

**THE HITE. JINRO**

# 2007 3Q Results

2007. 11.



# HISTORY



- Dominant market position in domestic liquor market
- In Sep. 2005, Hite Brewery acquired 41.85% of Jinro

## HITE Brewery Co., Ltd.

- ⊙ Established in Aug. 1933
- ⊙ No.1 Beer company in Korea
- ⊙ No. 1 market share in domestic beer market
- ⊙ 31 Sales branches & 15,000 Distribution networks
- ⊙ Employees of 1,649

**THE HITE.**

## JINRO Co., Ltd.

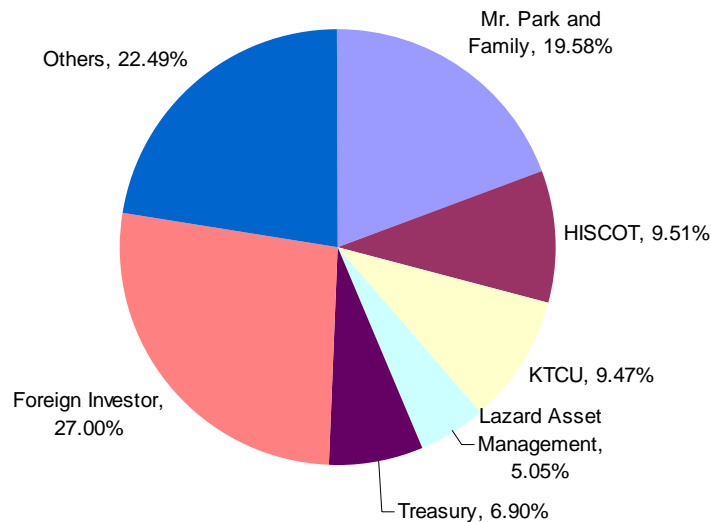
- ⊙ Established in Oct. 1924
- ⊙ No.1 market share in world's spirit market
- ⊙ No. 1 market share in domestic Soju market
- ⊙ Graduate the court receivership in Sep. 2005
- ⊙ Employees of 1,643

**JINRO**

# Shareholder structure



## HITE Brewery Co., Ltd.

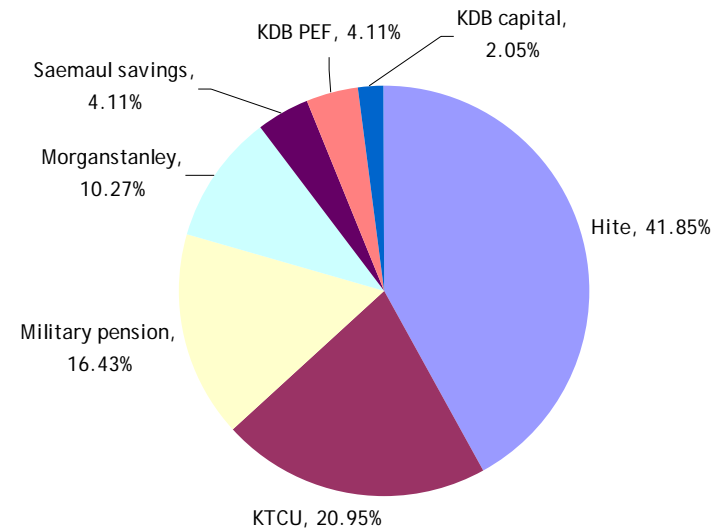


- Total outstanding shares: 22,040,935  
(Comm. shares 21,197,208 / Pref. shares 843,745)
- KTCU converted W230bn worth of CBs on Dec 2006

\*\* Details of CB (Conversion price @ 115,000 K.won)

Shareholder	Investment	Share (E)	Stake(%)
Saemaul Savings	W70bn	600,000	3%(E)

## JINRO Co., Ltd.

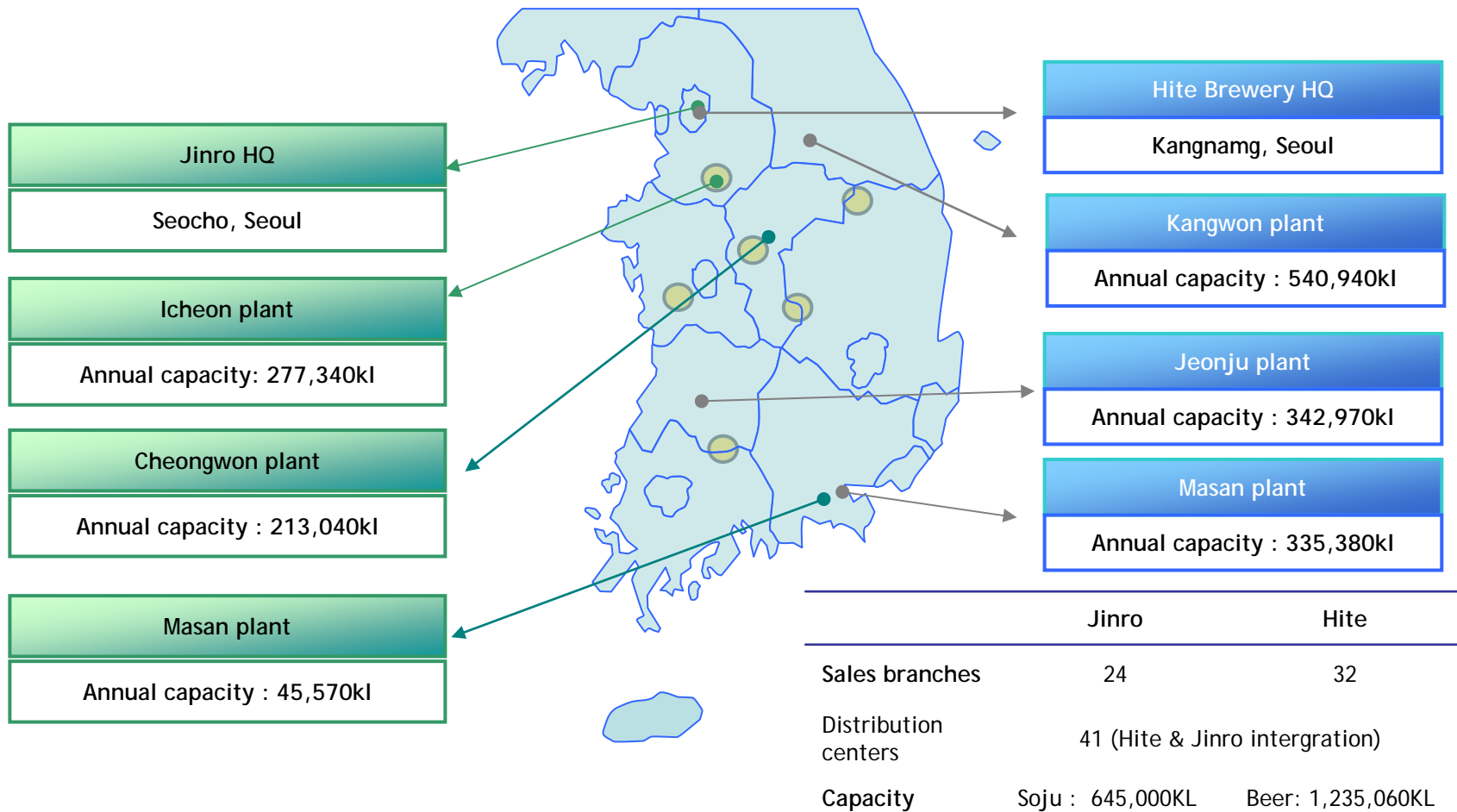


- Total outstanding shares : 43,000,000
- Sept 2005:Hite & Consortium acquired Jinro at W3.14trn  
(Hite Consortium W2.4trn/ Jinro Bridge Loan W1trn)
- May 2006: Capital Reduction worth of W570bn
- Hite & the consortium has investment of W1.8trn  
(Hite investment of around W800bn)

# Production and Sales networks



## ■ Nationwide distribution centers and production facilities



# THE HITE.



# HITE 3Q 07 HIGHLIGHT



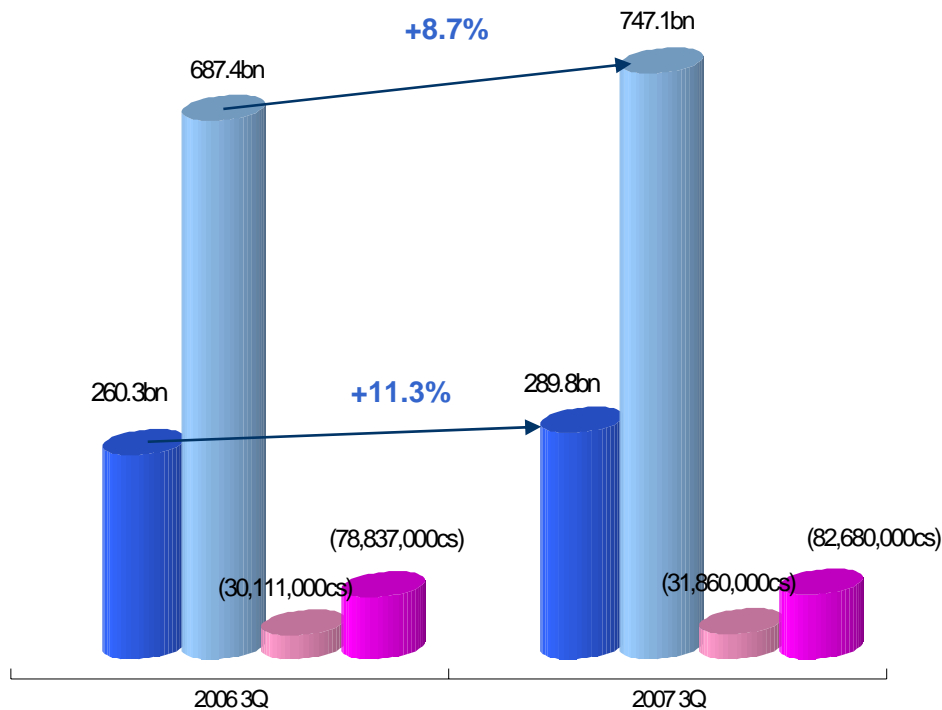
(Wmn)	3Q 06		3Q 07		
	Amount	% of sales	Amount	% of sales	YoY, %
Sales	260,326	100.0%	289,853	100.0%	11.3%
Volume (000')	30,111 C/S		31,859 C/S		5.8%
Gross profit	144,295	55.4%	161,087	55.6%	11.6%
Operating profit	75,754	29.1%	81,189	28.0%	7.2%
Recurring profit	84,590	32.5%	74,902	25.8%	-11.5%
Net profit	60,219	23.1%	53,232	18.4%	-11.6%

# HITE 3Q 07 - 1. Sales



■ Sales +11.3% YoY (YTD 8.7% YoY)

■ Sales (3Q)    ■ Sales (1~3Q)    ■ Volume(3Q)    ■ Volume(1~3Q)



✓Sales volume grew by 5.8% YoY

✓Beer market volume up by 5% YoY

✓Main growth drivers

① High demand season

(Jul sales Vol. up 11.8%YoY, Aug sales Vol. 8.5% YoY)

② Price Hike of 4.9%

(Jan 1 : 3%, May 3: 1.9%)

③ New product launch

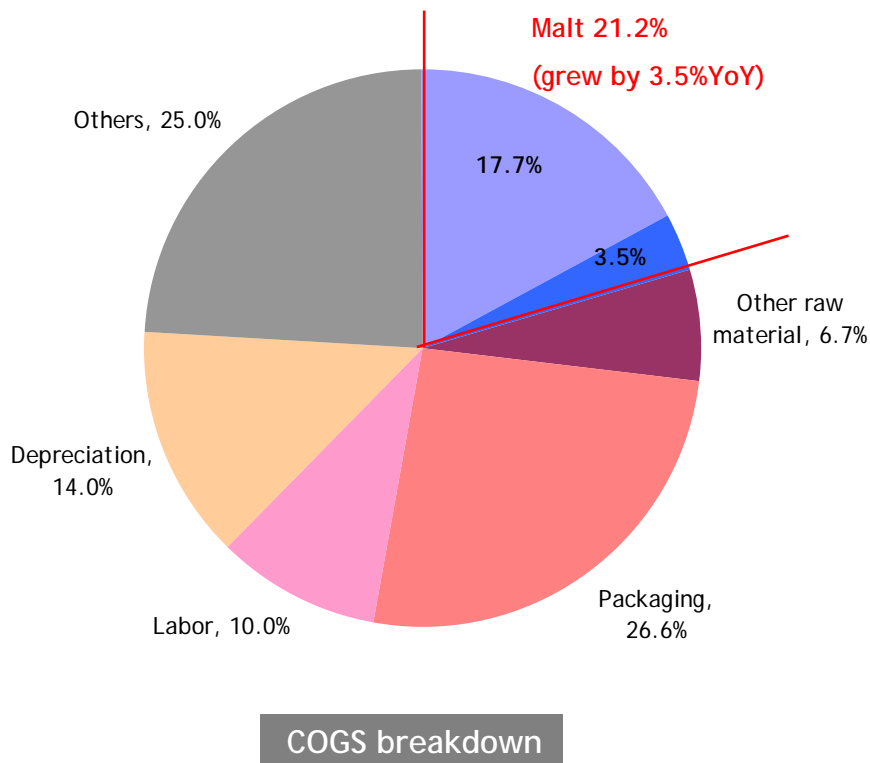
- June 2007 : S beer

- Oct 2007: MAX Draft

# HITE 3Q 07 - 2. Gross profit



- Gross profit W16.8bn (up 11.6% YoY )
- Despite margin pressure from price hike in imported malt, gross profit margin posted 55.6%



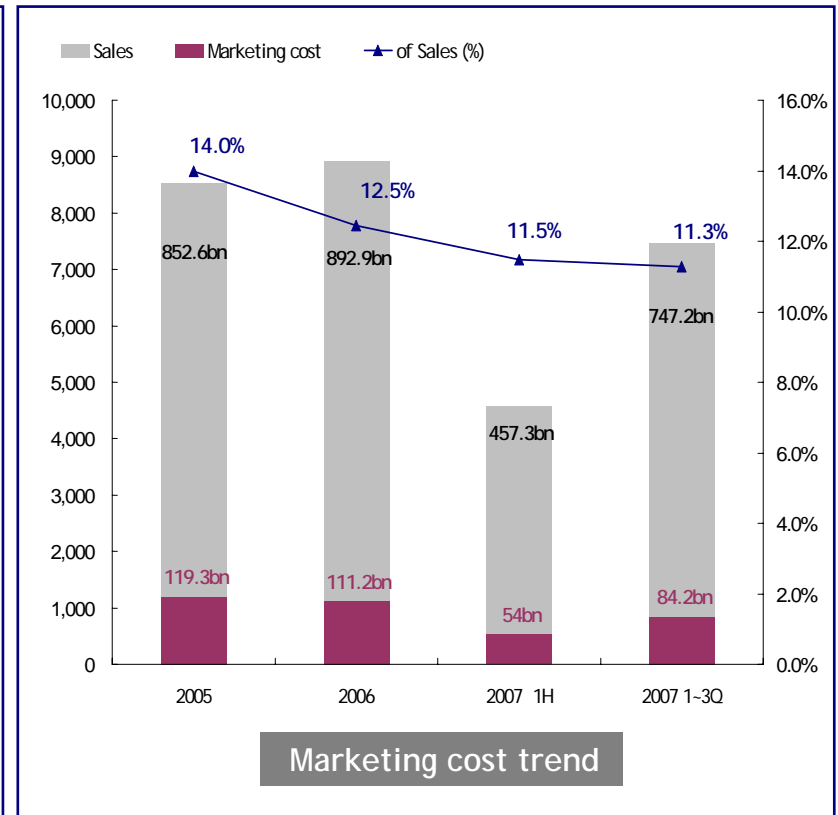
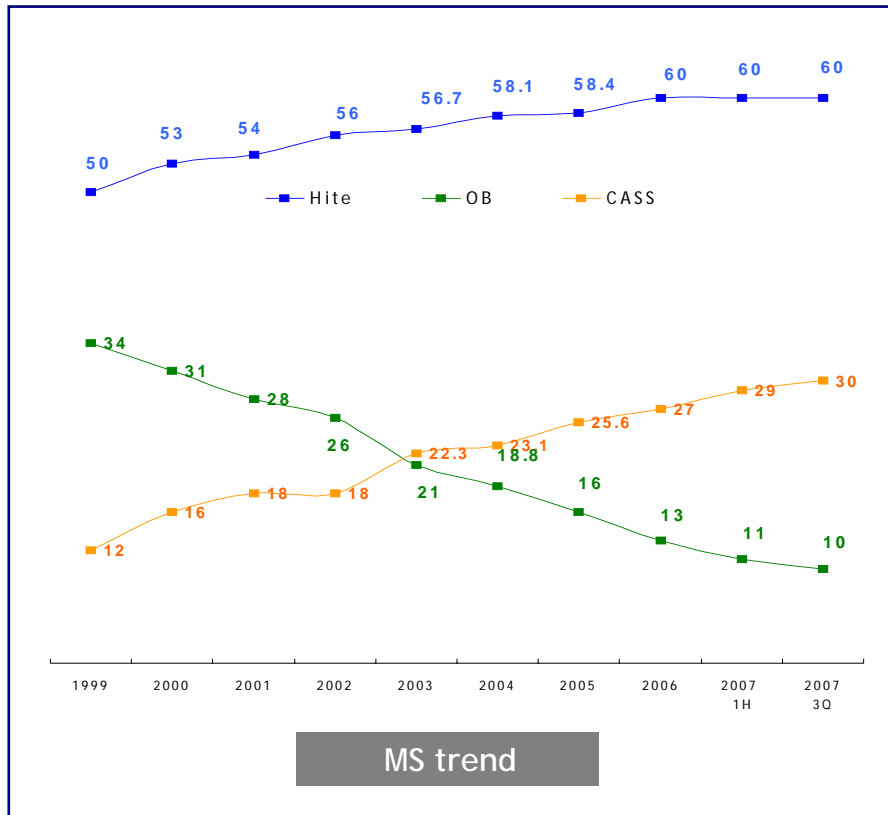
- ✓ Domestic malt vol.: Imported malt vol.-> 20%:80%
- ✓ Out of total malt cost worth W26.8bn:  
Domestic W9.7bn (36%), Imported W17.1bn (64%)
- ✓ Imported malt costs to increase in 3Q07 due to higher imported price  
3Q07 Imported malt USD 498 vs. 3Q06 USD 271
- ✓ Margin pressure by 2%p due to increase in imported malt cost by W6.1bn in 3Q07 from 3Q06.



# HITE 3Q 07 - 3. Operating profit



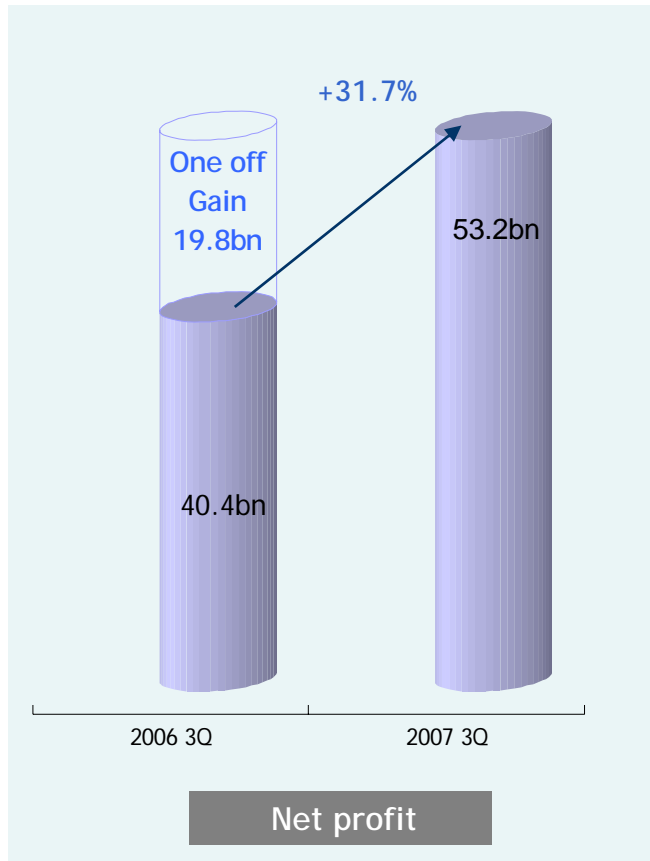
- Operating profit : grew by 7.2% YoY (Operating profit margin: 28%)
- Market share: 60% maintained
- Marketing cost: 11% of total sales (Easing of competitions, Efficient marketing cost spending)



# HITE 3Q 07 - 4. Net profit



- Excluding the one off gains during 3Q06, net profit grew by 31.7% YoY



- ✓ Interest expense: W13.2bn (W16.5bn in 3Q06)

3Q06 Interest bearing debt: W1.3trn

3Q07 Interest bearing debt :W993bn

- ✓ Equity method gains from Jinro : W4.6bn

Total Equity method gains(42%) : W14.5bn

Goodwill amortization: W9.9bn

- ✓ Comments

- ① One off gain 3Q07: W19.8bn from sales of idle asset
- ② Excluding the one off gains in 3Q 06, net profit grew by 31.7% YoY

# Financial Statement



## Balance Sheet

Unit : Wmn

Items	2007 3Q	In/decrease	ratio	2007 1H	2006
<b>Assets</b>	<b>2,840,253</b>	<b>3.0%</b>	<b>100.0%</b>	<b>2,757,514</b>	<b>2,674,500</b>
1. Current Assets	556,533	14.3%	19.6%	486,792	437,886
(1) Cash and receivables	491,066	17.6%	17.3%	417,440	368,249
(2) Inventories	65,467	-5.6%	2.3%	69,352	69,637
2. Non-current Assets	2,283,720	0.6%	80.4%	2,270,722	2,236,614
(1) Investmet	966,106	1.2%	34.0%	954,481	992,473
(2) Property, Land & Equipment	1,245,626	0.2%	43.9%	1,242,992	1,243,534
(3) Goodwill, Industrial property righ	557	-0.5%	0.0%	560	607
(4) Other non-current Assets	71,431		2.5%	72,689	0
<b>Liabilities</b>	<b>1,490,384</b>	<b>0.0%</b>	<b>52.5%</b>	<b>1,490,384</b>	<b>1,448,604</b>
1. Current Liabilities	963,585	0.0%	33.9%	963,585	865,736
2. Non-current Liabilities	526,799	0.0%	18.5%	526,799	582,868
<b>Shareholder's equity</b>	<b>1,267,130</b>	<b>0.0%</b>	<b>44.6%</b>	<b>1,267,130</b>	<b>1,225,896</b>
1. Shareholders' Equity	110,205	0.0%	3.9%	110,205	110,205
2. Capital surplus	633,535	0.0%	22.3%	633,535	632,937
3. Capital adjustment	-90,824	0.0%	-3.2%	-90,824	-85,084
4. Unappropriated retained earnings	20,625	0.0%	0.7%	20,625	19,085
5. Retained earnings	593,589	0.0%	20.9%	593,589	548,753

## Income Statement

Unit : Wmn

Items	2007 3Q	In/decrease	ratio	2007 1~3Q	In/decrease	ratio	2006 3Q	ratio	2006 1~3Q	ratio
<b>Sales</b>	<b>289,853</b>	<b>11.3%</b>	<b>100.0%</b>	<b>747,158</b>	<b>8.7%</b>	<b>100.0%</b>	<b>260,326</b>	<b>100.0%</b>	<b>687,361</b>	<b>100.0%</b>
(Volume'000)	(31,860Cs)	5.8%		(82,680Cs)	4.9%		(30,113Cs)		(78,837Cs)	
<b>COGS</b>	<b>128,766</b>	<b>11.0%</b>	<b>44.4%</b>	<b>333,673</b>	<b>4.4%</b>	<b>44.7%</b>	<b>116,031</b>	<b>44.6%</b>	<b>319,488</b>	<b>46.5%</b>
<b>Gross profits</b>	<b>161,087</b>	<b>11.6%</b>	<b>55.6%</b>	<b>413,485</b>	<b>12.4%</b>	<b>55.3%</b>	<b>144,295</b>	<b>55.4%</b>	<b>367,873</b>	<b>53.5%</b>
<b>SG&amp;A</b>	<b>79,898</b>	<b>16.6%</b>	<b>27.6%</b>	<b>213,083</b>	<b>8.2%</b>	<b>28.5%</b>	<b>68,541</b>	<b>26.3%</b>	<b>197,005</b>	<b>28.7%</b>
<b>Operating profits</b>	<b>81,189</b>	<b>7.2%</b>	<b>28.0%</b>	<b>200,402</b>	<b>17.3%</b>	<b>26.8%</b>	<b>75,754</b>	<b>29.1%</b>	<b>170,868</b>	<b>24.9%</b>
<b>Non-operating profit</b>	<b>8,775</b>	<b>-65.9%</b>	<b>3.0%</b>	<b>16,878</b>	<b>-63.8%</b>	<b>2.3%</b>	<b>25,698</b>	<b>9.9%</b>	<b>46,668</b>	<b>6.8%</b>
(Tangible asset disposal gain)	(68)	-65.8%	0.0%	(413)	99.5%	0.1%	(199)	0.1%	(207)	0.0%
(Equity method gain)	(6,205)	46.9%	2.1%	(8,179)	-58.2%	1.1%	(4,224)	1.6%	(19,544)	2.8%
<b>Non-operating loss</b>	<b>15,062</b>	<b>-10.7%</b>	<b>5.2%</b>	<b>45,898</b>	<b>-27.6%</b>	<b>6.1%</b>	<b>16,862</b>	<b>6.5%</b>	<b>63,430</b>	<b>9.2%</b>
(Equity method loss)	(111)	258.1%	0.0%	(321)	-28.3%	0.0%	(31)	0.0%	(448)	0.1%
(Interest expense)	(13,259)	-19.9%	4.6%	(40,927)	-25.9%	5.5%	(16,558)	6.4%	(55,195)	8.0%
<b>Recurring profit</b>	<b>74,902</b>	<b>-11.5%</b>	<b>25.8%</b>	<b>171,382</b>	<b>11.2%</b>	<b>22.9%</b>	<b>84,590</b>	<b>32.5%</b>	<b>154,106</b>	<b>22.4%</b>
<b>Special gain</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
<b>Special loss</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
<b>Profit before tax</b>	<b>74,902</b>	<b>-11.5%</b>	<b>25.8%</b>	<b>171,382</b>	<b>11.2%</b>	<b>22.9%</b>	<b>84,590</b>	<b>32.5%</b>	<b>154,106</b>	<b>22.4%</b>
<b>Corporate tax</b>	<b>21,670</b>	<b>-11.1%</b>	<b>7.5%</b>	<b>50,502</b>	<b>-27.7%</b>	<b>6.8%</b>	<b>24,371</b>	<b>9.4%</b>	<b>69,815</b>	<b>10.2%</b>
<b>Net profit</b>	<b>53,232</b>	<b>-11.6%</b>	<b>18.4%</b>	<b>120,880</b>	<b>43.4%</b>	<b>16.2%</b>	<b>60,219</b>	<b>23.1%</b>	<b>84,291</b>	<b>12.3%</b>

# JINRO



# JINRO 3Q 07 HIGHLIGHT

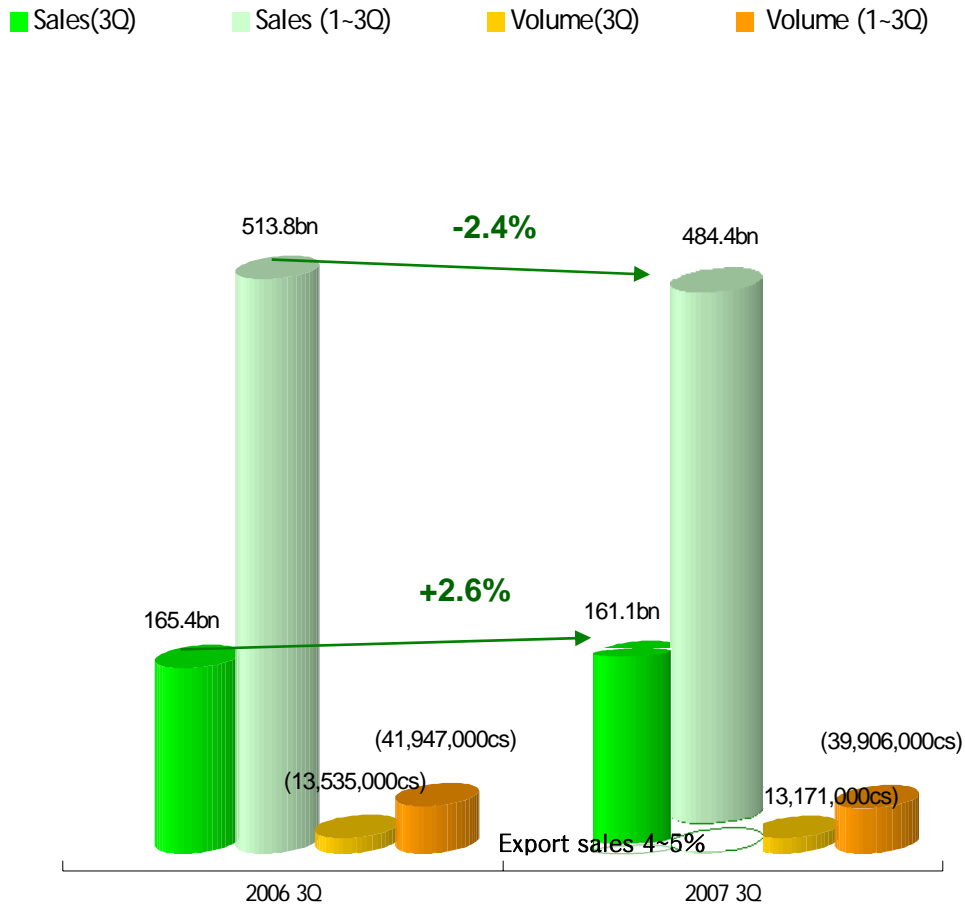


(Wmn)	3Q06		3Q07		
	Amount	% of sales	Amount	% of sales	YoY, %
Sales	165,448	100%	161,158	100%	-2.6%
Volume (000')	13,535 C/S		13,171 C/S		-2.7%
Gross profit	70,405	42.6%	72,109	44.7%	2.4%
Operating profit	24,298	14.7%	35,287	21.9%	45.2%
Recurring profit	21,536	13.0%	34,664	21.5%	61.0%
Net profit	21,536	13.0%	34,664	21.5%	61.0%

# JINRO 3Q 07 – 1. Sales



- Excluding the sales from Masan factory, sales grew by 2.6% YoY

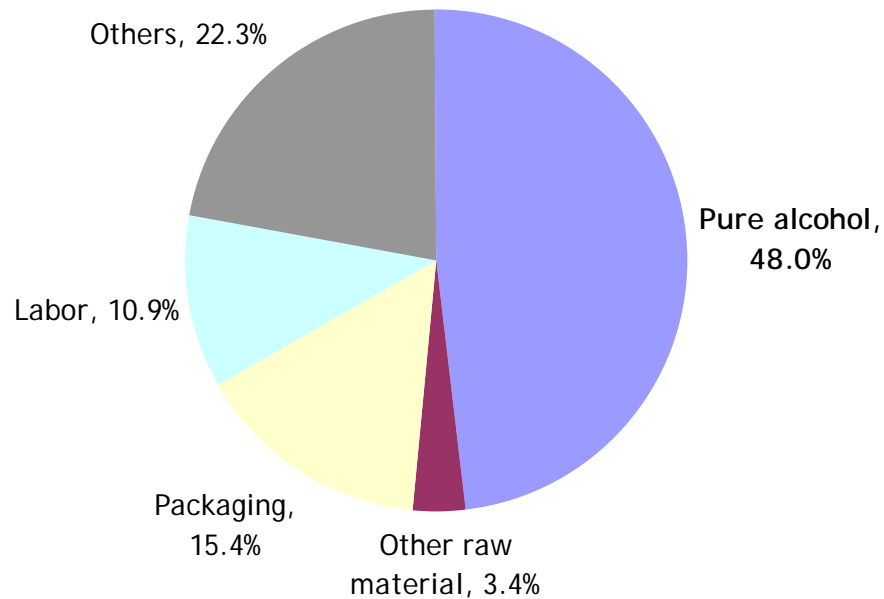


- ✓ Sales volume down 2.7% YoY
- ✓ Soju market declines by 2.2% YoY (In terms of sales vol.)
- ✓ Main reasons for reduced sales
  - ① High base effect; the market vol. grew by 5% YoY in 3Q06
  - ② Sales from Masan plant was excluded after spinning off on April 2007, despite 4.92% of ASP.  
(Export sales : 4~5%)

# JINRO 3Q 07 – 2. Gross profit



- Gross profit margin 44.7%
- Despite sales volume decline, Gross profit up by 2.4% YoY due to price hike



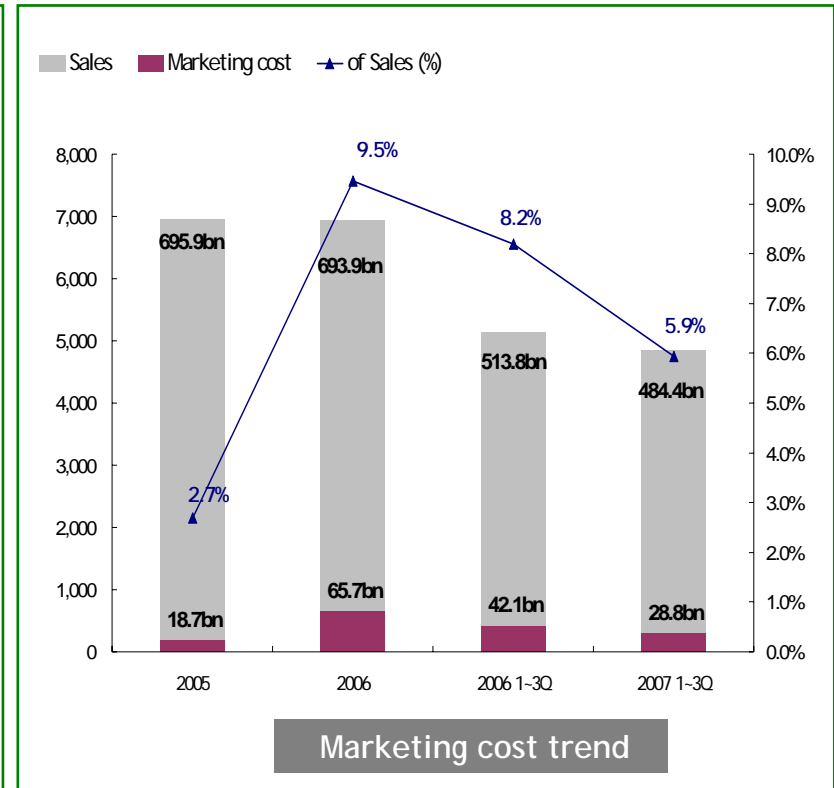
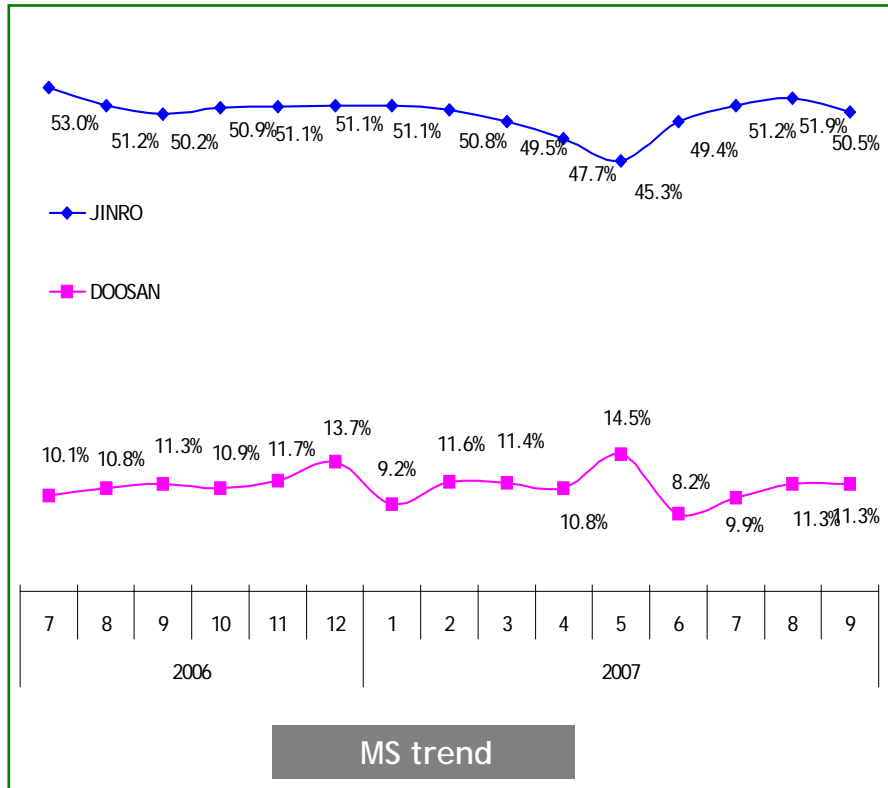
COGS breakdown

- ✓ Domestic sales volume declined by 2.7% YoY
- ✓ Price Hike 4.92%
- ✓ Ethanol price hike of 3.5% (May 2007)
  - Ethanol= 100% Alcohol
  - Purchase from Korea Ethanol Supplies
  - Ingredient: Tapioca, Sweet Potatoes

# JINRO 3Q 07 – 3. Operating profit



- Operating profit grew by W11bn (Operating profit margin 21.9%)
- Market share: 50~51%
- Efficient marketing costs spending (maintain 6% of total sales)-> Marketing costs declined by W7.8bn

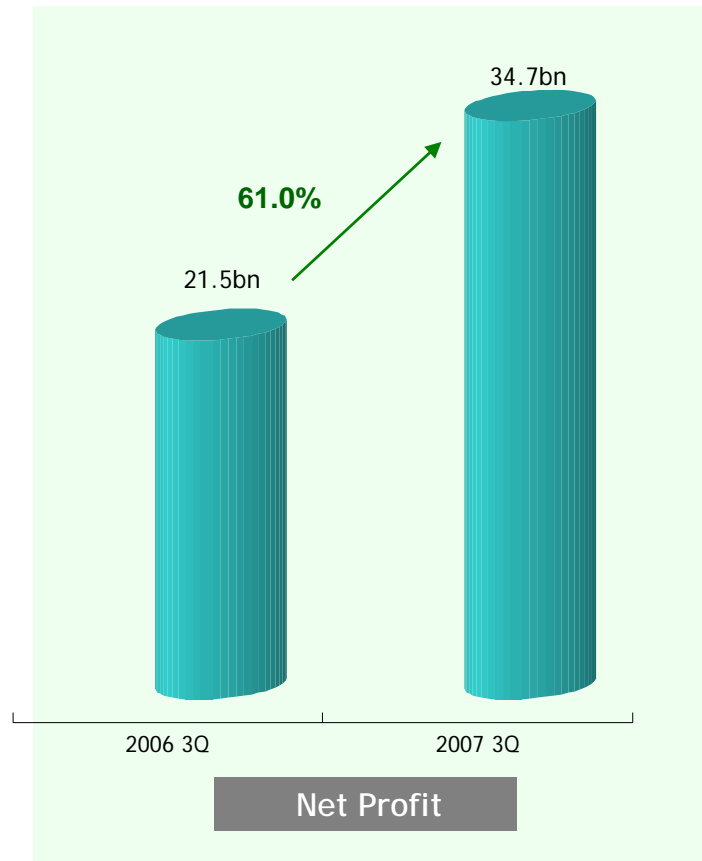




# JINRO 3Q 07 – 4. Net profit



- Profitability improved due to cost control



## ✓ Growth driver for net profit

### ① Interest income

(Additional income of W4.8bn - win lawsuit)

### ② Equity method gains

(Jinro (ex-Masan plant) W1.7bn)

## ✓ Turned positive equity

(Resolved accumulated losses)

- Net profit in 3Q07 of W34.6bn will be enough to cover the deficit worth of W27bn as of 1H07 end.

# Disposable assets of Jinro



- Plan to dispose additional idle land of Jinro and 30% stake in Jinro Ballantines

## I. 1<sup>st</sup> idle land & bldg

- Two buildings near old HQ
- Disposed date : Oct. 31, 2007
- Buyer : BC Card Co., Ltd.
- Book value : W 5bn
- **Disposal price : W 39bn**
- Usage of cash : pay down debt

**Completed**

## II. 2<sup>nd</sup> idle land & bldg

- Old HQ and its land banks
- Buyer : Not decided
- Book value : W 7.4bn
- Disposal price : Not decided
- Usage of cash : pay down debt

**On-going**

## III. 30% stake of JBC

- Buyer : Pernod Ricard  
(ex-Allied Domeq)
- Book value : W 20bn
- Disposal price : Not decided

**On-going**

# Financial Statement



## Balance Sheet

Items	Unit : Wmn				
	2007 3Q	In/decrease	ratio	2007 1H	2006
<b>Assets</b>	<b>1,295,201</b>	<b>-4.3%</b>	<b>100.0%</b>	<b>1,353,715</b>	<b>1,469,103</b>
1. Current Assets	281,210	7.6%	21.7%	261,349	281,588
(1) Cash and receivables	255,153	10.6%	19.7%	230,752	255,432
(2) Inventories	26,057	-14.8%	2.0%	30,597	26,156
2. Non-current Assets	1,013,991	-7.2%	78.3%	1,092,366	1,187,515
(1) Investment	412,195	-15.4%	31.8%	487,034	564,532
(2) Property, Land & Equipment	342,092	-0.9%	26.4%	345,244	366,235
(3) Goodwill, Industrial property rights	1,042	15.6%	0.1%	901	788
(4) Other non-current Assets	258,662	-0.2%	20.0%	259,187	255,960
<b>Liabilities</b>	<b>1,067,742</b>	<b>-8.4%</b>	<b>82.4%</b>	<b>1,165,888</b>	<b>1,330,194</b>
1. Current Liabilities	842,681	-1.6%	65.1%	856,680	346,116
2. Non-current Liabilities	225,061	-27.2%	17.4%	309,208	984,078
<b>Shareholders' Equity</b>	<b>227,459</b>	<b>21.1%</b>	<b>17.6%</b>	<b>187,827</b>	<b>138,909</b>
1. Shareholders' Equity	215,000	0.0%	16.6%	215,000	215,000
2. Capital surplus	0	0.0%	0.0%	0	736,449
3. Capital adjustment	-15	0.0%	0.0%	-15	-15
4. Unappropriated retained earnings	-8,179	-37.8%	-0.6%	-13,148	-11,613
5. Retained losses	20,653	-247.4%	1.6%	-14,010	-800,912

## Income Statement

Items	Unit : Wmn										
	2007 3Q	In/decrease	ratio	2007 1-3Q	In/decrease	ratio	2006 3Q	ratio	2006 1-3Q	ratio	
<b>Sales</b>	<b>161,158</b>	<b>-2.6%</b>	<b>100.0%</b>	<b>484,426</b>	<b>-5.7%</b>	<b>100.0%</b>	<b>165,448</b>	<b>100.0%</b>	<b>513,834</b>	<b>100.0%</b>	
(Volume000')	(13,171Cs)	-2.7%		(39,906Cs)	-4.9%		(13,535Cs)		(41,947Cs)		
COGS	89,049	-6.3%	55.3%	272,994	-5.0%	56.4%	95,043	57.4%	287,456	55.9%	
<b>Gross profit</b>	<b>72,109</b>	<b>2.4%</b>	<b>44.7%</b>	<b>211,432</b>	<b>-6.6%</b>	<b>43.6%</b>	<b>70,405</b>	<b>42.6%</b>	<b>226,378</b>	<b>44.1%</b>	
SG&A	36,822	-20.1%	22.8%	111,975	-13.4%	23.1%	46,107	27.9%	129,302	25.2%	
(Marketing expenses)	(8,578)	-43.5%	5.3%	(28,826)	-29.5%	6.0%	(15,192)	9.2%	(40,881)	8.0%	
<b>Operating profit</b>	<b>35,287</b>	<b>45.2%</b>	<b>21.9%</b>	<b>99,457</b>	<b>2.5%</b>	<b>20.5%</b>	<b>24,298</b>	<b>14.7%</b>	<b>97,076</b>	<b>18.9%</b>	
Non-operating profit	15,024	29.7%	9.3%	47,135	-56.0%	9.7%	11,586	7.0%	107,019	20.8%	
Non-operating loss	15,647	9.1%	9.7%	61,476	-29.3%	12.7%	14,348	8.7%	86,913	16.9%	
(Interest expense)	(8,162)	-7.0%	5.1%	(25,256)	-46.8%	5.2%	(8,774)	5.3%	(47,514)	9.2%	
<b>Recurring profit</b>	<b>34,664</b>	<b>61.0%</b>	<b>21.5%</b>	<b>85,116</b>	<b>-27.4%</b>	<b>17.6%</b>	<b>21,536</b>	<b>13.0%</b>	<b>117,182</b>	<b>22.8%</b>	
Special gain	-	-	-	-	-	-	-	-	-	-	
Special loss	-	-	-	-	-	-	-	-	-	-	
<b>Profit before tax</b>	<b>34,664</b>	<b>61.0%</b>	<b>21.5%</b>	<b>85,116</b>	<b>-27.4%</b>	<b>17.6%</b>	<b>21,536</b>	<b>13.0%</b>	<b>117,182</b>	<b>22.8%</b>	
Corporate tax	-	0.0%	0.0%	-	0.0%	0.0%	0	0.0%	0	0.0%	
<b>Net profit</b>	<b>34,664</b>	<b>61.0%</b>	<b>21.5%</b>	<b>85,116</b>	<b>-27.4%</b>	<b>17.6%</b>	<b>21,536</b>	<b>13.0%</b>	<b>117,182</b>	<b>22.8%</b>	