

Business Details

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- 2) Company status (domestic)
- 3) Major products and raw materials
- 4) Production and facilities
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1) Business Overview

(1) Industry status

① Industry trends

The Confectionery industry is a typical consumer goods industry with a wide spectrum of consumers and has shown consistent demand. However, its growth has slowed down due to food diversity and a reduction in population growth. As business conditions have worsened because of competition from overseas brands and food services and an increase in raw material prices, businesses are focusing on producing high-quality confections and developing healthy and functional foods.

② Growth Potential of Industry

The Confectionery industry has been growing consistently based on stable demand. However, the market has recently become somewhat stagnant due to a reduction in the population of children, the major Confectionery consumers, and increased demand for high-quality and health foods due to higher national income. However, the industry is seeking new growth opportunities by producing health or functional foods.

③ Characteristics of Economic Cycle

The industry is not greatly affected by the economic cycle compared with other industries. However, the recent economic recession and consumption slowdown have had some effect on the growth of the Confectionery industry. In addition, seasonal weather changes have an impact on fluctuations in demand.

④ Competition Factors

A number of domestic and overseas confectioners are in competition, but 4 major companies make up most of the Korean market. These companies focus on product research to satisfy domestic consumers' tastes, invest in facilities and have strong sales forces. Recently, domestic

confectioners have been in fierce competition with their overseas counterparts because of consumers' demand for a greater variety of foods and the increased interest in food safety and healthy foods. Therefore, developing high-quality foods to satisfy changing consumer trends has become more important than ever.

⑤ Characteristics of Raw Material Procurement

As Confectionery goods are highly dependent on imported raw materials, rising prices of grain, dairy products and raw materials including oil have a great influence on corporate profitability. Therefore, companies are required to constantly monitor raw material prices so that they can procure them at the right time.

⑥ Relevant Laws and Regulations

The Confectionery industry is subject to laws and regulations related to food hygiene, consumer protection, tariffs on imported raw materials, fair trade rules for business management, product liability, Waste separation labeling and resource recycling, etc. Also, it is likely that civic groups will enhance monitoring because of the growing interest of consumers in food hygiene.

2) Company Status (domestic)

(1) Operating Status and Business Areas

(A) Operating Status

The business environment is becoming tougher because of rising major raw material prices and the heavy dependence on large distributors. It is expected that the situation will become more difficult because of increased costs due to fierce competition between domestic and overseas food makers, strengthened food-related regulations and the diverse consumer demand that reflects the recent well-being trends. The

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Confectionery market has become stagnant due to the low childbirth rate and the aging population. Despite such conditions, the Company achieved net sales of KRW 1,134.2 bil, a 5.1% increase from the previous year. To ensure continuous growth, it is pursuing the development of new distribution channels and overseas businesses in China, India and Russia.

In addition to these efforts, the Company will consolidate its No.1 status in the domestic market by developing new high quality products and expanding its market for health and functional foods. Furthermore, it will become a global food maker in the 21st century based on its existing and new overseas businesses.

(B) Classification of Business Areas Subject to Public Disclosure

Confectionery business: The net sales for the year (January ~ December) were KRW 1,134.2 bil, up 5.1% from the previous year.

(2) Market Shares, etc.

Item	41st (annual)	40th (annual)	39th (annual)
Confectionery	40.2%	40.0%	40.3%
Ice cream	38.5%	38.0%	38.3%

※ Calculated based on changing information relating to the top 4 domestic producers (not verified objective data).

(3) Market Characteristics

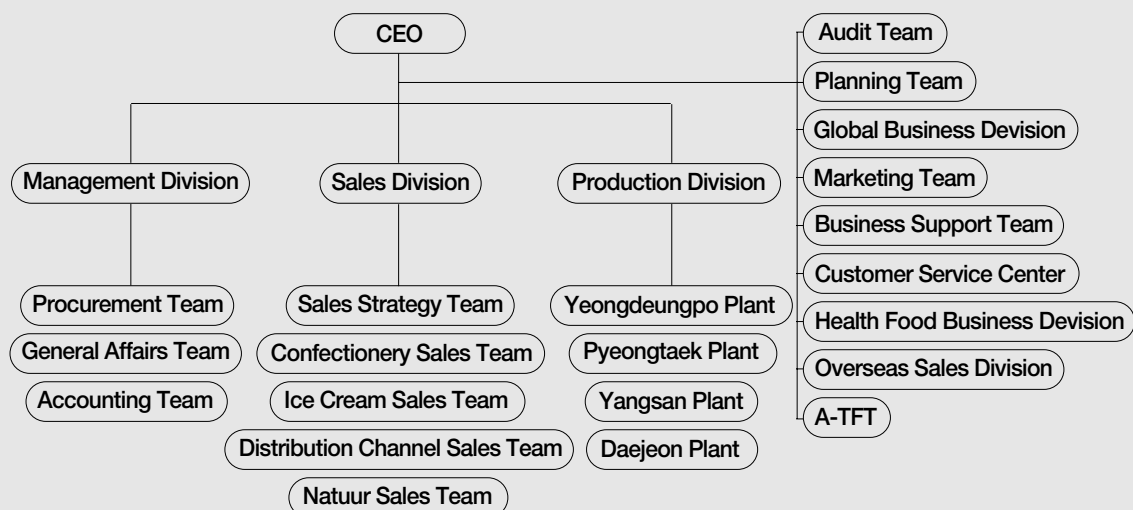
The Confectionery market is highly dependent on domestic demand and competition is getting fiercer among the domestic players and the foreign companies that have penetrated the Korean market. Because of the continuous expansion of new distribution channels such as large discount stores, the share of the smaller and larger shops has dropped. Therefore, negotiating power with large discount stores has become an important factor in the competition. The population of children, the major Confectionery consumers, is decreasing and has resulted in stagnation in the market. However, as consumer needs for food safety and health foods have become more diverse and stronger, developing health and functional foods has become a new issue for confectioners.

(4) Projections For New Business Areas

The Company is constantly seeking ways to penetrate new business areas and markets in order to overcome the stagnant growth of the existing Confectionery market.

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(5) Organizational Chart



3) Major Products and Raw Materials

A. Details of major products

(Units: KRW 1 mil)

Business area	Sales type	Item	Specific purchase	Major brand name, etc.	Sales (%)
Food manufacturing & Sales distribution	Product	Chewing gum	Domestic sales & Exports	Xylitol, Flavono, etc.	166,443 (14.7%)
		Candy		Anytime, Herb Throat Candy, etc.	55,109 (4.9%)
		Biscuits		Custard, Magaret, etc.	176,082 (15.5%)
		Chocolate		Pepero, Dream Cacao, etc.	235,037 (20.7%)
		Sherbet		World Cone, Seol-Lae-Im, etc.	314,178 (27.7%)
		Other		Kko Kkal Corn, Cheetos, etc.	61,058 (5.4%)
		Subtotal			1,007,907 (88.9%)
		Other Products		Sherbet	Joo-Mool-Lu, Precious Bar, etc.
	Other	Vegetable Cracker, Choco Rice Cake, Rental revenues, etc.	103,956 (9.2%)		
	Subtotal		126,267 (11.1%)		
	Total		1,134,174 (100.0%)		

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B. Price fluctuation of major products

(Units: Domestic \, Exports \$)

Item		41st	40th	39th
Butter Coconut	Domestic	532 / piece	532 / piece	532 / piece
Atlas	Domestic	380 / pack	380 / pack	380 / pack
Scotch Candy	Domestic	760 / pack	760 / pack	760 / pack
5 Stick	Export	38.5 / Box	38 / Box	38 / Box
Spout	Export	32 / Box	32 / Box	32 / Box
Choco Pie	Export	6.9 / Box	6.9 / Box	6.9 / Box
Custard	Export	9.6 / Box	8.8 / Box	8.8 / Box

(1) Calculation rule

: Consumer price * 76% (Consumer price based on term end price)

(2) Major reason for price changes

① Domestic: N/A

② Export: unit cost increase for some products

C. Current Status of Major Raw Materials, etc.

(Units: KRW 1 mil)

Business area	Purchase type	Item	Specific purchase	Purchase amount	Ratio	Ref	
Food manufacturing & Sales distribution	Internal capital	Major raw materials	Sugar	Gum,	33,642	22.2%	CJ
			Dairy	Candy	18,859	12.5%	Daesang
			Oil	Ingredients	21,819	14.4%	Lotte Milk
			Other	Ice cream	77,047	50.9%	Lotte
				Ingredients			Samgang
			Biscuit				
			Ingredients				
		Subtotal	Packaging	151,368	100.0%		
	Other	Gravure	“	50,744	38.1%	Usang	
		Plastics	“	21,532	16.1%	Shinjin	
		Boxes		19,414	14.6%	Samji	
		Other		41,651	31.2%	packaging	
		Subtotal		133,341	100.0%		
	Outside capital	Major raw materials	Dairy	Ice cream	33,065	29.9%	Fonterra
Agricultural			Ingredient	27,260	24.6%	Ed & F Man	
Spices			“	10,733	9.7%	Hasegawara	
Other			Gum, candy	39,665	35.8%		
		Ingredients					
	Subtotal		110,723	100.0%			
Total			395,432				

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D. Price Fluctuation of Major Raw Materials

(Units : VKG, \$/MT)

Item		41st	40th	39th
Sugar	Domestic	663	695	596
Cocoa bean	Import	2,090	1,805	1,791
Starch syrup	Domestic	534	473	492
Cocoa powder	Import	1,270	1,220	1,626
Flour	Domestic	543	482	504
Hydrogenated oil	Import	2,290	1,870	1,795
Dairy	Domestic	2,928	2,769	2,880
Dairy	Import	2,230	2,157	2,089

(1) Calculation rule

: Based on average unit cost and standard international raw material prices

(2) Major reason for price changes

: Impact of changes in foreign exchange rates

4) Production and Facilities

1) Production capability

(Units: Ton, KRW 1 mil)

Business area	Item	41st		40th		39th	
		Weight	Amount	Weight	Amount	Weight	Amount
Food manufacturing & sales distribution	Gum, candy	50,243	546,000	52,164	567,600	54,281	573,600
	Biscuits, chocolate	119,975	748,800	136,019	788,400	121,056	642,000
	Ice cream, etc.	241,257	956,400	241,747	894,000	248,997	883,200
Total		411,476	2,251,200	429,930	2,250,000	424,334	2,098,800

2) Basis for Measurement of Production Capability

(A) Measurement rule

Item	Average working days per month	Average working hours per day	Production unit (KG/H)	Production capability (TON/Year)	Ref
Gum, candy	20	21	9,969	50,243	
Biscuits, chocolate	20	21	23,805	119,975	
Ice cream, etc.	20	21	47,868	241,257	
Total				411,476	

B. Production performance and operating ratio

(1) Production performance

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(B) Average operating hours

O: Refer to Table in (A)

Business area	Item	41st		40th		39th	
		Weight	Amount	Weight	Amount	Weight	Amount
Food manufacturing & sales distribution	Gum, candy	23,296	253,161	23,364	254,226	26,330	278,235
	Biscuits, chocolate	72,888	454,914	70,195	406,867	73,786	391,311
	Ice cream, etc.	110,468	437,921	107,328	396,911	115,833	410,864
Total		206,652	1,145,996	200,887	1,058,004	215,949	1,080,410

(2) Operating ratio of current term

(Units: hour, %)

Business area	Annual operating hours (available)	Annual operating hours (actual)	Avg operating ratio
Food manufacturing	5,040	2,566	50.9
Total	5,040	2,566	50.9

C. Production Facilities

(1) Status of Production Facilities

[Asset type: Machinery]

(Units: KRW 1 mil)

Local business unit	Ownership type	Location	Category	Basic book value	Changes for the year		Amortization for current term	Term end book value	Ref
					Increase	decrease			
Yeongdeun gpo	Owned	Yeongdeun gpo	-	13,195	5,663	163	6,244	12,451	
Pyeongtaek	Owned	Pyeongtaek	-	9,239	4,743	-	4,517	9,465	
Yangsan	Owned	Yangsan	-	11,843	7,652	-	7,460	12,035	
Daejeon	Owned	Daejeon	-	20,308	6,944	-	9,719	17,533	
Others	Owned	Other	-	1,027	50	-	532	545	
Total				55,612	25,052	163	28,472	52,029	

[Asset type: Machinery]

(Units: KRW 1 mil)

Local business unit	Ownership type	Location	Category	Basic book value	Changes for the year		Amortization for current term	Term end book value	Ref
					Increase	decrease			
Yeongdeun gpo	Owned	Yeongdeun gpo	-	13,195	5,663	163	6,244	12,451	
Pyeongtaek	Owned	Pyeongtaek	-	9,239	4,743	-	4,517	9,465	
Yangsan	Owned	Yangsan	-	11,843	7,652	-	7,460	12,035	
Daejeon	Owned	Daejeon	-	20,308	6,944	-	9,719	17,533	
Others	Owned	Other	-	1,027	50	-	532	545	
Total				55,612	25,052	163	28,472	52,029	

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[Asset type: Land]

(Units: KRW 1 mil)

Local business unit	Ownership type	Location	Category	Basic book value	Changes for the year		Amortization for current term	Term end book value	Ref
					Increase	decrease			
Production	Owned	Each plant	-	97,237	-	-	-	97,237	
Administration Sales	Owned	HO Sales Office	-	163,831	2,048	1,398	-	164,481	
Total				261,068	2,048	1,398	-	261,718	

[Asset type: Building]

(Units: KRW 1 mil)

Local business unit	Ownership type	Location	Category	Basic book value	Changes for the year		Amortization for current term	Term end book value	Ref
					Increase	decrease			
Production	Owned	Each plant	-	31,649	829	104	5,504	26,870	
Administration Sales	Owned	HO Sales Office	-	63,544	4,405	245	4,614	63,090	
Total				95,193	5,234	349	10,118	89,960	

[Asset type: Structure]

(Units: KRW 1 mil)

Local business unit	Ownership type	Location	Category	Basic book value	Changes for the year		Amortization for current term	Term end book value	Ref
					Increase	decrease			
Production	Owned	Each plant	-	623	1,254	7	198	1,672	
Administration Sales	Owned	HO Sales Office	-	536	37	2	65	506	
Total				1,159	1,291	9	263	2,178	

[Asset type: Vehicles]

(Units: KRW 1 mil)

Local business unit	Ownership type	Location	Category	Basic book value	Changes for the year		Amortization for current term	Term end book value	Ref
					Increase	decrease			
Production	Owned	Each plant	-	1	15	-	12	4	
Administration Sales	Owned	HO Sales Office	-	4,418	6,112	24	4,195	6,311	
Total				4,419	6,127	24	4,207	6,315	

[Asset type: Other tangible assets]

(Units: KRW 1 mil)

Local business unit	Ownership type	Location	Category	Basic book value	Changes for the year		Amortization for current term	Term end book value	Ref
					Increase	decrease			
Production	Owned	Each plant	-	775	1,736	6	1,642	863	
Administration Sales	Owned	HO Sales Office	-	14,879	9,433	26	10,277	14,009	
Total				15,654	11,169	32	11,919	14,872	

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(2) Plans for new facility construction and purchase

(A) On-going investment

(Units: KRW 1 mil)

Business area	Item	Investment period	Asset type	Investment effect	Total amount	Amount invested	Amount to be invested	Ref
Food manufacturing & Sales distribution	Building, etc.	2007.01~12	Building, Structure	Warehouse, expansion of sales office		3,117		
		2007.01~12		Expansion of		1,156		
	Facility		Machinery	production facilities				
Total						4,273		

5) Sales

A. Sales performance

(Units: Ton, KRW 1 mil)

Business area	Sales type	Item		41st		40th		39th	
				Weight	Amount	Weight	Amount	Weight	Amount
Food manufacturing & Sales	Products	Gum, Candy	Export	1,524	16,564	1,697	18,467	1,697	17,930
			Domestic	19,628	213,303	20,380	221,752	22,710	239,983
			Total	21,152	229,867	22,077	240,219	24,407	257,913
		Biscuits, Chocolate	Export	4,157	25,943	3,001	17,393	2,116	11,221
			Domestic	70,722	441,397	70,819	410,485	76,157	403,887
			Total	74,879	467,340	73,820	427,878	78,273	415,108
	Ice cream, etc.	Export	616	2,441	668	2,472	1,441	5,112	
		Domestic	107,798	434,526	110,503	408,647	123,596	438,399	
		Total	108,413	436,967	111,171	411,119	125,037	443,511	
	Total			Export	6,297	44,948	5,366	38,332	5,254
			Domestic	198,148	1,089,226	201,701	1,040,884	222,463	1,082,269
			Total	204,445	1,134,174	207,068	1,079,216	227,717	1,116,532

B. Sales channels and methods

(1) Sales organization

- Company → Confectionery Sales ⇒ Sales office or agency
- Ice Cream Sales ⇒ Sales office or agency
- Logistics Sales
- Health Food Business
- Overseas Sales
- Natuur Sales

(2) Sales channel

- Warehouse → local unit → sales office, agency →
- retailer, wholesale shop → consumer supermarket, specialty stores, etc.

(3) Sales method and condition

Sales offices or agencies sell products to end consumers via retailers, wholesale shops, supermarkets, etc. and payment is made usually in cash.

(4) Sales strategy

- Launch products that satisfy consumer tastes through research and development
- Use effective marketing strategy for new and leading products
- Fast product distribution through nationwide sales networks

6) Major Business Contracts

- ① Contract for ice cream manufacturing technology with U.S. Wilkes & Associates
 - Period: 2005. 10 ~ 2015. 10l
 - Payment: Net sales * 1.15%
- ② Contract for biscuit manufacturing technology with U.S. Wilkes & Associates.
 - Period: 2004. 2 ~ 2014. 2
 - Payment : Net sales * 0.75%
- ③ Contract for snack manufacturing technology with U.S. PepsiCo
 - Period : 2006.5 ~ 2009.12
 - Payment : Net sales * 3%
- ④ Contract for snack manufacturing technology with U.S. Miles Willard Technologies
 - Period : 2006.9 ~ 2013.3
 - Payment : Net sales * 1.0%
- ⑤ Contract for Hello Kitty character use with Sanrio Korea
 - Period : 2007.1 ~ 2007.12 (Contract renewal negotiation is under way)
 - Payment : Net sales * 5.0%
- ⑥ Contract for Let's & Go Max character use with Tretoon
 - Period : 2007.8 ~ 2008.7
 - Payment : Net sales * 1.2%
- ⑦ Contract for Pocket Monsters character use with Daewon C&A
 - Period : 2007.11 ~ 2008.10
 - Payment : Net sales * 1.2