

H. The term of the agreement

- It is recommended to designate a specific term such as the following statement: the term of the underwriting agreement shall be from the date of entering into the agreement to the date of the completion of this paid-in capital increase.

I. Other matters important in entering into the underwriting agreement

- Matters other than the aforementioned matters that are deemed important or necessary by the book-running lead manager or the issuer should be stated in the underwriting agreement based on the consultation of both parties.

V. After entering into the underwriting agreement

In the case of a paid-in capital increase of a stock-listed corporation, the public offering price is determined within the scope of the Regulation on Securities Issuance and Disclosures. Given that the corporation has an obligation to disclose major business affairs and that the registration statement should be submitted in a short period of time after the resolution has been made at the board meeting, the book-running lead manager should focus on investigating ‘investment risk factors’ that are considered to have the greatest impact on investment decisions among other details in the registration statement. In this regard, the book-running lead manager should request the issuer to submit the following materials. Since there are a number of documents that the book-running lead manager should collect, prepare a list of materials for submission, ask the issuer to submit the materials and keep them for three years.

1. Materials requested to the issuer and major matters to review

A. General Materials

- ① Articles of incorporation
- ② Representative Director’s letter of confirmation
 - A letter that states the materials submitted to the book-running lead manager are true.
- ③ Introduction materials of the issuer
 - Booklets and brochures that contain an overview of the issuer (overseas marketing materials, etc.)
- ④ Minutes of the board meeting (or the general meeting of shareholders) that decided the issuance
 - In principle, matters on the issuance of new shares shall be decided by the board of directors except as otherwise expressly provided for in the article of incorporation. The manager shall check whether there are legal flaws in the resolution regarding the type and number of new shares, etc. (check relevant statutes such as [§416] of the Commercial Act)
- ⑤ Documents related to financial status
 - Audit reports, consolidated audit reports, half-yearly review reports, quarterly review reports
- ⑥ Materials on the employee stock ownership associations
 - The status of the employee stock ownership associations concerning this paid-in capital

increase

B. Materials on liquidity risk

- Documents that confirm if the issuer falls under any criteria for the designation of administrative issues and for delisting in the market.

C. Materials on risks associated with financial standing, profits and losses

- Financial statements of the issuer before and after the paid-in capital increase.
- In cases where the external auditor who prepared the latest audit report has been replaced, and its rationale.
- Materials on important matters such as debt, etc. (stating business status after examination by external auditors, major contracts, claims and obligations)

While it is recommended that the book-running lead manager receive a comfort letter from external auditors after the audit, as in IPO, in the case of materials on financial standing, accounting and tax, if it is difficult to do so due to industry practices, above-mentioned materials should be confirmed in person as well as by having interviews with executives and employees. In particular, the issuer's contingent liabilities, which occurred from the date when the audit report has been prepared (the time quarterly, half-yearly reports have been prepared if they have been prepared after the preparation of the audit report) to the date a registration statement has been prepared, should be thoroughly confirmed.

☞ See “Annex2. Methods of Financial Ratio Analysis”

D. Documents related to risks associated with the characteristic of sales or the industry

- ① Major product documentation
 - Product (including new products) descriptions, characteristics, manufacturing process, competitive edge, commercialization period, profit models, etc.
- ② Materials on production capability, types, process, etc.
 - Facilities, operation rates, output, types of production, production process, etc.
- ③ Materials on intellectual property rights (core technology), etc.
 - Details of intellectual property rights (patent, utility model rights, design rights, trademark, etc.)

- Other contracts related to intellectual property rights
- Status of disputes over intellectual property rights
- ④ Materials on the current status of R&D personnel and core technology
 - R&D organization, costs and results
 - R&D personnel and core technology management system
 - The impact of the loss of key R&D personnel
- ⑤ Materials on companies with competing technologies
 - Details on the competing companies, the level of technological competence, comparison between the issuer and companies with competing technologies
- ⑥ Materials on business activity
 - Sales organization, channel (wholesalers, retailers, etc.), methods, conditions, strategies, etc.
 - Characteristics of major buyers and suppliers (relationship with the issuer, etc.) and their share
 - Status of sales (sales personnel, organization, performance, etc.)
 - Changes in sales performance due to market conditions, currency exchange rates, etc.
 - Status of strategic partnerships
- ⑦ Materials on raw materials and their major suppliers
 - Process of buying raw materials, procurement capability and stability (relationship with subcontractors, etc.)
 - Quantity, price and share of raw materials offered by different suppliers
 - Conditions of transactions related to buying raw materials (terms of payment, etc.)
 - The rate of cost to sales and trend of cost
 - The cost trend of raw materials and sensitivity to exchange rates

E. Materials on risks associated with corporate governance, related companies, etc.

- Related companies' (business groups, dominant corporations, affiliated companies, subsidiary companies, joint venture, overseas affiliated companies, etc.) financial statement
- Current status of shareholders and capital structure (including changes before and after capital increase)
- Recent transactions by the largest shareholder, affiliated persons of the largest shareholder,

executives and/or employees with affiliated companies

- Documents on the issuer and affiliated companies' status of investment

F. Materials on risks associated with dilution

- ① Documents on dilution due to granting stock options
 - The current status of stock options with a remaining exercise period (applicable provisions in the articles of incorporation, the board meeting minutes, conditions of granting stock options, the exercise price, volume, etc.) and exercising their rights
- ② Documents on dilution due to issuing equity-linked bonds
 - The current status of issuing equity-linked bonds with a remaining exercise period (the board meeting minutes, conditions of issuance, date of issuance, issue price, volume, etc.) and exercising their rights
- ③ Documents on dilution associated with this offering
 - The board (general shareholders) meeting minutes, the underwriting agreement, etc.

G. Materials on risks associated with contingent liabilities, etc.

- ① Documents related to litigation
 - Documents related to all litigation in which the issuer is a party which includes parties, details, progress, impact on the operation and financial standing, etc.
- ② Materials on pledged or mortgage bills and checks
 - Materials on details of pledged or mortgage bills and checks provided for the company or other persons that are effective as of the latest date.
- ③ Materials on contingent liabilities, etc.
 - Details on contingent liabilities and contingent profits such as an obligation to endorsement, guarantee liabilities, etc.

H. Materials on risks associated with the company's largest shareholder, executives and reputation

- ① Resume of the largest shareholder, etc.
 - The resume of the largest shareholder and executives
- ② Documents related to disputes

- Identify details on civil-affair documents and litigation (provisional disposition and attachment) where the issuer, the largest shareholder and executives are related to or are a party of pending litigation, which includes cases resolved through conciliation, mediation and arbitration, as well as their results
- ③ Transaction documents between the issuer and the largest shareholder, etc.
- Check details of transactions between the issuer, the largest shareholder and executives related to funds, collateral and guarantee if deemed necessary in terms of the amount and content (suspense payments, loans, gift, guarantee, guarantee liabilities, provision of collateral, issuance of equity-linked bonds, granting stock options, etc.)
 - Change in management rights and its reason, etc.
- ④ Sanctions imposed by the supervisory authority
- Materials on sanctions imposed by the government, the Financial Supervisory Service and affiliated organizations, etc.

I. Materials on other risks

- ① Documents from external experts
- Documents about the issuer’s business affairs received from external experts (CPAs, law firms and lawyers, patent attorneys, business consulting firms, etc.) such as business consulting or financial standing after the recent public offering
- ② Materials on the risk management system
- Materials on the status of derivatives transactions and foreign exchange risk management system
 - The status of the internal controls system
- ③ Materials on the purpose of uses of funds raised through capital increase
- Uses of funds statement (materials stating uses of funds for facility, operation, refinancing, etc.)

2. Investigations and interviews on executives and/or employees

A. Principle of investigation

- ① Investigation and review shall be carried out with the amount of care one can expect from a reasonable person in managing his/her wealth.

- ② Secure enough time to inspect and verify the details mentioned in the registration statement.

* Time for inspection and verification here refers to the actual time that can be dedicated to the inspection and verification regardless of whether an underwriting contract has been established.

- ③ Investigation and verification of the registration statement shall be carried out by personnel equipped with the experience and knowledge necessary for the work
- ④ Appropriate verification of information provided by the issuer shall be carried out to confirm that the details on the registration statement are true.

- It is considered that appropriate verification has been carried out when these conditions are met.

i) There is no reasonable ground to suspect that the information based on expert opinion or analysis* is not true.

*Financial statements that received proper audit feedback, mineral deposits assessed by specialized assessment agencies, etc.

ii) There should be reasonable ground to believe that non-expert information is true.

* Financial statements (quarterly financial statements, etc.) that have not been audited or reviewed by external auditors are non-expert information, therefore verification should be carried out by getting opinions from the issuer's external auditor about unaudited financial statements and recent financial standing of the company (acquire a comfort letter if necessary).

- ⑤ Reasonable efforts in accordance with the characteristics of the information shall be paid in conducting the inspection and review along with collecting general information available on the market, such as checking additional information by conducting an interview with the issuer or asking questions to the issuer, asking for an expert's opinion on his/her field of expertise, listening to the opinion of a third party (product buyers, competitor companies, etc.) that provides objective information about the issuer's industry, and conducting an independent verification of important materials submitted by the issuer, etc.
- ⑥ The lead manager shall conduct a face to face interview with a person in a managerial position of an issuer at least once in order to better understand the business of the issuer and

how it is operating and address any questions related to the information the issuer intends to include in the registration statement.

- ⑦ In the cases where the issuer's basic information (information disclosed at any time in the past, information in press releases, etc.) that has an important effect on the stock prices has been misrepresented, possibly misleading the market, or where there has been any changes made to the information at the time of the inspection, it shall be examined whether such information has been properly corrected in the registration statement, etc.
- ⑧ Stricter inspection and verification shall be carried out for issuers that are financially troubled or not managed transparently.

* When the issuer intends to undertake a public offering of securities to finance a new business unrelated to its current operations that the company is suffering a loss from, it shall be strictly inspected and verified whether the issuer's arguments, opinions and predictions made in regard to the new business are truthful or misleading by taking into consideration the authenticity of the related contracts, technologies and workforce of that company and the market circumstances.

- ⑨ In the cases where the result of the inspection indicate that information in the registration statement, etc. is inaccurate or that important information has been omitted, the book-running lead manager shall request correction, addition, removal of information in the registration statement to the issuer, and when the issuer does not comply with the request, consider terminating or suspending the underwriting contract.

* Include a clause in the underwriting contract granting the book-running lead manager the right to unilaterally terminate the contract when the issuer and the book-running lead manager cannot come to an agreement in regard to what has been included in the final draft of the registration statement.

Prepare an appropriate checklist that takes into consideration details on the registration statement and the characteristics of the company. In the case of a paid-in capital increase, responsible due diligence is required though the time and scope of due diligence may be limited compared to IPOs. The underwriter (book-running lead manager) shall confirm details on materials collected from public disclosure systems, publications or materials requested to the issuer during due diligence and check whether there are false matters or omission in the registrations statement.

B. Preparing a checklist for due diligence

C. Investigation through interviews with executives and/or employees

Conduct interviews with the representative executive and financial officer of the issuer. This can happen before entering into an underwriting agreement. A checklist for interviews shall be prepared by referring to 'Matters to check when conducting interviews for IPO'. Interviews will complement details on the checklist for due diligence and identify matters that would otherwise be unidentifiable on written statements.

Part 3. Book-building for an IPO

1. General provision

- 1) A financial investment company (hereinafter referred to as ‘the company’) that entered into the book-running lead management agreement with the issuer shall undertake the book-building process to determine the price at which an initial public offering will be offered.
- 2) This standard shall apply to underwriting and arranging the public offering or sale.

2. Provision of the desired IPO price

- 1) The company shall propose the desired IPO price by taking into account the issuer’s intention while pricing the IPO appropriately.
- 2) The company shall set the maximum and minimum price within a certain range of the calculated appropriate price* when offering the desired IPO price.

* (i.e.) price range: $\pm 15\%$

3. Conducting book-building

- 1) The company shall conduct book-building with institutional investors listed on [§2(8)] of the Regulations on Securities Underwriting Business.
- 2) The company shall check whether book-building participants have been designated as an unfaithful participant and exclude institutional investors who are in the participation limitation period for book-building.
- 3) The company shall come up with measures* to prevent institutional investors from making mistakes when stating book-building participants’ requested quantity and price as well as their commitment to a lock-up period in order to prevent unfaithful participation in book-building from occurring.

* (i.e.) Pop-ups that show the status of book-building participation, etc.

- 4) The company shall allow book-building participants to make two or more offerings when requesting prices if the participants are willing to do so. However, if the request prices fall short of the amount* set by the underwriter or if there is a reasonable reason, the participant may request a single price.

* (i.e.) 10 billion won

- 5) The company shall distinguish a collective investment business entity's collective investment property and its own property when receiving its request.
- 6) The company shall not disclose competition rates while a book-building is in progress.
- 7) The company shall not conduct additional book-building after the completion of the book-building except for an unavoidable cause or event such as falling short of proceeds, etc.
- 8) The company shall keep a record of matters related to the book-building and store relevant materials for over three years after the listing date.
- 9) The book-building period shall exceed five business days; however, the period may be adjusted based on the issuer's financing timeline, market conditions, the size of issuance, and other relevant factors.

4. Determining the offering price

- 1) The company shall make efforts to ensure that the result of the book-building is reflected to the greatest extent when determining the offering price.
- 2) The company may place different weights on each factor in determining the offering price considering the book-building participants' propensity and ability to evaluate prices, etc.
- 3) The company may exclude or apply a low weighted value to excessively high or low prices when determining the offering price.
- 4) The company shall exclude book-building participants who did not provide prices when determining the offering price.

5. Allocation of publicly offered shares

- 1) The company may allocate publicly offered shares in different ratios considering institutional investors' investment style, ability to evaluate prices and contribution to book-building.
- 2) The company shall prioritize the allocation of shares to mid to long-term investors, including book-building participants who have entered into lock-up agreements. The company shall establish an allocation rule that gives preference to lock-up periods using suitable methods, such as assigning the highest score or weight to the lock-up period among the factors used to determine the allocation, or allocating shares proportionally based on the lock-up period. However, share allocation may be adjusted, taking into consideration market conditions, after obtaining verification from a compliance officer.

An example of applying the heaviest weight on the lock-up period

(Current)

Title	Submission Date		Lock-up Period				Contribution to IPO		
	1 st day	2 nd day	3 months	1 month	15 days	None	High	Mid	Low
Weight	2	1	3	2	1.5	1	3	2	1

(Revised)

Title	Submission Date			Lock-up Period				Contribution to IPO		
	1 st day	2 nd day	3-5 ^m day	3 months	1 month	15 days	None	High	Mid	Low
Weight	3	2	1	5*	4*	1.5	1	3	2	1

*The greatest weight given on the lock-up periods.

3) The company may choose not to allocate shares to a book-building participant if the participant does not submit a price, or if the submitted price is excessively high or low, indicating a minimal or no contribution to the determination of the offering price. However, in cases where an investor participates in the book building for an IPO of a company, whose stocks have been underwritten by the investor itself or a related underwriter with entrusted funds pursuant to [§9-2(2)] of the Regulations on Securities Underwriting Business, and does not submit a bidding price, the participant is deemed to have submitted a price.

4) The company shall not allocate shares to following institutional investors.

- The underwriter and stakeholders of the underwriter
- Stakeholders of the issuer
- Those with a significant interest in both parties, including those that are providing services to the issuer or the underwriter in regard to the IPO

5) The company may not allocate publicly offered shares to institutional investors that fall under the criteria set by the company (hereinafter referred to as “fake institutional investors”).

* (i.e.) those who fall under a certain number of following items are deemed as ‘fake institutional investors.’

Criteria	
1	In cases where it is difficult to identify a company’s business and reputation such as a company established in tax havens, etc.
2	In cases where the executive or the largest shareholder of a foreign corporation is suspected to be a Korean national.

3	In the case of a foreign corporation established immediately before filing an application for foreign investment.
4	In cases where the executive of the corporation is serving as the executive of several other corporations.
5	In the case of a corporation with very small capital.
6	In the case of a corporation that did not engage in transactions with securities companies for at least three years.
7	In the case of a corporation with opaque business operation
8	In the case of a corporation that has been designated as an unfaithful book-running participant in the preceding two years
9	In cases where agencies related to the corporation (management, trust, advisory business, etc.) are linked to ‘fake institutional investors.’

6) The company shall prepare and keep a management ledger to identify ‘fake institutional investors’ among institutional investors.

7) The company shall set and apply standards to allow fair and rational allocation of publicly offered shares by taking into account the above-mentioned conditions.

6. Restricting unfaithful participation in book-building

1) The company shall fully notify institutional investors participating in the book-building that they can be restricted from participating in the book-building for a certain period of time and will be excluded from stock allocation if they engage in any of the following activities so that they can request the actual amount of shares they want to receive.

- In cases where stocks have been allocated to a participant of the book-building, and the participant does not subscribe to or pay for its stocks after subscription

- In cases where a participant of the book-building that has committed to a lock-up period gets its shares but disposes of such shares before the end of the lock-up period (its daily balance during the lock-up period shall be the criterion for confirming whether the period concerned has been observed).

- In cases where a participant falsely prepared and submitted the related information while participating in the book-building.

- Other acts of disturbing the underwriting order equivalent to the above-mentioned activities.

2) The company, in cases where unfaithful participation in the book-building has occurred, shall submit the related matters to the Association without delay.

3) The company shall inform about the lock-up period and how long it lasts (time of trading), etc. to the institutional investors participating in the book-building who entered into the lock-up

agreement when notifying the result of allocation from the book-building.

* (i.e.) Check online (displaying the result of allocation), notify by phone or email, etc.

(Annex 1) [Deleted on December 17, 2012]

(Annex 2)

Part 4. Subscription Business, etc. of an Underwriter

1. Restricting overlapped subscription by general subscribers

- 1) The underwriter shall check whether general subscribers have made a duplicate subscription through a securities finance company in accordance with Article 68 (5) 4-2 (a) of the Enforcement Decree of the Financial Investment Services and Capital Markets Act.
- 2) The underwriter shall provide a securities finance company with the information regarding general subscribers' subscription, including the following identification number, so that the securities finance company can check whether a subscriber has made an overlapped offer.

Category	Identification Number
Korean nationals (including those residing in a foreign country)	Resident registration number
Corporation, etc.	Business registration number, Identification number
Foreign nationals	Foreign resident registration number
	Investment registration number (only if a subscriber is a non-resident and does not have a foreign resident registration number)
	Domestic residence report number (only if a subscriber is a foreign national and does not have a foreign resident registration number)

- 3) The securities finance company shall notify the underwriter of any unqualified subscription by the day following the closing date of the offering, excluding qualified subscriptions, using the following criteria.

Order	Criteria for Qualified Subscription
1	A subscription that is given priority over other subscriptions based on the order of subscription time.
2	A subscription by an underwriter with a large amount of deposits from general subscribers. (Including cases where the subscription time is the same or cannot be confirmed.)
3	A subscription by an underwriter with the fewest number of subscriptions. (Applies when the subscription time and the amount of deposits from general subscribers are the same.)

4	A subscription that is given priority over other subscriptions based on the order of underwriters listed in the securities registration statement. (Applies when the subscription time, the amount of deposits from general subscribers, and the number of subscription by underwriters are the same.)
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4) The underwriter shall not allot public shares to any subscription that the securities finance company has identified as unqualified, and shall return any deposits for such subscriptions upon receiving the notification by the securities finance company.

5) The underwriter shall inform investors through its website, online trading system (HTS, MTS), etc. that subscriptions cannot be made using an account opened under a number other than the identification number specified in 2), and that public shares will not be allocated for subscriptions except for qualified subscriptions in case of a duplicated subscription.

2. Work Process for Put-back Option

The following requirements establish the minimum standards applicable to general subscribers, and therefore, work processes that are favorable to general subscribers are permitted.

1) Purchase method when exercising put-back option rights

- When a general subscriber exercises a put-back option, the underwriter purchases public shares over-the-counter through its sales office or the Internet, etc.

2) Put-back option right exercise period

- Depending on the reason for granting a put-back option, the option shall be valid for one month, three months, or six months from the commencement of trading. If the last day of the period falls on a non-business day, the option shall be valid until the next business day.

3) Put-back option exercise hours

- From 8:00 to 16:00 on business days during the exercise period

4) Shares with put-back option rights

- Publicly offered shares allotted to general subscribers by the underwriter.
 - Except in cases where the general subscriber sells the share or withdraws them from the allotted account (including transfer to another account).
- The sale of publicly offered shares that have been allocated by the underwriter is determined by the last-in, first-out principle, and this determination is supported by continuous records.
 - This means that if an account has been allotted public shares, and those shares are sold along with additional shares that were purchased later, the last-in, first-out principle dictates that the additional shares purchased later will be sold first, not the originally allocated shares.

【Examples of a Put Option Calculation】

◎ In the case where a general subscriber is allotted 100 publicly offered shares on January 3rd and is currently holding them:

(Example 1) If a general subscriber sells 30 publicly offered shares allotted on January 3rd, the subscriber will forfeit the put-option right on 30 shares on January 3rd.

(Example 2) If a general subscriber sells 30 publicly offered shares allotted on January 3rd, buys 30 shares on the same day, and sells 30 shares on January 5th, the general subscriber has a put-option right on 70 shares.

(Example 3) If a general subscriber buys 30 shares on January 3rd and sells 30 shares on the same day, the general subscriber still has a put-option right on 100 publicly offered shares.

5) Purchase price when exercising put-back option rights

- The purchase price shall be either equal to or greater than 90% of the offering price or an adjusted price.
 - Amounts under KRW 1 will be rounded up to the nearest whole won.

6) Designated payment deadline for the purchase price

- In principle, payment is made on the same day (T+0), however, in cases where same-day settlement is not feasible due to factors such as insufficient computer systems, settlement may be deferred no later than the third business day (T+2) from the start of the put-back option exercise period.

7) Investor announcement methods

- Lead manager
 - The work process of the lead manager and the underwriter's purchase business shall be disclosed in the securities statement and (preliminary) investment prospectus.
 - A summary shall be provided in the newspaper announcement for the public offering of shares.
- Lead manager and underwriter
 - Detailed information shall be announced through the company's website, online trading system (HTS, MTS), and sales offices.
 - Additional announcements should be made through the online trading system (HTS, MTS) one week before the put-back option right exercise period ends, and additional information should be provided through social network services or other means.

Methods of Financial Ratio Analysis

Financial statements are the most basic material in making investment decisions among materials on the issuer's financial standing, accounting and tax. Analyzing financial statements illustrates the issuer's past business performance, current financial standing and future profitability as well as risk. Methods of financial analysis vary from trend analysis to financial ratio analysis, etc. Below are the general rules for analyzing financial ratios, which is the most common method used for making investment decisions.

a. Stability analysis

Stability indices are used to determine a company's short-term and long-term insolvency as well as the soundness of its financial structure.

- **Debt-to-equity ratio:** $(\text{total liabilities}/\text{shareholder's equity}) \times 100$
- **Equity ratio:** $(\text{total equity}/\text{total assets}) \times 100$
- **Debt-to-asset ratio:** $(\text{total debt}/\text{total assets}) \times 100$
- **Current ratio:** $(\text{current assets}/\text{current liabilities}) \times 100$
- **Fixed assets to equity ratio:** $(\text{fixed assets}/\text{shareholder's equity}) \times 100$
- **Quick assets ratio:** $(\text{quick assets}/\text{current liabilities}) \times 100$
- **Current liabilities ratio:** $(\text{current liabilities}/\text{shareholder's equity}) \times 100$
- **Noncurrent liabilities ratio:** $(\text{noncurrent liabilities}/\text{shareholder's equity}) \times 100$
- **Accounts receivable to inventory ratio:** $(\text{accounts receivable}/\text{inventory}) \times 100$
- **Accounts payable to inventory ratio:** $(\text{accounts payable}/\text{inventory}) \times 100$
- **Net working capital to total assets ratio:**
 $[(\text{total current assets} - \text{total current liabilities})/\text{total assets}] \times 100$
- **Interest coverage ratio:** $(\text{operating profit}/\text{interest expense}) \times 100$
- **Interest expense to debt ratio:** $(\text{interest expense}/\text{weighted average borrowings}) \times 100$
- **The ratio of short-term and long-term debt**

b. Growth analysis

Growth indices represent the improvement of a company's performance or assets.

- **Growth rate of net sales:**

$[(\text{net sales at the end of current period} / \text{net sales at the end of prior period}) * 100] - 100$

– **Growth rate of total assets:**

$[(\text{total assets at the end of current period} / \text{total assets at the end of prior period}) * 100] - 100$

– **Growth rate of fixed assets:**

$[(\text{fixed assets at the end of current period} / \text{fixed assets at the end of prior period}) * 100] - 100$

– **Growth rate of tangible assets:**

$[(\text{tangible assets at the end of current period} / \text{tangible assets at the end of prior period}) * 100] - 100$

– **Growth rate of current assets:**

$[(\text{current assets at the end of current period} / \text{current assets at the end of prior period}) * 100] - 100$

– **Growth rate of ordinary profit:**

$[(\text{ordinary profit at the end of current period} / \text{ordinary profit at the end of prior period}) * 100] - 100$

– **Growth rate of net profit:**

$[(\text{net profit at the end of current period} / \text{net profit at the end of prior period}) * 100] - 100$

– **Growth rate of shareholders' equity:**

$[(\text{shareholder's equity at the end of current period} / \text{shareholder's equity at the end of prior period}) * 100] - 100$

c. Activity ratio analysis

Activity ratios also known as turnover ratios measure the efficiency with which a company uses its assets for its operation.

– **Asset turnover ratio:**

$\text{net sales} / [(\text{total assets at the start of the period} + \text{total assets at the end of the period}) / 2]$

– **Equity turnover ratio:**

$\text{net sales} / [(\text{shareholder's equity at the start of the period} - \text{shareholder's equity at the end of the period}) / 2]$

– **Inventory turnover ratio:**

$\text{net sales} / [(\text{inventory at the start of the period} - \text{inventory at the end of the period}) / 2]$

– **Tangible asset turnover ratio:**

$\text{net sales} / [(\text{tangible assets at the start of the period} - \text{tangible assets at the end of the period}) / 2]$

– **Account receivable turnover ratio:**

$\text{net sales} / [(\text{accounts receivable at the start of the period} - \text{account receivables at the end of the period}) / 2]$

– **Accounts payable turnover ratio:**

$\text{net sales} / [(\text{accounts payable at the start of the period} - \text{accounts payable at the end of the period}) / 2]$

d. Profitability analysis

Profitability indices show a company's business performance over a specific period of time.

– **Gross profit ratio:** $(\text{gross profit} / \text{net sales}) * 100$

– **Ordinary profit to sales ratio:** $(\text{ordinary profit} / \text{net sales}) * 100$

– **Operating profit to sales ratio:** $(\text{operating profit} / \text{net sales}) * 100$

– **Return on sales:** $(\text{net income} / \text{net sales}) * 100$

– **Total assets to ordinary profit ratio:**

$< \text{ordinary profit} / [(\text{total assets at the start of the period} + \text{total assets at the end of the period}) / 2] > * 100$

– **Return on equity:**

$< \text{net income} / [(\text{shareholder's equity at the start of the period} + \text{shareholder's equity at the end of the period}) / 2] > * 100$

– **Funding ratio:** $[(\text{capital surplus} + \text{retained earnings}) / \text{shareholder's equity}] * 100$

– **Reserve ratio:** $[(\text{net income} - \text{dividends}) / \text{net income}] * 100$

– **Price Earnings Ratio:** $(\text{market value per share} / \text{earnings per share})$

– **Earnings Per Share:**

$[(\text{net income} - \text{preferred dividends}) / \text{average number of common shares outstanding}]$

– **Dividend rate:** $(\text{dividends paid} / \text{share capital}) * 100$

– **Dividend payout ratio:** $(\text{dividends paid} / \text{net income}) * 100$

– **Efficiency ratio:** $(\text{expenses} / \text{revenue}) * 100$

e. Productivity analysis

Productivity indices show operational efficiency and contribution of the factors of production.

– **Growth rate of sales per employee:**

$[(\text{current period sales per employee}/\text{prior period sales per employee}) * 100] - 100$

– **Growth rate of value added per employee:**

$[(\text{current period added value per employee}/\text{prior period added value per employee}) * 100] - 100$

– **Growth rate of labor costs per employee:**

$[(\text{current period employment costs per employee}/\text{prior period employment costs per employee}) * 100] - 100$

– **Property, plant and equipment per capita:**

$(\text{tangible assets} - \text{construction in progress}) / \text{number of employees}$

– **Machinery and equipment per capita:**

$(\text{machinery and equipment} / \text{number of employees})$

– **Total assets per capita:**

$(\text{total assets} / \text{number of employees})$

– **Gross value added to property, plant and equipment:**

$[(\text{value added} / (\text{tangible assets} - \text{construction in progress})) * 100]$

– **Gross value added to machinery and equipment:**

$(\text{value-added} / \text{machinery and equipment}) * 100$

– **Gross value added to sales:**

$(\text{value-added} / \text{sales}) * 100$

– **Depreciation rate:**

$(\text{depreciation ratio} / \text{non-depreciable assets}) * 100$

– **Depreciation ratio to total expense ratio:**

$(\text{depreciation ratio} / \text{total expense}) * 100$

f. Cash flow analysis

A cash flow statement provides aggregate data regarding all cash inflows and outflows of a company. It offers a portrait of changes made in cash, providing information on the company's ability to generate cash in the future as well as its ability to pay off debt, the ability to pay dividends and its need to access external finance. A statement of cash flows is required to differentiate operating activities, investing activities and financing activities in accordance with financial reporting standards.

- Cash flow from operating activities

- Operating activities are the functions of a business related to manufacturing, purchasing and

selling a product or service, and these are distinguished from investing or financing activities.

- **Cash inflows from operating activities:**

Cash receipts from the sale of goods and services, interest income and dividends received, cash receipts from other operating activities, etc.

- **Cash outflows from operating activities:**

Cash payments to suppliers, payments to employees, payments of interest to creditors, payments of corporate taxes, payments from other operating activities, etc.

- Cash flow from investing activities

- Investing activities include changes that a company experienced in investment gains or losses which is distinguished from operating activities.

- **Cash inflows from investing activities:**

Sale of financial instruments, sale of trading securities, collection of loans, sale of investments, sale of tangible assets, etc.

- **Cash outflows from investing activities:**

Purchase of financial instruments, purchase of trading securities, payment of loans, purchase of investments, purchase of tangible and intangible assets, etc.

- Cash flow from financing activities

- Financing activities involve changes in liabilities and assets that are irrelevant to operating activities.

- **Cash inflows from financing activities:**

Borrowing money on short-term loans and/or long-term loans, issuing bonds payable, issuing stocks (a paid-in capital increase), sale of treasury stock, etc.

- **Cash outflows from financing activities:**

Repayment of short-term loans and/or long-term loans, retirement of bonds payable, payment of dividends, capital reduction, purchase of treasury stock, etc.

※ (In the case of IPOs) Compare the issuer's financial ratio information with that of competitors as well as with industry averages.

As analyzing financial ratios alone does not provide a full picture of a company's financial standing or business performance, the company's past financial ratio, competing companies' financial ratio or industry averages can be used for comparison. Currently, financial statements compared to those of a listed company is the only reference that is required to be stated in a registration statement. However, as financial statements can be an important source of investment decision, it is advisable to state the financial statements of comparable companies as well as industry averages in the registration statement. It is recommended that the lead manager choose more than three comparable companies in the same industry based on similarities in their financial structure (capital, financial ratio, etc.), technological competence, current operations, future business plans and competitiveness. The financial information of comparable companies and industry averages can be obtained via the Financial Supervisory Services' electronic public disclosure system (dart.fss.or.kr), Korea Exchange, public institutions, the issuer, or directly from comparable companies, and the following are the items to be compared.

- Book value per share
- Net sales
- Ordinary profit
- Ordinary profit per share
- Debt to equity ratio
- Return on investment
- Asset turnover ratio
- Growth rate of net sales
- Earnings Per Share
- Price Earnings Ratio
- Return on equity

*In order to give practical help for making investment decisions, it is necessary to include opinions on the evaluation of growth potential, stability, etc. based on the past business performance shown on each financial statement in the registration statement. Financial ratio analysis is an easy way to compare and evaluate a company, and it takes relatively less effort and cost to collect information for the analysis. However, there are limitations including difficulties in comparing and evaluating companies that use different accounting methods and predicting future performance based on the company's past performance.