

Following the Disclosure Trail in the Cheongho Comnet Dispute

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By Park Ki-su

As Korea Zinc's annual general meeting approaches, the focal point of the offensive by the Young Poong–MBK Partners consortium is corporate governance. At the heart of the dispute lies the so-called “Cheongho Comnet allegations” raised last year.

The consortium contends that Korea Zinc Chairman Choi Yun-birm indirectly deployed KRW 20 billion (approximately USD 15 million) of company funds for personal benefit, and that the company's internal controls and governance framework failed to prevent it. They warn that unless such conduct is checked, similar cases could recur.

Korea Zinc has rejected the claims as a distortion stitched together from selectively assembled facts.

In summary, Young Poong's argument runs as follows: Cheongho ICT (formerly Cheongho Comnet), controlled by Ji Chang-bae—an associate of Chairman Choi and former head of One Asia Partners—sold its financially troubled subsidiary Sewon to a thinly capitalized company called SWNC for KRW 20 billion.

According to the consortium, the acquisition was effectively financed by Korea Zinc. When SWNC later lacked the capacity to repay, a fund in which Korea Zinc participated as a limited partner (LP) injected capital into SWNC, and those proceeds were then used to repay the earlier loan.

The underlying suspicion is that Korea Zinc's funds may have been channeled in a manner unrelated to the interests of ordinary shareholders and instead aligned with the personal interests of Chairman Choi and his associates. Ahead of the shareholder meeting, *TheBell* reviewed both the consortium's allegations and Korea Zinc's rebuttals.

The Consortium's Case — What the Filings Show

The timeline traces back to October 2019. According to a major shareholding disclosure filed by Cheongho ICT, a private equity vehicle named “Jericho No. 1 Partnership” acquired a 6.22% stake in Cheongho ICT in two tranches in late September and early October of that year, for approximately KRW 2 billion. The filing shows that Chairman Choi held a 99.9% stake in Jericho No. 1.

In March 2020, Cheongho ICT disclosed that it had sold 100% of Sewon to SWNC—an entity incorporated in February 2020—for KRW 20 billion. Young Poong and MBK argue that the price was excessive. At the time, Sewon's net assets stood at roughly KRW 8 billion, about half of which consisted of loan receivables extended to Cheongho Comnet, which was itself in capital impairment. Sewon's operating profit was approximately KRW 300 million.

To be sure, Sewon posted revenues of KRW 26.2 billion and net income of KRW 300 million in 2019, and had generated net profits of KRW 2.9 billion and KRW 2.4 billion in 2017 and 2018, respectively.

The critical issue, however, concerns the subsequent flow of funds. Korea Zinc's first-quarter 2020 report shows that during the same period as the Sewon transaction, the company acquired KRW 20 billion worth of financial instruments classified as debt securities measured at fair value through other comprehensive income (FVOCI), secured by a pledge over 100% of Sewon's shares. The notes to the financial statements state that 280,000 shares of Sewon common stock were provided as collateral.

The consortium argues that this is the juncture at which Korea Zinc's funds were funneled into SWNC. Since SWNC held the 280,000 Sewon shares, they assert that no other party could have pledged the collateral. In effect, they contend that Korea Zinc subscribed to KRW 20 billion worth of bonds or similar instruments issued by SWNC.

In the first quarter of 2021, Korea Zinc disclosed that it had acquired a 96.9% interest in a private equity vehicle, “Arbitrage No. 1 Private Equity Partnership.” That fund subsequently injected KRW 25.5 billion into SWNC through a disproportionate capital increase, acquiring a 93% stake. At the time, Korea Zinc stated that it anticipated synergies with its existing businesses and future expansion into new ventures.

SWNC, however, was a newly established entity. Its corporate registry lists a broad array of business purposes—holding company activities, licensing, real estate leasing, construction, resource development, import-export agency services, and consulting—but no audited financial statements were publicly disclosed at the time, leaving its operational substance unclear.

Young Poong and MBK contend that after SWNC received equity funding from the Korea Zinc-backed fund, it used the proceeds to redeem the KRW 20 billion in bonds previously acquired by Korea Zinc. Indeed, Korea Zinc’s first-quarter 2021 report indicates that the KRW 20 billion FVOCI debt securities previously on its books had been disposed of.

Meanwhile, Jericho No. 1 Partnership—Chairman Choi’s personal investment vehicle—exited its stake in Cheongho Comnet in mid-2020, reportedly realizing approximately KRW 2.9 billion in proceeds. Based on an initial investment of KRW 2 billion, this represents an estimated capital gain of roughly KRW 900 million.

Korea Zinc: “A Malicious Patchwork to Justify a Hostile M&A”

Since the allegations resurfaced late last year, Korea Zinc has characterized the consortium’s claims as “a malicious patchwork” assembled to support a hostile takeover attempt.

At the time, the company stated:

“The investment in question was carried out through lawful procedures in accordance with applicable regulations and internal rules. The deployment of surplus funds and pursuit of returns through hedging are conventional asset management practices. Much of Young Poong’s allegations are either factually incorrect or pertain to decisions made by the general partner (GP) of the private equity fund, or to transactions between third parties in which Korea Zinc was not involved.”

In response to TheBell’s follow-up inquiries for this report, Korea Zinc reiterated that the transactions reflected the utilization of idle funds for asset management purposes, consistent with its prior explanation.

Korea Zinc’s defense is not without formal grounding. Under Korea’s regulatory framework for institutional private equity funds, limited partners are not permitted to participate directly in investment decision-making. Decisions regarding pricing, timing, and structure of investments are reserved to the GP. Absent proof of prior coordination or instruction, Korea Zinc’s assertion that it “did not intervene in fund management” may hold on a strictly formal basis.

Whether that explanation will fully persuade shareholders and the market, however, is another matter. The timing of Korea Zinc’s KRW 20 billion financial instrument acquisition and its subsequent participation in SWNC’s capital increase appear closely aligned. Market observers also note lingering questions about the interconnected relationships among transaction counterparties and individuals close to the chairman.

At its core, the controversy raises a governance question: whether potential conflicts of interest between management and shareholders were sufficiently identified, disclosed, and controlled.