



hite

Clean, Crisp and Fresh!

Hite-Jinro

June. 2008

- 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 1,673 / Sales personnel: 685
(office 16%, sales 41%, production 43%)

THE HITE.

Jinro

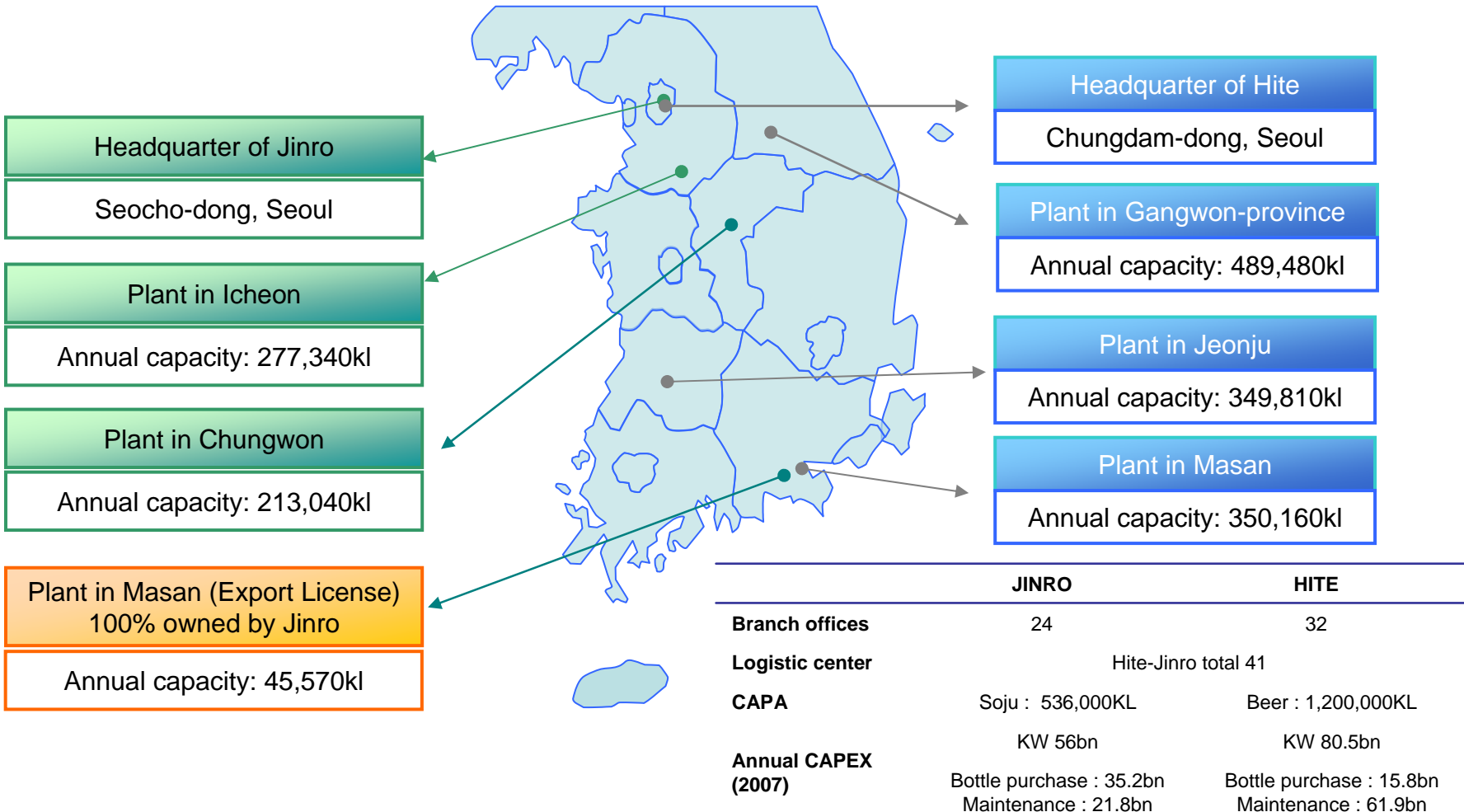
- ⦿ Established in October 1924
- ⦿ No. 1 in Soju market
- ⦿ No. 1 in global distilled liquor market (according to IMPACT in 2006)
- ⦿ Graduated from court receivership in September 2005
- ⦿ Employees 1,599 / Sales personnel: 623
(office 18%, sales 39%, production 43%)

JINRO

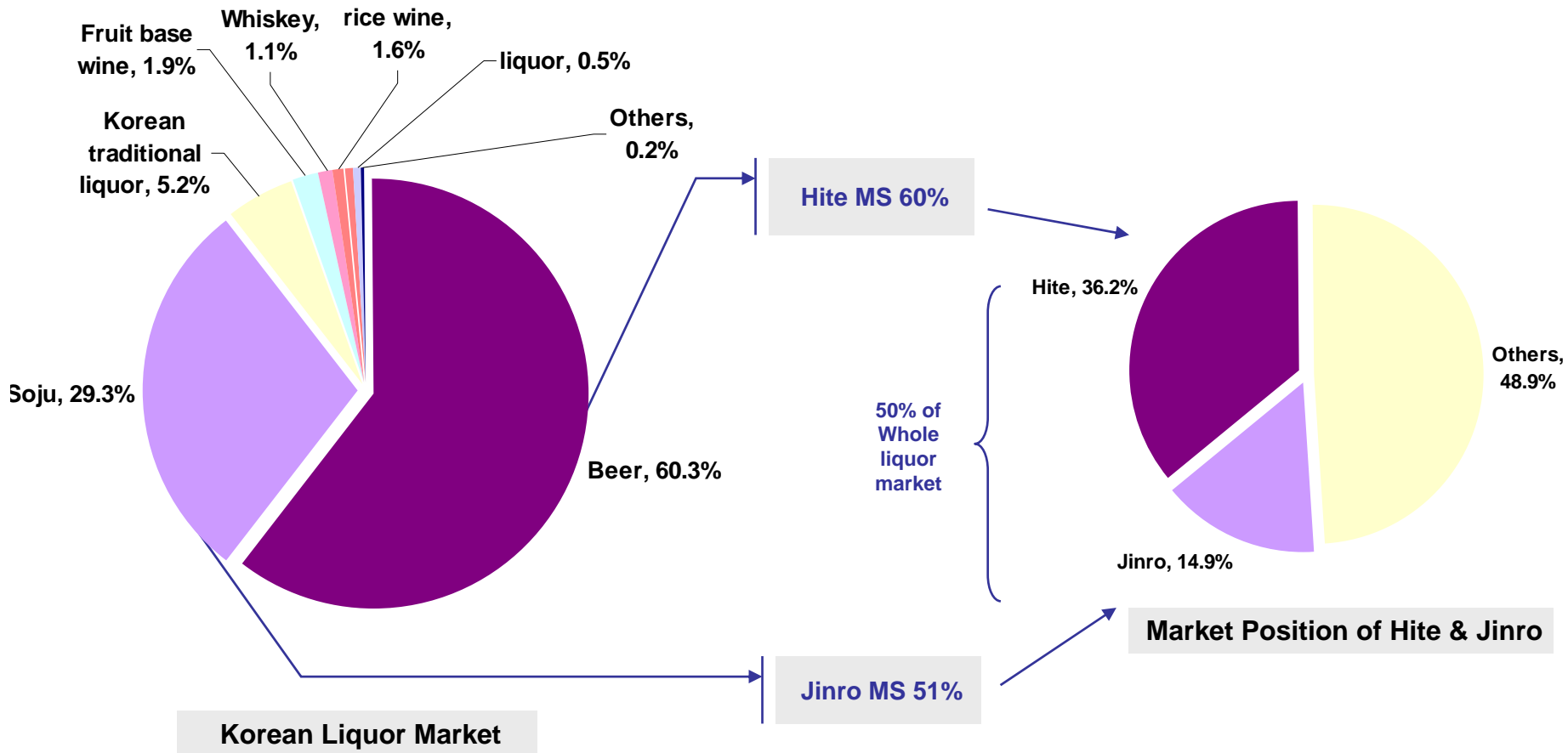
Production and Sales networks



■ Nationwide production and sales networks



The present status of the Korean liquor market

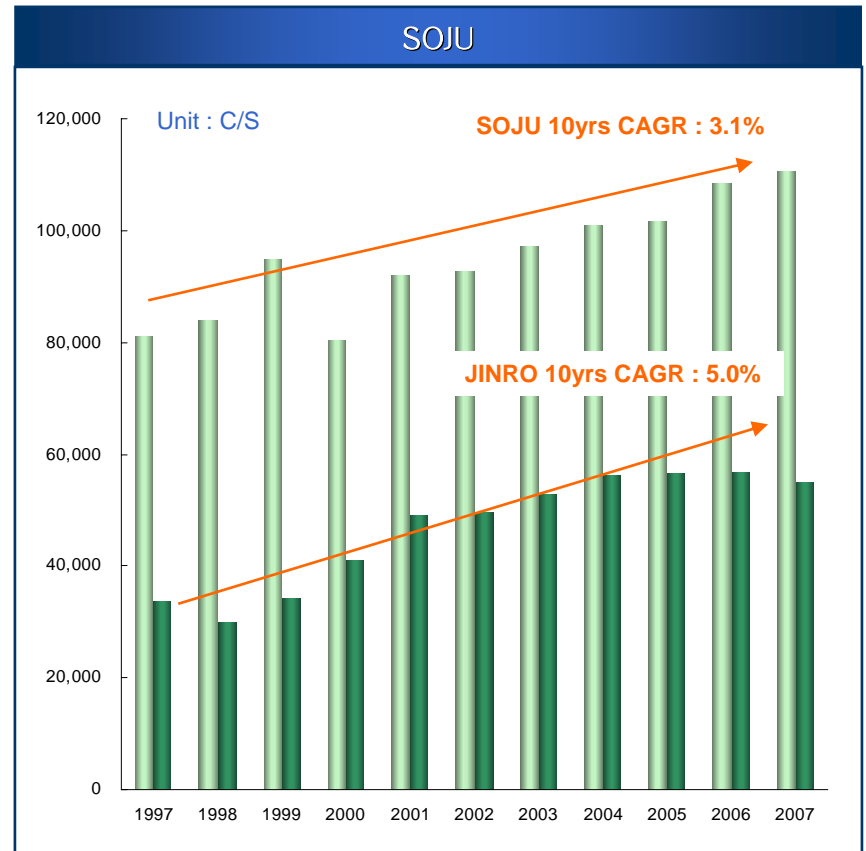
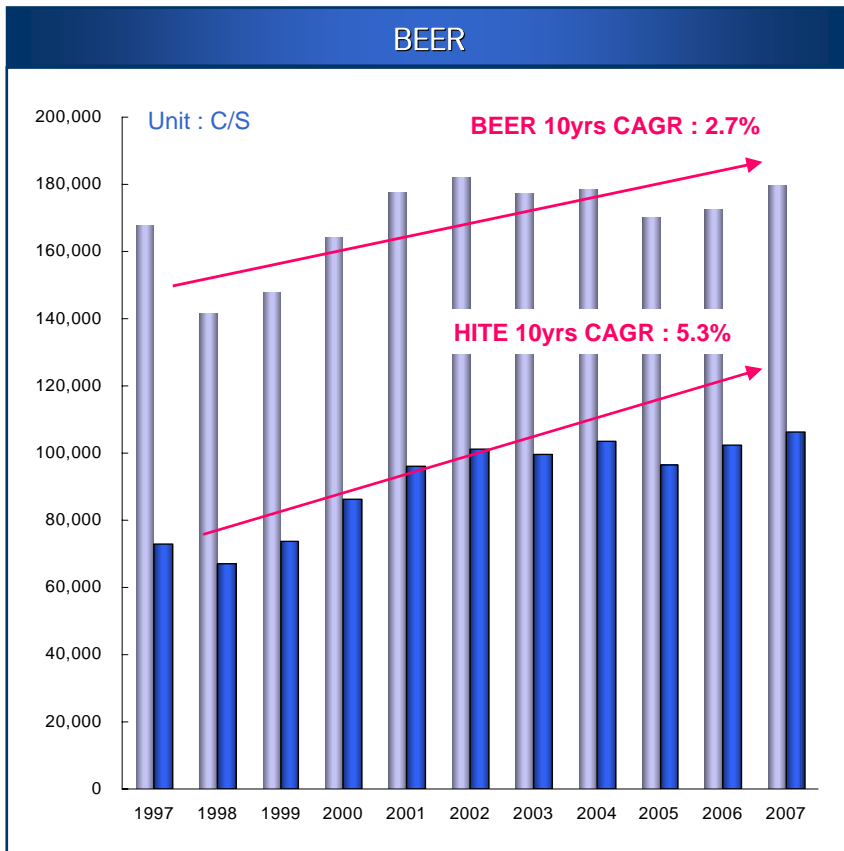


* Source : [Liquor consumption trends] by National Tax office on May 7 2008.

Growth Potential



- Beer 10yrs CAGR : 2.7%
- Soju 10yrs CAGR : 3.1%



* 주류공업협회 출고량 및 하이트 판매량 기준

* 주류공업협회 출고량 및 진로 판매량 기준 (내수 기준)

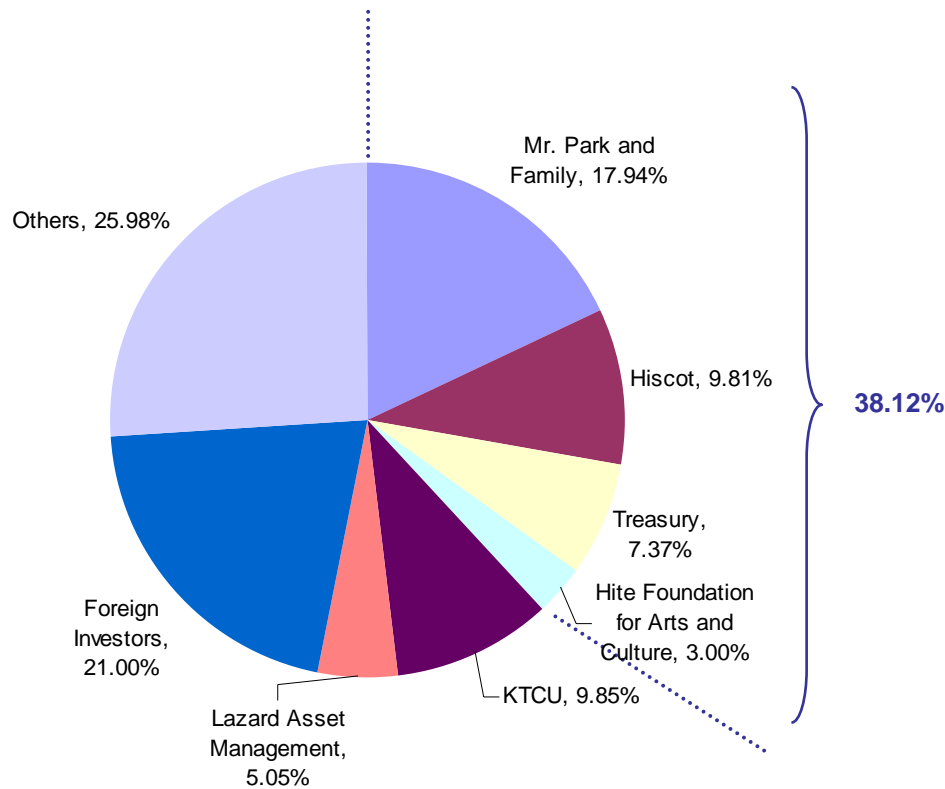
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Shareholders' structure



- The major stockholders & friendly shares : 38.12%
- Shareholders more than 5% : Lazard Asset Management (Emerging Market Fund)



- ✓ Number of stocks : 22,040,935
(Ordinary shares 21,197,208 /
Preference shares 843,745)
- ✓ Hite Cultural Foundation owns 3%
- ✓ KTCU owns 9.85% (converted CB in 12/06)
- ✓ Refund Saemaul savings' CB
The principle :70bn 3.99%of annual
interest) : refund 78.7bn

Shareholders' structure (general shares)

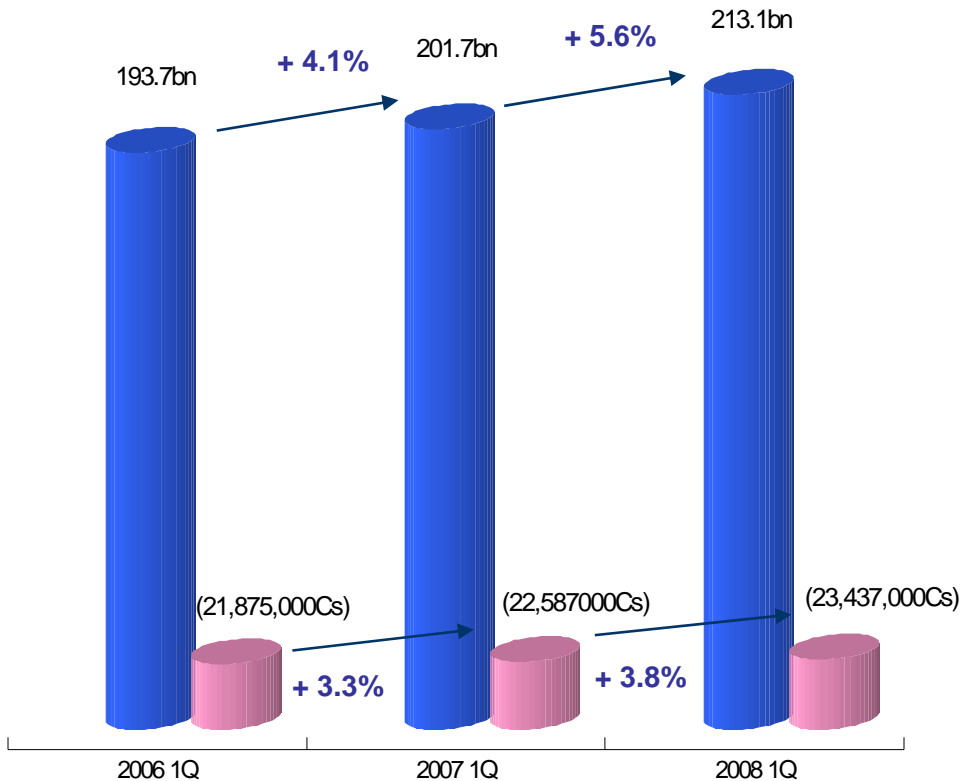
Sales growth



■ Sales 1Q08 +5.6% y-y (+ 3.8% up in terms of volume)

■ Sales ■ Volume

Unit : KWN

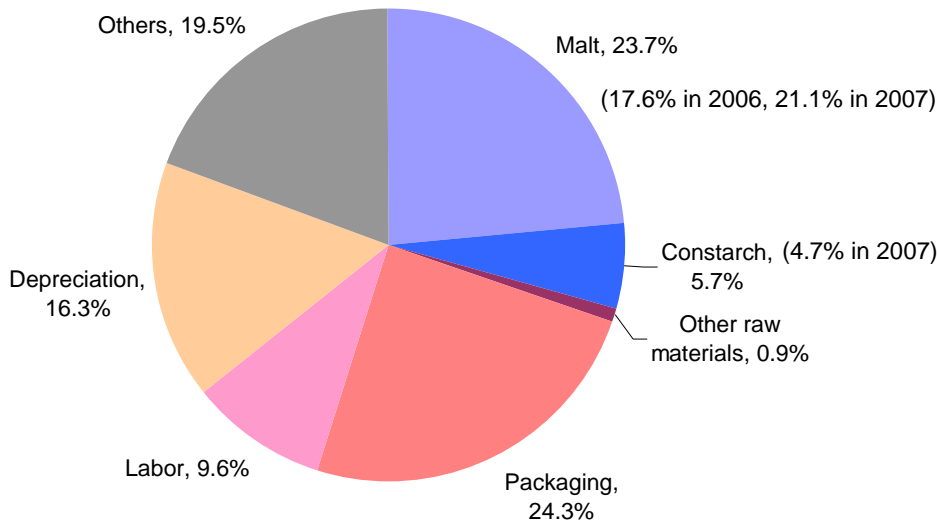


- ✓ Sales volume increased by +3.8% y-y
- ✓ The reasons for sales increase
 - ① Low-base from speculative demand at 4Q06 due to the 3% price hike in Jan. 2007
 - ② The 1.9% price hike in May 2007
 - ③ etc,
 - warmer temperature
 - boost general consumption

Cost control



- Gross profit 114.1bn (+4.5% y-y, gross profit margin 53.6% → - 0.5%p y-y)
- Increased unit price of imported malt → solved with price hike and increasing sales volume



COGS breakdown

✓ the quantity consumed : domestic 4,611ton (14.7%), imported 26,721ton (85.3%)

✓ Out of total malt cost W23.5bn

domestic W7.26bn (30.9%), imported W16.24bn (69.1%)

→ domestic: -W3.4bn y-y imported :+W8.8bn y-y

total : +5.38bn ((the ratio compared to sales -2.5%)

Given production volume increase (+3.5%), actual malt cost of 1Q was increased 3.0bn.

✓ When Korean won falls by 100 won versus US dollar, the additional cost of W3.8bn will occur annually.

✓ Because of the government policy of reducing tariff (abolition of tariff of 10~15% for malt), the cutback of W5.6bn is forecasted.

✓ From July 2007, due to the usage of Non-GMO starch, the additional cost of W10.5bn will occur.

Weak won effect will be offset by tariff cut, but price hike needed due to increase in malt and starch prices

Cost fluctuation of malting barley and malt



- From 2Q08, started to use the contracted volume for 2007 (USD 600/ton)
- Since Capa of malt was increased and a drought was withdrew in Austrailia, the cost of malt was a downward trend

International malting barely and malt price vs Hite import price



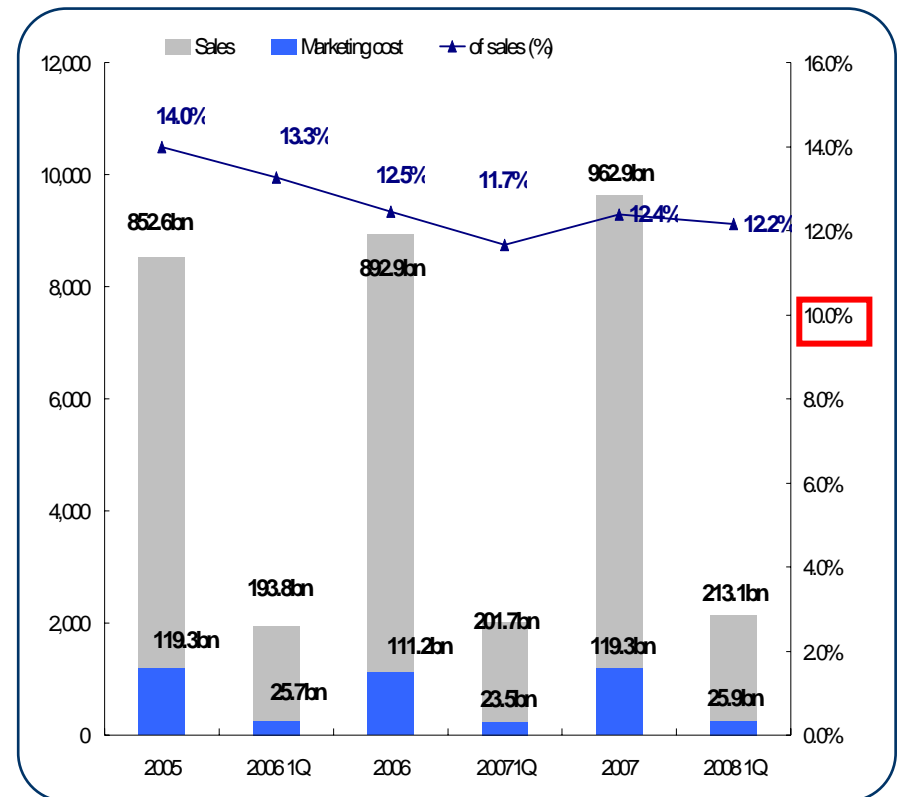
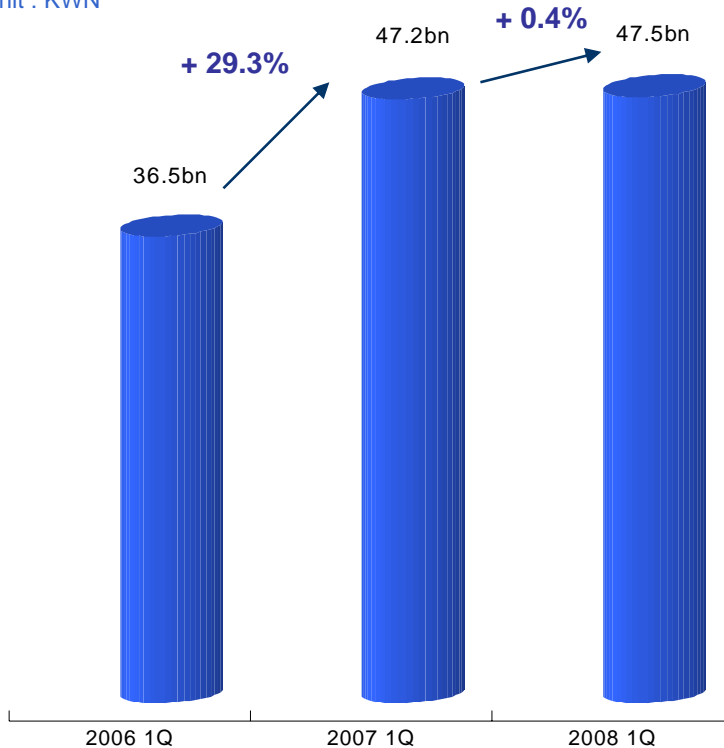
* Source : e-malt.com

Competition and marketing strategy



- Operating profit : 47.5bn (+0.4%y-y, Operating profit margin 22.3% → -1.1%p y-y)
- Market Share : maintain 60%
- Marketing Cost : 12.2% of Sales (+3.0bn y-y → increased cost of renewing advertisement)

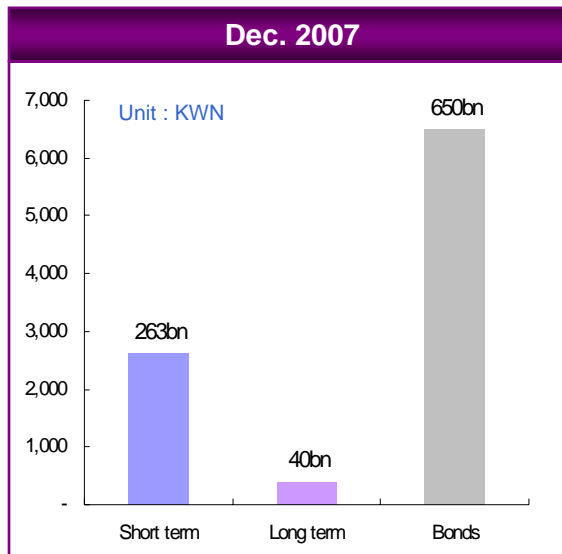
Unit : KWN



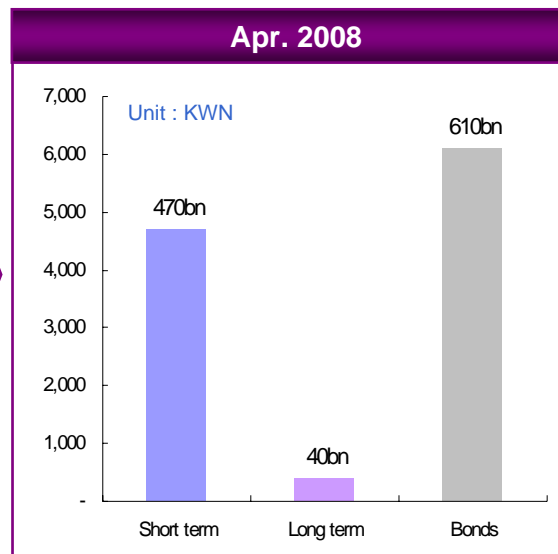
HITE deleverage outlook



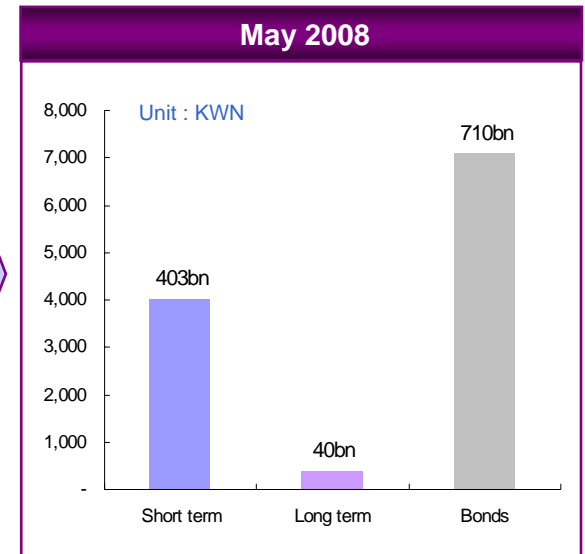
- Debt increased by W167.0bn compared to end of 2007
- Convert short-term debts to bonds, preparing for higher interest rate
- Additional loan for refunding CB to Saemaul savings (initial cost :70.0bn, interest: 8.7bn (3.99%per year)
- Issued additional bonds 100bn for call option



- Loan of beginning of the year : 1tn
- Loan of end of the year : 953bn
- annual interest cost : 68.68bn
- Average interest rate : Short-term 5.5%, long-term 5.8%, bond 5.0%



- total loan : W112bn
- interest cost for 1Q08: W13.5bn (4Q07 : W13.3bn)
- Average interest rate : Short-term 6.1%, long-term 5.8%, bond 5.1%

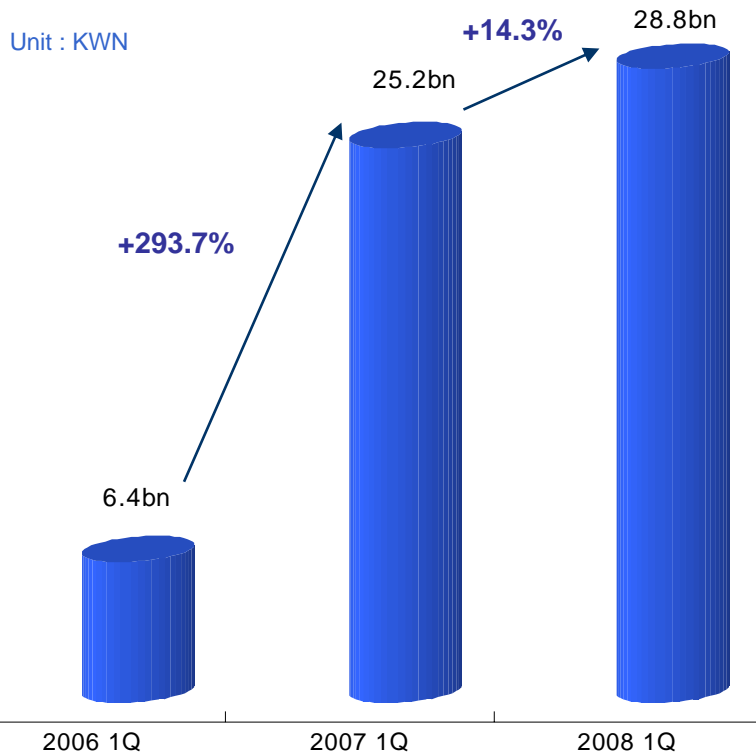


- issued additional bonds (W100bn) in May 29th.
- Total interest bearing debts : 115.3bn

Earning improvement



- Net profit : +14.3% y-y
- Increase in equity method gain would offset increase in interest expenses



✓ Jinro equity method gain improved equity method gain of Jinro in 1Q07: W-1.5bn
 equity method gain of Jinro in 1Q08: W4.7bn
 (Amortization of goodwill : W9.5bn
 Total 811bn / 20yrs amortization,
 about W40.0bn/ann)

	Price	Of note
Net Income	W33.9bn	
Equity method gain	W14.2bn	41.85%
Amortization of goodwill	W9.5bn	
Gain on valuation on equity method	W47bn	

* Due to the spin-off of mineral water business, 7.7bn one-off expense in 1Q 2006

HITE financial statement



Balance sheet

Items	Unit : KWmn				
	2008 1Q	In/decrease	ratio	2007	2006
Assets	2,746,736	-0.7%	100.0%	2,766,797	2,674,500
1. Current Assets	460,319	-5.7%	16.8%	488,038	437,886
(1) Cash and receivables	373,884	-10.3%	13.6%	416,613	368,249
(2) Inventories	86,435	21.0%	3.1%	71,425	69,637
2. Non-current Assets	2,286,417	0.3%	83.2%	2,278,759	2,236,614
(1) Investmet	974,403	1.4%	35.5%	961,278	992,473
(2) Property, Land & Equipment	1,247,416	0.1%	45.4%	1,246,210	1,243,534
(3) Goodwill, Industrial property right	506	-7.0%	0.0%	544	607
(4) Other non-current Assets	64,092	-9.4%	2.3%	70,727	0
Liabilities	1,436,614	-0.5%	52.3%	1,444,363	1,448,604
1. Current Liabilities	1,080,624	-1.2%	39.3%	1,093,863	865,736
2. Non-current Liabilities	355,990	1.6%	13.0%	350,500	582,868
Shareholder's equity	1,310,123	-0.9%	47.7%	1,322,435	1,225,896
1. Shareholders' Equity	110,205	0.0%	4.0%	110,205	110,205
2. Capital surplus	650,693	2.2%	23.7%	636,861	632,937
3. Capital adjustment	-125,519	24.8%	-4.6%	-100,584	-85,084
4. Unappropriated retained earnings	6,722	-48.9%	0.2%	13,159	19,085
5. Retained earnings	668,022	0.8%	24.3%	662,794	548,753

Income statement

Items	Unit : KWmn						
	2008 1Q	In/decrease	ratio	2007 1Q	ratio	2006 1Q	ratio
Sales	213,133	5.6%	100.0%	201,754	100.0%	193,764	100.0%
(Volume'000)	(23,437Cs)	3.8%		(22,587Cs)		(21,875Cs)	
COGS	98,999	6.9%	46.4%	92,576	45.9%	95,524	49.3%
Gross profits	114,134	4.5%	53.6%	109,178	54.1%	98,240	50.7%
SG&A	66,668	7.7%	31.3%	61,923	30.7%	61,703	31.8%
(Marketing cost)	25,886	10.2%	12.1%	23,488	11.6%	25,760	13.3%
Operating profits	47,466	0.4%	22.3%	47,255	23.4%	36,537	18.9%
Non-operating profit	12,472	132.5%	5.9%	5,364	2.7%	4,359	2.2%
(Equity method gain from Jinro)	4,689	-508.1%	2.2%	(1,149)	-0.6%	(1,175)	-0.6%
Non-operating loss	18,311	14.0%	8.6%	16,064	8.0%	28,329	14.6%
(Interest expense)	13,521	1.5%	6.3%	13,321	6.6%	19,621	10.1%
Recurring profit	41,627	13.9%	19.5%	36,555	18.1%	12,567	6.5%
Special gain	-			-		-	0.0%
Special loss	-			-		-	0.0%
Profit before tax	41,627	13.9%	19.5%	36,555	18.1%	12,567	6.5%
Corporate tax	12,785	13.0%	6.0%	11,316	5.6%	6,157	3.2%
Net profit	28,842	14.3%	13.5%	25,239	12.5%	6,410	3.3%

HITE financial statement



Cash flow statement

Unit : KWmn

Items	2008 1Q	Increase /Decrease	2007 1Q	2006 1Q
Cash flow from operating activities	(145,820)	-489.3%	37,453	21,268
1. Net profit	28,842	14.3%	25,240	6,409
2. Adjustment to reconcile net profit to net cash provided by operating activities	25,002	-0.1%	25,037	34,530
(Depreciation)	17,441	2.4%	17,024	17,803
3. Loss from net profit provided by non cash items	(9,530)	221.7%	(2,962)	(1,777)
(Equity method gain)	5,502	214.6%	1,749	200
(Gain from asset disposal)	1,744	1561.0%	105	715
4. Increase (Decrease) in liabilities	(190,134)	1827.9%	(9,862)	(17,894)
(Accounts and notes payable trade)	(3,319)	-30.8%	(4,798)	(9,247)
Cash flow from investing activities	(15,906)	-61.6%	(41,421)	(10,053)
1. Cash in-flow from investing activities	2,231	58.6%	1,407	982
2. Cash out-flow from investing activities	(18,137)	-57.7%	(42,828)	(11,035)
Cash flow from financing activities	106,431	-2086.0%	(5,359)	(7,220)
1. Cash in-flow from financing activities	439,198	#DIV/0!	0	34,878
2. Cash out-flow from financing activities	(332,767)	6109.5%	(5,359)	(42,098)
Other cash loss	0	#DIV/0!	0	1,543
1. Cash flows from spin-off	0	#DIV/0!	0	1,543
Net increase in cash	(55,295)	492.8%	(9,327)	2,453
Cash at beginning of year	76,216	60.4%	47,517	11,682
Cash at end of year	20,921	-45.2%	38,190	14,135

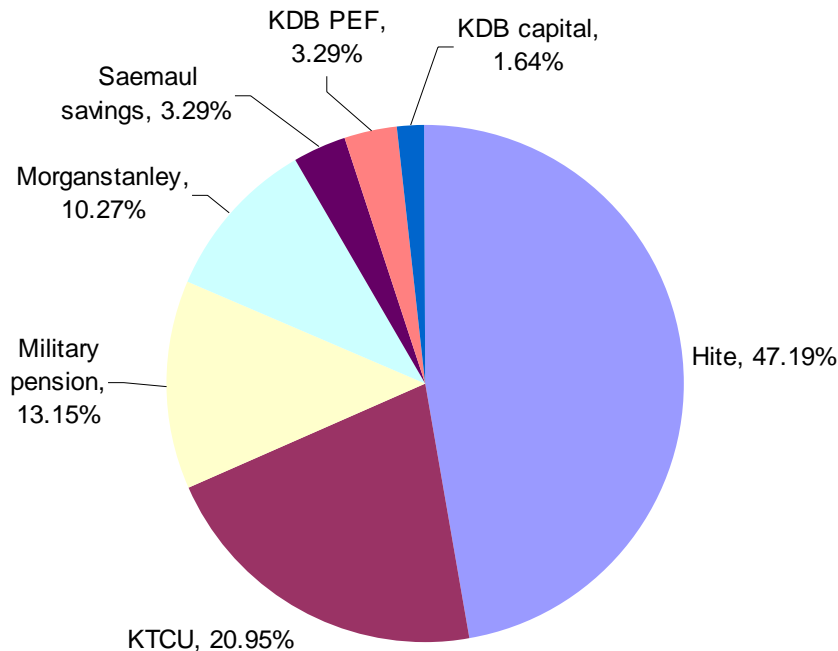
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Shareholders' structure



- Hite and consortium acquired Jinro in September 2005
- Hite holds 46.78% stake (exercised call option at the end of May 2008, existing 41.85% + 4.93% add)
- In the mid-June 2008, exercise additional call option. Hite will have 47.19% of Jinro.



Shareholders' structure

✓ Total shares: 43,000,000

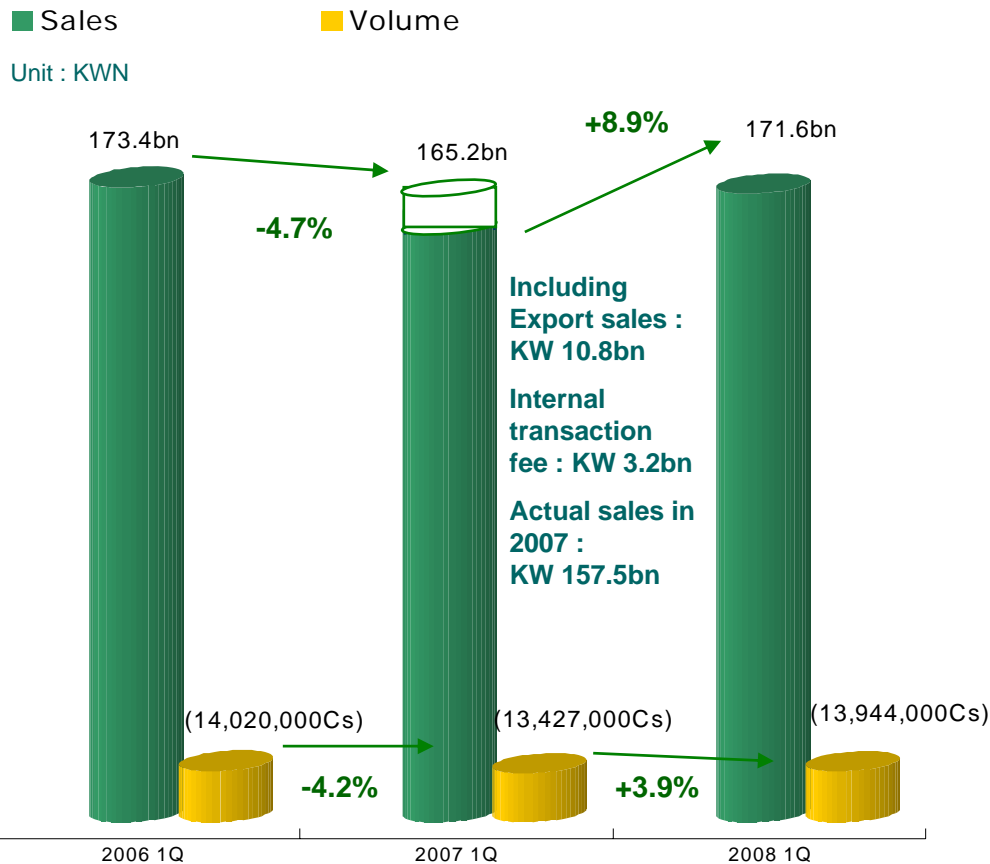
✓ Total investment of Hite and consortium at W1.8tr (Hite investment: W800bn)

September 2005	Hite & Consortium acquired Jinro (Hite-Consortium: invested W2.41tn)
May 2006	Capital reduction of 570bn Investment of Hite: W800bn
May 2008	Exercise call option (Military pension, Saemaul, KDB PEF) 4.93% stake add (KW 120.37bn)
June 2006 (esteemed)	Exercise call option (KDB capital) 0.41% stake add (KW 10.06bn)
2H 2008	To be listed in KOSPI

Sales growth



- Sales increased 8.9% (sales volume increased 3.9%)

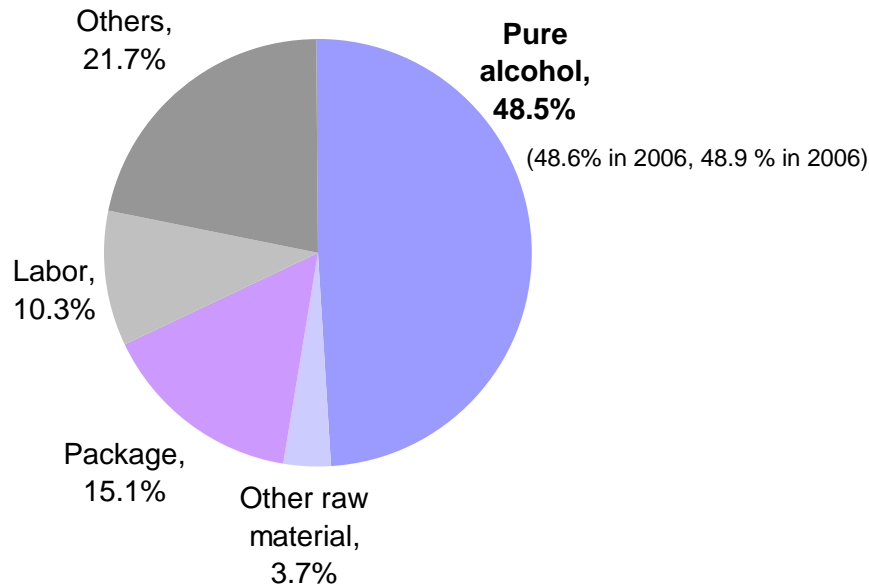


- ✓ Sales volume grew 3.9% yoy
- ✓ Whole market grew 2.3%
- ✓ Price hike 4.92% reflected in May 2007
- ✓ Actual sales increased by 8.9% considering Jinro soju sales of W10.8bn (old Masan factory) in 1Q07 and the inner transaction of W3.1bn

Cost control



- Gross profit W78.5bn (GP margin 48.5%)
- Increased by 9.8% due to the volume up and the price hike in May 2007



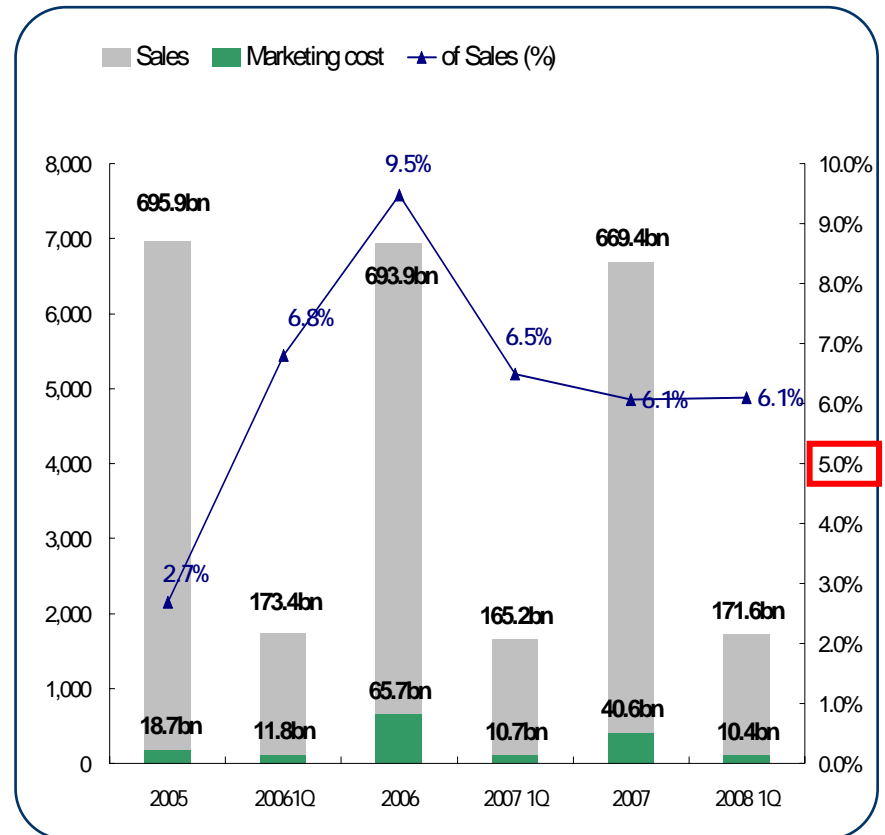
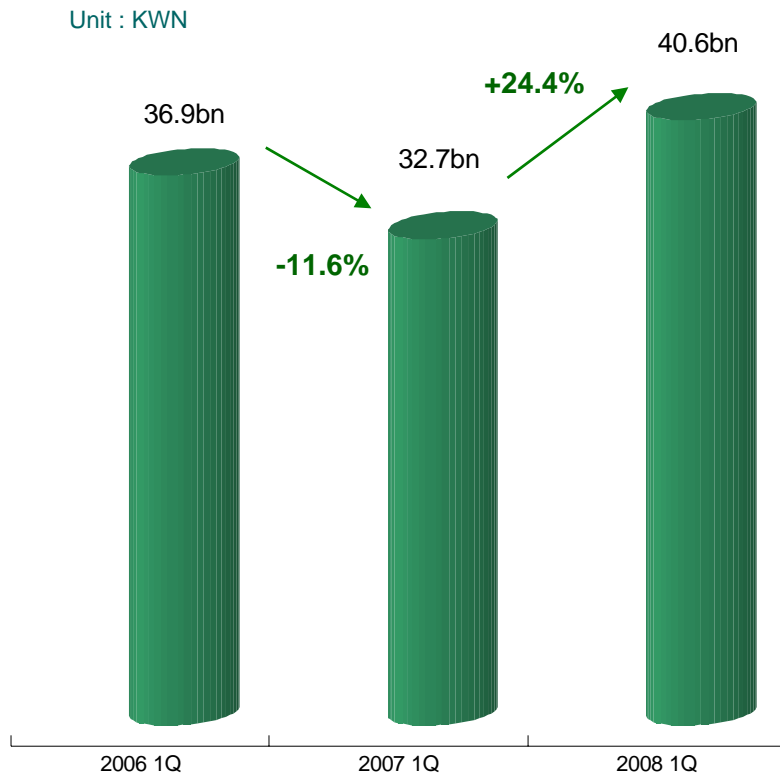
COGS breakdown

- ✓ Pure alcohol represents 48.5% of COGS (26.3% of sales)
- ✓ Pure alcohol price hike of 3.5% in 2007
No price hike scheduled in 2008 (government-stock rice use)
- ✓ Raw material of pure alcohol: government-stock rice, tapioca, sweet potato, etc
- ✓ Pipeline of pure alcohol
pure alcohol company(10) → Korea Ethanol Supplies Company → soju company
- ✓ Jinro is largely getting the pure alcohol from Jinro Distillers close to the Icheon factory

Competition and marketing strategy



- Operating profit rose 24.4% yoy (Operating profit margin 23.7%)
- Market share: 51.2%
- Marketing cost: 6.1% of sales

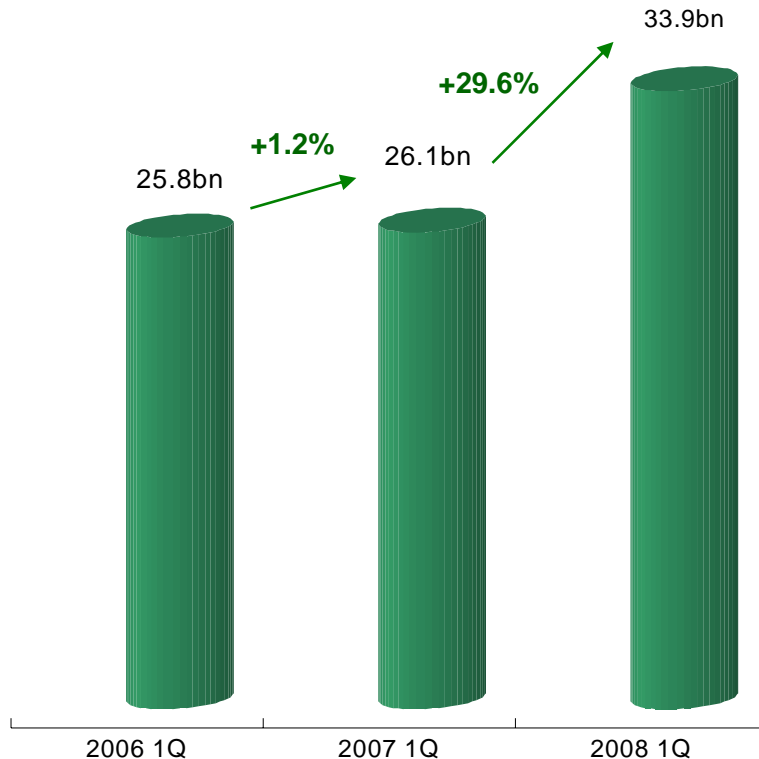


Earning improvement



- Net profit climbed 29.6% yoy
- Backed by higher OP, reduction of interest expenses

Unit : KWN



- ✓ OP increase by W7.9bn
- ✓ Reduce interest expenses by W1.02bn yoy
 - Interest bearing debts in 2006 : W600bn
 - Interest bearing debts in 2007 : W450bn
 - Interest bearing debts in 2008 : W400bn
- ✓ No corporate tax through 2011

JINRO financial statement



Balance sheet

Unit : KWmn

Items	2008 1Q	In/decrease	ratio	2007	2006
Assets	1,280,369	-2.3%	100.0%	1,310,206	1,469,103
1. Current Assets	271,148	-15.2%	21.2%	319,863	281,588
(1) Cash and receivables	245,157	-16.7%	19.1%	294,426	255,432
(2) Inventories	25,991	2.2%	2.0%	25,437	26,156
2. Non-current Assets	1,009,221	1.9%	78.8%	990,343	1,187,515
(1) Investment	421,031	5.4%	32.9%	399,309	564,532
(2) Property, Land & Equipment	331,753	-0.7%	25.9%	333,990	366,235
(3) Goodwill, Industrial property rights	988	-3.0%	0.1%	1,019	788
(4) Other non-current Assets	255,449	-0.2%	20.0%	256,025	255,960
Liabilities	933,806	-8.1%	72.9%	1,015,690	1,330,194
1. Current Liabilities	633,302	-22.3%	49.5%	814,982	346,116
2. Non-current Liabilities	300,504	49.7%	23.5%	200,708	984,078
Shareholders' Equity	346,564	17.7%	27.1%	294,516	138,909
1. Shareholders' Equity	215,000	0.0%	16.8%	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	11,435	-270.2%	0.9%	-6,717	-11,613
5. Retained losses	120,144	39.3%	9.4%	86,248	-800,912

Income statement

Unit : KWmn

Items	2008 1Q	In/decrease	ratio	2007 1Q	ratio	2006 1Q	ratio
Sales	171,589	3.9%	100.0%	165,170	100.0%	173,406	105.0%
(Volume000)	(13,944천Cs)	3.9%		(13,427천Cs)		(14,020천Cs)	
COGS	93,059	-0.6%	54.2%	93,649	56.7%	94,817	57.4%
Gross profit	78,530	9.8%	45.8%	71,521	43.3%	78,589	47.6%
SG&A	37,869	-2.5%	22.1%	38,831	23.5%	41,627	25.2%
(Marketing expenses)	10,393	-2.5%	6.1%	10,660	6.5%	11,780	7.1%
Operating profit	40,661	24.4%	23.7%	32,690	19.8%	36,962	22.4%
Non-operating profit	9,521	-7.0%	5.5%	10,243	6.2%	50,664	30.7%
Non-operating loss	16,287	-2.9%	9.5%	16,771	10.2%	61,577	37.3%
(Interest expense)	7,382	-12.1%	4.3%	8,400	5.1%	29,727	18.0%
Recurring profit	33,895	29.6%	19.8%	26,162	15.8%	26,049	15.8%
Special gain	-	-	-	-	-	-	-
Special loss	-	-	-	-	-	-	-
Profit before tax	33,895	29.6%	19.8%	26,162	15.8%	26,049	15.8%
Corporate tax	-	-	-	-	-	-	-
Net profit	33,895	29.6%	19.8%	26,162	15.8%	26,049	15.8%

JINRO financial statement



Cash flow statement

Unit : KWmn

Items	2008 1Q	Increase /Decrease	2007 1Q	2006 1Q
Cash flow from operating activities	(91,274)	-426.8%	27,931	(33,506)
1. Net profit	33,895	29.6%	26,162	25,941
2. Adjustment to reconcile net profit to net cash provided by operating activities (Depreciation)	13,148	-22.7%	16,999	42,562
3. Loss from net profit provided by non cash items (Equity method gain)	5,461	-18.9%	6,736	3,875
(Gain from asset disposal)	(3,667)	-36.4%	(5,769)	(23,637)
4. Increase (Decrease) in liabilities (Accounts and notes payable trade)	2,329	34.8%	1,728	0
	417	-88.6%	3,665	(11,394)
	(134,650)	1523.2%	(9,461)	(78,372)
	5,224	61.4%	(13,550)	7,573
Cash flow from investing activities	(8,242)	-908.0%	1,020	(10,894)
1. Cash in-flow from investing activities	3,760	-85.2%	25,334	50,383
2. Cash out-flow from investing activities	(12,002)	-50.6%	(24,314)	(61,277)
Cash flow from financing activities	54,167	-211.2%	(48,714)	(298,705)
1. Cash in-flow from financing activities	504,167	#DIV/0!	0	700,000
2. Cash out-flow from financing activities	(450,000)	823.8%	(48,714)	(998,705)
Other cash loss	0		0	0
1. Cash flows from spin-off	0		0	0
Net increase in cash	(45,349)	129.5%	(19,763)	(343,105)
Cash at beginning of year	144,265	64.7%	87,574	869,716
Cash at end of year	98,916	45.9%	67,811	526,611

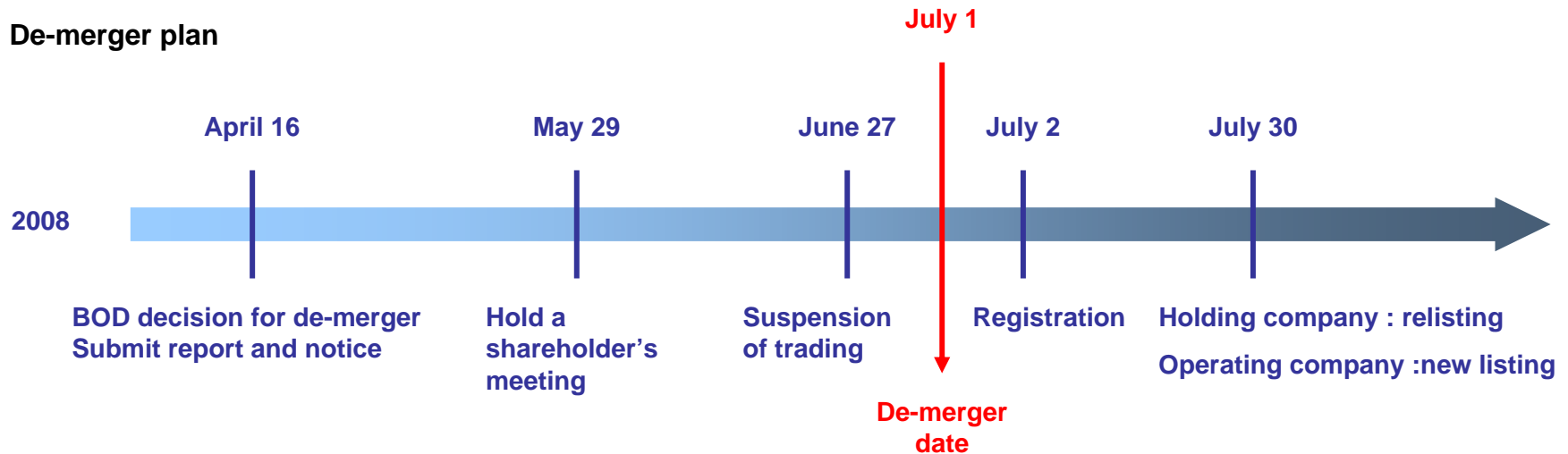
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Current issues

Holdings structure announcement



1. De-merger plan



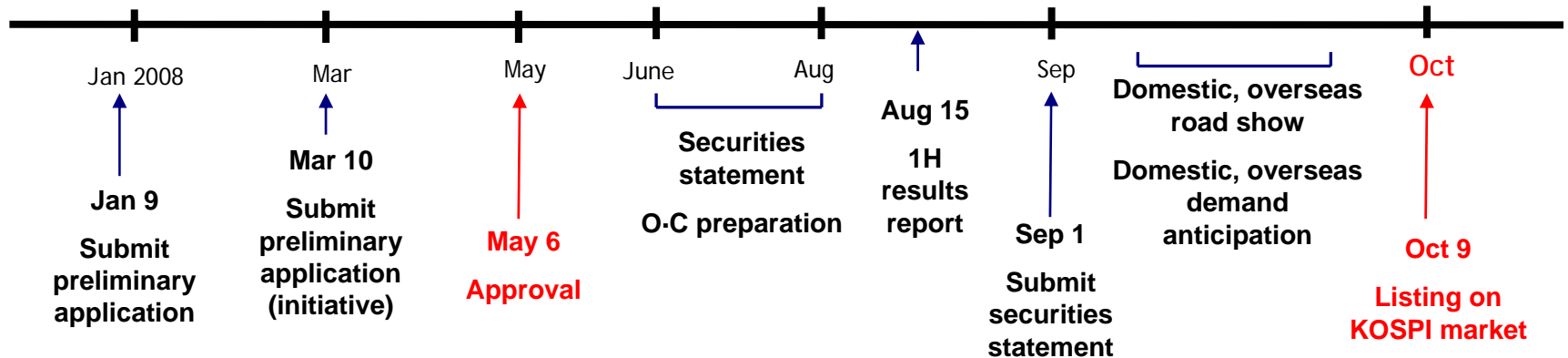
2. Outlook after de-merger

- Hite brewery, a operating company, is expected to be revalued in the market and show strong share price performance
- Hite brewery plans to pay more aggressive cash dividends. Also, other subsidiaries which hasn't paid cash dividend will pay cash dividend for holdings company. This will lead to raising value of Hite holdings as well as maximize value of Hite brewery's shareholders
- Hite brewery's capability to pay strong dividends will be getting better gradually
 - Brewery is of process industry, the burden of additional CAPEX is decreasing gradually
 - Out of currently debt W1,100.0bn, W29.0~30.0bn will go to Hite holdings, which causes reduction of real interest expense
- Jinro will increase the value of Hite holdings and shareholders through active dividend policy

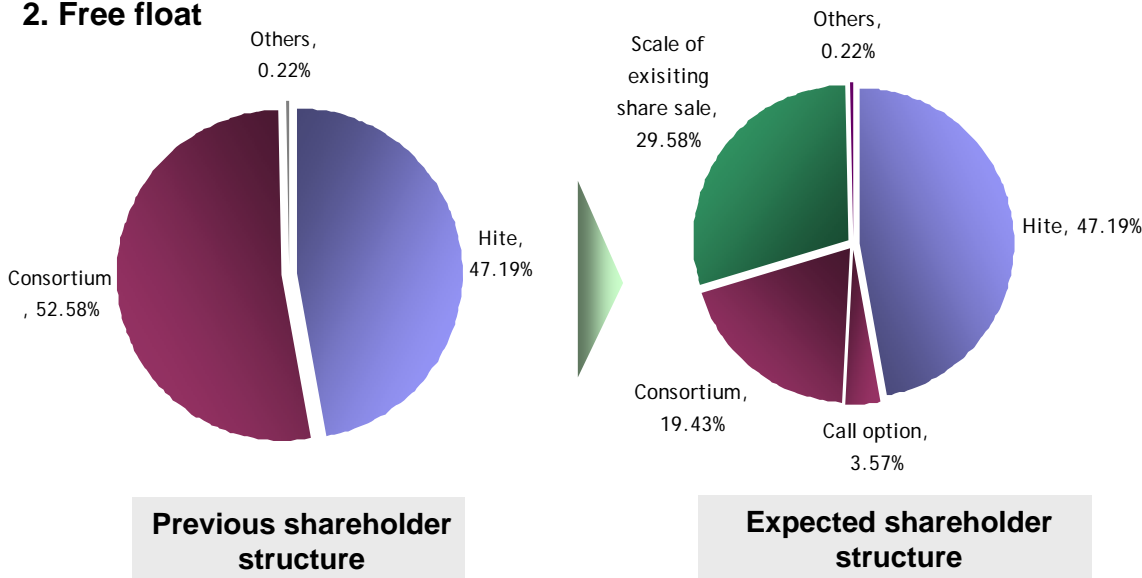
IPO plan of Jinro



1. IPO plan (scheduled)



2. Free float



- Plan to sell about 50% of consortium's shares (29.58% of the total shares)
- Hite brewery plan to call option of 15.4% of consortium's holding shares prior to listing (8.91% of total shares) → 5.34% exercised
- After listing, consortium's shares will be lowered to 19.43%, Hite will be relieved from put option burden
- About 70% of the shares (including Hite shares) will be in locked up for 6 months

IPO plan of Jinro *(continued)*



- **Put option** : To certify the certain level (5~8.25%ann) of yield, Jinro consortium have claiming right for selling to Hite
- **Call option** : Hite has right to buy some portion of consortium' share at yr 5~10% annual interest rate

Put Option

- 1. Guarantees** : Whole consortium
- 2. Minimum guaranteed return rate** :
KTCU, KFCC : 8% / Military pension : 8.2%
KDB PEF, KDB capital : 8.25% / Morgan stanley : 5%
- 3. Use contract condition**
 - ① In case of Jinro cannot be listed by Sep 2010, consortium members can ask to buy the whole or some portion of shares.
 - ② After listing, consortium members' shares;
 - . Listing date : public offering price lower than applied price of the minimum certified profit rate
 - . Date right after lock up : During lock up period (6months), what if the last one month's weighted average stock price is lower than applied price of the minimum certified profit rate, consortium members can ask to buy the whole or some portion of shares.

Call Option

- 1. Target** : whole consortium
- 2. Amount** : 15.4% of consortium's shares
(8.91% of Total shares)
- 3. Interest rate** :
Morgan stanley 5%
Rest of consortium members including KTCU : 10%
- 4. Use contract condition** : exercise right before listing.
able to select the third

Only, call option toward Morgan stanley is available after listing

Strengthening control power



- Call option shares : Total 3,833,101 shares (8.91% of total, 15.39% of consortium's shares)
- Interest rate : 10% ann (except, Morganstanley 5%)
- Esteemed stake of Hite after call option : 50.76%

Exercise date	Consortium	Call option shares	Amount (KWN)	Of total
May 29	Saemaul savings	353,281	20bn	0.82%
	KDB PEF	353,281	20bn	0.82%
May 30	Military pension	1,413,126	80.2bn	3.29%
June 10 (to be)	KDB capital	176,640	10bn	0.41%
End of July (esteemed)	KTCU	1,095,172	63.2bn	2.55%
End of October (esteemed)	Morganstanley	441,601	4.1bn	1.03%
Total		3,833,101	197.5bn	8.91%