

HITE - JINRO

2008. 4.



History



- Dominant leader in Korea's liquor market
- Hite Brewery acquired 41.85% stake of Jinro in September 2005

Hite Brewery

- ⊙ Established in August in 1933
- ⊙ Korea's No.1 beer maker
- ⊙ No. 1 market share in domestic beer market
- ⊙ Domestic network : 31 nationwide branches and 1,500 sales agencies
- ⊙ Employees 1,611 / Sales personnel: 656
(office 10.5%, sales 40.7%, production 48.8%)

THE HITE.

Jinro

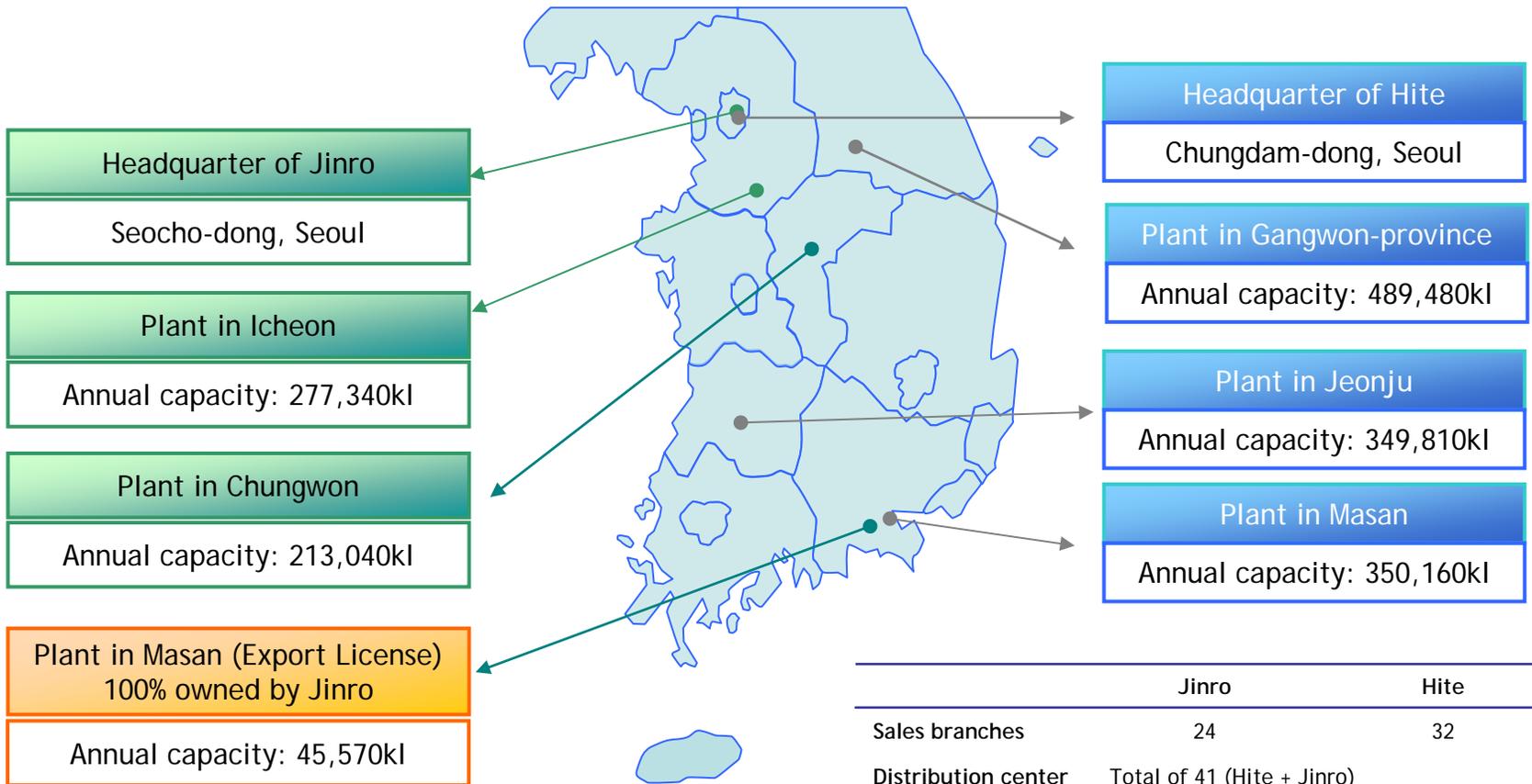
- ⊙ Established in October 1924
- ⊙ No. 1 in Soju market
- ⊙ No. 1 in global distilled liquor market (according to IMPACT in 2006)
- ⊙ Graduated from court receivership in September 2005
- ⊙ Employees 1,610 / Sales personnel: 622
(office 11.3%, sales 38.6%, production 50%)

JINRO

Production and Sales networks



■ Nationwide production and sales networks





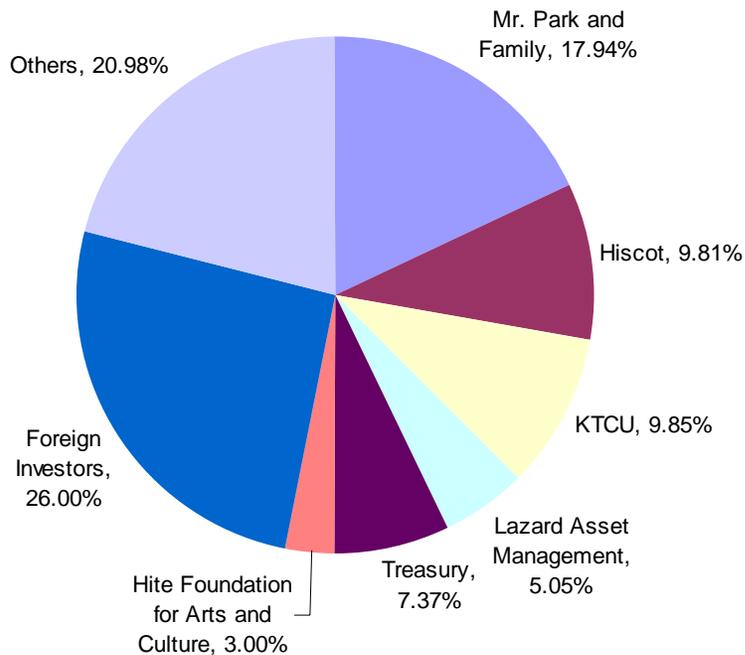
THE HITE.



Ownership structure



- Major shareholder and friendly stake: 40.71%
- Shareholders with stakes in excess of 5%: Lazard Asset Management (Emerging Market Fund)



Ownership structure
(common)

- ✓ Outstanding shares: 22,040,935
(Common 21,197,208 / Preferred 843,745)
- ✓ 3% owned by Hite Culture Foundation
- ✓ 9.47% owned by KTCU (converted to CB in Dec 2006)
- ✓ Hite will redeem Saemaul savings' CB
Principal 70 bn (3.99% per ann.)
Total amount : 78.7bn
cf) Interest-bearing debts will be sustained at W950bn

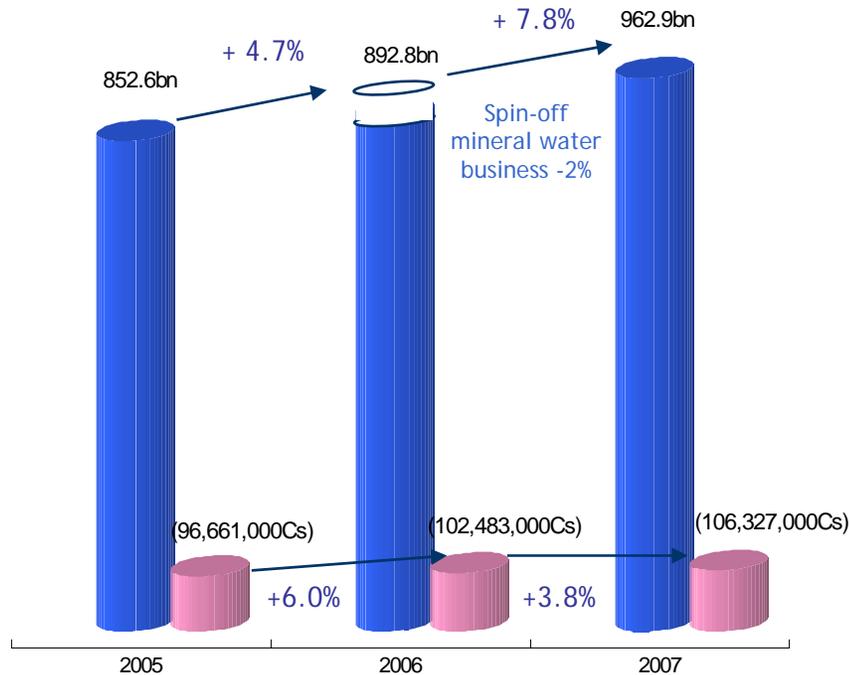
Hite 2007 results - 1. Sales



- Sales climbed 7.8% yoy (sales volume 3.8% growth)

■ Sales ■ Volume

Unit : KWN



✓ Sales volume increased 3.8% yoy

✓ Backed by:

- ① Price hike: 4.9% (1/1 : 3%, 5/3 : 1.9%)
- ② Demands increased since the German Worldcup in 2006
- ③ New products and product renewal

Jun: S-Beer

Oct: MAX Draft

Dec: renewed Stout

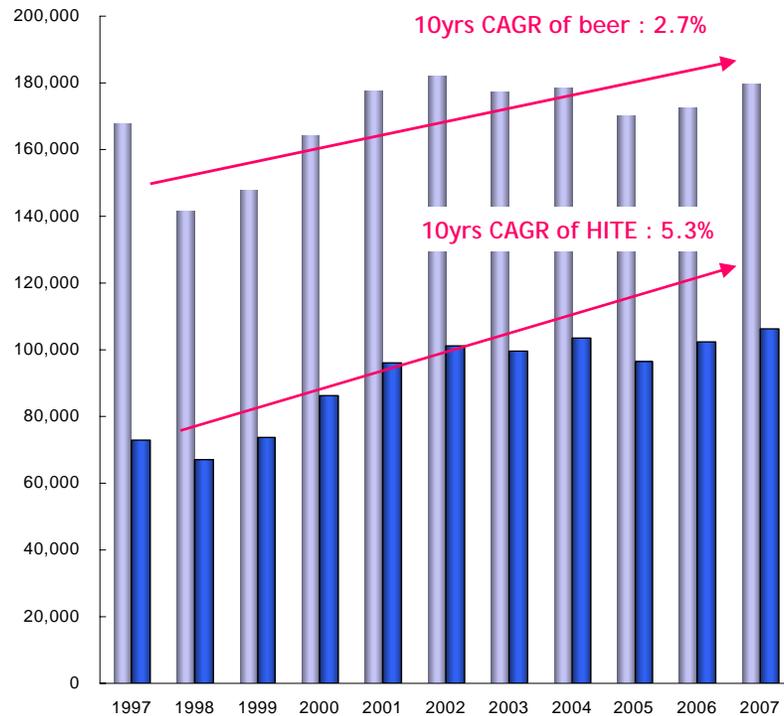
* Even though volume growth in 2006, -2% growth because of spin-off mineral water business

Growth potential



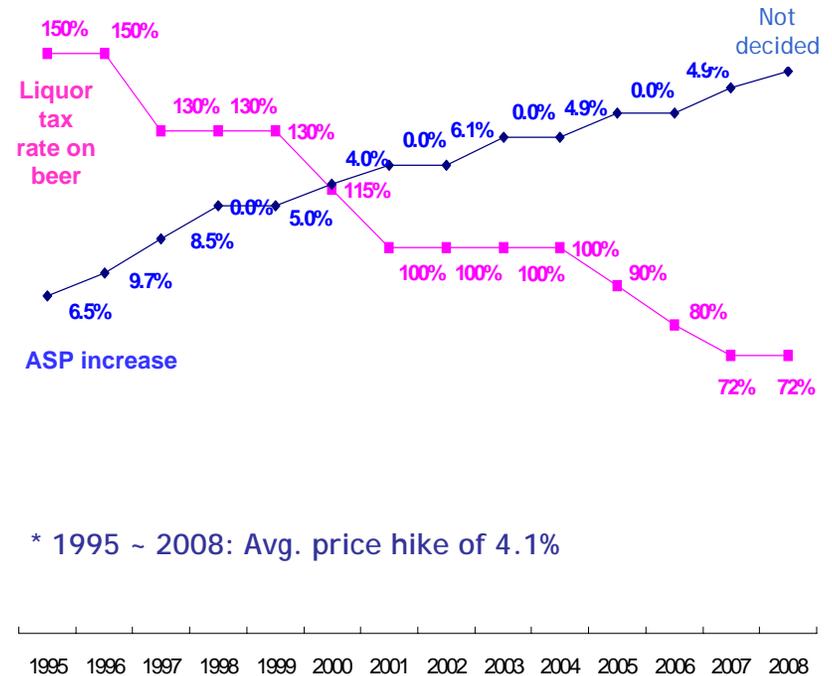
- Beer market: 10-year CAGR of 2.7%
- Average price hike of 4.1% (offset by lower liquor tax, having marginal impact on selling prices)

Sales volume growth



* Based on KALIA shipment data and Hite sales volume

Liquor tax and price hikes



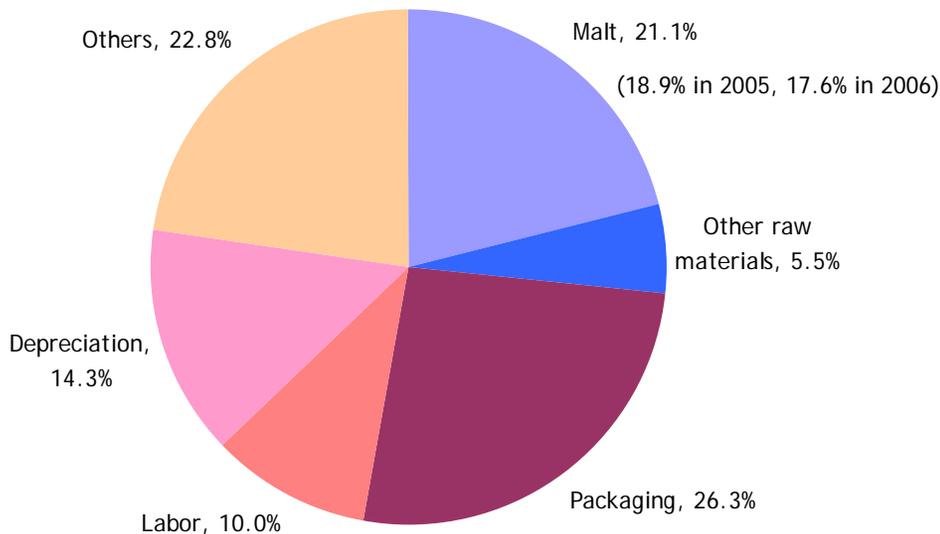
* 1995 ~ 2008: Avg. price hike of 4.1%

* Based on Hite 500ml

Hite 2007 results - 2. COGS



- Gross profit W527.5bn (yoy 11.0% growth, GP margin 54.8%)
- Margin from the higher malt price in 2H → offset by price hike, volume growth and cost savings



COGS breakdown

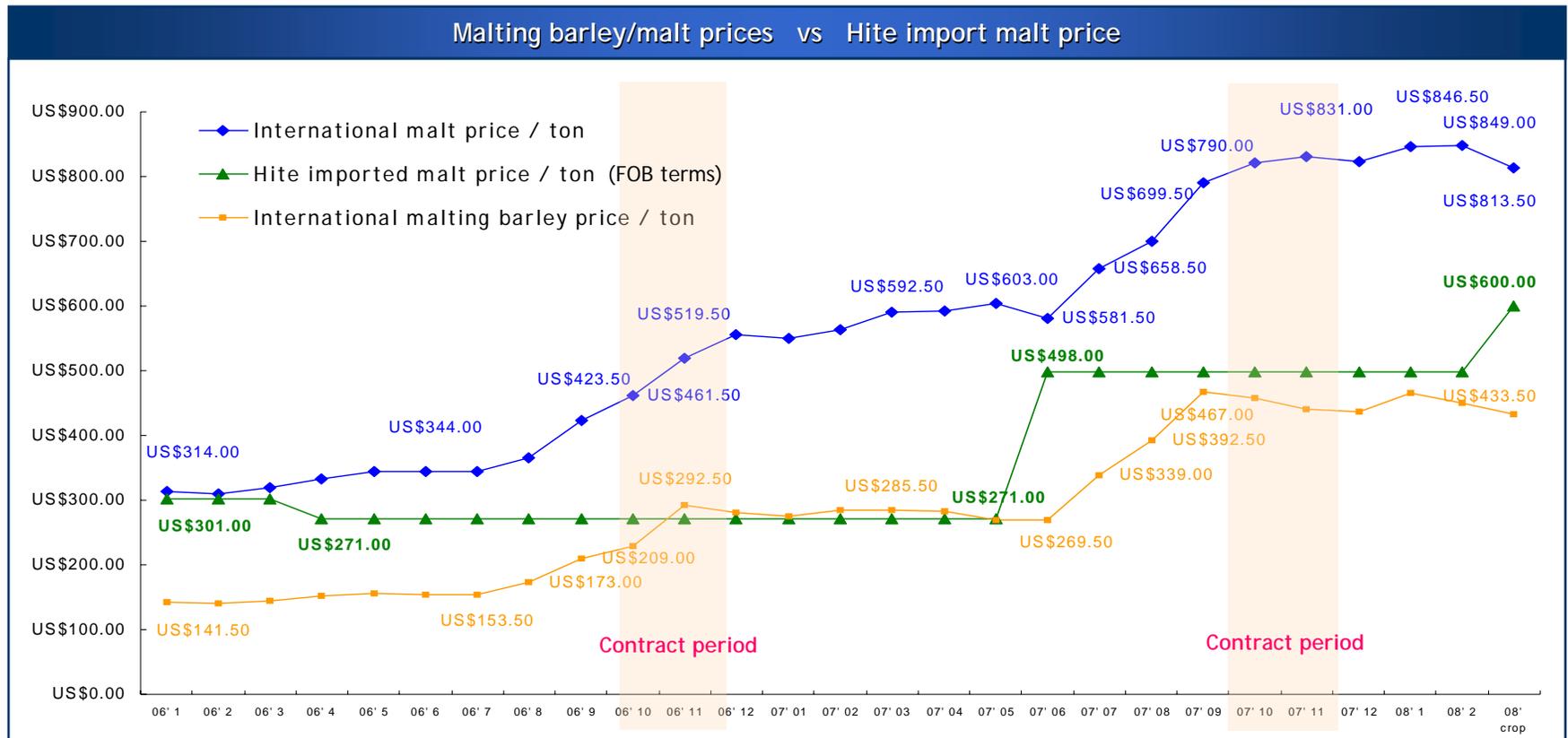
- ✓ Volume usage : Domestic 24,354ton(19%)
Imported 102,661ton (81%)
- ✓ Out of total malt cost worth W92.8bn ;
Domestic W39.5bn (43%), Imported 53.3bn (57%)
- ✓ Imported malt cost increase by W13.3bn yoy
(33.3% ↑) → -1.5%p margin pressure
- ✓ Import unit price change

06' 4. ~ 07' 5.	07' 6. ~ 08' 3.	08' 4. ~ 09' 3.
USD271	USD 498	USD 600

Malting barley and malt prices



- Global malt prices surged due to drought in Australia, capacity shortage, and declining malt farms
- Contracted malt price in 2007 (USD600/ton) to be used from 2008

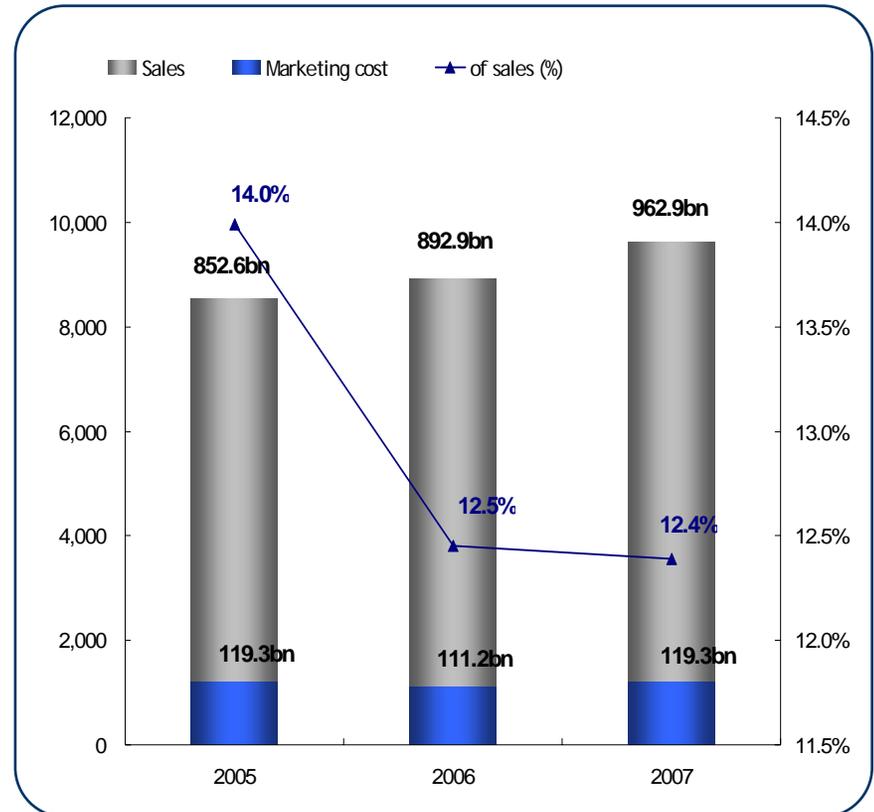
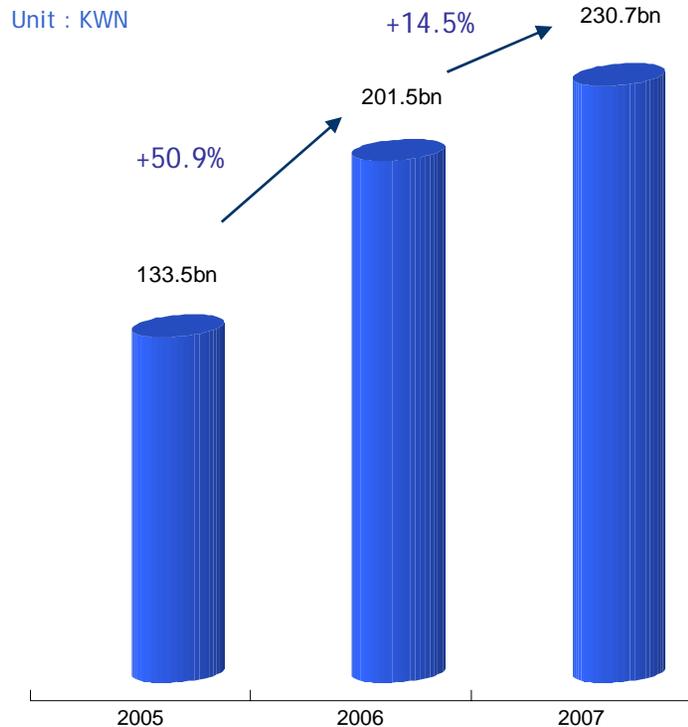


* Source : e-malt.com

Hite 3Q07 results - 3. Operating profit



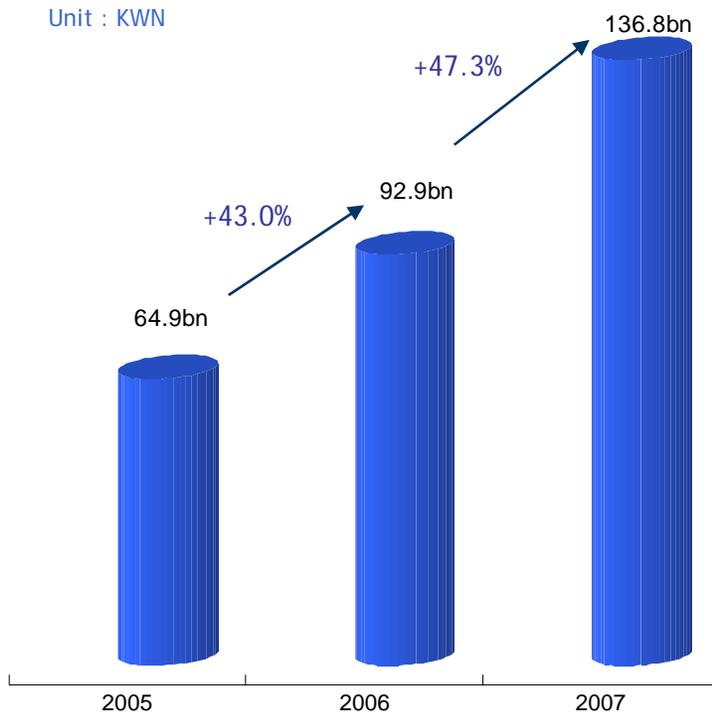
- OP climbed 14.5% y-y (OP margin up 24% y-y)
- Market share: 60%
- Marketing cost: 12.4% of sales (used to reinforce brand portfolio)



Hite 2007 results – 4. Net profit



- Net profit spiked 47.3% yoy
- Expected to continue rising on higher equity method gains from Jinro and lower interest expenses



- ✓ Equity method gains from Jinro:
2006 : W7.7bn vs 2007 : W13.3bn
(good will amortization W39bn~40bn every year)
- ✓ Interest expense: W55bn (vs W68.68bn in 2006)
Interest-bearing debt at end-06: W1.05tr
Interest-bearing debt at end-07: W950bn

Hite financial summary



Balance sheet

Items	Unit : Wmn				
	2007	In/decrease	ratio	2006	2005
Assets	2,766,797	3.5%	100.0%	2,674,500	2,869,191
1. Current Assets	488,038	11.5%	17.6%	437,886	385,733
(1) Cash and receivables	416,613	13.1%	15.1%	368,249	311,296
(2) Inventories	71,425	2.6%	2.6%	69,637	74,437
2. Non-current Assets	2,278,759	1.9%	82.4%	2,236,614	2,483,458
(1) Investmet	961,278	-3.1%	34.7%	992,473	1,188,777
(2) Property, Land & Equipmment	1,246,210	0.2%	45.0%	1,243,534	1,288,156
(3) Goodwill, Industrial property righ	544	-10.4%	0.0%	607	6,525
(4) Other non-current Assets	70,727		2.6%	0	0
Liabilities	1,444,363	-0.3%	52.2%	1,448,604	1,940,199
1. Current Liabilities	1,093,863	26.4%	39.5%	865,736	864,452
2. Non-current Liabilities	350,500	-39.9%	12.7%	582,868	1,075,747
Shareholder's equity	1,322,435	7.9%	47.8%	1,225,896	515,509
1. Shareholders' Equity	110,205	0.0%	4.0%	110,205	100,205
2. Capital surplus	636,861	0.6%	23.0%	632,937	401,415
3. Capital adjustment	-100,584	18.2%	-3.6%	-85,084	-51,055
4. Unappropriated retained earnings	13,159	-31.1%	0.5%	19,085	
5. Retained earnings	662,794	20.8%	24.0%	548,753	476,427

Income statement

Items	Unit : Wmn							
	2007	In/decrease	ratio	2006	ratio	2005	ratio	
Sales	962,949	7.8%	100.0%	892,863	100.0%	852,602	100.0%	
(Volume'000)	(106,600천Cs)	4.0%		(102,483천Cs)		(96,661천Cs)		
COGS	435,472	4.2%	45.2%	417,726	46.8%	422,221	49.5%	
Gross profits	527,477	11.0%	54.8%	475,137	53.2%	430,381	50.5%	
SG&A	296,774	8.5%	30.8%	273,593	30.6%	296,863	34.8%	
Operating profits	230,703	14.5%	24.0%	201,544	22.6%	133,518	15.7%	
Non-operating profit	32,813	-62.9%	3.4%	88,445	9.9%	33,068	3.9%	
(Equity method gain from Jinro)	(13,288)	39.1%	1.4%	(9,551)	1.1%	(7,000)	0.8%	
Non-operating loss	68,224	-54.1%	7.1%	148,591	16.6%	75,034	8.8%	
(Interest expense)	(54,244)	-21.0%	5.6%	(68,688)	7.7%	(68,102)	8.0%	
Recurring profit	195,292	38.1%	20.3%	141,398	15.8%	91,552	10.7%	
Special gain	-			-		-	0.0%	
Special loss	-			-		-	0.0%	
Profit before tax	195,292	38.1%	20.3%	141,398	15.8%	91,552	10.7%	
Corporate tax	58,441	20.5%	6.1%	48,497	5.4%	26,608	3.1%	
Net profit	136,851	47.3%	14.2%	92,901	10.4%	64,944	7.6%	

Hite financial summary



Cash Flow statement

Unit : Wmn

Items	2007	Increase /Decrease	2006	2005
Cash flow from operating activities	251,393	25.2%	200,758	115,868
1. Net profit	136,851	47.1%	93,041	64,944
2. Adjustment to reconcile net profit to net cash provided by operating activities	98,967	-14.7%	116,036	132,644
(Depreciation)	69,048	-2.2%	70,602	71,912
3. Loss from net profit provided by non cash items	(25,892)	-23.1%	(33,678)	(17,123)
(Equity method gain)	20,281	89.3%	10,716	12,217
(Gain from asset disposal)	476	-97.7%	20,748	220
4. Increase (Decrease) in liabilities	41,467	63.5%	25,359	(64,597)
(Accounts and notes payable trade)	17,766	121.0%	8,039	13,685
Cash flow from investing activities	(94,208)	-143.3%	217,798	(1,113,336)
1. Cash in-flow from investing activities	4,895	-98.1%	264,119	255,168
2. Cash out-flow from investing activities	(99,103)	113.9%	(46,321)	(1,368,504)
Cash flow from financing activities	(128,487)	-66.3%	(381,178)	994,413
1. Cash in-flow from financing activities	422,682	-54.6%	931,704	4,600,746
2. Cash out-flow from financing activities	(551,169)	-58.0%	(1,312,882)	(3,606,333)
Other cash loss	0	-100.0%	1,542	0
1. Cash flows from spin-off	0	-100.0%	1,542	0
Net increase in cash	28,698	-19.9%	35,836	(3,055)
Cash at beginning of year	47,517	306.8%	11,682	14,737
Cash at end of year	76,215	60.4%	47,518	11,682



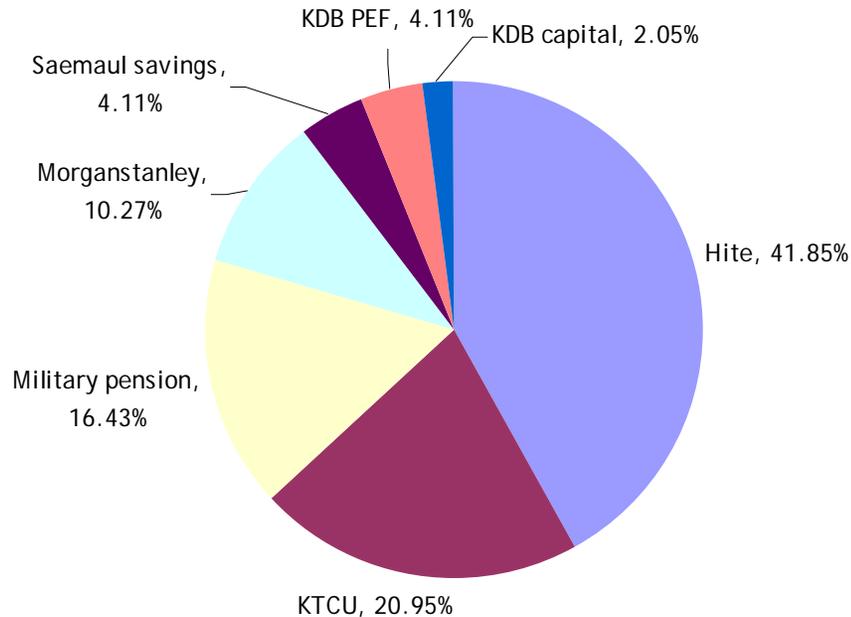
JINRO



Shareholder Structure



- Hite and consortium acquired Jinro in September 2005
- Hite holds 41.85% stake



Shareholder structure

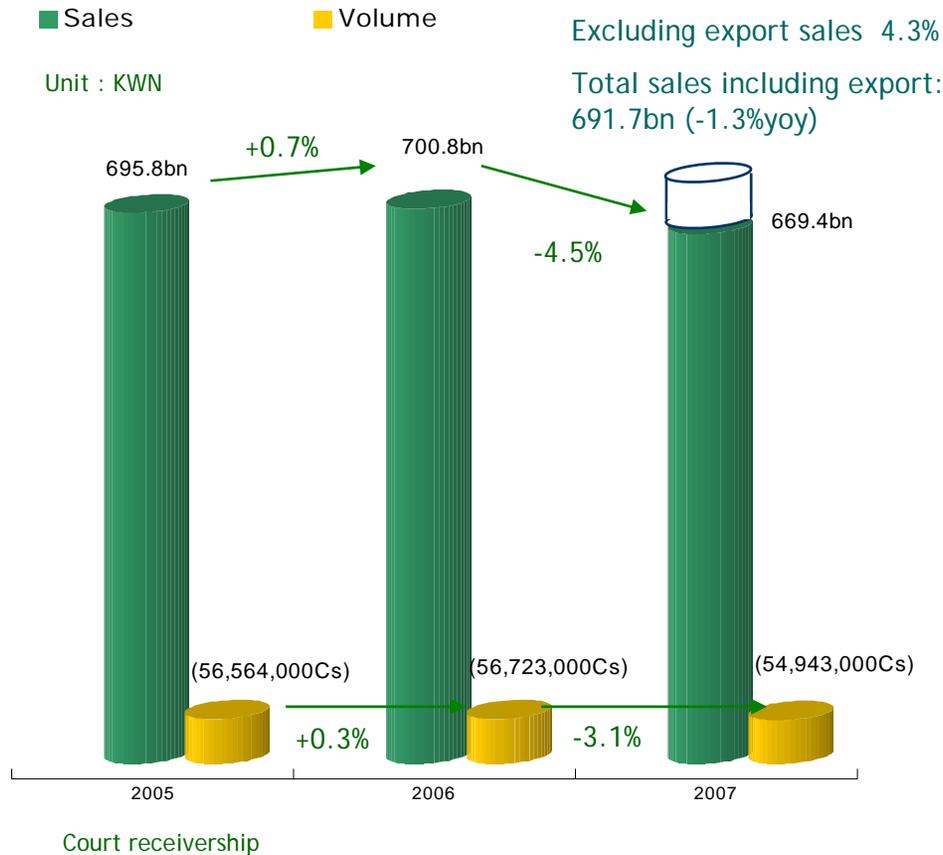
- ✓ Total shares : 43,000,000
- ✓ Total investment of Hite and consortium at W1.8tr (Hite investment: W800bn)

September 2005	Hite & consortium acquired Jinro (Hite-Consortium: invested W2.41tn)
May 2006	Capital reduction of W570bn Investment of Hite: W800bn
2H08	To be listed

Jinro 2007 earnings - 1. Sales



- Sales fell 4.5% (sales volume fell 3.1%)

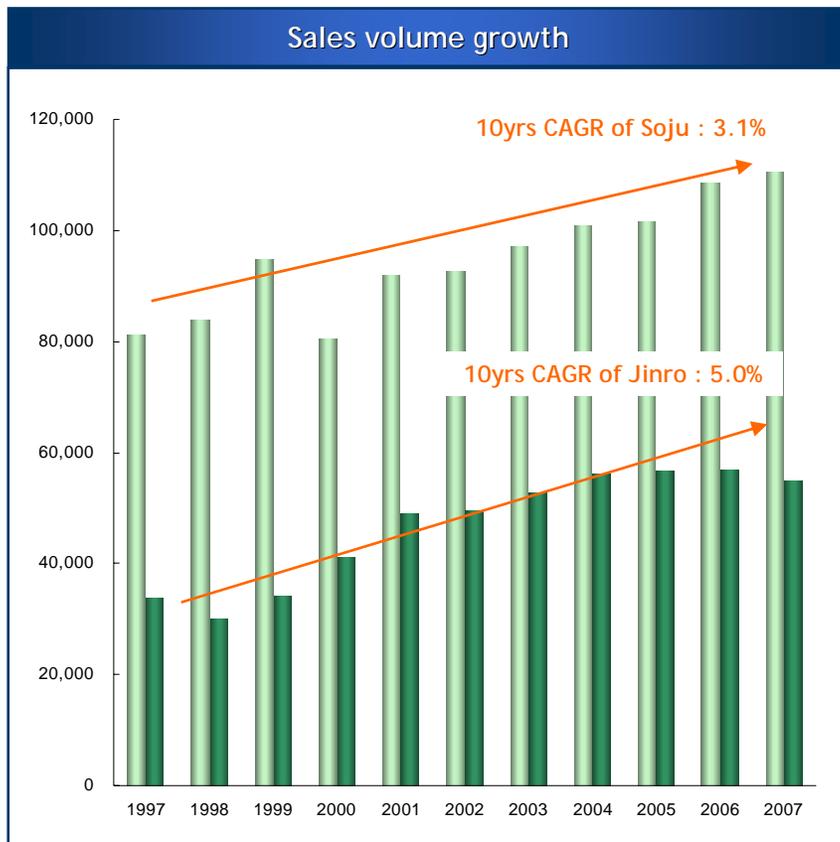


- ✓ Domestic sales volume fell 3.1% yoy
- ✓ Soju market grew 1.8% (based on volume)
- ✓ Reasons for sales contraction
 - ① Price hike of 4.92%; export sales not included due to spin-off of Masan plant (Export sales: 4.3%)
 - ② Volume contraction from inventory adjustment in 1H
 - ③ Higher comparison base of 2006

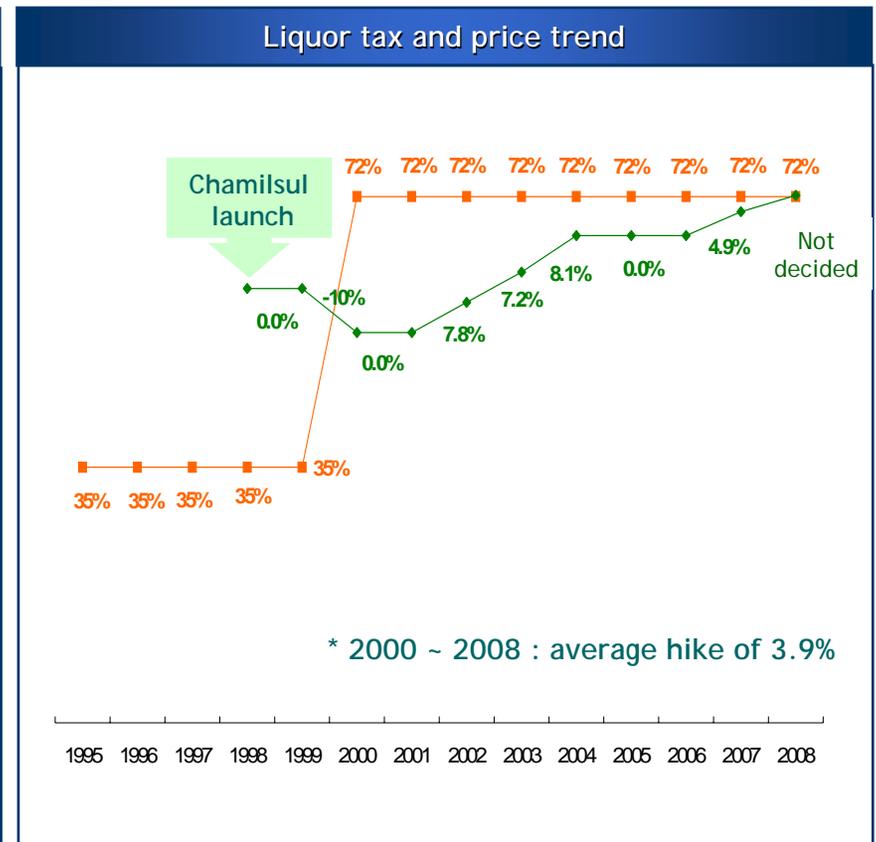
Growth potential



- 10-year CAGR of Soju: 3.1%
- Average price hike: 3.9% (price cut following liquor tax hike in 1999 to stabilize consumer prices)



* Source: Korea Alcohol & Liquor Industry Association, Jinro (based on domestic sales)

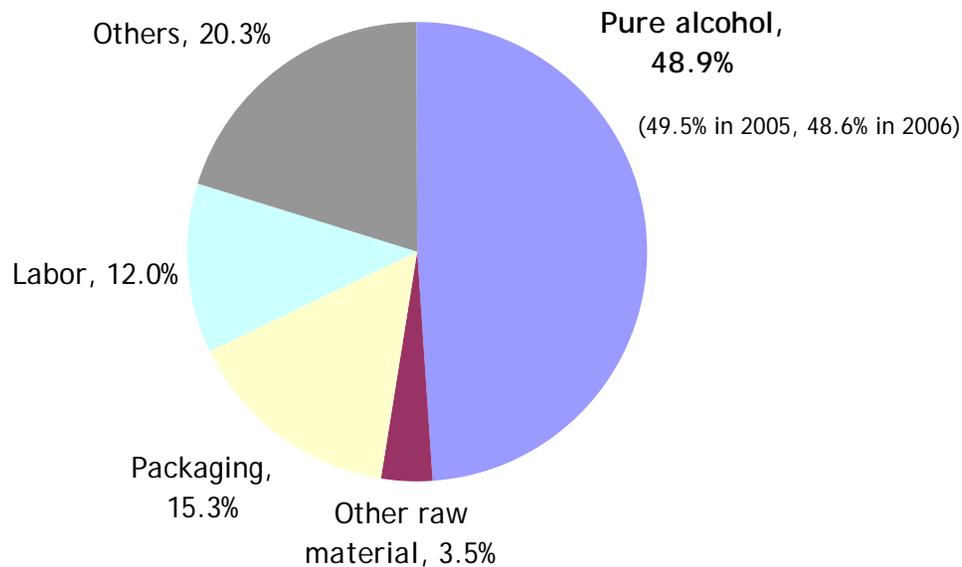


* Based on unit price of Chamilsul (360ml)

Jinro 2007 earnings - 2. Cost



- Gross profit W295.8bn (GP margin 44.2%)
- Negative 5.1% growth due to sales volume decrease



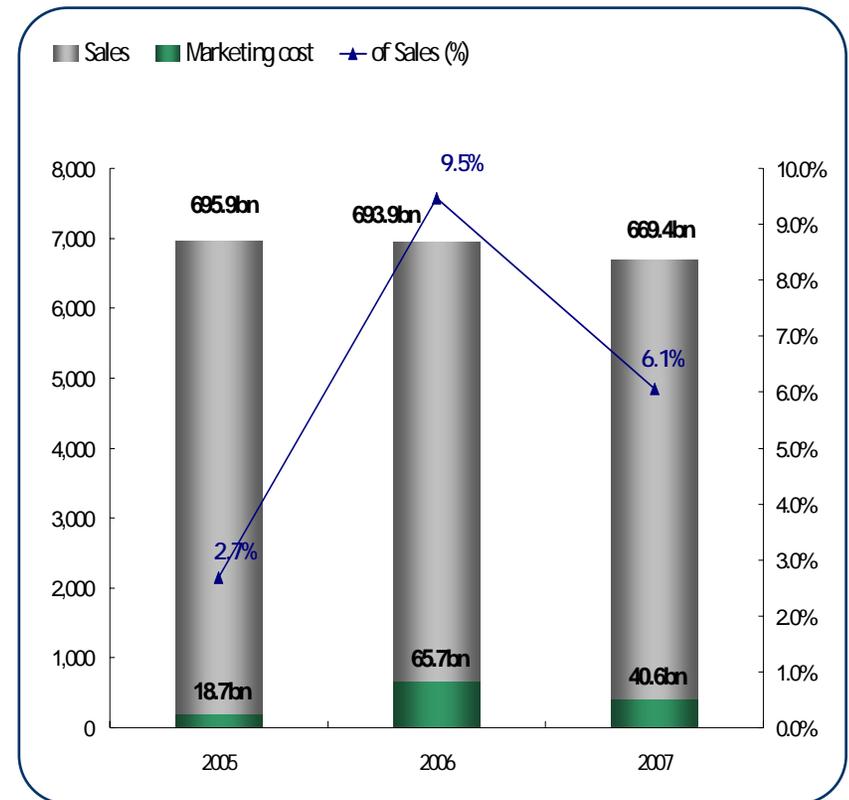
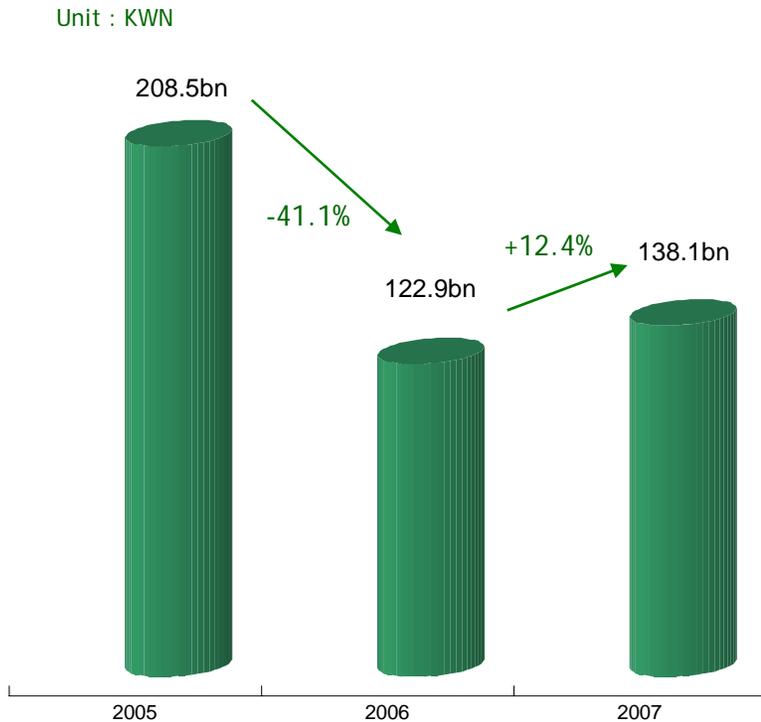
COGS breakdown

- ✓ Pure alcohol represents 48.9% of COGS (26.9% of sales)
- ✓ Pure alcohol price hike of 3.5% in 2007
No price hike scheduled in 2008
(3-4% alcohol price hike cuts margin by 1%)
- ✓ Raw material of pure alcohol: tapioca, corn, sweet potato, etc

Jinro 2007 results - 3. Operating profit



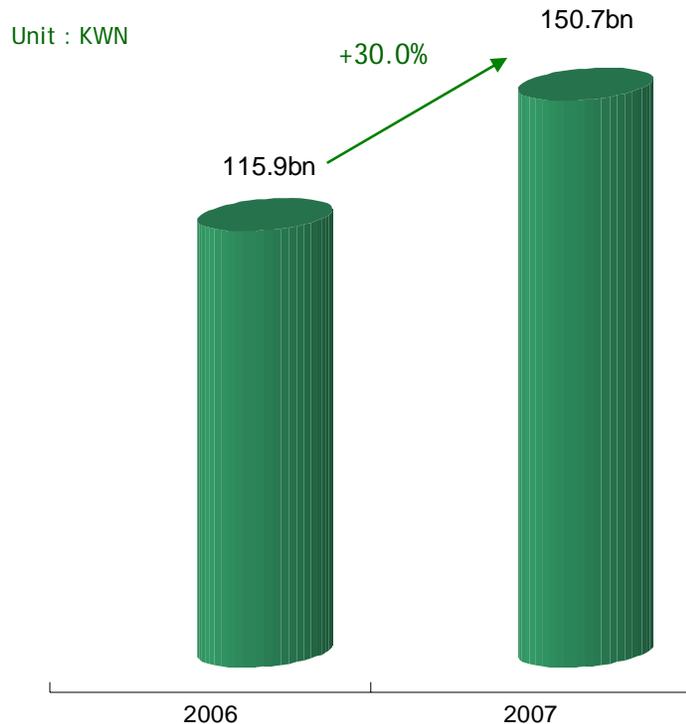
- OP rose 12.4% yoy (OP margin up 20.6%)
- Market share: 51%
- Marketing cost: 6% of sales (vs 9.5% in 2006)



Jinro 2007 results – 4. Net profit



- NP climbed 27.4% y-y
- Backed by higher OP and asset disposals



- ✓ Reduce interest expenses by W22.7bn
Interest bearing debts in 2006 : W600bn
Interest bearing debts in 2007 : W450bn
- ✓ No corporate tax until 2012
- ✓ Asset disposal (Oct 2007)
 - W39.0bn (book value of W5.0bn)
 - Net gains of W34.0bn
- ✓ Retained earnings of W86.2bn after resolving capital erosion in 3Q07

Jinro Financial summary



Balance sheet

Unit : Wmn

Items	2007	In/decrease	ratio	2006	2006
Assets	1,310,206	-10.8%	100.0%	1,469,103	1,469,103
1. Current Assets	319,863	13.6%	24.4%	281,588	281,588
(1) Cash and receivables	294,426	15.3%	22.5%	255,432	255,432
(2) Inventories	25,437	-2.7%	1.9%	26,156	26,156
2. Non-current Assets	990,343	-16.6%	75.6%	1,187,515	1,187,515
(1) Investment	399,309	-29.3%	30.5%	564,532	564,532
(2) Property, Land & Equipment	333,990	-8.8%	25.5%	366,235	366,235
(3) Goodwill, Industrial property rights	1,019	29.3%	0.1%	788	788
(4) Other non-current Assets	256,025	0.0%	19.5%	255,960	255,960
Liabilities	1,015,690	-23.6%	77.5%	1,330,194	1,330,194
1. Current Liabilities	814,982	135.5%	62.2%	346,116	346,116
2. Non-current Liabilities	200,708	-79.6%	15.3%	984,078	984,078
Shareholders' Equity	294,516	112.0%	22.5%	138,909	138,909
1. Shareholders' Equity	215,000	0.0%	16.4%	215,000	215,000
2. Capital surplus	0	-100.0%	0.0%	736,449	736,449
3. Capital adjustment	-15	0.0%	0.0%	-15	-15
4. Unappropriated retained earnings	-6,717	-42.2%	-0.5%	-11,613	-11,613
5. Retained losses	86,248	-110.8%	6.6%	-800,912	-800,912

Income statement

Unit : Wmn

Items	2007	In/decrease	ratio	2006	ratio	2005	ratio
Sales	669,428	-4.5%	100.0%	700,794	100.0%	729,710	100.0%
(Volume000')	(54,943천Cs)	-3.1%		(56,723천Cs)		(56,564천Cs)	
COGS	373,593	-4.0%	55.8%	389,020	55.5%	384,380	52.7%
Gross profit	295,835	-5.1%	44.2%	311,774	44.5%	345,330	47.3%
SG&A	157,739	-16.5%	23.6%	188,869	27.0%	134,874	18.5%
(Marketing expenses)	(40,635)	-38.1%	6.1%	(65,660)	9.4%	(18,689)	2.6%
Operating profit	138,096	12.4%	20.6%	122,905	17.5%	210,456	28.8%
Non-operating profit	91,369	-20.6%	13.6%	115,137	16.4%	228,506	31.3%
Non-operating loss	81,899	-55.8%	12.2%	185,456	26.5%	135,008	18.5%
(Interest expense)	(34,175)	-39.9%	5.1%	(56,904)	8.1%	(50,882)	7.0%
Recurring profit	147,566	180.6%	22.0%	52,586	7.5%	303,954	41.7%
Special gain	-	-	-	-	-	-	-
Special loss	-	-	-	-	-	-	-
Profit before tax	147,566	180.6%	22.0%	52,586	7.5%	303,954	41.7%
Corporate tax	- 3,145	-95.0%	-0.5%	-63,364	-9.0%	-208,364	-28.6%
Net profit	150,711	30.0%	22.5%	115,950	16.5%	512,318	70.2%

Jinro Financial summary



Cash Flow statement

Unit : Wmn

Items	2007	Increase /Decrease	2006	2005
Cash flow from operating activities	239,494	69.9%	140,964	220,144
1. Net profit	150,711	30.0%	115,950	512,318
2. Adjustment to reconcile net profit to net cash provided by operating activities	78,342	-52.8%	166,141	93,036
(Depreciation)	22,139	-8.2%	24,118	27,021
3. Loss from net profit provided by non cash items	(67,896)	10.0%	(61,721)	(166,741)
(Equity method gain)	14,932	24.6%	11,985	(31,395)
(Gain from asset disposal)	45,353	279.2%	11,961	(561)
4. Increase (Decrease) in liabilities	78,337	-198.7%	(79,406)	(218,469)
(Accounts and notes payable trade)	9,292	-113.5%	(68,882)	5,748
Cash flow from investing activities	197,079	-47.0%	371,985	(689,811)
1. Cash in-flow from investing activities	253,812	-46.2%	472,010	567,418
2. Cash out-flow from investing activities	(56,733)	-43.3%	(100,025)	(1,257,229)
Cash flow from financing activities	(379,883)	-70.7%	(1,295,091)	1,187,035
1. Cash in-flow from financing activities	0	-100.0%	750,018	4,407,560
2. Cash out-flow from financing activities	(379,883)	-81.4%	(2,045,109)	(3,220,525)
Other cash loss	0		0	0
1. Cash flows from spin-off	0		0	0
Net increase in cash	56,690	-107.2%	(782,142)	717,368
Cash at beginning of year	87,573	-89.9%	869,715	152,347
Cash at end of year	144,263	64.7%	87,573	869,715