

Nexteye's CEO meeting summary and suggestion for improving shareholder policy

KBAM Value Investment Div.

2018.07.27



국민의 평생
금융파트너

국민의 평생 자산운용 파트너
*b KB 자산운용

KB 금융그룹

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➤ Attendants

Nexteye: CEO Chen Guang, Vice president Hee-eun Cho

KBAM: Portfolio manager Young-hyun Jung, Portfolio manager JB Park

➤ 1. Meeting summary (cosmetic biz)

Attendants Q&A

Jung (KB) In recent years, there have been a number of successful cases of successful Chinese cosmetics companies in Korea. On the other hand, the beauty companies that Nexteye has invested in are sluggish. What are the differences?

Chen Many cosmetic companies and mask pack companies in Korea have experienced a lot of growth in the Chinese market, but many of them have been culled in a few years due to rapid trend changes. Nexteye checks thing below before starting business. 1) how much profit can be generated? 2) is this a sustainable business model? 3) what is the growth rate? 4) what kind of risk is there?

Rather than starting a business with one or two simple products, we will build a franchise that can secure market share and pursue profitable growth.

Attendants Q&A

Chen	I will continue to open the franchise and plan on a long term business of 3-5 years. Nexteye's franchise business is still in its infancy, and the franchise store's opening rate is slower than expected. However, we expect profitability to improve if the number of franchisees increases and the proportion of franchisees repurchased increases.
Jung (KB)	Are there any criteria for investing in domestic cosmetics companies?
Chen	We are focused on companies with differentiated technologies. We had a lot of difficulties during our two years in Korea, but we learned a lot through difficulties.

➤ 2. Meeting summary (Acquisition of HD Pro)

Attendants Q&A

Jung (KB) I know that you are doing business well. However, I have lost confidence in your M&A strategy due to the HD Pro acquired on 17th Oct 2018, which had nothing to do with your core business.

Chen The acquisition of HD Pro is not just for entering the CCTV business. We have a general hospitals in Beijing, China, and we have a plan to do medical business later time. However, Nexteye has a overcomplicated business structure to add medical care biz.

We decided to proceed healthcare biz through HD Pro, and acquired it. Of course, in contrast to Nexteye, which had a excellent existing business, HD Pro's original biz needs some aid from its parent company.

HD Pro's CCTV division has many customers both at domestic and abroad. After the acquisition, we've tried to strengthen our cost competitiveness through production alliance with China.

In fact, I had a lot of anxiety when I bought Nexteye because I could not speak Korean and did not know Korea well. However, Nexteye has grown through the success of Innometry in China and I believe I had a the right decision. I will make another successful case wit HD Pro like Nexteye.

➤ 3. Meeting summary (Rights offering of Innometry)

Attendants Q&A

Jung (KB)	As a shareholder of Nexteye, the rights offering of Innometry is not acceptable. How should I interpret the rights offering for a company to be listed soon?
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Chen	Innometry is growing rapidly in domestic and overseas markets. However, many competitors are also expanding in the market, and competition for business is also intense.
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Innometry is in the process of building production plants in Korea and China in the second half of 2018. Of this W5.6 bn investment, we plan to use W5 bn for Korean plants and W600 mn for Chinese leasing plants. Recently, the inspection demand for QC has been increasing from Chinese companies, and Yumido Group are also cooperating with Innometry, marketing through our acquaintances in China.

We expect this investment to be a great help for Innometry. We will make every effort to ensure funding at the right time.

➤ 4. Meeting summary (Development in Korean corporate governance structure)

Attendants Q&A

Park (KB)

As a CEO of KOSDAQ listed companies in Korea, you should know about changes in Korea's governance structure.

Samsung Group heirs were arrested on the prosecution for corporate governance issues. And the succession has been hampered in Hyundai Motor Group. The reason is that the interests of the largest shareholders and the interests of the minority shareholders did not match. Things that were accepted in the past are no longer acceptable.

In this changes, Nexteye is connected to every problem. Nexteye's rights offering, Innometry's CB issue, HD Pro acquisition. The Chinese acquired a Korean corp and only the largest shareholder's profit is maximized, and the profit of the minority shareholder is damaged. No matter how well you do business, Nexteye will be increasingly alienated in the market, if there is nothing that minority shareholder to take.

Attendants Q&A

Jung (KB) You are not convincing to say that doing business well and returning bigger profit later. Nexteye is investing in a deficit company, and profitable company is being invested by third parties rather than shareholders. In this situation, institutional investors are no longer standing still.

Korea's corporate governance is changing very rapidly. Market expectations are also rising rapidly. You need to construct a reasonable structure from the beginning.

Chen In fact, I think that the goal of major shareholder and minority shareholder is consistent: Improvement of the corporate value. In the case of Nexteye, we performed well in three main businesses: machine vision, x-ray inspection equipment, and cosmetics business. I will continue to consider what you have said about corporate governance. We also welcome shareholders' opinions on corporate governance in the future.

➤ 5. Meeting summary (PR)

Attendants Q&A

Chen There are many misconceptions about Nexteye in the market. How can I make good PR in Korea

Park (KB) We disclose details of the communication with investment companies after the stewardship code was introduced. We will post the contents of this meeting today. We would appreciate it if you could formally answer the questions we asked today. The shareholder policy is also welcomed.

If you publicly announce the enhancement of transparency and show us that you keep it, this is the best PR. You can use the DART disclosure form, or post it on your webpage.

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Since December 2017, KB Asset Management has introduced the Stewardship code to fulfill our faithfulness obligations.

▶ KB Asset Management introduced the Stewardship code (<http://www.kbam.co.kr>)

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스튜어드십코드

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스튜어드십코드 수탁자 책임 정책 | 의결권 행사 세부지침 | 의결권 행사 내역 보고 | 수탁자 책임 이행 활동 보고

스튜어드십코드 수탁자 책임 정책

1. 기관투자자는 고객, 수익자 등 타인 자산을 관리/운영하는 수탁자로서 책임을 충실히 이행하기 위한 명확한 정책을 마련해 공개해야 한다.

KB자산운용주식회사(이하 '당사')는 1988년 4월 28일 설립되어 유가증권투자에 관한 자문과 정보제공 등의 투자자문업을 영위하여 왔으며, 1997년 7월 증권투자신탁업법 제9조의 규정에 의한 투자신탁운용업 허가에 따라 상호를 주은투자자문주식회사에서 주은투자신탁운용주식회사로 변경하고 증권투자신탁업법에 의한 증권투자신탁업무를 개시하였습니다. 2002년 6월 상호를 국민투자신탁운용주식회사로, 2004년 4월에는 현재의 회사명인 KB자산운용주식회사로 변경하였습니다.

당사는 2009년 2월 자본시장과 금융투자업에 관한 법률(이하 '자본시장법') 제15조의 규정에 의해 투자매매(집합투자증권), 투자중개업(집합투자증권), 집합투자업(모든 종류의 집합투자기구)에 대한 제인가를 받았고, 동 일자로 동 법률 제20조의 규정에 의해 투자자문업과 투자일임업을 등록하였고, 2015년 10월 전문사모집합투자업을 등록하여 금융투자업을 영위하고 있습니다.

당사는 자본시장과 투자대상회사에 대한 깊은 분석 및 이해에 기반한 투자를 지향함에 있어 기관투자자의 수탁자 책임에 관한 원칙(이하 '스튜어드십 코드')을 제정하고 준수하여 수탁자 책임을 이행합니다. 당사의 수탁자 책임은 충실의무와 선관주의의무에 국한하지 않으며 집합투자기구 유형별, 자산군별, 투자 기간 등에 무관하게 일괄적용합니다(단, 인덱스펀드, 상장지수펀드 등의 패시브 펀드의 경우 주주관여활동을 제외합니다).

We do not intend to participate in management of the company. However, in order to fulfill our role as trustee, we would like to suggest below.

- **In the meantime, third party rights offering, CB issuance, and M&A that are not related to existing business have had a negative impact on shareholder value. As a listed company in Korea, it is necessary to establish a shareholder policy to keep pace with the improvement of the governance structure in the Korean market.**
- **It is necessary to appoint independent outside directors and auditors to prevent damage to minority shareholders' profits.**

*** This letter is a formal fiduciary responsibility implementation activity to comply with the stewardship code of KB Asset Management. It reports on 'White Papers' on the lower left of our website (<http://www.kbam.co.kr>) . Please reply to the email address on the right side until August 3, 2018. Thank you. (junbeom.park@kbam.co.kr)*

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➤ Investment philosophy

Investing in undervalued companies	<ul style="list-style-type: none">• Investing in undervalued stocks compared to intrinsic values such as asset value or profit value• Investing in stocks that are expected to have stable earnings growth while being less affected by external changes such as economic fluctuations.
Bottom-up approach	<ul style="list-style-type: none">• Selecting stocks based on fundamentals excluding market forecast and economic outlook• Investments focused on stocks with strong intrinsic value, actively investing in the event of a sharp decline due to factors other than fundamentals.
Risk management	<ul style="list-style-type: none">• High ethical awareness and integrity-based investment through strict adherence to compliance



“Investment in value stock based on fundamentals”
“Maximize long-term compounded income”

We have also been able to maximize compound returns through long-term investments.

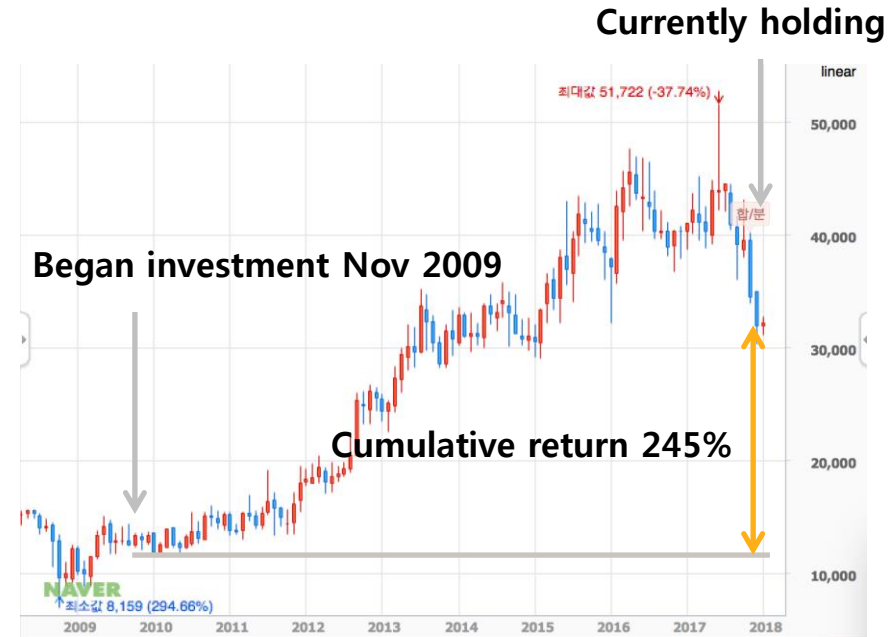
➤ Investment case (1)

: Semiconductor material manufacturer A



➤ Investment case (2)

: Auto parts supplier B



* This letter is a formal fiduciary responsibility implementation activity to comply with the stewardship code of KB Asset Management. It reports 'Fiduciary Responsibility Activities' of 'Stewardship Code' on the lower left of our website (<http://www.kbam.co.kr>). Please reply to the email address on the right side until February 7, 2018. Thank you. (junbeom.park@kbam.co.kr)

THANK YOU

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*b KB 자산운용

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KB금융그룹

*b KB 자산운용

서울특별시 영등포구 여의대로 70 신한금융타워 25층(150-712)

www.kbam.co.kr

대표전화: 2167-8200