

**Thai Beverage Public Company Limited**

**Invitation Letter to the Extraordinary General Meeting of Shareholders No. 1/2008**

**Independent Financial Advisor Opinion**

**of**

**SICCO Advisory Company Limited**

**On the Following Transactions:**

- **Connected Transaction regarding the investment in OISHI Group Public Company Limited, Page 1**
- **Connected Transaction regarding the divestment of Thai Alcohol Public Company Limited, Page 51**



## Invitation Letter to the Extraordinary General Meeting of Shareholders No. 1/2008

*Opinion of an Independent Financial Advisor on the Connected Transaction regarding the investment in OISHI Public Company Limited*

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*(Translation Copy)*

11 July 2008

SACIB 003/2008

**Subject:** Opinion of an Independent Financial Advisor on the Connected Transaction between Thai Beverage Public Company Limited and Related Parties regarding the investment in OISHI Group Public Company Limited

**To:** Audit Committee and Shareholders  
Thai Beverage Public Company Limited

According to the resolutions of the Board of Directors' Meeting of Thai Beverage Public Company Limited ("The Company" or "THBEV") No. 3/2551 on 14 May 2008, the meeting approved the Company to acquire ordinary shares of OISHI Group Public Company Limited ("OISHI") from Yodkij Business Company Limited ("Seller") for 82,314,537 shares or 43.90% of paid-up capital of OISHI Group Public Company Limited at THB 37 per share, amounting to the transaction size of THB 3,045.64 million. Such transaction is considered a connected transaction between THBEV, a listed company on the Stock Exchange of Singapore ("SES"), and Seller, of which the shareholders are the same group of people.

Such transaction is classified as a class-4 connected transaction regarding assets and services under the Stock Exchange of Thailand Notification Re: Disclosure of Information and Other Acts of Listed Companies concerning the Connected Transactions, 2003. This transaction must be approved by its shareholders' meeting with the vote of at least three-fourths of total number of votes of the shareholders or their proxies (if any) who attend the meeting and have the right to vote, excluding the connected shareholders who have conflict of interest.

As required by the Securities and Exchange Commission of Thailand ("SEC") Notification No. Kor. Jor. 12/2543 Re: Application and Permission for Offering Newly Issued Shares, the article of associations of the Company regarding connected transaction and acquisition or disposition of assets is attuned to comply with the relevant regulation of the Stock Exchange of Thailand ("SET"). As a result, the Company appoints SICCO Advisory Company Limited as an Independent Financial Advisor ("Independent Financial Advisor" or "IFA") to provide the opinion for Independent Directors, Audit Committee, and shareholders regarding fairness and reasonableness of this transaction.

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SICCO Advisory Company Limited as the Independent Financial Advisor provides an opinion on the connected transaction in the following matters:

1. Type and details of the Connected Transaction
2. Reasonableness and benefits of the Connected Transaction
3. Fairness of price and conditions of the Connected Transaction
4. Opinion of the Independent Financial Advisor to the Board of Extraordinary Shareholders' Meeting

The Independent Financial Advisor's opinion expressed herein has been based on the assumptions that the information and documents obtained from OISHI and THBEV and from the interviews with their executives are true and complete, which are financial statements, industry condition. Our analysis on the industry and economic condition and the information was based on the current situation at the time of the case. Should there be any future significant changes that may have material adverse impacts on this opinion, the Independent Financial Advisor may not be able to substantiate the impacts of such significant changes on the Company and its shareholders.

**The details of OISHI share acquisition are as follows:**

**1. Details of the Connected Transaction**

**1.1 Agreement Date and Related Parties**

- **Agreement date**           The Board of Directors' of Thai Beverage Public Company Limited resolved to approve an investment in OISHI Group Public Company Limited on 14 May 2008. Such acquisition transaction will take place after an approval resolution from the Shareholders' Meeting.

- **Related Parties**

Acquirer	: Thai Beverage Public Company Limited
Sellers	: Yodkij Business Company Limited
Relationship	: Major shareholders of both the acquirer and the sellers are the same group of people

**1.2 Details of the Connected Transaction**

- **Transaction Class**

OISHI share acquisition in a total number of shares of 82,314,537 shares with a par value of THB 2 per share is considered a Connected Transaction Class 4, Asset or Service Related Transaction, pursuant to the Stock Exchange of Thailand Notification, Re: Disclosure of Information and Act of Listed Companies Concerning Connected Transactions B.E. 2546 (2003).

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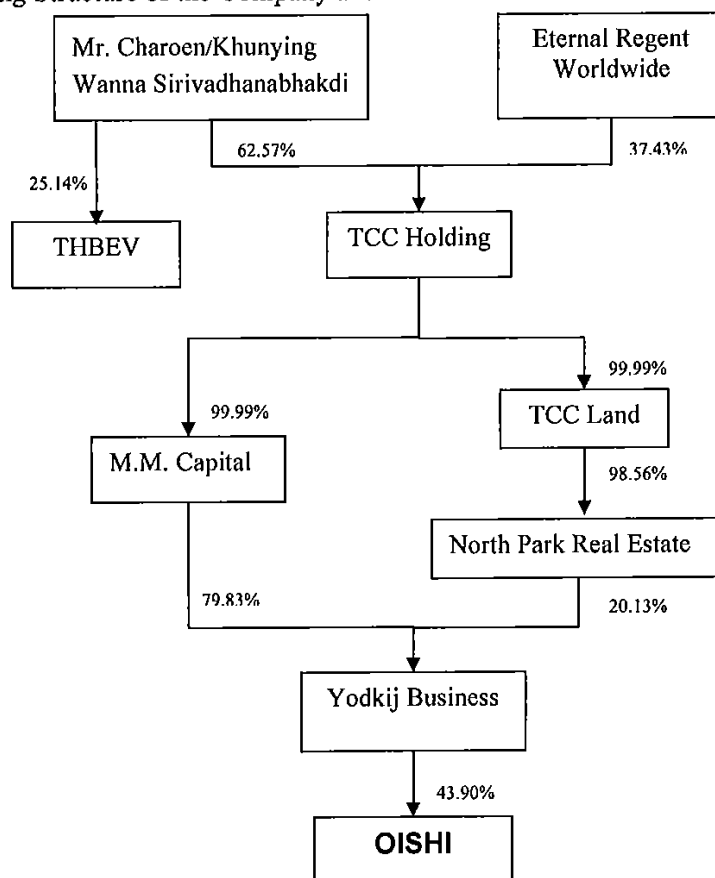
▪ **Transaction Size**

The transaction size of OISHI share acquisition is 82,314,537 shares at THB 37 per share, amounting to THB 3,045.64 million, representing 5.42% of the net tangible assets of THBEV as of 31 March 2008. The size of this transaction is larger than THB 20 million, and more than 3% of the net tangible assets of THBEV. Therefore, THBEV has a duty to disclose the connected transaction information, and seek a resolution from its shareholders to approve the connected transaction.

In addition, OISHI share acquisition is also considered the acquisition of assets according to the Stock Exchange of Thailand Notification Re: Disclosure of Information and Other Acts of Listed Companies Concerning the Acquisition and Disposition of Assets, 2004. The transaction size calculated based on the total value of consideration paid compared with the value of total assets of THBEV as of 31 March 2008 amounted to 3.89% which is less than 15%. Therefore, THBEV is not required to disclose the information regarding OISHI share acquisition to the Stock Exchange of Thailand.

The Relationship among Connected Persons

Shareholding Structure of the Company and Connected Persons



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**Yodkij Business Company Limited**

Established on 14 July 1982, Yodkij Business Company Limited conducts business investment in targeted companies. Its major shareholders include M.M.Capital Company Limited and North Park Real Estate Company Limited with equity interests of 79.83% and 20.13% respectively. M.M.Capital Company Limited is 99.99% held by TCC Holding Company Limited while North Park Real Estate Company Limited is 99.99% held by TCC Land Company Limited as exhibited in the Shareholding Structure of the Company and Connected Persons above.

Setout below exhibits the details of the Board of Directors.

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### List of the Board of Directors

	Thai Beverage Public Company Limited	TCC Holding Company Limited	M.M. Capital Company Limited	TCC Land Company Limited	North Park Real Estate Company Limited
1. Mr. Charoen Sirivadhanabhakdi	✓	✓	✓	✓	
2. Khunying Wanna Sirivadhanabhakdi	✓	✓	✓	✓	
3. Mr. Panote Sirivadhanabhakdi	✓	✓		✓	
4. Mr. Sumate Tanutitivong		✓	✓	✓	
5. Mr. Chaiyut Pilun-owad		✓		✓	
6. Mrs. Thapanee Techajareonvikul		✓		✓	
7. Mr. Khachornsakdi Vanaratseath		✓		✓	✓
8. Mr. Kosit Srisetthapunt		✓		✓	✓
9. Mrs. Atinant Bijananda		✓	✓		
10. Mr. Chaktip Nitibhon		✓			
11. Mr. Thapana Sirivadhanabhakdi	✓		✓		
12. Mr. Komen Tantiwathathanaphan	✓				
13. Mr. Samut Hatthasing	✓				
14. Mr. Vivat Tejapaibul	✓				

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	Thai Beverage Public Company Limited	TCC Holding Company Limited	M.M. Capital Company Limited	TCC Land Company Limited	North Park Real Estate Company Limited
15.	Mr. Narong Srisa-an	✓			
16.	Mr. Puchong Chandhanakij	✓			
17.	Ms. Kanoknart Rangsihienchai	✓			
18.	Mr. Pisanu Vichiensanth	✓			
19.	Mr. Chukiet Tangpongprush	✓			✓
20.	Mr. Staporn Kavitanon	✓			
21.	Mr. Saktip Krairiksh	✓			
22.	Mr. Ueychai Tantha-Obhas	✓			
23.	Mr. Kanung Luchai	✓			
24.	Mr. Manu Leopairote	✓			
25.	Mr. Michael Lau Hwai Keong	✓			
26.	Mr. Ng Tat Pun	✓			
27.	Mr. Pornchai Matangkasombut	✓			
28.	Gen. Dr. Choo-Chat Kambhu Na Ayudhya	✓			
29.	Mr. Sithichai Chaikriangkrai	✓			✓
30.	Mrs. Wallapa Trisorat		✓	✓	✓



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	Thai Beverage Public Company Limited	TCC Holding Company Limited	M.M. Capital Company Limited	TCC Land Company Limited	North Park Real Estate Company Limited
31.	Mr. Somnapat Trisorat		✓	✓	✓
32.	Mr. Suvarn Valaisathien			✓	
33.	Mr. Cholakanta Boobphaves			✓	✓
34.	Mr. Prapansak Bhatayanond			✓	
35.	Mr. Chaiyapong Poosunthornsri			✓	
36.	Ms. Piyaporn Phanachet			✓	
37.	Ms. Somthawin Patanavanich			✓	

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### **1.3 Company Profiles of Thai Beverage Public Company Limited and OISHI Group Public Company Limited**

#### **Thai Beverage Public Company Limited**

Thai Beverage Public Company Limited or "THBEV" was incorporated on 29 October 2003 with a paid-up capital of THB 20,000 million. On 30 May 2006, the Company was listed on the Stock Exchange of Singapore ("SGX"). At present, THBEV has a paid-up capital of 25,011.03 million. Its major shareholders include Good Show Holdings Limited, Mr. Charoen Sirivadhanabhakdi, and Khunying Wanna Sirivadhanabhakdi each with an equity interest of 13.91%, 12.57%, and 12.57% of total paid-up shares respectively. After THBEV registered its shares on SGX, it expanded its business base overseas by assigning International Beverage Holdings Limited ("IBHL") to undertake marketing responsibilities for Beer Chang and Mekhong Rum in several countries such as USA, England, Australia and other countries. IBHL is also in charge of expanding the market of whiskies made in Scotland by IBHL's subsidiary.

THBEV manufactures and distributes spirits, beer, water, soda, industrial alcohol, and other by-products, and also manage other related businesses through its subsidiary firms. THBEV is the leading producer of beer and spirits in Thailand, generating the largest production volume and sales revenue in Thailand. THBEV's signature beer, Chang Beer, the best-selling beer brand consumed in Thailand, and Archa Beer dominates the beer market in Thailand. THBEV also is the leader in the spirits market in Southeast Asia. Its well-known brands include Sangsom, Mekhong, Mungkorn Thong, and white spirits. The production quality, technology and product quality of THBEV meets the international standards. Although the major target consumer group is currently based on the domestic market, THBEV plans to further penetrate into overseas markets.

The Company's leading position in the Thai alcoholic beverage market is supported by its logistics and distribution network, effective advertising and promotions, as well as its effort in building brand recognition through the sponsorship of England's Everton Football Club.

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### List of THBEV's shareholders

The major shareholders of THBEV as of 12 March 2008 are as follow:

Name of shareholders	Number of shares (million shares)	%
The Central Depository (PTE) Limited	6,325.66	25.19
Good Show Holdings Limited	3,492.72	13.91
Mr. Charoen Sirivadhanabhakdi	3,156.50	12.57
Khunying Wanna Sirivadhanabhakdi	3,156.50	12.57
Risen Mark Enterprise Ltd.	2,359.82	9.40
Mr. Suchin Worawongwasu	900.00	3.58
Mrs. Siriluck Maithai	338.52	1.35
Mr. Vivat Tejapaibul	291.54	1.16
Others	5,088.77	20.27
<b>Total</b>	<b>25,110.03</b>	<b>100.00</b>

### List of Subsidiary and Associated Company

Subsidiary and Associated Company	Type of Business	Paid-Up Capital (THB million, unless stated)	% of Shareholding
Beer Thai (1991) PLC.	Beer, Drink & Soda Production	5,550.00	100.00
Beer Thip Brewery (1991) Co., Ltd.	Beer, Drink & Soda Production	6,600.00	100.00
Saengsom Co., Ltd.	Liquor Production	7,500.00	100.00
Fuengfuanant Co., Ltd.	Liquor Production	900.00	100.00
Mongkolsamai Co., Ltd.	Liquor Production	700.00	100.00
Thanapakdi Co., Ltd.	Liquor Production	700.00	100.00
Kanchanasingkorn Co., Ltd.	Liquor Production	700.00	100.00
Sura Bangyikhun Co., Ltd.	Liquor Production	4,000.00	100.00
Athimart Co., Ltd.	Liquor Production	900.00	100.00
S.S. Karnsura Co., Ltd.	Liquor Production	800.00	100.00
Kankwan Co., Ltd.	Liquor Production	800.00	100.00
Theparunothai Co., Ltd.	Liquor Production	700.00	100.00
Red Bull Distillery Co., Ltd.	Liquor Production	5,000.00	100.00

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<b>Subsidiary and Associated Company</b>	<b>Type of Business</b>	<b>Paid-Up Capital (THB million, unless stated)</b>	<b>% of Shareholding</b>
United Winery & Distillery Co., Ltd.	Liquor Production	1,800.00	100.00
Simathurakij Co., Ltd.	Liquor Production	900.00	100.00
Nateechai Co., Ltd.	Liquor Production	800.00	100.00
Luckchai Liquor Trading Co., Ltd.	Liquor Production	800.00	100.00
Sura Piset Thipharat Co., Ltd.	Liquor Production	500.00	100.00
Thai Alcohol PLC.	Alcohol Production	800.00	100.00
Pomthip Co., Ltd.	Beer Distribution	10.00	100.00
Pomkit Co., Ltd.	Beer Distribution	10.00	100.00
Pomklung Co., Ltd.	Beer Distribution	10.00	100.00
Pomchok Co., Ltd.	Beer Distribution	10.00	100.00
Pomcharoen Co., Ltd.	Beer Distribution	10.00	100.00
Pomburapa Co., Ltd.	Beer Distribution	10.00	100.00
Num Yuk Co., Ltd.	Liquor Distribution	10.00	100.00
Num Kijakarn Co., Ltd.	Liquor Distribution	10.00	100.00
Num Palang Co., Ltd.	Liquor Distribution	10.00	100.00
Num Muang Co., Ltd.	Liquor Distribution	10.00	100.00
Num Nakorn Co., Ltd.	Liquor Distribution	10.00	100.00
Num Thurakij Co., Ltd.	Liquor Distribution	10.00	100.00
Thipchalothorn Co., Ltd.	Beer and Liquor Distribution Agent	1.00	100.00
Krittayabun Co., Ltd.	Beer and Liquor Distribution Agent	5.00	100.00
Surathip Co., Ltd.	Liquor Distribution Agent	1.20	100.00
Sunthornpirom Co., Ltd.	Liquor Distribution Agent	5.00	100.00
Piromsurang Co., Ltd.	Liquor Distribution Agent	5.00	100.00
Bionic Humus Co., Ltd.	Fertilizer Sale	850.00	100.00
Maharas Agri Co., Ltd.	Japanese Rice	2.00	100.00
Thai Molasses Co., Ltd.	Molasses Distribution	40.00	99.72
Additive Food Co., Ltd.	Animal Feed	1.00	100.00

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<b>Subsidiary and Associated Company</b>	<b>Type of Business</b>	<b>Paid-Up Capital (THB million, unless stated)</b>	<b>% of Shareholding</b>
	Distribution		
Pan International (Thailand) Co., Ltd.	Trading of Supplies and Procurement	1.00	100.00
Charun Business 52 Co., Ltd.	Brick Production	121.80	100.00
Thai Cooperage Co., Ltd.	Oakwood Barrel Production	300.00	100.00
Bang-na Logistics Co., Ltd.	Bottle Distribution	123.00	100.00
Thai Beverage Logistics Co., Ltd.	Logistics	12.00	100.00
Thai Beverage Marketing Co., Ltd.	Liquor Import & Export / Overseas Marketing	300.00	100.00
Dhanasindhi Co., Ltd.	Construction	20.00	100.00
Dhospaak Co., Ltd.	Advertising	25.00	100.00
International Beverage Holdings Ltd.	Holding Company	HK\$ 1,470.00 million	100.00
Cosmos Brewery (Thailand) Co., Ltd.	Beer, Drink & Soda Production	1,666.66	100.00
T.C.C. Cosmo Corporation Ltd.	Trademark Proprietor	5.00	100.00
Beer Chang Co., Ltd.	Trademark Proprietor & Beer Concentrate Production	1.00	100.00
Archa Beer Co., Ltd.	Trademark Proprietor & Beer Concentrate Production	1.00	100.00
Sura Piset Pattharalanna Co., Ltd.	Holding Company	600.00	100.00
Thai Thum Distillery Co., Ltd.	Liquor Distribution (currently non-trading)	17.50	100.00
Sura Piset Sahasun Co., Ltd.	Liquor Production & Distribution (currently non-trading)	100.00	100.00
Sura Piset Samphan Co., Ltd.	Liquor Production & Distribution	100.00	100.00

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<b>Subsidiary and Associated Company</b>	<b>Type of Business</b>	<b>Paid-Up Capital (THB million, unless stated)</b>	<b>% of Shareholding</b>
	(currently non-trading)		
Muangkij Co., Ltd.	Oakwood Supply (currently non-trading)	3.81	100.00
Sint Ek Panich Co., Ltd.	Mining (currently non-trading)	9.00	100.00
Pan Alcohol Co., Ltd.	Vinegar Production & Distribution (currently non-trading)	2.00	100.00
Banglen Agriculture Co., Ltd.	Agriculture Planting (currently non-trading)	20.00	100.00
Vidhayathan Co., Ltd.	Conservation Public Relations	5.00	100.00
United Products Co., Ltd.	Liquor Production & Distribution	350.00	80.82
S P M Foods and Beverages Co., Ltd.	Seasoning Sauce, Fruit Juice, Energy Drink, Liquor Agent	100.00	83.20
Interbev (Singapore) Limited	Trading of alcoholic beverages	SGD 3.00 million	100.00
Interbev (Cambodia) Company Limited	Trading of alcoholic beverages	USD 0.20 million	100.00
Interbev Malaysia Sdn. Bhd.	Trading of alcoholic beverages	MYR 0.10 million	100.00
International Beverage Holdings Limited USA, Inc.	Trading of alcoholic beverages	USD 2.60 million	100.00
Best Spirits Company Limited	Trading of alcoholic beverages	900.00	100.00
International Beverage Holding (UK) Limited	Holding Company	900.00	100.00
Blairmhor Limited	Holding Company	£ 9.01 million	100.00
Inver House Distillers Limited	Production and distribution of spirits	£ 10.00 million	100.00
Blairmhor Distillers Limited	Dormant	£ 200.00	100.00

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<b>Subsidiary and Associated Company</b>	<b>Type of Business</b>	<b>Paid-Up Capital (THB million, unless stated)</b>	<b>% of Shareholding</b>
Wee Beastie Limited	Trading of alcoholic beverages	£ 200.00	100.00
Speyburn-Glenivet Distillery Company Limited	Dormant	£ 100.00	100.00
The Knockdhu Distillery Company Limited	Dormant	£ 100.00	100.00
The Pulteney Distillery Company Limited	Dormant	£ 2.00	100.00
The Balblair Distillery Company Limited	Dormant	£ 2.00	100.00
R. Carmichael & Sons Limited	Dormant	£ 30,000.00	100.00
J MacArthur Junior & Company Limited	Dormant	£ 100.00	100.00
Mason & Summers Limited	Dormant	£ 10,030.00	100.00
Hankey Bannister & Company Limited	Dormant	£ 100.00	100.00
James Catto & Company Limited	Dormant	£ 50,000.00	100.00
Glen Calder Blenders Limited	Dormant	£ 100.00	100.00
Moffat & Towers Limited	Dormant	£ 1.00	100.00
Liquorland Limited	Dormant	£ 0.495 million	49.49
Inver House Polska Limited	Dormant	0.70 million zł	44.00
Inver House Distribution SA	Dormant	£ 24,450.00	50.02

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**Financial Status and Operating Performance of Thai Beverage Public Company Limited**

THBEV's financial status and performance from 2005 to 2007 and the first quarter of 2008 are as follows.

unit: THB million

<b>Consolidated</b>	<b>2005</b> (Audited)	<b>2006</b> (Audited)	<b>2007</b> (Audited)	<b>31 Mar 2008</b> (Reviewed)
Total Assets	87,137.03	85,579.51	79,526.96	78,381.40
Total Liabilities	55,422.52	33,025.96	24,617.02	21,183.76
Total Shareholders' Equity	31,714.50	52,553.56	54,909.94	57,197.64
Paid-up capital	22,000.00	25,110.03	25,110.03	25,110.03
Total Sales Revenue	94,903.41	97,797.92	100,540.90	26,740.43
Total Revenues	95,190.23	97,956.00	100,838.90	26,790.38
Cost of Sales	65,187.74	69,325.12	70,872.57	19,307.55
Selling and Administration Expenses	13,180.25	12,684.56	13,689.41	3,491.62
Net Profit	10,337.25	10,054.78	10,383.07	2,630.83



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### **Operating Performance of Thai Beverage Public Company Limited**

#### Revenue

The total revenue of THBEV in 2007 was THB 100,540.90 million which increased by THB 2,742.98 million or 2.80% from that of 2006. It was due to an increase in sale revenue from liquor and beer & water businesses by 2.60% and 3.20% respectively. The increase in the revenue from liquor business was due to a price raise to cover for the increased excise tax charge.

For the first quarter ended 31 March 2008, total sales revenue of THBEV was THB 26,740.43 million which increased by THB 779.36 million or 3.00% from the same period of the previous year since sale revenue from liquor and industrial alcohol increased by 6.30% and 123.70% respectively while sale revenue from beer decreased by 4.00%. Although the total sale volume of liquor business decreased, the total revenue from liquor business still increased due to an upward price adjustment which contributed to the increase of THBEV's total revenue.

#### Cost of Goods Sold

Cost of goods sold in 2007 and 2006 was THB 70,872.57 million and THB 69,325.12 million, accounting for 70.49% and 70.89% of total sales revenue respectively. The cost structure of THBEV declined because of several supporting factors. For one, an increase in sale revenue from beer business resulted in a decrease in the production cost per unit. Moreover, liquor production cost decreased due to the decrease in molasses price while liquor sale price per unit was adjusted upward. Although the sale price of industrial alcohol business declined as the domestic market was oversupplied, the overall cost of goods sold of THBEV still declined.

For the first quarter of 2008 and 2007, THBEV's cost of goods sold was THB 19,307.55 million and THB 18,309.93 million, accounting for 72.20% and 70.52% of sale revenue respectively. Its cost of goods sold increased because of the rising raw material cost such as rice, malt, and fuel oil. THBEV was also affected by a drop in sale revenue of white spirits which generated substantial gross profit margin. Moreover, the decrease in the production volume of industrial alcohol resulted in a higher production cost per unit.

#### Selling and Administration Expenses

Selling and administration expenses of THBEV in 2007 and 2006 were THB 13,689.41 million and THB 12,684.56 million, accounting for 13.62% and 12.97% of sales revenue respectively. The selling and administration expenses increased since the marketing, advertising, personnel, and transportation expenses increased across all of THBEV's business units.

For the first quarter of 2008 and 2007, THBEV's selling and administration expenses was THB 3,491.62 million and THB 3,118.74 million, accounting for 13.06% and 12.01% of sales revenue respectively. The selling and administration expenses as a proportion of sale revenue of THBEV increased due to an increase in marketing and advertising expenses and idle costs.

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### Net Profit

THBEV's net profit in 2007 and 2006 was THB 10,383.07 million and THB 10,054.78 million respectively, representing an increase by 3.26% from that of 2006. This was because of an increase in the gross profit compared to the previous year due to an increase in the gross profit of beer, soda and drinking water business by THB 358.00 million or 3.50%, and an increase in the gross profit of liquor business by THB 910.00 million or 5.00% even though the gross profit of the industrial alcohol business declined by THB 217.00 million or 102.80%. Meanwhile, selling and administration expenses increased by THB 1,005.00 million or 7.90% from that of 2006 due to an increase in marketing, advertising and transportation expenses. Interest expenses decreased by THB 521.37 million as loan decreased from THB 24,345.35 million in 2006 to THB 16,222.37 million in 2007.

For the first quarter of 2008 and 2007, THBEV's net profit was THB 2,630.83 million and THB 2,878.03 million respectively, representing a decrease by 8.60% in the first quarter of this year. This was because of a drop in the gross profit of beer, soda and drinking water business by THB 232.00 million or 8.23%, and a decrease in the gross profit of liquor business by THB 209.00 million or 6.69% despite an increase in the gross profit of industrial alcohol business by THB 25.00 million or 2,500.00% from the same period of last year. Whilst, selling and administration expenses increased by THB 372.00 million or 11.93% from that of the same period of 2007 due to the increase in marketing expenses and idle cost. Interest expenses decreased by THB 137.29 million because loan decreased from THB 18,200.00 million as of 31 March 2007 to THB 11,299.00 million as of the same period of 2008.

### **Financial Status**

#### Assets

Total assets of THBEV as at end of December 2007 was THB 79,527.96 million, decreasing by THB 6,052.55 million or 7.07%, compared with the end of 2006. Current assets decreased by THB 393.28 million mainly due to the decrease in inventory and finished goods. Meanwhile, non-current assets decreased by THB 5,659.28 million due to sale of land and building and the impact of impairment on land value, and depreciation of property, plant and equipment.

Total assets as at end of the first quarter of 2008 was THB 78,381.40 million composed of current assets and non-current assets amounting to THB 32,588.84 million and THB 45,792.56 million or 41.58% and 58.42% of total assets respectively. A decrease in the total assets by THB 1,145.60 million or 1.44% as of the first quarter of 2008 was due to a decrease in cash and cash equivalent, account receivable, and property, plant and equipment by THB 887.09 million, THB 448.43 million, and THB 566.48 million respectively.

#### Liabilities

Total liabilities as at end of December 2007 was THB 24,617.02 million declining by THB 8,408.95 million or 25.46% from the end of 2006. This was mainly due to loan and bond repayment amounting to THB 13,756.14 million and the new borrowing amounting to THB 5,400.00 million in 2007. Therefore, long-term loan and bond decreased from THB 24,345.35 million in 2006 to THB 16,222.37 million in 2007 respectively.

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Total liabilities of THBEV as at end of the first quarter of 2008 was THB 21,183.76 million which decreased by THB 3,433.25 million compared to the same period of the previous year. This was mainly due to the repayment of bonds and loans by THB 4,854.59 million.

Shareholders' Equity

Total shareholders' equity as at end of December 2007 was THB 54,909.94 million, representing an increase by THB 2,356.39 million or 4.48% compared with the end of 2006. This was a combined result of the net profit of THB 10,383.07 million, translation loss relating to financial statements of foreign operations of THB 188.57 million and the dividend payment of THB 5,775.31 million which accounted for the dividend per share of THB 0.23 per share.

Total shareholders' equity as at end of the first quarter of 2008 was THB 57,197.64 million, representing an increase by THB 2,287.70 million or 4.17% from THB 54,909.94 million as of the end of 2007. This was mainly due to an increase in retained earnings by THB 2,630.83 million and translation loss relating to financial statements of foreign operations of THB 343.31 million.

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### Key Financial Ratios of THBEV

Financial Ratios	Consolidated			
	2005 (Audited)	2006 (Audited)	2007 (Audited)	31 Mar 2008 (Reviewed)
<b>Liquidity Ratio</b>				
Current Ratio (times)	0.66	1.28	1.74	1.89
Quick Ratio (times)	0.27	0.29	0.19	0.13
Cash Ratio (times)	0.52	0.35	0.73	1.15 *
Account Receivable Turnover (times)	101.12	69.27	67.86	76.51 *
Receivable Days (days)	3.56	5.20	5.31	4.71 *
Inventory Turnover (times)	3.58	4.57	5.14	5.68 *
Inventory Days (days)	100.62	78.81	70.10	63.34 *
Accounts payable turnover (times)	37.37	34.95	31.32	33.76 *
Payable Days (days)	9.63	10.30	11.49	10.66 *
Cash Cycle (days)	94.55	73.71	63.92	57.38 *
<b>Profitability Ratio</b>				
Gross profit margin (%)	31.31%	29.11%	29.51%	27.80%
Operating profit margin (%)	17.42%	16.14%	15.89%	14.74%
Other profit margin (%)	0.30%	0.16%	0.30%	0.19%
Operating Cash Flow to Operating Profit Ratio (%)	172.76%	89.76%	102.91%	132.42%
Net profit margin (%)	10.86%	10.26%	10.30%	9.82%
Return of equity (%)	31.77%	23.86%	19.32%	18.77% *
<b>Efficiency Ratio</b>				
Return on asset (%)	11.73%	11.64%	12.58%	13.33% *
Return on fixed asset (%)	29.47%	28.27%	31.10%	33.55% *
Asset Turnover (times)	1.08	1.13	1.22	1.36 *
<b>Financial Policy Ratio</b>				
Debt to equity ratio (times)	1.75	0.63	0.45	0.37
Interest bearing debt to equity ratio (times)	1.27	0.46	0.30	0.20
Interest Coverage Ratio (times)	20.12	12.79	21.33	41.21
Debt service coverage Ratio (times)	1.68	0.20	0.78	0.92
Dividend payout ratio (%)	51.08%	54.94%	70.13%	N/A

\* Annualized from the reviewed financial statement as of 31 March 2008

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#### Liquidity Analysis

THBEV's liquidity improved continuously. Current ratio increased from 0.66 times in 2005 to a sufficient level of 1.89 times in the first quarter of 2008. This was because of the continuous decrease in current liabilities over this period. Cash cycle continuously decreased from 94.55 days in 2005 to 57.38 days in the first quarter of 2008, since inventory days significantly decreased from 100 days in 2005 to 63 days in the first quarter of 2008 which indicated an improvement in THBEV's inventory management.

#### Profitability Analysis

THBEV's profitability continuously decreased as seen in a drop in gross profit margin and net profit margin. Gross profit margin decreased from 31.31% in 2005 to 27.80% in the first quarter of 2008, whereas net profit margin declined from 10.86% in 2005 to 9.82% in 2007. This was due to the rising raw material cost and other production cost such as oil price. The return on equity also decreased to the lowest level at 18.77% in the first quarter of 2008.

#### Efficiency Analysis

All efficiency ratios of THBEV continued to improve from 2005 to the first quarter of 2008. Return on assets increased from 11.73% in 2005 to 13.33% in the first quarter of 2008 and return on fixed assets improved from 29.47% in 2005 to 33.55% in the first quarter of 2008 as the total and fixed assets declined. Similarly, the asset turnover ratio improved from 1.08 times in 2005 to 1.36 times in the first quarter of 2008 as a combination of a drop in the total assets and an increase in sale revenue.

#### Financial Policy Analysis

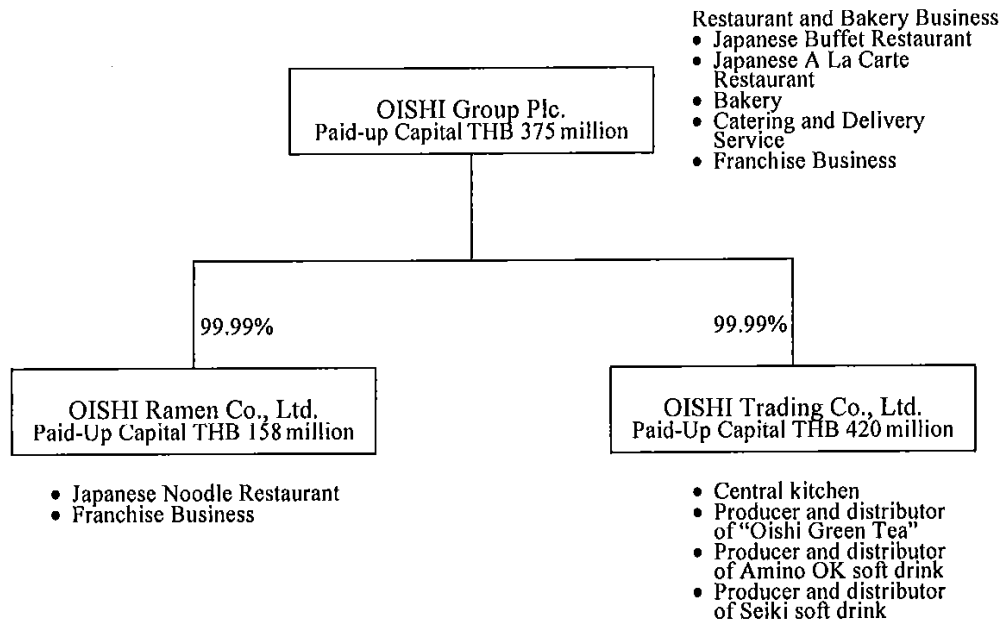
THBEV's debt to equity ratio (D/E ratio) continuously decreased from 1.75 times in 2005 to 0.45 times in 2007 and 0.37 times in the first quarter of 2008 due to the debt repayment. This indicated that the THBEV's financial strength improved continuously. Fixed charge coverage ratio decreased from 1.68 times in 2005 to 0.20 times in 2006, since THBEV received cash flow from debt repayment from related party of THB 5,033.87 million while in 2006, THBEV serviced debt obligation of THB 58,337 million. Afterward, fixed charge coverage ratio improved from 0.78 times in 2007 to 0.92 times in the first quarter of 2008 due to an increase in sales revenue and a decrease in capital expenditure and debt service obligation. Interest coverage ratio ranged from 12.79 and 21.33 times for the last 3 years, and peaked at 41.21 times in the first quarter of 2008. This exhibited an improvement in THBEV's capability to service interest obligation, especially in the first quarter of 2008 in which debt obligation significantly decreased due to the repayment of bond and loan in an amount of THB 4,854.59 million in total.

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**OISHI Group Public Company Limited**

OISHI Group Public Company Limited (“OISHI”), formerly known as OISHI Restaurant Company Limited, was established in 2000 by Mr. Tan Passakornnatee to operate in Japanese restaurants and franchises business. OISHI has two subsidiaries, which are OISHI Ramen Company Limited, conducting Japanese noodle restaurants and franchises business, and OISHI Trading Company Limited, a producer and distributor of “OISHI Green Tea” and a central kitchen for the restaurants in its group. Presently, OISHI has the registered and paid-up capital of THB 375 million, consisting of 187.5 million shares, with a par of THB 2 per share.

**Shareholding Structure of OISHI Group Public Company Limited**



OISHI and its subsidiaries operate 2 core businesses as follow:

- Japanese Restaurant and Bakery Businesses
  - Japanese Buffet Restaurant  
i.e. OISHI Buffet, OISHI Express, Shabushi and OISHI Grand
  - Japanese A La Carte Restaurant  
i.e. OISHI Sushi Bar, OISHI Ramen, OK Suki and Barbeque and the Tepp
  - Bakery  
i.e. IN&OUT the Bakery Café
  - Catering and Delivery Service
  - Franchise on Japanese Restaurant  
There are 4 franchised branches in Phuket Province.












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2. Soft Drink Business









- Ready-to-drink green tea “OISHI Green Tea”
- Ready-to-drink black tea “OISHI Black Tea”
- Fruit Juice with Vitamin “Amino OK”
- Orange Juice and Pomegranate Juice with Vitamin C “Seiki”
- Ready-to-drink Coffee “Coffio”

As of 31 December 2007, OISHI has 82 restaurant outlets totally, covering Bangkok area, Chiangmai, Pattaya and Chonburi, and the other 4 franchised branches in Phuket, the details of which are as follow:

Japanese Restaurants and Bakery Business		Soft Drink Business
Buffet		 <p>OISHI Green Tea</p>
	<p>OISHI Grand</p> 	<p>Ready-to-drink green tea “OISHI Green Tea”</p>
	<p>OISHI Buffet</p> 	 <p>OISHI Black Tea</p>
	<p>OISHI Express</p>  <p>Shabushi</p>	<p>Ready-to-drink black tea “OISHI Black Tea”</p>  <p>Amino OK</p>
A La Carte		<p>Fruit Juice with Vitamin</p>
	<p>OISHI Ramen</p> 	<p>“Amino OK”</p>
	<p>OISHI Sushi Bar</p>  <p>The Tepp</p>	 <p>Seiki</p> <p>Orange Juice and Pomegranate Juice with Vitamin C “Seiki”</p>

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Japanese Restaurants and Bakery Business		Soft Drink Business
	 <p>1 branch</p> <p>OK Suki &amp; Barbeque</p>	 <p>Coffio</p> <p>Ready-to-drink Coffee "Coffio"</p>
Bakery	 <p>13 branches</p> <p>IN&amp;OUT</p>	
Catering & Delivery	  <p>OISHI Catering</p> <p>OISHI Delivery</p>	
Franchise	 <p>1 branch</p> <p>OISHI Buffet</p>  <p>1 branch</p> <p>OISHI Ramen</p>  <p>2 branches</p> <p>IN&amp;OUT</p>	



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## **Industry Overview**

### **Ready-to-Drink Tea Industry Overview**

Along the past 5-6 years, the health conscious trend has stimulated the growth of healthy beverage market, especially ready-to-drink green tea, which was the most popular among healthy beverages. During the first two years, the growth rate of green tea grew more than 100% per year from the beginning market value of THB 300-400 million to THB 1,000 million, and tended to increase to THB 8,000-10,000 million in 2006. However, since the mid-year 2005, the negative views about green tea such as the contamination, the doubt of whether green tea is truly healthy beverage, and the green tea selling price relative to the quantity, had caused the market value of green tea to decline continuously by 30% per year along the past two years. However, the manufacturers still concentrate on developing new flavors, and regularly launch new products to the market in order to stimulate growth in the green tea market, although the growth rate might not grow as fantastically as that of the prior period. The market value of ready-to-drink tea is estimated to reach approximately THB 3,600 million in 2008.

The ready-to-drink tea industry is affected by various factors as follow. The slow down in consumption resulted by sluggish economic condition, and the increase in oil price hinder growth in ready-to-drink tea market. In addition, according to the resolution of the cabinet, the sugar price is raised by THB 5 per kilogram since 1 May 2008. All these factors significantly adversely affect the raw material cost as transportation cost and the cost of tea beverage increase significantly. Another important reason is that the competition within the ready-to-drink tea industry has been very intense as there are a vast number of manufacturers. At present, there are 5-6 major players in the ready-to-drink tea industry, namely "Oishi" owned by OISHI Group Public Company Limited, "Unif" owned by Uni-President (Thailand) Company Limited, "Tipco" owned by Tipco F&B Company Limited, "Moshi" owned by Boonrawd Brewery Company Limited, "Zensha" owned by Ajinomoto (Thailand) Company Limited, "Puriku" owned by T.C. Pharmaceutical Industries Company Limited under Red Bull group. Moreover, minor brands such as Tozen and Zencha also participate in the market as well. Additionally, the ready-to-drink tea industry has to compete with other substitute products such as vegetable and fruit juice and functional drink, which carry the healthy image similar to the ready-to-drink tea. Furthermore, the market of substitute products tends to grow continuously in the future.

### **Japanese Restaurant Industry Overview**

Japanese restaurants are very popular among Thai consumers because Japanese food is perceived as health-conscious food and delicious. In 2007, there are approximately 660 Japanese restaurants in Thailand. Most of them reside in Bangkok, Chiang Mai, and Chonburi. The number of Japanese restaurants in Thailand ranked fifth in the world after the US, China, South Korea and Taiwan.

The restaurant owners viewed out that Japanese restaurant business tends to grow continuously. Its target customers are Thai consumers who like Japanese food and over 60,000 Japanese people who are living in Thailand. Furthermore, there is a growth opportunity for premium Japanese restaurants, which focus on original Japanese cuisine and charge expensive price for the imported raw materials from Japan. The

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target consumer group of this premium Japanese restaurant segment is high-salary people (middle class level), who earn above THB 15,000 per month. The significant growth factor of the premium Japanese restaurant segment is an increase in the number of high-ended department stores which lead to the expansion of the premium Japanese restaurant outlets. On the other hand, the medium-priced Japanese restaurant business is likely to grow rapidly by targeting the B and C customer groups, and these restaurants generally stimulate growth of the market value of the overall Japanese restaurant business in Thailand.

The Kasikorn Research Center expected that the total value of Japanese restaurant market was approximately THB 6,000 million in 2007, or grew by 10-15%. Price and service are the main competing strategies among Japanese restaurants. The competition among Japanese restaurants tends to be more intense because there are 5-6 new players stepping into the Japanese restaurant industry. These new players include franchisers from Japan and owners of other type of restaurants who expand their business into the Japanese restaurant market. As the result, all Japanese restaurants have to adjust their strategies and present different food in order to serve the need of the customers.

The key success factors of Japanese restaurants are the palatable taste for target customers, the suitable location to the target groups, effective public relation, and experienced management team. In addition, successful Japanese restaurants have to emphasize on food quality preserving, especially freshness of raw materials, which is the heart of Japanese food. Moreover, impressive service is also essential and emphasized among Japanese restaurants.

### **Bakery Industry Overview**

At present, bakery products are one of the most popular breakfast and snacks among Thais, especially people living in urban area. Moreover, bakery products are also popular in many banquets and ceremonies such as birthday party, new product debut events, seminar, including the box set for tour coaches or the funerals. As the result, the market value of the bakery products increases rapidly and many new entrepreneurs have continued to enter into this market. Both Thai and foreign entrepreneurs capture an opportunity in the bakery market in Thailand and, thus, cause the intense competition in bakery industry. Therefore, the entrepreneurs have to concentrate on building brand awareness among consumers, produce quality and fresh bakery, and the differentiation in marketing. According to Krungthai Bank Research Center, the major brands in bakery industry are "S&P" by S&P Syndicate Public Company Limited, "Yamazaki" by Thai Yamazaki Company Limited, and "Gateaux House" by Gateaux House Company Limited, which occupy market share of around 25%, 13%, and 6% respectively. The remaining market share is spread among various minor brands which reveal that there is still an opportunity for new entrants in the bakery industry.

In 2007, Krungthai Bank Research Center mentioned that bakery industry tended to decelerate with the total market value of THB 4,813 million, or increased by 6.3% from 2006. In 2008, the bakery industry tends to slow down continuously with the growth rate only 6.4% and the total market value of THB 5,120 million. The significant factors that adversely affect the bakery industry include an increase in the cost of living and oil price surge, an increase in the cost of raw material such as wheat flour and milk, and also the rigid selling price due to the intense competition in the market. Therefore,

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in order to increase revenue, the owners of bakery shops have to concentrate on the product development, value added products, and the decoration of the shops to attract customers, as well as expanding into catering business.

The bakery market has slowed down as a result of several factors. The intense competition caused by expansion inside and outside the country and the fact that discount and convenient stores, which are the important distribution channels, turn to open their own bakery shops are key factors. In addition, health-conscious trend results in less consumption on bakery products that contain high proportion of flour and butter. Despite all these negative factors, the bakery business still has a growth opportunity because of many supporting factors. For example, the hasty lifestyle of the consumers stimulates the demand for fast and convenient food. The expansion of department stores, office buildings, hospitals, and urban areas, as well as the expansion of events such as conference, seminar, banquet, tourism companies, and the funerals also add the distribution channels for the bakery shops. Moreover, the private party catering service which serves the lifestyle and taste of new generation of people is considered as a very promising market.

#### **Canned Coffee Industry**

During past couple of years, the overall coffee industry has been growing dramatically. Kasikorn Bank Research Center forecasted that, in 2007, the total value of coffee products would be THB 25,600 million and having the growth rate of 6.7% compared to the previous year. The opportunity of coffee products has been continuously expanding which results from a popularity of coffee consumption together with marketing strategies of each brand to stimulate coffee consumption. In addition, coffee consumption rate in Thailand is still very low when compared with coffee consumption rate in other countries. Thai people consume coffee by less than 0.5 kilograms per person per year whereas Norway has the highest coffee consumption rate of 10.7 kilograms per person per year while other Asian countries have the average consumption rate of 1.4 kilograms per person per year. Therefore, coffee industry in Thailand still has high growth opportunity.

Kasikorn Bank Research Center reported that the total value of canned coffee market was THB 7,000 million in 2005 and expanded around 6.0% to 10.0%. In 2007, the total market value was expected to be approximately THB 8,500 million and have strong growth opportunity. A major growth factor is a relatively low coffee consumption rate in Thailand of only 8 cans per person per year when compared with the coffee consumption rate in Japan of 150 cans per person per year. Moreover, another growth factor is that the market position of canned coffee is placed in the same position as energy drink in order to snatch the market share from the energy drink market. It was discovered that almost 70.0% of canned coffee consumers are blue-collared worker while the remaining 30.0% are working people and college students. Most of canned coffee and energy drink consumers have similar purposes for consumption which is to stay energetic and awake.

Competition in canned coffee industry has been very strong although many small players exited the market when the market slowed down. Keys success factors of canned coffee industry are as follow:

- Taste of coffee creates strong brand loyalty to the customers.
- Advertisement and promotion that encourage customers to become aware of the brands and to buy coffee.

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- Effectiveness of distribution channel
- Quality of product and product development such as new flavors for alternatives of the consumers, and effectiveness of the distribution channel are marketing strategies to gain the fastest access to target customers.

At present, the major manufacturers and distributors in Thailand are Ajinomoto Company (Thailand) Limited which distributes “Birdy”, and Nestle (Thai) Limited which manufactures “Nescafe”. Both companies are the first and second largest market leader of canned coffee in Thailand, which take 65.0% and 30.0% market share respectively.

According to the intensive competition in the domestic market, Kasikorn Bank Research Center forecasted that some manufacturers would turn to export their products to other countries. By the end this year, the manufacturers would start exporting canned coffee to Asia especially to Indo-China region because people in this region have similar preferences as those of consumers in the domestic market.

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### Financial Status and Operating Performance of Thai Beverage Public Company Limited

OISHI's financial status and operating performance from 2005 to 2007 and the first quarter of 2008 can be concluded as follow:

Unit : THB million

Consolidated Financial Statement	2005 (Audited)	2006 (Audited)	2007 (Audited)	1Q 2008 (Reviewed)
Total Assets	2,728.86	2,487.39	2,883.18	3,148.51
Total Liabilities	787.03	675.20	741.36	1,259.65
Total Equities	1,941.83	1,812.19	2,141.82	1,888.86
Paid-up Capital	375.00	375.00	375.00	375.00
Total Revenues	4,682.33	3,968.64	4,676.17	1,318.98
Cost of Goods Sold	2,951.37	2,630.65	2,969.82	850.44
Selling and Administration Expenses	1,074.98	1,121.41	1,123.24	319.97
Net Profit	624.07	189.11	558.37	122.03
Weighted Average Number of Shares (thousand shares)	187,500.00	187,500.00	187,500.00	187,500.00
Earning Per Share (THB / share)	3.33	1.01	2.98	0.65
Dividend Per Share (THB / share)	1.70	0.52	2.70	N/A
Book Value Per Share (THB / share)	10.36	9.67	11.42	10.07

### Past Performance by Business Segment

Unit : THB million

	2005 (Audited)		2006 (Audited)		2007 (Audited)		1Q 2008 (Unaudited)	
	THB Million	%	THB Million	%	THB Million	%	THB Million	%
Sales Revenue -- Restaurant	1,581.80	34.00%	1,802.30	45.62%	2,038.80	44.46%	606.00	31.29%
Sales Revenue -- Beverage	3,084.70	66.00%	2,148.10	54.38%	2,546.40	55.54%	706.00	68.71%
Total Sale Revenue	4,666.50	100.00%	3,950.40	100.00%	4,585.20	100.00%	1,312.00	100.00%
Net Profit - Restaurant	58.20	1.25%	48.60	2.70%	164.20	8.05%	N/A	N/A
Net Profit -- Beverage	565.90	12.56%	140.50	6.54%	394.20	15.48%	N/A	N/A
Total Net Profit	624.07	13.37%	189.10	4.79%	558.40	12.18%	122.03	9.31%

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## **Operating Performance of OISHI Group Public Company Limited**

### Revenue

OISHI had total revenue of THB 4,676.17 million in 2007, which consisted of THB 4,585.20 million in sale revenue, THB 68.43 million in gain from sale of Loghome restaurant, and THB 22.52 million in other income. Sale Revenue consisted of revenue from restaurant business of THB 2,038.80 million and revenue from beverage business of THB 2,546.40 million, which account for 44.46% and 55.54% of sale revenue respectively. Revenue from restaurant business in 2007 increased by THB 236.50 million or a 13.12% from the previous year due to 10 additional newly opened branches (1 branch of Oishi Buffet, 5 branches of Shabushi, and 4 branches of Delco) and renovation of existing branches, which could help attracting more customers. Revenue from beverage business increased from 2006 by THB 398.30 million or 18.50% as a result of a promotional campaign.

As for OISHI's three-month ended result as of 31 March 2008, total revenue was THB 1,318.98 million, consisting of THB 1,311.63 million in sale revenue and THB 7.36 million in other income. Sale revenue comprised of restaurant business revenue of THB 603.00 million and beverage business revenue of THB 708.00 million, which accounted for 31.29% and 68.71% of total net sale revenue accordingly. Restaurant revenue increased by THB 157.00 million or by 35.20% from the first quarter of last year as a result of the opening of 2 new branches (1 branch of Shabushi and 1 branch of Delco) and the new menu. Beverage business revenue increased by THB 92.00 million or 14.94% from the first quarter of last year due to new promotional campaign and TV advertisement.

### Cost of Good Sold

Cost of good sold in 2007 and 2006 were THB 2,969.82 million and THB 2,630.65 million, accounting for 64.77% and 66.59% of sale revenue respectively. OISHI's cost structure decreased as a result of an increase in sale volume by 18.50% from the previous year. This, therefore, resulted in economy of scale and, thus, lower cost of production per unit.

Cost of good sold as of three-month ended 2008 and 2007 were THB 850.44 million and THB 673.53 million or 64.83% and 63.90% of sale revenue respectively. Cost structure of OISHI increased because raw material cost in both food and beverage business has been increasing continuously since the beginning of year 2008.

### Selling and Administration Expenses

Selling and administration expenses in 2007 and 2006 were THB 1,123.20 million and THB 1,121.40 million, accounting for 24.5% and 28.40% of sale revenue accordingly. OISHI's proportion of SG&A to sale revenue decreased due to higher beverage sale volume while advertising and promotion expenses remained constant.

For the three-month ended 2008 and 2007, SG&A expenses were THB 319.97 million and THB 274.79 million or 24.39% and 25.88% of sale revenue respectively. SG&A expenses increased by THB 45.00 million as a result of an increase in expenses on TV commercial and other promotions in the first quarter 2008.

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**Net Profit**

Net profit in 2007 and 2006 were THB 558.37 million and THB 189.11 million respectively. The net profit in 2007 substantially increased by 195.30%. This was the result from an increase in gross profit by 22.39% due to beverage sale volume increase that allowed OISHI to gain advantage from economy of scale while a proportion of SG&A expenses sale revenue also decreased. Moreover, OISHI also realized gain from sale of Loghome by THB 69.00 million.

Net profit of first three-month period of 2008 and 2007 were THB 122.03 million and THB 104.42 million accordingly. The net profit as of the first quarter of 2008 increased by 16.86% due to an increase in sale revenue. However, the net profit margin dropped from 10.10% in the first quarter of 2007 to 9.25% in first quarter 2008 because of an increase in raw material cost and interest expenses.

**Financial Status****Assets**

OISHI's total assets as of 31 December 2007 and 2006 were THB 2,883.18 million and THB 2,487.39 million respectively. The assets increased from 2006 by THB 395.79 million or 15.91%. Total assets in 2007 consisted of the current assets of THB 1,237.66 million and the non-current assets of THB 1,645.52 million, accounting for 42.93% and 57.07% of total assets accordingly.

An increase of total assets in 2007 resulted mainly from substantial increase in current assets by THB 623.99 million or 101.68% from those of 2006, the details of which were as follow:

1. An increase of cash and cash equivalents by THB 377.00 million or by 1,729.02%. In 2007, OISHI received cash flow from operating activities and from sale of Loghome by THB 913.69 million in total, invested in new machine by THB 191.24 million, and invested in the government bond by THB 100 million. It also paid dividend by THB 228.74 million, and repaid short-term debt from financial institutions by THB 17.24 million.
2. An increase of account receivable from other parties and related parties by THB 117.72 million or 31.31%. This was the result of an increase in beverage sale volume.
3. An increase of inventories by THB 26.34 million or 13.55%. This also resulted from an increase in beverage sale volume.

OISHI's total assets as of 31 March 2008 were THB 3,148.5 million, which increased from year-ended 31 December 2007 by THB 265.31 million or 9.20%. Its total assets as of the first quarter of 2008 consisted of THB 1,515.27 million in current assets and THB 1,633.23 million in non-current assets, which accounted for 48.13% and 51.87% accordingly. Such increase in cash and cash equivalent by THB 333.88 million was mainly the consequence of an increase in cash flow from operating activities by THB 272.35 million in which THB 122.03 million came from the net profit while THB 69.43 million were from changes in trade account receivable, inventories, and account payable, and THB 66.12 million were from cash flow from investing activities as an investment in government bond decreased by THB 100 million.

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Liabilities

OISHI had total liabilities in 2007 of THB 741.36 million which slightly increased by THB 66.17 million or 9.80% from THB 675.19 million in 2006. Such increase in total liabilities resulted from an increase in account payable by THB 91.52 million as sales revenue from beverage and restaurant increased while non-current liabilities decreased by THB 21.68 million.

OISHI had total liabilities as of 31 March 2008 of THB 1,259.65 million, which increased by THB 518.29 million from 31 December 2007. This resulted mainly from the dividend payable of THB 375.00 million and from an increase in trade account payable by THB 108.41 million as beverage and restaurant sale revenue increased.

Shareholders' Equities

Shareholders' equities as of 31 December 2007 were THB 2,141.82 million, increasing by THB 329.63 million or 18.00% from THB 1,812.19 million at the year-ended 2006. This was the result of an increase in retained earning from 2007 by the net profit of THB 558.37 million and two dividend payments of THB 228.70 million in total, accounting for the dividend of THB 1.22 per share.

As of 31 March 2008, shareholders' equities of OISHI were THB 1,888.86 million, which decreased by THB 252.96 million from THB 2,141.82 million as of the year-ended 2007, representing a 12.00% decrease. This was the result of an increase in retained earning by THB 122.03 million of the interim net profit, and an announcement of dividend payment of THB 375.00 million or THB 2.00 per share.



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### Financial Ratio Analysis

Key Financial Ratios	Consolidated Financial Statement			
	2005	2006	2007	31 Mar 2008
	(Audited)	(Audited)	(Audited)	(Unaudited)
<b>Liquidity Ratio</b>				
Current Ratio (times)	1.30	0.99	1.75	1.23
Quick Ratio (times)	0.78	0.64	1.41	0.96
Cash Ratio (times)	1.04	0.76	1.00	N/A
Account Receivable Turnover (times)	16.23	12.40	10.54	11.09 *
Receivable Days (days)	22.18	29.03	34.14	32.45 *
Inventory Turnover (times)	11.30	9.96	14.31	13.12 *
Inventory Days (days)	31.86	36.15	25.16	27.45 *
Account Payable Turnover (times)	8.67	8.47	8.51	7.58 *
Payable Days (days)	41.55	42.52	42.31	47.52 *
Cash Cycle (days)	12.49	22.66	16.99	12.38 *
<b>Profitability Ratio</b>				
Gross Profit Margin (%)	36.75%	33.41%	35.23%	35.16%
Operating Profit Margin (%)	13.72%	5.02%	10.73%	8.92%
Other Profits Margin (%)	0.34%	0.46%	1.94%	0.56%
Operating Cash Flow to Operating Profit Ratio (%)	116.41%	236.82%	143.06%	N/A
Net Profit Margin (%)	13.33%	4.77%	11.94%	9.25%
Return of Equity (%)	36.21%	10.08%	28.24%	24.22% *
<b>Efficiency Ratio</b>				
Return on Asset (%)	24.50%	7.25%	20.79%	16.19% *
Return on Fixed Asset (%)	55.15%	26.83%	53.84%	54.16% *
Asset Turnover (times)	1.84	1.52	1.74	1.75 *
<b>Financial Policy Ratio</b>				
Debt to Equity Ratio (times)	0.41	0.37	0.35	0.67
Interest Bearing Debt to Equity Ratio (times)	0.05	0.01	-	-
Interest Coverage Ratio (times)	147.54	63.11	249.84	374.17
Fixed Coverage Ratio (times)	0.94	0.59	1.31	3.88
Dividend Payout Ratio (%)	51.08%	51.56%	90.60%	N/A

\* Annualized from Financial Statement as of 1Q08

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Liquidity Ratio

OISHI's current ratio was the highest in 2007 at 1.75 times because of a substantial increase in the current assets, especially in cash and cash equivalents that increased from the operating performance of the year. Current ratio decreased to 1.23 times in the first quarter of 2008 since an increase in current liabilities, especially a dividend payable of THB 375.00 million, more than offset an increase in current assets. Similarly, quick ratio and cash ratio were the highest in 2007 due to an increase in cash and cash equivalents. Both ratios slightly decreased in the first quarter of 2008 as a result of dividend payable. This can be concluded that OISHI still has short-term liquidity for short-term debt repayment.

OISHI cash cycle was the longest in 2006, which was 22.66 days. This was the result of a significant increase in inventory days due to the slowdown of operating performance and the decrease in sale volume in the year that affected inventory and finished goods turnover. However, cash cycle had continuously shortened from 16.99 days in 2007 to 12.38 days in the first quarter of 2008, which implies that OISHI's inventory turnover improved as sale revenue improved while payable days extended. This exhibited that OISHI's short-term liquidity in operation has been improving during the past two years.

Profitability Ratio

Gross profit margin was the highest in 2005 and was the lowest in 2006 which were 36.75% and 33.41% respectively. This was the result from a dramatically high demand of green tea in 2005 that allowed OISHI to set up higher selling price in 2005 than in 2006. When the demand dropped down in 2006, OISHI needed to lower the price to stimulate sale volume. Selling price was then raised again in 2007 and 2008 which resulted in an increase in the gross profit margin to 35.23% and 35.16% accordingly.

Operating profit margin was the lowest in 2006, which was 5.02%. This resulted from a decrease in sale revenue while OISHI still had fixed-cost portion of selling and administration expenses which tended to increase. The operating profit margin rebounded in 2007 and then slightly decreased in the first quarter of 2008, which were 10.73% and 8.93% respectively. Although sale revenue had been increasing since 2007, the operating profit margin dropped in the first quarter of 2008 as OISHI spent a large amount of advertising and promotional expenses which might not be able to stimulate sale revenue in the same quarter, and simultaneously paid higher directors' remuneration.

OISHI's net profit margin and return on equity reflected the same trend as that of the operating profit margin. The net profit margin were relatively closed to the operating profit margin level as OISHI had low interest and tax obligations thanks to a relatively low financial leverage level and tax benefits from the Board of Investment of Thailand.

Operating cash flow to operating profit ratio peaked in 2006 at 236.82% as the decrease in sale volume resulted in less cash payment for raw materials. Despite a drop in the operating cash flows, the operating profit margin dropped in greater extent.

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Efficiency Ratio

When considering the operating efficiency of OISHI, the return on assets, return on fixed assets, and assets turnover peaked in 2005 as sale volume sky-rocketed. These efficiency ratios then all dropped to the lowest in 2006, resulting from a decrease in sale revenue and net profit while total assets slightly decreased, and non-current assets increased.

Return on assets increased from 2006 to 20.79% in 2007 and then decreased to 16.19% in the first quarter of 2008. This was the result of an increase in total assets especially cash and cash equivalent. On the other hand, the return on fixed assets increased in the first quarter of 2008 due to an increase in the net profit and the decrease in fixed assets. Assets turnover was rather stable from 2007 to the first quarter of 2008, which indicated that OISHI's operational efficiency had been increasing continuously up until 2008.

Financial Policy Analysis

Debt to equity ratio and interest bearing debt to equity ratio dropped continuously from 2005 to 2007 which was the results of consistent repayment of non-current liabilities as well as OISHI's policy of using internally generated funds. Therefore, OISHI did not have long-term debt outstanding during the past three years. As for the first quarter of 2008, debt to equity ratio increased significantly from a dividend payable and a drop in retained earnings resulted from an announcement of dividend payment in 2007 by the amount of THB 375.00 million.

Interest coverage ratio was very high due to low financial leverage and interest obligation, and thus, OISHI did not have difficulty to meet interest payment obligation.

As for dividend policy, OISHI has a policy to pay dividend for no less than 40 percent of net profit for the year. In 2007, OISHI announced the dividend payment by 90.60%, increasing from 51.08% and 51.56% in 2005 and 2006 respectively.

Fixed charge coverage ratio improved from 0.94 times in 2005 to 1.31 times in 2007. This resulted from higher revenue generation, the decrease in capital expenditure from THB 517.77 million in 2005 to THB 293.24 million in 2007, and the decrease in debt repayment obligations from THB 89.10 million to THB 17.24 million in 2007.

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## **2. Independent Financial Advisor Opinion**

### 2.1 Reasonableness and Benefits of the Connected Transaction

- **Broaden Non-alcohol Business Base**

An investment in OISHI with a total number of shares of 82.31 million shares, which represents 43.90% of OISHI's total paid-up capital, is considered an expansion of THBEV's current non-alcohol business base into non-alcoholic beverage and Japanese restaurants. This will also allow THBEV to support these industry growths which corresponds to healthy food consumption trend in Thailand.

Such horizontal integration provides benefits from broad product bases, or economy of scope, to the Company. Particularly for beverage business, thanks to the fact that OISHI gains the largest market share in domestic ready-to-drink tea market, an acquisition of OISHI shares will enable THBEV to compete, as a major player, in the ready-to-drink tea market. THBEV can also expand its current customer base in non-alcohol products into OISHI's customer base in Thailand and overseas.

- **Risk Diversification**

At present, alcoholic beverage market encounters several adverse factors such as stringent control over alcoholic beverage, an increase in excise tax, fierce competition among major domestic distillers, and "Stop Drinking Alcohols" campaign, etc. Therefore, making a foothold in the ready-to-drink tea and restaurant businesses add varieties of THBEV's current products and customer base as well as diversify THBEV's business risks. Consumption behavior among alcohol drinkers and tea and restaurant consumers are different. In addition, there are no restrictions such as excise tax and time constraint on advertisement. These two attributes help diversify THBEV's business risks associated with alcoholic beverage.

- **Opportunity Cost Reduction**

Business expansion can be done either by building new business from scratch or business takeover. The acquisition of OISHI shares will enable THBEV to obtain OISHI's sale revenue from beverage and restaurant at once. On the other hand, building new business from scratch requires time and resources for factory construction, restaurant outlets, restaurant management, and building customer base of green tea and Japanese restaurant which have different consumer behavior from that of THBEV's current customer base. Building new business also requires significant timing for accumulating reputation and gaining acceptance from customers in the quality of new products. On the downside, cost overrun associated with building new facilities may occur and opportunity loss of receiving revenue during the construction period is unavoidable.

- **Efficient Utilization of Distribution Channel**

THBEV has pervasive distribution channels all over the country and overseas and also possess strong bargaining power while OISHI has several distribution channels, namely, leading distributors in Thailand, its own export center, and its

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Japanese restaurant outlets. Therefore, THBEV can use its own and OISHI's distribution channels more efficiently. For one thing, redundant routes can be minimized to reduce cost. Besides, more distribution channels are added to all products.

Based on all these reasons, THBEV's acquisition of OISHI shares are considered reasonable since this strategy will provide THBEV more competitive edge, risk diversification away from alcoholic beverage business, and minimization of opportunity cost of building new business.

## **2.2 Advantages and Disadvantages of the Acquisition**

### **2.2.1 Advantage**

- Investment in Financially Sound Company

OISHI is a number-one player in ready-to-drink tea sector in Thailand and holds a large domestic customer base. OISHI is financially sound as evidenced by total revenue of over THB 4 billion per year. In 2007, OISHI had total revenue of THB 4,676.17 million, operating profit of THB 558.37 million, return on equity of 28.24%, short cash cycle period, and low gearing ratio of 0.35 times. In addition, if OISHI requires funding in the future, its listing status helps facilitate its capital raising through financial institutions, bond market, and stock market in Thailand without reliance on funding from THBEV.

### **2.2.2 Disadvantage**

- THBEV has no experience in Japanese restaurant business

Japanese restaurants create more than 40% of revenue to OISHI. THBEV, however, has no experience in Japanese restaurant business. Restaurant business is different from alcohol business in several aspects such as logistics for fresh food, quality control of fresh food, direct sales to middle-income consumers, restaurant property management, fierce competition among middle-ended foreign food restaurants in Thailand, and world food crisis which affects food prices. All these factors are challenges for THBEV to manage restaurant business in which it has no experience. However, OISHI's executives, the founders of OISHI and non-related persons of THBEV, have experience and expertise in Japanese restaurant business and will continue to be part of OISHI management team. Therefore, it is expected that THBEV will be able to manage Japanese restaurant business.

### **2.2.3 Advantages and disadvantages of entering or not entering the Transaction**

If the Company does not enter into the transaction, it will lose an opportunity to expand into non-alcoholic beverage business particularly for ready-to-drink tea business in which there are a few major players with OISHI possessing the largest market share. THBEV's competitor also conducts alcoholic beverage business

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in parallel with ready-to-drink tea business. Therefore, it is necessary for THBEV to enter into this transaction which, aside from expanding into non-alcoholic beverage business and diversifying risk associated with alcoholic beverage business, helps THBEV maintain its competitiveness.

To enter into this transaction, THBEV will acquire OISHI shares with proceeds from sales of ordinary shares of Thai Alcohol Company Limited in an amount of THB 1,590 million and borrowings from financial institution in an amount of THB 1,455 million. The Financial Advisor is of an opinion that the Company has sufficient funds and such OISHI share acquisition will not significantly adversely affect the Company's financial status. This is because part of the funds for acquisition comes from sales of ordinary shares of Thai Alcohol Company Limited and the remaining portion comes from borrowings from financial institutions. As for debt service capability, the Company has a capacity to service interest and principal repayment as evidenced by the current ratio of 1.89 times, debt-to-equity ratio of 0.37 times and interest coverage ratio of 41.21 times as of the first quarter of 2008.

**2.3 The Necessity of Entering into the Connected Transaction**

Major Shareholders of OISHI can be classified into 2 groups as follow:

1. Mr. Tan Passakornnatee's group, original owner and key man of OISHI at present, holds 10.66% of equity interests in OISHI
2. Connected persons of THBEV collectively hold 43.90% of equity interests in OISHI

THBEV is required to acquire OISHI shares from its connected persons since Mr. Passakornnatee's group has no desire to sell their shares. Besides, by having Mr. Passakornnatee's group continue holding equity interests in OISHI will be beneficial as Mr. Passakornnatee has experience and expertise in ready-to-drink tea and Japanese restaurant business. After acquiring OISHI shares from its connected persons, THBEV will become a major shareholder of OISHI in a proportion of 43.90% of paid-up capital.

**3 Fairness of the Price and the Conditions of the Connected Transaction****3.1 Fairness of the Price**

Pursuant to the acquisition of OISHI shares in a total number of 82 million shares at THB 37 per share amounting to THB 3,045.64 million according to the Board of Directors' Meeting of Thai Beverage Public Company Limited No.3/2551 on 14 May 2008, the Financial Advisor uses various share valuation methodology to determine the fairness the acquisition price. The share valuation is based on the reviewed financial statements of OISHI as of 31 March 2008. Details of the share valuation are as follow.

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### 3.1.1 Book Value Approach

Based on the consolidated financial statements of OISHI as of 31 March 2008 reviewed by the auditor, the calculation of the book value of OISHI as is follow:

Paid-up Capital	375.00	THB MM
Premium on Share Capital	609.40	THB MM
Retained Earnings		
Legal Reserve	37.50	THB MM
Unappropriated	866.95	THB MM
Total Shareholders' Equity	1,888.86	THB MM
Number of Shares @ par value of THB 2 per share	187.50	Shares MM
Book value per share	10.07	THB / share

The book value of OISHI based on the consolidated financial statements as of 31 March 2008 is THB 10.07 per share.

### 3.1.2 Market Value Approach

OISHI share valuation based on this approach is calculated by weighing average the daily trading price of OISHI stock by its daily trading volume as posted on the Stock Exchange of Thailand during different historical period as follow.

Period	OISHI Weighted Average Trading Price (THB / Share)
9 June 2008	34.60
30-day Historical Average	33.11
60-day Historical Average	32.70
90-day Historical Average	32.41
120-day Historical Average	31.98

Source: Setsmart

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*Opinion of an Independent Financial Advisor on the Connected Transaction regarding the investment in OISHI Public Company Limited***3.1.3 Market Comparable Approach**

The market comparable approach derives OISHI's share value by selecting other listed companies that conduct similar business to that of OISHI. Then the statistical ratios of these comparable firms such as the price per book value ratio and price per earning ratio are used to calculate the target company's share value.

- P/BV Multiple Approach

Under this approach, OISHI's book value per share of THB 10.07 per share as of 31 March 2008 is multiplied with the weighted average closing price per book value ratio (P/BV) of the comparable firms listed in the food & beverage sector. However, those listed firms in the food & beverage sectors conduct fairly different business to that of OISHI. There are only 4 companies conducting similar business to OISHI and are currently trading on the stock exchange which are Tipco Foods (Thailand) Public Company Limited, S&P Syndicate Public Company Limited, Serm Suk Public Company Limited, and President Bakery Public Company Limited.

The Financial Advisor then uses the P/BV ratio of the food & beverage sector as well as the P/BV of comparable firms as of 9 June 2008 as follow.

	P/BV (times)	Market Capitalization (THB MM)
SSC	0.71	4,593.02
TIPCO	1.77	2,871.35
PB	1.75	3,375.00
S&P	1.73	3,297.62
Comparable P/BV	1.41	
Sector P/BV	2.25	

Summary	Comparable P/BV	Sector P/BV
Book Value per Share (THB / Share)	10.07	10.07
Share Value based on P/BV (THB / Share)	14.21	22.66

Based on the P/BV multiple approach, OISHI share value is in a range of THB 14.21 – 22.66 per share.



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- P/E Multiple Approach

Based on this approach, the earnings per share of OISHI in an amount of THB 0.65 per share as of the first quarter ended 31 March 2008 is annualized to THB 2.60 per share. The annualized EPS is then multiplied with the average P/E (closing per earning) ratio of the comparable firms listed in the food & beverage sector namely, Tisco Foods (Thailand) Public Company Limited, S&P Syndicate Public Company Limited, Serm Suk Public Company Limited, and President Bakery Public Company Limited, as well as the P/E of food & beverage sector, the details of which are as follow.

	P/E (times)	Market Capitalization (THB MM)
SSC	14.46	4,593.02
TIPCO	4.5	2,871.35
PB	11.20	3,375.00
S&P	16.91	3,297.62
Comparable P/E	12.23	
Sector P/E	16.93	

Summary	Comparable P/E	Sector P/E
Earnings per Share (THB / Share)	2.60	2.60
OISHI Share Value based on P/E (THB / Share)	31.81	44.02

Based on the P/E multiple approach, OISHI share value is in a range of THB 31.81 – 44.02 per share. However, listed companies in food & beverage sector conduct fairly different business to that of OISHI. Therefore, the Financial Advisor is of an opinion that OISHI share value of THB 31.81 per share based on the average P/E of 4 comparable firms are more appropriate.

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### 3.1.4 Discounted Cash Flow Approach

Discounted cash flow approach reflects the future performance of a target company based on the assumptions from OISHI's executives, assessment on economic condition, and other relevant factors. The free cash flows are then discounted to the present value at its cost of capital calculated from the appropriate debt to equity ratio. A company's share value directly relates to the profitability and cash flow transaction where as non-cash transactions such as depreciation and amortization does not affect the valuation.

The Financial Advisor conducted the financial projection for a ten-year period based on an on-going concern basis and the assumption that there will be no significant changes in an outlook of OISHI. Assumptions obtained from OISHI's executives are adjusted to reflect the current economic condition at the time of study. The appropriate acquisition price of OISHI shares will then be proposed to the Board of Directors of THBEV. Therefore, if the economic conditions and other factors affect OISHI's performance differently from our assumptions, the share value will be different from that stated in this report and, therefore, the stated share value in this report shall not be used as a reference for any other purposes than the objective as mentioned earlier.

Cost of equity calculated from Capital Asset Pricing Model (CAPM) comprises of the following variables.

Ke	=	$R_f + \beta(R_m - R_f)$
Risk free rate (Rf)	=	The rate of return from investment in riskless securities
Market return (Rm)	=	The rate of return from investment in the Stock Exchange of Thailand
Beta ( $\beta$ )	=	Slope representing the relationship between the stock price and the stock price index

Major Assumptions for the financial projection of OISHI under the Discounted Cash Flow Approach are as follows:

- 1) 10-year projection period starting from year 2008 to 2017
- 2) Sale revenue can be categorized into 2 businesses with the sale revenue proportion of beverage business : restaurant business at 55 : 45 in 2007.

#### 2.1 Beverage Business

##### Sale Volume

- Maximum Capacity
  - Maximum capacity of "Oishi" green tea, "Amino OK" and "Seiki" of all packaging size at Navanakorn and Amatanakorn factories combined is equal to 324 million litres per year.

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- Sale Volume
  - Domestic sale volume of “Oishi” green tea, “Amino OK” and “Seiki” at 104.77 million litres in 2007 is used as a based for the projection. As for canned coffee “Coffio”, its sale volume in 2008 is set equal to OISHI’s targeted sale revenue of THB 200 million or 2.61 million litres (sale volume is calculated based on the sale price to distributors).
  - Export sale volume of “Oishi” green tea at 4.20 million litres in 2007 is used as a base for the projection.
- Sale Volume Growth
  - Domestic sale volume growth is set equal to the forecasted GDP growth of Thailand issued by Office of the National Economic and Development Board for year 2008 and the International Monetary Fund (IMF) from 2009 onward.
  - Export sale volume growth is set equal to the forecasted world GDP growth issued by the International Monetary Fund (IMF)

	Sale Volume Growth Forecast (%)					2013 hence
	2008	2009	2010	2011	2012	
<i>Domestic Sale Volume</i>						
“Oishi”, “Amino”, “Seiki”	5.00	5.59	5.90	6.00	6.00	6.00
Canned coffee “Coffio”	-	5.59	5.90	6.00	6.00	6.00
<i>Export Sale Volume</i>						
“Oishi”	2.58	2.64	3.81	4.06	4.04	3.98

- Proportion of domestic and export sale volume during the projection period based on the aforementioned sale volume assumptions compared to that of 2007 are as follows.

	Domestic and Export Sale Volume Proportion (%)	
	2007 (Historical)	Projection Average
Domestic	96.14	96.63
Export	3.86	3.37

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Sale Price per Unit

OISHI distributes its beverage in the domestic and overseas market. Most of domestic sale is made through two distributors namely Deithelm Company Limited, and Sermasuk Public Company Limited, modern trade, and trade partners while a small proportion of domestic sale is carried out at retail price to end-consumers in OISHI’s restaurant outlets. As for export, OISHI sells its beverage to foreign importers. Sale prices through all distribution channels for 2008 are set equal to those of 2007 as exhibited below.

Beverage	Sale Price per Litre (THB / Litre)		
	Distributor	OISHI restaurant	Export
“Oishi” Green tea	23.83	39.91	22.00
“Amino OK”	27.12		
“Seiki”	36.42		
“Coffio”	76.52		

Based on the information regarding OISHI’s beverage sale volume over the past three-year period, there has not been an export of “Amino OK”, “Seiki”, and “Coffio” while these beverage sale volume through OISHI restaurant has been an insignificant proportion. Therefore, the Financial Advisor assumed that these beverages are sold through the distributors only.

- Sale price per unit growth: In order to maintain OISHI’s pricing policy of not raising the sale prices every year while retaining the gross profit margin level to some extent, domestic and export sale price per unit are raised every 2-3 years by Thailand’s headline inflation forecasted by the Bank of Thailand.

	2008 - 2009	2010	2011 - 2012	2013	2014	2015	2016	2017
Sale price per litre growth (%)	-	3.55	-	3.55	-	3.55	-	3.55

Cost of Sales

- Variable Cost
  - Growth in cost per litre of tea, packaging, fuel, and transportation is set equal to Thailand’s headline inflation according to the Ministry of Commerce for the first five months of 2008, and Bank of Thailand afterward.

	2008	2009 hence
Cost per litre growth (%)	5.80	3.55

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- The production outsourcing cost of canned coffee “Coffio” in 2008 is set according to the outsourcing contract and is expected to grow at Thailand’s headline inflation afterward.

	Outsourcing Cost in 2008 (THB / Litre)	Outsourcing Cost Growth from 2009 hence (%)
Canned Coffee “Coffio”	41.77	3.55

- Fixed Cost

- Labor cost per person is assumed to grow at 5% per year according to OISHI’s policy throughout the projection period.
- Factory premise and utility expenses is assumed to increase by Thailand’s headline inflation as follow.

	2008	2009 hence
Factory premise and utility expense growth (%)	5.80	3.55

- Depreciation and amortization expenses are calculated based on OISHI’s policy.

*Costs per litre inclusive of transportation cost of OISHI beverage in 2007 and during the projection period are summarized below.*

	Cost per litre inclusive of transportation cost (THB / litre)			Average Growth during the projection period (%)
	Historical	Projection		
	2007	2008	2017	
“Oishi” Green tea, “Amino OK”, “Seiki”	16.40	17.54	21.13	2.09
“Coffio”	-	43.31	59.29	3.55

Selling and Administration Expenses of Beverage Business

- Variable Expense
  - Advertising and promotion expenses are assumed at 14% of beverage sale revenue as per OISHI’s policy.
- Fixed Expense
  - Staff expense per person is assumed to grow by 5% per year according to OISHI’s policy.

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- Office expense, transportation expense, and utility charges are assumed to increase by Thailand's headline inflation as follow.

	2008	2009 hence
Fixed Expense Growth (%)	5.80	3.55

- Depreciation and amortization expenses are calculated based on OISHI's policy.

*Selling and distractive expenses of beverage business in 2007 and during the projection period are summarized below.*

	Unit: % of Beverage Sale Revenue	
	2007	Average during the projection period (2008 – 2017)
Selling and administrative expenses of beverage business	13.46	16.58

## 2.2 Restaurant Business

The performance of OISHI's restaurant business during the projection period includes all of its brands except for Log Home which was sold to TCC PD11 Company Limited in 2007.

### OISHI's Core Restaurant Sale Revenue (Grand Oishi excluded)

#### *The first three-year projection period (2008 – 2010)*

- Sale revenue is forecasted based on the number of outlets and revenue per outlet.
- Restaurant Outlets: the number of new outlets to be opened in the first-three year of projection period is as follow.

	2008	2009	2010
Number of new outlets (outlets)	20	10	10
Total restaurant outlets (outlets)	105	115	125

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- Revenue per Outlet: To maintain the gross profit margin level, the revenue per outlet is adjusted upward every 2 years by Thailand's headline inflation from the base revenue per outlet exclusive of Grand Oishi and Log Home of THB 21.84 million per outlet in 2007.

	2008	2009	2010
Revenue per outlet growth (%)	5.80	-	3.55

The remaining projection period (2011 onward)

- Sale volume and the number of new outlets to be opened from 2011 onward are assumed at Thailand's GDP growth rate of 6% per year throughout the remaining projection period.
- Sale price is assumed to increase every 2 years according to Thailand's headline inflation as follow.

	2011	2012	2013	2014	2015	2016	2017
Sale price growth (%)	-	3.55	-	3.55	-	3.55	-

Grand Oishi Sale Revenue

- Sale revenue is assumed to increase from the base sale revenue of THB 87.62 million in 2007 by every two years at the same growth rate as that of OISHI's core restaurant. However, no new outlets of Grand Oishi are assumed to be opened over the entire projection period.

Cost of Sales

- Cost of sales (exclusive of depreciation and amortization expenses) is assumed at 56.37% of restaurant revenue of all brands from 2008 until the end of the projection period. To realize the effect of food price surge and food supply shortage in 2008, the projected cost structure is adjusted from the base cost of sales of 55.02% of restaurant sale revenue in 2007 by taking into account Thailand's food price index during the first five months of 2008 at 8.40% according to the Ministry of Commerce.

Selling and Administration Expense of Restaurant Business

- Variable Expense
- Advertising and promotion expense is assumed at 4% of restaurant revenue as per OISHI's policy.

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- Fixed Expense
- Staff expense per person is assumed to increase by 5% per year according to OISHI’s policy. The number of staff is expected to increase by 34 persons per outlet based on the historical figures during 2006 and 2007.
- Premise expense per outlet is assumed to grow from THB 1.91 million per outlet in 2007 by Thailand’s headline inflation as follow.

	2008	2009 hence
Growth in premise expense per outlet (%)	5.80	3.55

- Travelling and utility expenses is expected to grow by Thailand’s headline inflation as follow.

	2008	2009 hence
Growth in travelling and utility expenses (%)	5.80	3.55

- Depreciation and amortization expenses are calculated based on OISHI’s policy.

Selling and administrative expenses of restaurant business in 2007 and during the projection period can be summarized below.

	Unit: % of Restaurant Sale Revenue	
	2007	Average during the projection period (2008 – 2017)
Selling and administration expense of restaurant business	38.11	37.60

3) Capital Expenditure

3.1 Beverage Business

In 2008, OISHI plans to expand its warehouse, purchase machine and equipment for new products as well as for production efficiency improvement. Such capital expenditure plan cost approximately THB 400 million in total. However, the plan for new machines to produce “Coffio” is excluded as the Financial Advisor assumes that OISHI would outsource its coffee production throughout the entire projection period provided that the sale volume is expected to remain thin.



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## 3.2 Restaurant Business

Restaurant outlet expansion and renovation requires an investment of THB 200 million in 2008 and THB 100 million per year in 2009 and 2010. From 2011 onward, capital expenditure for outlet expansion is assumed at 38% of incremental restaurant sale revenue, which is based on an investment cost of THB 10 million per outlet.

## 4) Working Capital

Working capital days are based on OISHI's policy as well as historical figures as follow.

	Period (Days)
Receivable Days	39
Inventory Days	27
Payable Days	49

## 5) Terminal Value

Terminal value growth after 2017 is assumed at 2.50% per annum based on Thailand's core inflation forecasted by Bank of Thailand.

## 6) Discount Rate

Weighted Average Cost of Capital is calculated based on Capital Asset Pricing Model (CAPM) by which OISHI's 3-year historical beta is used. Meanwhile, there is no cost of debt at present.

<b>Ke</b>	=	$R_f + \text{Beta}(R_m - R_f)$
Risk free rate (Rf)	=	Yield to maturity of a benchmarked 10-year-to-maturity Thai Government Bond as of 9 June 2008 at 5.60% (Source: Thai Bond Market Association)
Market Return (Rm)	=	12.51% (32- year historical average of SET Index return)
Beta (OISHI) <sup>1</sup>	=	0.37
<b>Ke</b>	=	8.16 %
<b>Kd</b>	=	0%
<b>WACC</b>	=	8.16%

Source: <sup>1</sup> Data from TISCO Research published on Krungthepurakij Newspaper on 9 June 2008.

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## 7) Interest-Bearing Debt to Equity Ratio

The interest-bearing debt to equity ratio used in this project reflects all-equity financing in the future based on OISHI's funding policy of using internally generated funds for future investment provided that there is sufficient internally generated funds. Therefore, the targeted interest-bearing debt to equity ratio is set at zero.

**Result of Share Valuation based on Discounted Cash Flow Methodology**

The Financial Advisor evaluates OISHI's shares from its future cash flows from operation in beverage and Japanese restaurant business in which synergies that may arise from utilizing assets jointly with THBEV. The future cash flows are then discounted to the present value at the weighted average cost of capital of 8.16% in which OISHI's 3-year historical beta is used. As of the first quarter of 2008, OISHI has no net interest bearing debt. This yields OISHI share value of THB 38.38 per share.

**Results of OISHI Share Valuation**

Valuation Methodology	OISHI Share Value (THB / share)
Book Value	10.07
Market Value 30-120 days historical average	31.98 - 33.11
Price per Book Multiple	14.21 – 22.66
Price per Earning Multiple	31.81 – 44.02
<b>Discounted Cash Flows</b>	<b>38.38</b>
<b>Acquisition Price</b>	<b>37.00</b>

**Opinion of The Financial Advisor**

Compared to OISHI share value based on various valuation methodologies, OISHI share acquisition price of THB 37 per share is closed to the share value based on discounted cash flows methodology whereby OISHI's future performance is reflected. Other valuation methodologies have some limitations on yielding an appropriate share value.

The book value approach is suitable for evaluation securities of a company that discontinues its operation or does not utilize its resources efficiently. The rationale is that this approach reflects the company's past performance without taking its future performance into account.

Under the market comparable approaches, namely price per earnings multiple and price per book multiple approaches, the average multiples of comparable firms listed on the food sector in the Stock Exchange of Thailand are used as reference. These comparable firms are different from one another in terms of business characteristics, policies, financial status, and performance, etc. These firms, however, can be used to compare OISHI's share value in the same or similar industries.

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The Financial Advisor opines that the discounted cash flow valuation method is the appropriate approach as the share value calculation is based on the target company's unleveraged free cash flows which are discounted to the present value at its weighted average cost of capital. The share valuation, therefore, relates directly to the target company's future profitability where non-cash items such as depreciation, amortization do not affect the valuation. The DCF approach reflects the future trend of operation and prospect of the target company. The underlying assumptions are verified by OISHI's executives and fine tuned to the current economic conditions.

Therefore, the Financial Advisor is of an opinion that OISHI share acquisition price of THB 37 per share proposed by THBEV is fair and beneficial to the Company. The rationale is that such share acquisition price offered to THBEV's connected persons is equal to the market price and closed to the share value of THB 38.38 per share based on the DCF approach which most reflects the target firm's future profitability.

**Fairness of the Conditions of the Connected Transaction**

OISHI share acquisition shall be paid in a lump sum cash payment in full amount to the Seller on a normal business practice, and thus, such condition is considered fair.

**4. Independent Financial Advisor Opinion for Shareholders' Resolution**

The Financial Advisor suggests the shareholders to approve this transaction for the following reasons:

- This Connected Transaction is reasonable for the following reasons:
  - This transaction is considered an expansion of THBEV's current non-alcohol business base and provides a risk diversification away from alcoholic beverage business in which several restrictions prevail. In addition, ready-to-drink tea and Japanese restaurant businesses have been growing continuously along the health-conscious food consumption trend in the Thai society.
  - The Company will also benefit from acquiring the largest market share of domestic ready-to-drink tea market. Such acquisition enables THBEV to expand through OISHI's customer and consumer bases. In addition, THBEV will realize stream of income from operation immediately as compared to building new business from scratch which requires time for factory construction, restaurant outlet sourcing, customer sourcing, and reputation building and gaining acceptance from customer in the product quality. Cost overrun and opportunity cost of the delay in realizing income from operation are also issues of concern in building new business from scratch.
- This Connected Transaction is beneficial in that:
  - It is considered an investment in a financially sound company. In 2007, OISHI recorded the total revenue of THB 4,676.17 million, the operating profit of THB 558.37 million, the return of equity of 28.24%, and had relatively fast cash cycle period. Its financial

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leverage is also relatively low at the debt-to-equity ratio of 0.35 times. Moreover, if OISHI requires funding in the future, its listed status on the Stock Exchange of Thailand will help OISHI gain access to capital from financial institutions, bond market, and stock market in Thailand without the need to rely on THBEV.

- If the Company does not enter into the Connected Transaction, it will lose an opportunity to expand into non-alcoholic beverage business and diversify risks associated with alcoholic beverage business. On the contrary, such investment helps THBEV maintain its competitiveness. The funding for this investment are proceeds from divestment of Thai Alcohol Company Limited and loan from a financial institution. The Financial Advisor is of an opinion that such investment should not materially adversely affect the Company's financial strength.
- The Company has to enter into the Connected Transaction with the Connected Person because Mr. Tan Passakornnatee, the founder and the key person of OISHI, and his group has no intention to render their shares. Besides, having this group of shareholders remains holding equity interests in OISHI is beneficial to THBEV in that these shareholders have expertise and experience in this business.
- The share acquisition price at THB 37 per share is considered fair since such acquisition price is closed to the share value of THB 38.38 per share calculated from the discounted cash flows approach, the valuation methodology that, in the Financial Advisor's opinion, best reflects the future performance of OISHI.
- The terms and conditions of this Connected Transaction are fair because the payment is made in a one-time lump sum amount to the Seller which is considered a normal business practice.

For the consideration of this connected transaction, if the shareholders resolve to approve this Connected Transaction, the Company shall make a payment in exchange for OISHI shares to the Seller which is THBEV's Connected Person in an amount of THB 3,045.64 million (at THB 37 per share in the number of 82.31 million shares). After the acquisition, the Company will become a major shareholder of OISHI holding an equity interest of 43.90% in place of its Connected Person.

SICCO Advisory Company Limited, the Independent Financial Advisor, hereby certifies that the opinion expressed herein have been prudently made in compliance with the professional standards with due regard to the shareholders' benefits.

Best regards,

SICCO Advisory Company Limited

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Mr. Siripong Sutharoj  
Director

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Mr. Chakkris Uthayophas  
Director

## Invitation Letter to the Extraordinary General Meeting of Shareholders No. 1/2008

*Opinion of an Independent Financial Advisor on the Connected Transaction regarding the divestment of Thai Alcohol Public Company Limited*

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<Translation Copy>

6 August 2008

SACIB 004/2008

**Subject:** Opinion of an Independent Financial Advisor on the Connected Transaction between Thai Beverage Public Company Limited and Related Parties regarding the divestment of Thai Alcohol Public Company Limited

**To:** Audit Committee and Shareholders  
Thai Beverage Public Company Limited

According to the resolutions of the Board of Directors' Meeting of Thai Beverage Public Company Limited ("The Company" or "THBEV" or "Seller") No. 3/2551 on 14 May 2008, the meeting approved the Company to divest its equity interest in Thai Alcohol Public Company Limited ("Thai Alcohol" or "THAIAL") in a total number of 159,999,986 shares or 99.99% of paid-up capital of Thai Alcohol to Damrongfa Company Limited ("Buyer"), amounting to the transaction size of THB 1,590 million. Such transaction is considered a connected transaction of a listed company whereby the major shareholders of THBEV, the selling party, and the Buyer are the same group of people.

Such transaction is classified as a class-4 connected transaction regarding assets and services under the Stock Exchange of Thailand Notification Re: Disclosure of Information and Other Acts of Listed Companies concerning the Connected Transactions, 2003. This transaction must be approved by its shareholders' meeting with the vote of at least three-fourths of total number of votes of the shareholders or their proxies (if any) who attend the meeting and have the right to vote, excluding the connected shareholders who have conflict of interest.

As required by the Securities and Exchange Commission of Thailand ("SEC") Notification No. Kor. Jor. 12/2543 Re: Application and Permission for Offering Newly Issued Shares, the article of associations of the Company regarding connected transaction and acquisition or disposition of assets is attuned to comply with the relevant regulation of the Stock Exchange of Thailand ("SET"). As a result, the Company appoints SICCO Advisory Company Limited as an Independent Financial Advisor ("Independent Financial Advisor" or "IFA" or "Financial Advisor") to provide the opinion for Independent Directors, Audit Committee, and shareholders regarding fairness and reasonableness of this transaction.

SICCO Advisory Company Limited as the Independent Financial Advisor provides an opinion on the connected transaction in the following matters:

1. Type and details of the Connected Transaction
2. Reasonableness and benefits of the Connected Transaction

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3. Fairness of price and conditions of the Connected Transaction
4. Opinion of the Independent Financial Advisor to the Board of Extraordinary Shareholders' Meeting

The Independent Financial Advisor's opinion expressed herein has been based on the assumptions that the information and documents obtained from THAIAL and THBEV and from the interviews with their executives are true and complete, which are financial statements, industry condition. Our analysis on the industry and economic condition and the information was based on the current situation at the time of the case. Should there be any future significant changes that may have material adverse impacts on this opinion, the Independent Financial Advisor may not be able to substantiate the impacts of such significant changes on the Company and its shareholders.

**The details of the Divestment of Thai Alcohol Public Company Limited are as follows:**

**1. Details of the Connected Transaction**

**1.1 Agreement Date and Related Parties**

- **Agreement date**      The Board of Directors' of Thai Beverage Public Company Limited resolved to approve a divestment of its equity interest in Thai Alcohol Public Company Limited on 14 May 2008. Such divestment transaction will take place after an approval resolution from the Shareholders' Meeting.

- **Related Parties**

Sellers	: Thai Beverage Public Company Limited
Buyer	: Damrongfa Company Limited
Relationship	: Major shareholders of the Company and the Buyer are the same group of people

**1.2 Details of the Connected Transaction**

- **Transaction Class**

The divestment of Thai Alcohol ordinary shares in a total number of shares of 159,999,986 shares with a par value of THB 5 per share is considered a Connected Transaction Class 4, Asset or Service Related Transaction, pursuant to the Stock Exchange of Thailand Notification, Re: Disclosure of Information and Act of Listed Companies Concerning Connected Transactions B.E. 2546 (2003).

*Opinion of an Independent Financial Advisor on the Connected Transaction regarding the divestment of Thai Alcohol Public Company Limited*

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▪ **Transaction Size**

Over the past six months, THBEV resolved to approve 2 connected transactions which are the acquisition of ordinary shares of OISHI Group Public Company Limited and the divestment of an equity interest in Thai Alcohol Public Company Limited. Both connected transactions aggregately amount to THB 5,507.38 million, the details of which are as follow:

- OISHI share acquisition, in a total number of 82,314,537 shares at THB 37 per share, amounting to THB 3,045.64 million.
- THAIAL share divestment, in a total number of 159,999,986, amounting to THB 1,590 million and the short-term loan from THBEV of THB 871.74 million, totally amount to THB 2,461.74 million.

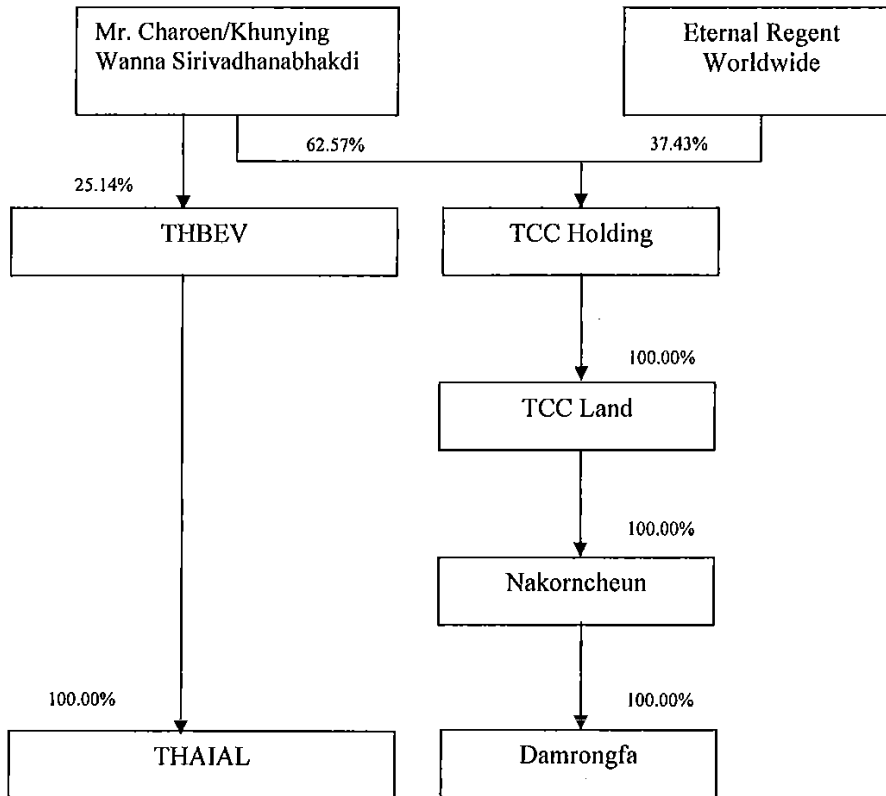
These two connected transactions represent 9.79% of the net tangible assets of the Company based on the consolidated financial statement as of 31 March 2008. Such transaction sizes amount more than THB 20 million and exceed 3% of the net tangible assets of the Company. Therefore, THBEV has a duty to disclose the connected transactions information, and seek a resolution from its shareholders to approve the connected transactions.

In addition, THAIAL share divestment is also considered the disposition of assets according to the Stock Exchange of Thailand Notification Re: Disclosure of Information and Other Acts of Listed Companies Concerning the Acquisition and Disposition of Assets, 2004. Over the past six months, the transaction size of OISHI share acquisition and THAIAL share divestment combined represents 9.79% of the net tangible asset value of THBEV as of 31 March 2008. The transaction sizes are less than 15%. Therefore, THBEV is not required to disclose the information regarding the connected transactions to the Stock Exchange of Thailand.

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**The Relationship among Connected Persons**

Shareholding Structure of the Company and Connected Persons



**Damrongfa Company Limited**

Established on 27 December 1994, Damrongfa Company Limited conducts lending business. Damrongfa is 100% held by Nakorncheun Company Limited. Nakorncheun is 100% held by TCC Land Company Limited which is 100% held by TCC Holding Company Limited as explained in the shareholding structure above.

Setout below exhibits the details of the Board of Directors.



*Opinion of an Independent Financial Advisor on the Connected Transaction regarding the divestment of Thai Alcohol Public Company Limited*

### List of the Board of Directors

	Thai Beverage Public Company Limited	TCC Holding Company Limited	Nakornchuen Company Limited	TCC Land Company Limited	Damrongfa Company Limited	Thai Alcohol Public Company Limited
1. Mr. Charoen Sirivadhanabhakdi	✓	✓		✓		
2. Khunying Wanna Sirivadhanabhakdi	✓	✓		✓		
3. Mr. Panote Sirivadhanabhakdi	✓	✓		✓		
4. Mr. Sumate Tanutantivong		✓		✓		
5. Mr. Chaiyut Pilun-owad		✓		✓		
6. Mrs. Thapanee Techajareonvikul		✓		✓		
7. Mr. Khachornsakdi Vanaratseath				✓		
8. Mr. Kosit Sriisetthapunt				✓		
9. Mrs. Atinant Bjjananda		✓				
10. Mr. Chotiphat Pichanont		✓				
11. Mr. Wisilp Vongwanitwatana		✓				
12. Mr. Suraphong Pornsirikul		✓				
13. Mr. Thapana Sirivadhanabhakdi	✓					✓
14. Mr. Komen Tantiwathaphan	✓					

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	Thai Beverage Public Company Limited	TCC Holding Company Limited	Nakornchuen Company Limited	TCC Land Company Limited	Damrongfa Company Limited	Thai Alcohol Public Company Limited
15. Mr. Samut Hathasing	✓					
16. Mr. Vivat Tejapaibul	✓					
17. Mr. Narong Srisa-an	✓					✓
18. Mr. Puchong Chandhanakij	✓					
19. Ms. Kanoknart Rangsitienchai	✓					✓
20. Mr. Pisanu Vichiensanth	✓					
21. Mr. Chukiet Tangpongprush	✓					
22. Mr. Staporn Kavitanon	✓					
23. Mr. Sakthip Krairiksh	✓					
24. Mr. Ueychai Tantha-Obhas	✓					✓
25. Mr. Kanung Luchai	✓					
26. Mr. Manu Leopairote	✓					
27. Mr. Michael Lau Hwai Keong	✓					
28. Mr. Ng Tat Pun	✓					
29. Mr. Pornchai Matangkasombut	✓					

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	Thai Beverage Public Company Limited	TCC Holding Company Limited	Nakornchuen Company Limited	TCC Land Company Limited	Damrongfa Company Limited	Thai Alcohol Public Company Limited
30. Gen. Dr. Choo-Chat Kambhu Na Ayudhya	✓					
31. Mr. Sithichai Chaikriangkrai	✓					✓
32. Mrs. Wallapa Trisorat				✓		
33. Mr. Sommapat Trisorat				✓		
34. Mr. Suvam Valaisathien				✓		
35. Mr. Cholakanta Boobhaves				✓		
36. Mr. Prapansak Bhatayanond				✓		
37. Mr. Chaiyapong Poosunthomsri				✓		
38. Ms. Piyaporn Phanachet			✓	✓		
39. Ms. Somthawin Patanavanich				✓		
40. Ms. Savanee Pattaravanichanon					✓	
41. Mrs. Malee Patipanvutikul					✓	
42. Miss. Khwanta Khunaphiwatkul					✓	
43. Mr. Pichit Burapavong						✓
44. Mr. Charwit Chanacharanvit						✓

*Opinion of an Independent Financial Advisor on the Connected Transaction regarding the divestment of Thai Alcohol Public Company Limited*

	Thai Beverage Public Company Limited	TCC Holding Company Limited	Nakornchuen Company Limited	TCC Land Company Limited	Damrongfa Company Limited	Thai Alcohol Public Company Limited
45. Mr. Wisid Likittaporn						✓
46. Mr. Montree Srisakulmaekee			✓			
47. Mr. Sonchai Asawalertpalakorn			✓			
48. Mr. Promook Thitathan			✓			
49. Mr. Kwanchai Chookiatkajorndej			✓			
50. Mr. Charnchai Trakulsukanant			✓			

*Opinion of an Independent Financial Advisor on the Connected Transaction regarding the divestment of Thai Alcohol Public Company Limited*

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### **1.3 Company Profiles of Thai Beverage Public Company Limited and OISHI Group Public Company Limited**

#### **Thai Beverage Public Company Limited**

Thai Beverage Public Company Limited or “THBEV” was incorporated on 29 October 2003 with a paid-up capital of THB 20,000 million. On 30 May 2006, the Company was listed on the Stock Exchange of Singapore (“SGX”). At present, THBEV has a paid-up capital of 25,011.03 million. Its major shareholders include Good Show Holdings Limited, Mr. Charoen Sirivadhanabhakdi, and Khunying Wanna Sirivadhanabhakdi each with an equity interest of 13.91%, 12.57%, and 12.57% of total paid-up shares respectively. After THBEV registered its shares on SGX, it expanded the its business base overseas by assigning International Beverage Holdings Limited (“IBHL”) to undertake marketing responsibilities for Beer Chang and Mekhong Rum in several countries such as USA, England, Australia and other countries. IBHL is also in charge of expanding the market of whiskies made in Scotland by IBHL’s subsidiary.

THBEV manufactures and distributes spirits, beer, water, soda, industrial alcohol, and other by-products, and also manage other related businesses through its subsidiary firms. THBEV is the leading producer of beer and spirits in Thailand, generating the largest production volume and sales revenue in Thailand. THBEV’s signature beer, Chang Beer, the best-selling beer brand consumed in Thailand, and Archa Beer dominates the beer market in Thailand. THBEV also is the leader in the spirits market in Southeast Asia. Its well-known brands include Sangsom, Mekhong, Mungkorn Thong, and white spirits. The production quality, technology and product quality of THBEV meets the international standards. Although the major target consumer group is currently based on the domestic market, THBEV plans to further penetrate into overseas markets.

The Company’s leading position in the Thai alcoholic beverage market is supported by its logistics and distribution network, effective advertising and promotions, as well as its effort in building brand recognition through the sponsorship of England’s Everton Football Club.

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### List of THBEV's shareholders

The major shareholders of THBEV as of 12 March 2008 are as follow:

Name of shareholders	Number of shares (million shares)	%
The Central Depository (PTE) Limited	6,325.66	25.19
Good Show Holdings Limited	3,492.72	13.91
Mr. Charoen Sirivadhanabhakdi	3,156.50	12.57
Khunying Wanna Sirivadhanabhakdi	3,156.50	12.57
Risen Mark Enterprise Ltd.	2,359.82	9.40
Mr. Suchin Worawongwasu	900.00	3.58
Mrs. Siriluck Maithai	338.52	1.35
Mr. Vivat Tejapaibul	291.54	1.16
Others	5,088.77	20.27
<b>Total</b>	<b>25,110.03</b>	<b>100.00</b>

### List of Subsidiary and Associated Company

Subsidiary and Associated Company	Type of Business	Paid-Up Capital (THB million, unless stated)	% of Shareholding
Beer Thai (1991) PLC.	Beer, Drink & Soda Production	5,550.00	100.00
Beer Thip Brewery (1991) Co., Ltd.	Beer, Drink & Soda Production	6,600.00	100.00
Saengsom Co., Ltd.	Liquor Production	7,500.00	100.00
Fuengfuanant Co., Ltd.	Liquor Production	900.00	100.00
Mongkolsamai Co., Ltd.	Liquor Production	700.00	100.00
Thanapakdi Co., Ltd.	Liquor Production	700.00	100.00
Kanchanasingkorn Co., Ltd.	Liquor Production	700.00	100.00
Sura Bangyikhun Co., Ltd.	Liquor Production	4,000.00	100.00
Athimart Co., Ltd.	Liquor Production	900.00	100.00
S.S. Karnsura Co., Ltd.	Liquor Production	800.00	100.00
Kankwan Co., Ltd.	Liquor Production	800.00	100.00
Theparunothai Co., Ltd.	Liquor Production	700.00	100.00
Red Bull Distillery Co., Ltd.	Liquor Production	5,000.00	100.00

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<b>Subsidiary and Associated Company</b>	<b>Type of Business</b>	<b>Paid-Up Capital (THB million, unless stated)</b>	<b>% of Shareholding</b>
United Winery & Distillery Co., Ltd.	Liquor Production	1,800.00	100.00
Simathurakij Co., Ltd.	Liquor Production	900.00	100.00
Nateechai Co., Ltd.	Liquor Production	800.00	100.00
Luckchai Liquor Trading Co., Ltd.	Liquor Production	800.00	100.00
Sura Piset Thipharat Co., Ltd.	Liquor Production	500.00	100.00
Thai Alcohol PLC.	Alcohol Production	800.00	100.00
Pomthip Co.,Ltd.	Beer Distribution	10.00	100.00
Pomkit Co., Ltd.	Beer Distribution	10.00	100.00
Pomklung Co., Ltd.	Beer Distribution	10.00	100.00
Pomchok Co., Ltd.	Beer Distribution	10.00	100.00
Pomcharoen Co., Ltd.	Beer Distribution	10.00	100.00
Pomburapa Co., Ltd.	Beer Distribution	10.00	100.00
Num Yuk Co., Ltd.	Liquor Distribution	10.00	100.00
Num Kijakarn Co., Ltd.	Liquor Distribution	10.00	100.00
Num Palang Co., Ltd.	Liquor Distribution	10.00	100.00
Num Muang Co., Ltd.	Liquor Distribution	10.00	100.00
Num Nakorn Co., Ltd.	Liquor Distribution	10.00	100.00
Num Thurakij Co., Ltd.	Liquor Distribution	10.00	100.00
Thipchalothorn Co., Ltd.	Beer and Liquor Distribution Agent	1.00	100.00
Krittayabun Co., Ltd.	Beer and Liquor Distribution Agent	5.00	100.00
Surathip Co., Ltd.	Liquor Distribution Agent	1.20	100.00
Sunthornpirom Co., Ltd.	Liquor Distribution Agent	5.00	100.00
Piromsurang Co., Ltd.	Liquor Distribution Agent	5.00	100.00
Bionic Humus Co., Ltd.	Fertilizer Sale	850.00	100.00
Maharas Agri Co., Ltd.	Japanese Rice	2.00	100.00
Thai Molasses Co., Ltd.	Molasses Distribution	40.00	99.72
Additive Food Co., Ltd.	Animal Feed	1.00	100.00

## Invitation Letter to the Extraordinary General Meeting of Shareholders No. 1/2008

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<b>Subsidiary and Associated Company</b>	<b>Type of Business</b>	<b>Paid-Up Capital (THB million, unless stated)</b>	<b>% of Shareholding</b>
	Distribution		
Pan International (Thailand) Co., Ltd.	Trading of Supplies and Procurement	1.00	100.00
Charun Business 52 Co., Ltd.	Brick Production	121.80	100.00
Thai Cooperage Co., Ltd.	Oakwood Barrel Production	300.00	100.00
Bang-na Logistics Co., Ltd.	Bottle Distribution	123.00	100.00
Thai Beverage Logistics Co., Ltd.	Logistics	12.00	100.00
Thai Beverage Marketing Co., Ltd.	Liquor Import & Export / Overseas Marketing	300.00	100.00
Dhanasindhi Co., Ltd.	Construction	20.00	100.00
Dhospaak Co., Ltd.	Advertising	25.00	100.00
International Beverage Holdings Ltd.	Holding Company	HK\$ 1,470.00 million	100.00
Cosmos Brewery (Thailand) Co., Ltd.	Beer, Drink & Soda Production	1,666.66	100.00
T.C.C. Cosmo Corporation Ltd.	Trademark Proprietor	5.00	100.00
Beer Chang Co., Ltd.	Trademark Proprietor & Beer Concentrate Production	1.00	100.00
Archa Beer Co., Ltd.	Trademark Proprietor & Beer Concentrate Production	1.00	100.00
Sura Piset Pattharalanna Co., Ltd.	Holding Company	600.00	100.00
Thai Thum Distillery Co., Ltd.	Liquor Distribution (currently non-trading)	17.50	100.00
Sura Piset Sahasun Co., Ltd.	Liquor Production & Distribution (currently non-trading)	100.00	100.00
Sura Piset Samphan Co., Ltd.	Liquor Production & Distribution	100.00	100.00



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<b>Subsidiary and Associated Company</b>	<b>Type of Business</b>	<b>Paid-Up Capital (THB million, unless stated)</b>	<b>% of Shareholding</b>
	(currently non-trading)		
Muangkij Co., Ltd.	Oakwood Supply (currently non-trading)	3.81	100.00
Sint Ek Panich Co., Ltd.	Mining (currently non-trading)	9.00	100.00
Pan Alcohol Co., Ltd.	Vinegar Production & Distribution (currently non-trading)	2.00	100.00
Banglen Agriculture Co., Ltd.	Agriculture Planting (currently non-trading)	20.00	100.00
Vidhayathan Co., Ltd.	Conservation Public Relations	5.00	100.00
United Products Co., Ltd.	Liquor Production & Distribution	350.00	80.82
S P M Foods and Beverages Co., Ltd.	Seasoning Sauce, Fruit Juice, Energy Drink, Liquor Agent	100.00	83.20
Interbev (Singapore) Limited	Trading of alcoholic beverages	SGD 3.00 million	100.00
Interbev (Cambodia) Company Limited	Trading of alcoholic beverages	USD 0.20 million	100.00
Interbev Malaysia Sdn. Bhd.	Trading of alcoholic beverages	MYR 0.10 million	100.00
International Beverage Holdings Limited USA, Inc.	Trading of alcoholic beverages	USD 2.60 million	100.00
Best Spirits Company Limited	Trading of alcoholic beverages	900.00	100.00
International Beverage Holding (UK) Limited	Holding Company	900.00	100.00
Blairmhor Limited	Holding Company	£ 9.01 million	100.00
Inver House Distillers Limited	Production and distribution of spirits	£ 10.00 million	100.00
Blairmhor Distillers Limited	Dormant	£ 200.00	100.00

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<b>Subsidiary and Associated Company</b>	<b>Type of Business</b>	<b>Paid-Up Capital (THB million, unless stated)</b>	<b>% of Shareholding</b>
Wee Beastie Limited	Trading of alcoholic beverages	£ 200.00	100.00
Speyburn-Glenivet Distillery Company Limited	Dormant	£ 100.00	100.00
The Knockdhu Distillery Company Limited	Dormant	£ 100.00	100.00
The Pulteney Distillery Company Limited	Dormant	£ 2.00	100.00
The Balblair Distillery Company Limited	Dormant	£ 2.00	100.00
R. Carmichael & Sons Limited	Dormant	£ 30,000.00	100.00
J MacArthur Junior & Company Limited	Dormant	£ 100.00	100.00
Mason & Summers Limited	Dormant	£ 10,030.00	100.00
Hankey Bannister & Company Limited	Dormant	£ 100.00	100.00
James Catto & Company Limited	Dormant	£ 50,000.00	100.00
Glen Calder Blenders Limited	Dormant	£ 100.00	100.00
Moffat & Towers Limited	Dormant	£ 1.00	100.00
Liquorland Limited	Dormant	£ 0.495 million	49.49
Inver House Polska Limited	Dormant	0.70 million zł	44.00
Inver House Distribution SA	Dormant	£ 24,450.00	50.02

## Invitation Letter to the Extraordinary General Meeting of Shareholders No. 1/2008

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### **Financial Status and Operating Performance of Thai Beverage Public Company Limited**

THBEV's financial status and performance from 2005 to 2007 and the first quarter of 2008 are as follows.

unit: THB million

<b>Consolidated</b>	<b>2005</b> (Audited)	<b>2006</b> (Audited)	<b>2007</b> (Audited)	<b>31 Mar 2008</b> (Reviewed)
Total Assets	87,137.03	85,579.51	79,526.96	78,381.40
Total Liabilities	55,422.52	33,025.96	24,617.02	21,183.76
Total Shareholders' Equity	31,714.50	52,553.56	54,909.94	57,197.64
Paid-up capital	22,000.00	25,110.03	25,110.03	25,110.03
Total Sales Revenue	94,903.41	97,797.92	100,540.90	26,740.43
Total Revenues	95,190.23	97,956.00	100,838.90	26,790.38
Cost of Sales	65,187.74	69,325.12	70,872.57	19,307.55
Selling and Administration Expenses	13,180.25	12,684.56	13,689.41	3,491.62
Net Profit	10,337.25	10,054.78	10,383.07	2,630.83

### **Operating Performance of Thai Beverage Public Company Limited**

#### Revenue

The total revenue of THBEV in 2007 was THB 100,540.90 million which increased by THB 2,742.98 million or 2.80% from that of 2006. It was due to an increase in sale revenue from liquor and beer & water businesses by 2.60% and 3.20% respectively. The increase in the revenue from liquor business was due to a price raise to cover for the increased excise tax charge.

For the first quarter ended 31 March 2008, total sales revenue of THBEV was THB 26,740.43 million which increased by THB 779.36 million or 3.00% from the same period of the previous year since sale revenue from liquor and industrial alcohol increased by 6.30% and 123.70% respectively while sale revenue from beer decreased by 4.00%. Although the total sale volume of liquor business decreased, the total revenue from liquor business still increased due to an upward price adjustment which contributed to the increase of THBEV's total revenue.

#### Cost of Goods Sold

Cost of goods sold in 2007 and 2006 was THB 70,872.57 million and THB 69,325.12 million, accounting for 70.49% and 70.89% of total sales revenue respectively. The cost structure of THBEV declined because of several supporting factors. For one, an increase in sale revenue from beer business resulted in a decrease in the production cost per unit. Moreover, liquor production cost decreased due to the decrease in molasses price while liquor sale price per unit was adjusted upward.

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Although the sale price of industrial alcohol business declined as the domestic market was oversupplied, the overall cost of goods sold of THBEV still declined.

For the first quarter of 2008 and 2007, THBEV's cost of goods sold was THB 19,307.55 million and THB 18,309.93 million, accounting for 72.20% and 70.52% of sale revenue respectively. Its cost of goods sold increased because of the rising raw material cost such as rice, malt, and fuel oil. THBEV was also affected by a drop in sale revenue of white spirits which generated substantial gross profit margin. Moreover, the decrease in the production volume of industrial alcohol resulted in a higher production cost per unit.

Selling and Administration Expenses

Selling and administration expenses of THBEV in 2007 and 2006 were THB 13,689.41 million and THB 12,684.56 million, accounting for 13.62% and 12.97% of sales revenue respectively. The selling and administration expenses increased since the marketing, advertising, personnel, and transportation expenses increased across all of THBEV's business units.

For the first quarter of 2008 and 2007, THBEV's selling and administration expenses was THB 3,491.62 million and THB 3,118.74 million, accounting for 13.06% and 12.01% of sales revenue respectively. The selling and administration expenses as a proportion of sale revenue of THBEV increased due to an increase in marketing and advertising expenses and idle costs.

Net Profit

THBEV's net profit in 2007 and 2006 was THB 10,383.07 million and THB 10,054.78 million respectively, representing an increase by 3.26% from that of 2006. This was because of an increase in the gross profit compared to the previous year due to an increase in the gross profit of beer, soda and drinking water business by THB 358.00 million or 3.50%, and an increase in the gross profit of liquor business by THB 910.00 million or 5.00% even though the gross profit of the industrial alcohol business declined by THB 217.00 million or 102.80%. Meanwhile, selling and administration expenses increased by THB 1,005.00 million or 7.90% from that of 2006 due to an increase in marketing, advertising and transportation expenses. Interest expenses decreased by THB 521.37 million as loan decreased from THB 24,345.35 million in 2006 to THB 16,222.37 million in 2007.

For the first quarter of 2008 and 2007, THBEV's net profit was THB 2,630.83 million and THB 2,878.03 million respectively, representing a decrease by 8.60% in the first quarter of this year. This was because of a drop in the gross profit of beer, soda and drinking water business by THB 232.00 million or 8.23%, and a decrease in the gross profit of liquor business by THB 209.00 million or 6.69% despite an increase in the gross profit of industrial alcohol business by THB 25.00 million or 2,500.00% from the same period of last year. Whilst, selling and administration expenses increased by THB 372.00 million or 11.93% from that of the same period of 2007 due to the increase in marketing expenses and idle cost. Interest expenses decreased by THB 137.29 million because loan decreased from THB 18,200.00 million as of 31 March 2007 to THB 11,299.00 million as of the same period of 2008.

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**Financial Status**Assets

Total assets of THBEV as at end of December 2007 was THB 79,527.96 million, decreasing by THB 6,052.55 million or 7.07%, compared with the end of 2006. Current assets decreased by THB 393.28 million mainly due to the decrease in inventory and finished goods. Meanwhile, non-current assets decreased by THB 5,659.28 million due to sale of land and building and the impact of impairment on land value, and depreciation of property, plant and equipment.

Total assets as at end of the first quarter of 2008 was THB 78,381.40 million composed of current assets and non-current assets amounting to THB 32,588.84 million and THB 45,792.56 million or 41.58% and 58.42% of total assets respectively. A decrease in the total assets by THB 1,145.60 million or 1.44% as of the first quarter of 2008 was due to a decrease in cash and cash equivalent, account receivable, and property, plant and equipment by THB 887.09 million, THB 448.43 million, and THB 566.48 million respectively.

Liabilities

Total liabilities as at end of December 2007 was THB 24,617.02 million declining by THB 8,408.95 million or 25.46% from the end of 2006. This was mainly due to loan and bond repayment amounting to THB 13,756.14 million and the new borrowing amounting to THB 5,400.00 million in 2007. Therefore, long-term loan and bond decreased from THB 24,345.35 million in 2006 to THB 16,222.37 million in 2007 respectively.

Total liabilities of THBEV as at end of the first quarter of 2008 was THB 21,183.76 million which decreased by THB 3,433.25 million compared to the same period of the previous year. This was mainly due to the repayment of bonds and loans by THB 4,854.59 million.

Shareholders' Equity

Total shareholders' equity as at end of December 2007 was THB 54,909.94 million, representing an increase by THB 2,356.39 million or 4.48% compared with the end of 2006. This was a combined result of the net profit of THB 10,383.07 million, translation loss relating to financial statements of foreign operations of THB 188.57 million and the dividend payment of THB 5,775.31 million which accounted for the dividend per share of THB 0.23 per share.

Total shareholders' equity as at end of the first quarter of 2008 was THB 57,197.64 million, representing an increase by THB 2,287.70 million or 4.17% from THB 54,909.94 million as of the end of 2007. This was mainly due to an increase in retained earnings by THB 2,630.83 million and translation loss relating to financial statements of foreign operations of THB 343.31 million.

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**Key Financial Ratios of THBEV**

Financial Ratios	Consolidated			
	2005 (Audited)	2006 (Audited)	2007 (Audited)	31 Mar 2008 (Reviewed)
<b>Liquidity Ratio</b>				
Current Ratio (times)	0.66	1.28	1.74	1.89
Quick Ratio (times)	0.27	0.29	0.19	0.13
Cash Ratio (times)	0.52	0.35	0.73	1.15 *
Account Receivable Turnover (times)	101.12	69.27	67.86	76.51 *
Receivable Days (days)	3.56	5.20	5.31	4.71 *
Inventory Turnover (times)	3.58	4.57	5.14	5.68 *
Inventory Days (days)	100.62	78.81	70.10	63.34 *
Accounts payable turnover (times)	37.37	34.95	31.32	33.76 *
Payable Days (days)	9.63	10.30	11.49	10.66 *
Cash Cycle (days)	94.55	73.71	63.92	57.38 *
<b>Profitability Ratio</b>				
Gross profit margin (%)	31.31%	29.11%	29.51%	27.80%
Operating profit margin (%)	17.42%	16.14%	15.89%	14.74%
Other profit margin (%)	0.30%	0.16%	0.30%	0.19%
Operating Cash Flow to Operating Profit Ratio (%)	172.76%	89.76%	102.91%	132.42%
Net profit margin (%)	10.86%	10.26%	10.30%	9.82%
Return of equity (%)	31.77%	23.86%	19.32%	18.77% *
<b>Efficiency Ratio</b>				
Return on asset (%)	11.73%	11.64%	12.58%	13.33% *
Return on fixed asset (%)	29.47%	28.27%	31.10%	33.55% *
Asset Turnover (times)	1.08	1.13	1.22	1.36 *
<b>Financial Policy Ratio</b>				
Debt to equity ratio (times)	1.75	0.63	0.45	0.37
Interest bearing debt to equity ratio (times)	1.27	0.46	0.30	0.20
Interest Coverage Ratio (times)	20.12	12.79	21.33	41.21
Debt service coverage Ratio (times)	1.68	0.20	0.78	0.92
Dividend payout ratio (%)	51.08%	54.94%	70.13%	N/A

\* Annualized from the reviewed financial statement as of 31 March 2008

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#### Liquidity Analysis

THBEV's liquidity improved continuously. Current ratio increased from 0.66 times in 2005 to a sufficient level of 1.89 times in the first quarter of 2008. This was because of the continuous decrease in current liabilities over this period. Cash cycle continuously decreased from 94.55 days in 2005 to 57.38 days in the first quarter of 2008, since inventory days significantly decreased from 100 days in 2005 to 63 days in the first quarter of 2008 which indicated an improvement in THBEV's inventory management.

#### Profitability Analysis

THBEV's profitability continuously decreased as seen in a drop in gross profit margin and net profit margin. Gross profit margin decreased from 31.31% in 2005 to 27.80% in the first quarter of 2008, whereas net profit margin declined from 10.86% in 2005 to 9.82% in 2007. This was due to the rising raw material cost and other production cost such as oil price. The return on equity also decreased to the lowest level at 18.77% in the first quarter of 2008.

#### Efficiency Analysis

All efficiency ratios of THBEV continued to improve from 2005 to the first quarter of 2008. Return on assets increased from 11.73% in 2005 to 13.33% in the first quarter of 2008 and return on fixed assets improved from 29.47% in 2005 to 33.55% in the first quarter of 2008 as the total and fixed assets declined. Similarly, the asset turnover ratio improved from 1.08 times in 2005 to 1.36 times in the first quarter of 2008 as a combination of a drop in the total assets and an increase in sale revenue.

#### Financial Policy Analysis

THBEV's debt to equity ratio (D/E ratio) continuously decreased from 1.75 times in 2005 to 0.45 times in 2007 and 0.37 times in the first quarter of 2008 due to the debt repayment. This indicated that the THBEV's financial strength improved continuously. Fixed charge coverage ratio decreased from 1.68 times in 2005 to 0.20 times in 2006, since THBEV received cash flow from debt repayment from related party of THB 5,033.87 million while in 2006, THBEV serviced debt obligation of THB 58,337 million. Afterward, fixed charge coverage ratio improved from 0.78 times in 2007 to 0.92 times in the first quarter of 2008 due to an increase in sales revenue and a decrease in capital expenditure and debt service obligation. Interest coverage ratio ranged from 12.79 and 21.33 times for the last 3 years, and peaked at 41.21 times in the first quarter of 2008. This exhibited an improvement in THBEV's capability to service interest obligation, especially in the first quarter of 2008 in which debt obligation significantly decreased due to the repayment of bond and loan in an amount of THB 4,854.59 million in total.

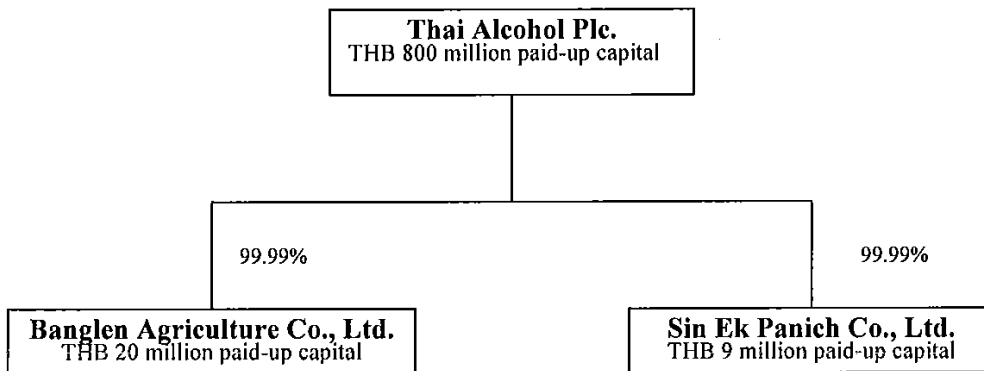
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**Thai Alcohol Public Company Limited**

Thai Alcohol Public Company Limited, originally named Thai Alcohol Company Limited, was founded on 24 May 1972 and was later transformed to a public company on 24 December 2002. Thai Alcohol has 2 subsidiaries which are Banglen Agriculture Company Limited and Sin Ek Panich Company Limited. THAIAL's core business is manufacturing and selling industrial alcohol. It has been supported by Thailand Board of Investment (BOI) to manufacture ethyl alcohol 95 degree, ethanol, ethyl acetate, and acetic acid. Currently, THAIAL has THB 900 million of authorized share capital and THB 800 million of paid-up capital which comprises of 180 million shares outstanding at par value of THB 5 per share.

**Group Structure of Thai Alcohol Public Company Limited**



**Products of Thai Alcohol Public Company Limited**

**1. Alcohol 95 Degree** or ethyl alcohol 95% which has 95% purity is the main product of THAIAL where most ethyl alcohol are exported to Japan and Korea and only small amount are traded domestically which must be permitted by the Excise Department of Thailand. Moreover, ethyl alcohol is also a feedstock for manufacturing of other THAIAL's products which are ethanol, ethyl acetate, and acetic acid. The Company distillery plant currently has total capacity to produce alcohol of 400,000 litres per day.

**2. Ethanol** or ethyl alcohol 99.5% is another major product of THAIAL. Ethanol, distilled from alcohol 95%, is sold for gasohol production . THAIAL sells ethanol to various fuel oil companies such as Bangchak Petroleum Public Company Limited, PTT Public Company Limited, Caltex (Thailand) Company Limited, Thai Shell Company Limited, and Esso (Thailand) Public Company Limited. At present, THAIAL has ethanol production capacity of 200,000 litres per day.

**3. Ethyl Acetate** is a chemical compound that is sold domestically for the production of painting colors. THAIAL has ethyl acetate production capacity of 3,000 tons per year.



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**4. Acetic Acid** is a product sold domestically for fabric dyeing business. THAIAL has acetic acid production capacity of 7,400 tons per year.

THAIAL can generate electricity by itself by using rice husk as fuel. A major raw material of all products is molasses which are procured through Thai Molasses Company Limited, a subsidiary of THBEV.

Major Shareholders

Shareholders of Thai Alcohol Public Company Limited as of 24 May 2008 are as follow:

Shareholders	Shares	%
Thai Beverage Plc.	159,999,986	100.00
Athimat Co., Ltd.	1	0.00
Fuang Fu Anant Co., Ltd.	1	0.00
Kaenkwan Co., Ltd.	1	0.00
Kancana Singkhon Co., Ltd.	1	0.00
Lakchai Liquor Co., Ltd.	1	0.00
Mongkol Samai Co., Ltd.	1	0.00
Nateechai Co., Ltd.	1	0.00
Red Bull Distillery (1988) Co., Ltd.	1	0.00
S.S. Liquor Co., Ltd.	1	0.00
Sang Som Co., Ltd.	1	0.00
Seema Business Co., Ltd.	1	0.00
Sura Bangyikhan Co., Ltd.	1	0.00
Thanapakdee Co., Ltd.	1	0.00
Thep Arunothai Co., Ltd.	1	0.00
<b>Total</b>	<b>160,000,000</b>	<b>100.00</b>

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## **Industries Overview**

### **95-Degree Ethyl Alcohol**

Ethyl alcohol with 95% purity is used as raw material in various industries such as alcoholic beverage, cosmetics, pharmaceutical, livestock, and electronic, etc. Furthermore, 95-degree ethyl alcohol can be distilled into ethanol, which is used in gasohol production. At present, sale of ethyl alcohol is controlled by the Excise Tax Department, and the Liquor Distillery Organization Excise Department is a producer and sole distributor of alcohol for domestic consumption. However, other private manufacturers can also produce and distribute 95-degree ethyl alcohol with a condition that such alcohol must be transformed into inedible alcohol before selling in the domestic market. For export market, Japan is a major trading partner who imports the 95-degree ethyl alcohol for alcoholic beverage production.

## **Ethanol**

### **Demand and Supply**

Ethanol industry becomes an important industry of the world during the recent years due to the skyrocketing fuel oil prices. Therefore, many countries such as Brazil and the US find an alternative energy solution in place of gasoline. Ethanol-blended gasoline or so-called "Gasohol" is one option that can compensate some of gasoline.

In 2007, the level of domestic gasohol consumption was 1,763 million litres, or the average of 4.8 million litres per day, increasing from 2006 by 37.8% because it is a cheaper alternative to benzene. Moreover, the government's continuous campaign for gasohol, a guarantee from car manufacturers, dealers, and gasoline distributors for the damage from using gasohol, and also an increase in gasoline price by 5.9% from 2006 caused the sale of gasohol to increase continuously. Such fuel oil price pressure has pushed more consumers to use gasohol especially in 2008.

In addition, the government launched the tax campaign to encourage the use of E20 gasohol by using low pricing strategy. The Kasikorn Research Center reported that the demand for gasohol was totally 7.4 million litres per day in March 2008, which means that the demand of ethanol was around 0.74 million litres per day, a significant increase from that of 2006. Ethanol production has continuously increased to meeting the rising domestic demand. In addition, raw materials for ethanol production, which are cassava and sugar cane, are sufficient to produce ethanol for domestic usage. Ethanol production and distribution are also supported by the government. The Ministry of Energy forecasted that the amount of ethanol use in 2009, 2010 and 2011 will reach 1.6 million litres per day, 1.9 million litres per day and 2.4 million litres per day respectively. As for ethanol production, on 12 December 2006, the cabinet approved the resolution of National Energy Policy Council (NEPC) regarding the deregulation of the ethanol industry which causes new players to the ethanol industry. Those licensed ethanol manufacturers increased from 24 companies to 45 companies. Currently, there are 11 factories that can produce ethanol of around 1.58 million litres per day, which are enough for domestic usage. In the future, the production capacity will increase to 3.89 million litres per day in 2009. Currently, the domestic ethanol market is oversupplied as evidenced in 2007 where ethanol producers cut the price to release the stock of ethanol.

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As for world market, the ethanol growth rate stays at high level because the ethanol production quantity increases by 20% per year. In 2007, the production quantity was approximately 13.1 billion gallons. The major producers are the US with the proportion of 49.6%, Brazil with the proportion of 38.3%, EU 4.4%, China 3.7%, Canada 1.6%, Thailand 0.6%, India 0.4%, Australia 0.2% and other countries 1.2%. For ethanol import, the US is a major importer with a proportion of 31% of world imported quantity, and is mainly imported from Brazil while the other importers are EU, Japan, Korea and Taiwan. In case of Thai manufacturers, although the domestic demand is not that much, the world demand for alternative energy is very high. The export concentrates on Asian countries, who emphasize on the use of ethanol as alternative energy while lack of raw materials for ethanol production. Those Asian countries include Japan, China and South Korea. Furthermore, Thailand gains advantage over other ethanol-producing countries in terms of transportation distance among Asian countries. However, Thai ethanol producers have to invest on transportation facilities for export, which will help reduce transportation cost and increase the competitiveness against other countries.

**Industry Competition**

The competition within the industry becomes more intense as the rising demand for alternative energy attracts new producers to join the ethanol market. The major ethanol producers are Petrogreen Company Limited, Thai Alcohol Public Company Limited, Ekkarat Patthana Company Limited, Khon Kaen Alcohol Company Limited, and Thai Agro Energy Public Company Limited. In 2007, the government encourages the ethanol production through the deregulation which results in an increase in licensed ethanol producers from 24 companies to 45 companies in 2007. On the other hand, the government still allows the use of octane gasoline. These resulted in an ethanol oversupply condition and forced all producers to cut the price while some producers were driven to cease their operations, given the fact that no more licenses to produce and sell ethanol were granted to any new entrants.

In addition, ethanol and 95-degree alcohol plants encountered to the volatility in the price and quantity of raw material. Therefore, they have to compete in procuring raw material, which are molasses and cassava. Originally, most of ethanol plants require molasses as raw material. Recently, when the demand for ethanol has risen precipitously and therefore, the supply of sugarcane and molasses has become a major factor of ethanol production. However, Most of the new ethanol plants use cassava as raw material while many producers who use molasses as raw material have not finished their production facilities. Hence, the supply of molasses is sufficient for currently running factories which uses molasses as a raw material.

**Supporting Factors and Effects**

Nowadays, the gasohol usage tends to increase continuously. The supporting factors are as follows.

**1. Price**– The 91 and 95 gasohol prices are now cheaper than the 91 and 95 octane prices by approximately THB 4.40 per litre and THB 4.70 per litre respectively. Furthermore, the Ministry of Energy set the price of E20 gasohol cheaper than the price of E10 gasohol by THB 1.3 per litre, and lower than 95 octane price by THB 6.0 per litre (according to the information from PTT's gasoline station as of 18 June 2008). The price gap has been a motivation for the consumers to use the gasohol rather than gasoline.

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**2. Excise Tax** – The government collects the excise tax on the gasohol for THB 3.316 per litre, cheaper than the excise tax on gasoline of THB 3.685 per litre, in order to support gasohol consumption.

**3. Excise Tax on Gasohol Vehicle** – Since 1 January 2009, the Ministry of Finance has reduced the excise tax on E20 vehicle to 20%. The excise tax on the vehicle using high proportion of ethanol-blended gasoline such as E85 are under consideration of the cabinet.

**4. The Readiness of Ethanol Production** – The Ministry of Energy reported that there are 45 licensed ethanol producers in Thailand. As of 20 June 2008, ethanol production capacity was totally 1.58 million litres per day and will increase to 3.98 million litres per day within 2009. Therefore, the ethanol supply is forecasted to be adequate for the domestic demand.

However, there are many negative factors directly affecting the domestic ethanol production as follows.

**1. Uncertainty of the Government Policy** – The government delayed the announcement of 95 Octane prohibition. Not only does this cause the delay on the construction of several ethanol projects, but also hinder the growth in gasohol consumption.

**2. The Consumers' Attitudes toward the Consumption Rate and Effects on the Engine** – Some consumers have a negative attitude towards the gasohol in that they believe the gasohol is depleted faster and at higher rate than benzene, and accelerates the deterioration of the engine. Those reasons lead to reluctance among consumers, which adversely affects the sale of gasohol in Thailand.

**3. The Fluctuation of Raw Material Price** – The molasses and cassava price fluctuate according to yield of outputs in each year. Such raw material cost fluctuation directly affects the production cost while the ethanol and 95-degree alcohol prices are set based on the world price.

#### **Alternative Energy**

At present, apart from gasohol, consumers can choose other alternative energy such as LPG and NGV. The price of LPG and NGV are THB 19.3 per kilogram and THB 8.5 per kilogram respectively (according to the information from the Ministry of Energy as of 23 July 2008). Furthermore, the depletion rates of LPG and NGV on average are much lesser than the depletion rate of gasohol. These are motivations for the consumers to use gas instead of the gasoline and gasohol. However, there are some difficulties for using gas such as high gas system installation cost, the effect on the deterioration of the engine, and uncertainty of the government policy on the gas price, etc.

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### Financial Status and Operating Performance of Thai Alcohol Public Company Limited

THAIAL's financial status and operating performance from 2005 to 2007 and the first half of 2008 can be concluded as follow:

Financial Highlights	Unit : THB million			
	2005 (Audited)	2006 (Audited)	2007 (Audited)	1H 2008 (Reviewed)
Total Assets	1,730.32	2,322.89	2,624.59	2,182.08
Total Liabilities	199.35	871.98	1,398.17	964.84
Total Equities	1,530.97	1,450.90	1,226.42	1,217.23
Paid-up Capital	800.00	800.00	800.00	800.00
Sale Revenue	869.18	1,205.04	965.96	756.85
Total Revenues	881.97	1,208.75	988.45	758.64
Cost of Goods Sold	417.71	941.61	918.12	651.33
Selling and Administration Expenses	167.52	183.64	140.55	99.63
Net Profit	239.48	41.57	(126.68)	(9.18)
Weighted Average Number of Shares (thousand shares)	160.00	160.00	160.00	160.00
Earning Per Share (THB / share)	1.50	0.26	(0.79)	(0.06)
Dividend Per Share (THB / share)	0.50	0.75	2.23	-
Book Value Per Share (THB / share)	5.00	5.00	5.00	5.00

### Operating Performance of Thai Alcohol Public Company Limited Revenue

THAIAL had total revenues of THB 1,208.75 million in 2006, which consisted of THB 1,205.04 million in sale revenue and THB 3.70 million in other income. Sale revenue increased by THB 335.86 million or a 41.52% from 2005. Revenue from selling ethanol in 2006 was THB 1,161.48 million which accounted for 96.39% of total sale revenue and increased by 218.86% from the previous year due to the significant increase in sale price per unit of ethanol in 2006. THAIAL had total revenues of THB 988.45 million in 2007, which consisted of THB 965.96 million in sale revenue and THB 22.48 million in other income. Sale revenue decreased by THB 239.08 million or a 19.84% from 2006 and consisted of THB 229.49 million from sale revenue of 95-degree alcohol and THB 708.13 million from sale revenue of ethanol which accounted for 23.76% and 73.31% of total sale revenue respectively. Revenue from sale of ethanol decreased in 2007 due to a significant sale price cut forced by the oversupply condition as the government delay the prohibition of 95 and 91 benzene.

As for THAIAL's first-half result in 2008, total sale revenue and other income were THB 756.85 million and THB 1.79 million respectively. Total sale revenue consisted of THB 350.07 million in sale revenue from 95-degree alcohol,

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THB 397.50 million in sale revenue from ethanol and THB 9.28 million in sale revenue from other products which accounted for 46.25%, 52.52% and 1.23% of total sale revenue respectively. Sale revenue proportion from 95-degree alcohol increased compared to the previous year since in the end of 2007, THAIAL entered into an agreement to sell 95-degree alcohol to its customer in Japan.

Cost of Good Sold

Cost of good sold in 2006 and 2005 was THB 941.61 million and THB 417.71 million, accounting for 78.14% and 48.06% of sale revenue respectively. THAIAL's cost of sale as a proportion of sale revenue heavily increased as a result of the lack of molasses which caused molasses price in the market to increase. Cost of good sold in 2007 was THB 918.12 million, accounting for 95.05% of sale revenue. THAIAL's cost of sales as a proportion of sale revenue still continuously increased due to the ethanol price cut in 2007.

Cost of good sold as of six-month ended in 2008 was THB 651.33 million or 86.06% of sale revenue. Cost structure of THAIAL decreased due to a slight decrease in molasses price compared to 2007.

Selling and Administration Expenses

Selling and administration expenses in 2007, 2006 and 2005 were THB 167.52 million, THB 183.64 million and THB 140.55 million, accounting for 14.55%, 15.24% and 19.27% of total sale revenue accordingly. THAIAL's proportion of SG&A to sale revenue declined due to the continuous decrease in idle cost from THB 99.10 million in 2005, to THB 94.49 million in 2006 and THB 69.14 million in 2007.

For the six-month ended in 2008, SG&A expenses were THB 99.63 million or 13.16% of sale revenue. The proportion of SG&A to sale revenue continuously decreased since THAIAL's production capacity constantly increased which caused a decline in idle costs.

Net Profit

Net profit in 2005 was THB 239.48 million. Although sale revenue in 2006 increased from 2005, the net profit in 2006, on the contrary, decreased to THB 41.57 million, representing 82.64% decrease, since the cost of goods sold increased from 48.06% of sale revenue in 2005 to 78.14% of sale revenue in 2006 due to an increase of molasses price as mentioned earlier. The loss in 2007 of THB 126.68 million resulted from ethanol sale price cut under the oversupply condition. Consequently, THAIAL's gross profit decreased to THB 47.84 million which could not cover for the fixed idle cost and SG&A totaling THB 140.55 million and interest expense of THB 56.40 million.

In the first six-month period of 2008, THAIAL faced loss amounting to THB 9.19 million due to the problem of inadequate molasses. Thus, sale revenue could not cover for fixed cost. However, in the first half of 2008, the amount of loss was less than that of 2007 because ethanol sale price increased while molasses price decreased from 2007.

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**Financial Status**Assets

THAIAL's total assets continuously increased from THB 2,322.89 million in 2006 to THB 2,624.59 million in 2007 or accounting for 13.00% increase. Current assets increased by THB 156.33 million due to an increase of inventory by THB 190.53 million and cash and cash equivalents by THB 13.87 million whereas account receivables decreased by THB 42.37 million. As for non-current assets, property, plant, and equipment increased by THB 179.05 million due to an increase in land revaluation by THB 259.00 million and an increase of assets under construction by THB 48.55 million whereas the depreciation expense was THB 137.66 million.

Total assets as of the first half of 2008 was THB 2,182.08 million comprising of current assets and non-current assets amounting to THB 244.85 million and THB 1,937.23 million or 11.22% and 88.78% of total assets respectively. A decrease in the total assets by THB 442.51 million or 16.86% as of the six-month of 2008 due to the following reasons. First, account receivable decreased by THB 44.25 million (the increase of sale proportion of 95-degree alcohol which had shorter credit term than that of ethanol). Second, inventory decreased by THB 332.44 million as THAIAL had inadequate molasses to produce more alcohol while a significant portion of finished goods was sold. For non-current assets, property, plant, and equipment decreased by THB 48.37 million due to the depreciation expense.

Liabilities

Total liabilities in 2007 were THB 1,398.17 million, increasing by THB 526.19 million or 37.63% from 2006. This was mainly due to an increase in short-term loan from related party by THB 559.00 million which was used to expand a factory and for working capital.

Total liabilities of THBEV as at end of the first half of 2008 was THB 964.84 million which decreased by THB 433.33 million compared to the end of the previous year. This was mainly due to debt repayment to related company and the decrease of account payable and other current liabilities by THB 52.57 million and THB 20.23 million accordingly.

Shareholders' Equity

Total shareholders' equity as at end of December 2007 was THB 1,226.42 million, representing a decrease by THB 224.59 million or 18.31% compared with the end of 2006. This was a combined result of the loss of THB 126.68 million, an increase in land revaluation by THB 259.00 million and the dividend payments of THB 356.80 million which accounted for the dividend per share of THB 2.23 per share.

Total shareholders' equity as at end of the first half of 2008 was THB 1,217.23 million, representing a decrease by THB 9.19 million or 0.75%. This was mainly due to the loss as of the first half period of 2008 in an amount of THB 9.19 million.

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**Key Financial Ratios of THAIAL**

Financial Ratios	Year			
	2005 (Audited)	2006 (Audited)	2007 (Audited)	30 June 2008 (Reviewed)
<b>Liquidity Ratio</b>				
Current Ratio (times)	1.41	0.59	0.48	0.26
Quick Ratio (times)	0.72	0.22	0.13	0.10
Cash Ratio (times)	1.58	(0.81)	(0.10)	0.69*
Account Receivable Turnover (times)	14.54	8.46	5.55	12.02*
Receivable Days (days)	24.76	42.56	64.84	29.94*
Inventory Turnover (times)	1.86	4.70	2.45	4.28*
Inventory Days (days)	193.23	76.58	147.20	84.14*
Accounts payable turnover (times)	23.96	12.77	8.57	19.70*
Payable Days (days)	15.03	28.19	42.01	18.28*
Cash Cycle (days)	202.97	90.95	170.04	95.81*
<b>Profitability Ratio</b>				
Gross profit margin (%)	51.94%	21.86%	4.95%	13.94%
Operating profit margin (%)	32.67%	6.62%	(9.60%)	0.78%
Other profit margin (%)	1.45%	0.31%	2.27%	1.66%
Operating Cash Flow to Operating Profit Ratio (%)	138.44%	(536.08%)	128.17%	6,766.38%
Net profit margin (%)	27.15%	3.44%	(12.82%)	(1.19%)
Return of equity (%)	16.50%	2.79%	(9.46%)	(1.50%)*
<b>Efficiency Ratio</b>				
Return on asset (%)	14.03%	2.05%	(5.12%)	(0.76%)*
Return on fixed asset (%)	22.21%	6.93%	0.58%	5.96%*
Asset Turnover (times)	0.52	0.60	0.40	0.64*
<b>Financial Policy Ratio</b>				
Debt to equity ratio (times)	0.13	0.60	1.14	0.79
Interest bearing debt to equity ratio (times)	0.06	0.49	1.03	0.72
Interest Coverage Ratio (times)	66.01	(10.77)	(1.10)	15.31
Debt service coverage Ratio (times)	0.55	(0.47)	(0.12)	0.95
Dividend payout ratio (%)	50.11%	0.00%	NA	0.00%

\* Annualized from the reviewed financial statement as of 30 June 2008.



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#### Liquidity Ratio

THAIAL's asset adequacy continuously decreased as current ratio and quick ratio decreased from 1.41 times and 0.72 times in 2005 to 0.26 times and 0.10 times in the first half of 2008 because of an increase of loan from related company. Cash ratio was -0.81 and -0.10 in 2006 and 2007 as a result of negative cash flow from operating activities of THB -427.72 million and THB -118.83 million in 2006 and 2007 accordingly. This was mainly because THAIAL made advanced payment to liquor expert for THB 352.34 million in 2006 and because inventory increased in 2007. However, cash ratio improved to 0.69 times in the first half of 2008, but THAIAL still had no capability to service short term liabilities as exhibited by other liquidity ratios. Furthermore, the reason that THAIAL's asset adequacy constantly decreased for the past 3 years was because of a frequent halt in production due to inadequate molasses supply and ethanol sale price cut due to the ethanol oversupply in market. Therefore, THAIAL's sale revenue could not cover for expenses and lead to shortage of working capital funding and more reliance on short term loan from THBEV.

Cash cycle decreased from 202.97 days in 2005 to 95.81 days in the first half of 2008. This was the result of a significant decrease in inventory days which dropped from 193.23 days in 2005 to 84.14 days in the first half of 2008. This exhibited that THAIAL's short-term liquidity in operation has been improving.

#### Profitability Ratio

THAIAL's profitability continuously decreased as seen in a drop in gross profit margin and operating profit margin which decreased from 51.94% and 32.67% in 2005 to 4.95% and -9.60% in 2007. In 2006, molasses price increased significantly causing THAIAL's cost structure to increase. In 2007, ethanol oversupply condition forced THAIAL to lower the sale price. Although during the period of 2005-2007, the proportion of SG&A to sale revenue continuously decreased, this did not help improve THAIAL's operating profit margin. However, gross profit margin and operating profit margin for the first half of 2008 slightly improved compared to 2007 which was 13.94% and 0.78% respectively due to a decrease of molasses price.

Like gross profit margin and operating profit margin, THAIAL's net profit margin and return of equity also continuously decreased from 27.15% and 16.50% in 2005 to -1.19% and -1.50% in the first half of 2008 for the reasons stated earlier. However, although THAIAL still experienced loss in the first half of 2008, net profit margin and return of equity slightly improved.

#### Efficiency Ratio

Return on assets and return on fixed asset of THAIAL continued to decrease from 14.03% and 22.21% in 2005 to -0.76% and 5.96% in the first half of 2008 respectively. This was because of THAIAL's declining performance as stated above. Also, THAIAL's fixed assets increased due to the land revaluation and an investment in machine and equipment. Return on assets and fixed assets dropped to the lowest of -5.12% and 0.58% respectively in 2007 when THAIAL had a huge loss amounting to THB 126.68 million. Asset turnover have not significantly changed which was between 0.52 and 0.64 times.

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Financing Policy

Debt to equity ratio and interest bearing debt to equity ratio continuously increased from 0.13 and 0.06 time in 2005 to 0.79 and 0.72 time in the first half of 2008. This was because the short term loan from related company continuously increased while retained earnings dropped by the dividend payment of THB 80.00, 120.00 and 356.80 million from 2005 to 2007. However, in the first half of 2008, debt to equity ratio decreased compared to the end of year 2007 due to the debt repayment to related company amounting to THB 420.00 million. Interest coverage ratio decreased from 66.01 times in 2005 to 15.31 times in the first half of 2008.

During the period of 2005-2007, debt service coverage ratio continuously decreased from 0.55 times in 2005 to -0.12 in 2007. This resulted from the decline in the profitability of THAIAL, whereas THAIAL had debt repayment obligation, the dividend payment, and the capital expenditure every year. However, debt service coverage ratio slightly improved to 0.95 times in the first half of 2008 due to an increase in cash flows from operation.

Dividend payout ratio was 50.11% in 2005, and despite a net loss in 2007, a dividend payment of THB 356.80 million was made in 2007.

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## **2. Independent Financial Advisor Opinion**

### **2.1 Reasonableness and Benefits of the Connected Transaction**

- Divestment of THAIAL to focus on core alcoholic beverage business that yields higher returns

A divestment of THAIAL, a manufacturer of industrial alcohol and ethanol for gasoline, in a total number of 159,999,986 shares which represents 99.99% of THAIAL's total paid-up capital is considered THBEV's refocusing on its core alcoholic beverage business in which THBEV has expertise and produce higher profit margin than industrial alcohol business.

At present, alcoholic beverage market encounters several adverse factors such as stringent control over alcoholic beverage, an increase in excise tax, fierce competition among major domestic distillers, and "Stop Drinking Alcohols" campaign, etc. However, alcoholic beverage business still produce significant profit margin while industrial alcohol and ethanol generate evidently lower margin. Based on the announcement of THBEV in the first quarter of 2008, the gross profit margin of liquor in the first quarter of 2007 and 2008 are in the range of 33-35% while the gross profit margin of industrial alcohol and ethanol are in the range of 11-15% only.

Main raw material used for producing liquor by THBEV and industrial alcohol by THAIAL is molasses. Therefore, molasses have to be shared between THBEV and THAIAL. Although the main raw material is supplied to THBEV as the first priority, the divestment of THAIAL allows the main raw material to be fully utilized for the liquor production line which generate higher profit margin.

### **2.2 Advantages and Disadvantages of the Acquisition**

#### **2.2.1 Advantages**

- Reduce Reliance on Financing by Underperformed Company

THAIAL realized profit during 2005 and 2006. However, the raw material management under THBEV umbrella is gearing towards the liquor production as the first priority. This resulted in a low capacity utilization. In addition, under the competitive market and oversupplied condition in 2007, the domestic ethanol price was dumped while THAIAL are burdened with fixed costs. This led THAIAL to incur net loss from operations in 2007 as mentioned earlier in the financial statement analysis.

Raw material management issue between the production of liquor, a major product of THBEV, and industrial alcohol, a major product of THAIAL which generate a minuscule proportion of sale revenue to THBEV group, has caused a halt in THAIAL's operation and adversely affected THAIAL's profitability especially in 2007. On the other hand, THBEV has to support funding to THAIAL through short-term loan at low interest rate. Therefore, the separation of industrial alcohol business out of THBEV's umbrella should result in a better overall profit margin level of THBEV. This also helps reduce reliance on financing by a low profit margin subsidiary. In addition, THBEV can also fully utilize its resources such as raw material management and funding to support higher profit-margin products.

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### **2.2.2 Disadvantages**

- THBEV gives up its ownership in the distilling machines which can be used to distill spirits

Thai Alcohol owns distilling towers with the maximum capacity of 400,000 litres per days in total. Based on an interview with THAIAL executives, the distilling machines can also be used to distill spirits with equivalent quality to spirits produced by THBEV. In addition, the distilling technology of these distilling towers is newer than those of spirits plants of THBEV. Consequently, the divestment of THAIAL are considered a give up in important assets which are the distilling machines which can be used to distill spirits.

- THBEV lose an upside gain opportunity in ethanol business

Ethanol is currently oversupplied as the government still allows the use of Octane and the ambiguous practical action plan to push gasohol that contains high proportion of ethanol such as E85.

However, there is a possibility that the government may prohibit the use of Octane. If this happens, the demand for ethanol is expected to skyrocketed immediately. And if E85 gasohol is pushed to the market simultaneously with the prohibition of Octane, the total capacity of current ethanol producers and new capacity of licensed companies will not meet the demand for ethanol. Under such excess demand condition, the advantages exist for ethanol producers who have ready facilities. The divestment of Thai Alcohol, therefore, make THBEV lose potential upside gain opportunity in ethanol business.

### **2.2.3 Advantages and disadvantages of entering or not entering the Transaction**

The divestment of THAIAL to the Connected Persons is part of a terms & conditions relevant to the acquisition of OISHI. THBEV plans to acquire OISHI shares from Yodkij Business Company Limited by selling THAIAL shares to Damrongfa Company Limited whereby Yodkij Business and Damrongfa have the same group of major shareholders who are also Connected Persons of THBEV.

The acquisition of OISHI shares and divestment of THAIAL shares are executed for the purpose of business structure realignment of THBEV which targets an expansion into business with similar products to those of its core business. Hence, it is not possible for THBEV to executes such transactions with other unrelated counterparties.

Moreover, finding an unrelated counterparty who intend to acquire THAIAL shares may consume much more time since industrial alcohol business currently encounters oversupply condition and its business nature requires significant working capital to procure raw material which constitutes a major proportion of the cost structure while raw material price fluctuations by supply of sugar cane in each year and season are pertinent.

## **3. Fairness of the Price and the Conditions of the Connected Transaction**

### **3.1 Fairness of the Price**

Pursuant to the divestment of THAIAL shares in a total number of 159,999,986 shares amounting to THB 1,590.00 million according to the Board of Directors'

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Meeting of Thai Beverage Public Company Limited No.3/2551 on 14 May 2008, the Financial Advisor uses various share valuation methodology to determine the fairness of the price. The share valuation is based on the reviewed financial statements of THAIAL as of 30 June 2008. Details of the share valuation are as follow.

**3.1.1 Adjusted Book Value Approach**

By adjusting the value of some assets to the appraisal value, this approach reflects the share value better than the book value approach.

Under the adjusted book value approach, THAIAL share value is derived from the total assets as of December 30 June 2008, adjusted by the surplus/discount value of fixed asset evaluated by an Independent Asset Appraiser, minus total liabilities, and divided by the number of outstanding shares. This calculated value represents the Net Asset Value (NAV) that reflects the market value better than the value derived from the Book Value Approach.

The Financial Advisor adjusted the asset value based on the Asset Appraisal Report as of 25 October 2007 prepared by Thai Property Appraisal Lynn Phillips Company Limited, an SEC certified Independent Asset Appraiser. According to THAIAL's reviewed financial statement as of 30 June 2008 and subsidiaries' audited financial statement as of 31 December 2007, asset value of THAIAL and subsidiaries already reflected the appraisal value. The details of the adjusted book value are as follow:

Paid-Up capital	800	Million Baht
Share premium	-	Million Baht
Revaluation surplus from land	395.02	Million Baht
Retained earnings		Million Baht
Legal reserve	90.00	Million Baht
Unappropriated	(67.78)	Million Baht
Total shareholder's equity	1,217.23	Million Baht
Land's adjusted value of Banglen Agriculture Company Limited	297.34	Million Baht
Land's adjusted value of Sint Ek Panich Company Limited	92.92	Million Baht
Total adjusted share value	1,607.49	Million Baht

From the adjusted book value approach, THAIAL's consolidated share value as of 30 June 2008 is THB 1,607.49 million.

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### 3.1.2 Discounted Cash Flow Approach

Discounted cash flow approach reflects the future performance of a target company based on the assumptions from THAIAL's executives, assessment on economic condition, and other relevant factors. The free cash flows are then discounted to the present value at its cost of capital calculated from the appropriate debt to equity ratio. A company's share value directly relates to the profitability and cash flow transaction where as non-cash transactions such as depreciation and amortization does not affect the valuation.

The Financial Advisor conducted the financial projection for a five-year period based on an on-going concern basis and the assumption that there will be no significant changes in an outlook of THAIAL. Assumptions obtained from THAIAL's executives are adjusted to reflect the current economic condition at the time of study. The appropriate price of THAIAL shares will then be proposed to the Board of Directors of THBEV. Therefore, if the economic conditions and other factors affect THAIAL's performance differently from our assumptions, the share value will be different from that stated in this report and, therefore, the stated share value in this report shall not be used as a reference for any other purposes than the objective as mentioned earlier.

Weighted average cost of capital calculated from the cost of equity based on Capital Asset Pricing Model (CAPM) and the cost of debt comprise of the following variables.

Ke	=	$R_f + \beta(R_m - R_f)$
Risk free rate (Rf)	=	The rate of return from investment in riskless securities
Market return (Rm)	=	The rate of return from investment in the Stock Exchange of Thailand
Beta ( $\beta$ )	=	Slope representing the relationship between the stock price and the stock price index
Kd	=	Cost of borrowing

Important assumptions used in the projection of THAIAL are as follow:

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The Government Policy and Industry Trends	Effect to THAIAL
1. The government will still be allow to be sold in Thailand	<ul style="list-style-type: none"> <li>• Moderate ethanol sale growth.</li> </ul>
2. No certainty on practical action plan to support E85 gasohol consumption.	<ul style="list-style-type: none"> <li>• No capital expenditure plan within the next 5 years.</li> </ul>
3. NGV and LPG are competing substitutes for gasohol.	
4. Given oversupply condition, the government is not expected to grant ethanol licenses to any new players.	
5. Those licensed ethanol producers, who have not build factories are expected to finish construction and start operation by the end of 2009	
<b>THAIAL Independent from THBEV's Umbrella After Divestment:</b>	
6. Molasses sourcing problem that causes shortage of raw material for ethanol and 95-degree alcohol will be alleviated.	<ul style="list-style-type: none"> <li>• THAIAL has a freedom to source adequate molasses for ethanol and 95-degree alcohol production. Therefore, it is expected that THAIAL should generate higher sale revenue from 2009 onward.</li> </ul>
7. Loan repayment to THBEV according to the terms & conditions of the divestment.	<ul style="list-style-type: none"> <li>• THAIAL will repay total amount of loan to THBEV by the end of 2008.</li> </ul>
8. No service and management fee payment to THBEV from 2009 onward.	<ul style="list-style-type: none"> <li>• SG&amp;A expenses of THAIAL from 2009 will be lower than the past.</li> </ul>
9. No advisory fee to liquor expert from 2009 onward.	

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Discounted Cash Flow Assumptions are as follows.

- 1) 5-year projection period starting from 2008 to 2013.
- 2) Sale revenue is projected from the sale of two major products, which are 95-degree alcohol and ethanol. The details are as follows.

a. Production Capacity

- The maximum capacity of 95-degree alcohol is totally 400,000 litres per day, and the maximum capacity of ethanol is 200,000 litres per day based on 300 working days per year.
- The production quantity of 95-degree alcohol and ethanol combined as percentage of the maximum capacity at 400,000 litres per day are as follow.

Year	2008	2009	2010	2011	2012	2013
Capacity Utilization (%)	33	50	53	61	63	66

- Sale Volume

95-degree alcohol: Assuming all exported. The sale volume is as follow.

Year	2008	2009	2010	2011	2012	2013
Sale Volume of 95-degree alcohol (Million Litres)	31.79	31.79	32.34	32.89	33.45	34.03

THAIAL distributes 95-degree alcohol to trading companies which sell 95-degree alcohol to the alcoholic beverage producers in Japan. Therefore, the Financial Advisor assumes the sale volume growth rate of 95-degree alcohol according to Japan's GDP growth rate forecasted by IMF

- Ethanol: The sale volume is assumed based on a proportion of the demand for ethanol forecasted by the Ministry of Energy to the total production capacity of all distillers.

Year	2008	2009	2010	2011	2012	2013
Sale Volume of Ethanol (Million Litres)	28.45	27.21	30.28	38.25	40.54	42.97

- As a result of the sale volume assumption, the average sale volume composition of 95-degree alcohol and ethanol during the projection period is as follow.

Average Sale Volume Composition during Projection Period (%)	
95-degree alcohol	49
Ethanol	51

- Price per Unit

- 95-Degree Alcohol

THAIAL distributes 95-degree alcohol mainly to clients in Japan. A reference price of 95-degree alcohol is the market price in Brazil added up



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with the freight and insurance charges from Brazil to Japan. THAIAL charges its customer below the reference price range with the details as follow:

Year	2008	2009	2010	2011	2012	2013
Sale Price per unit of 95-degree alcohol (THB/Litre)	14.10	19.12	19.67	20.29	20.96	21.65

- Ethanol

Unlike 95-degree alcohol, THAIAL mainly distributes ethanol to domestic oil producers. Therefore, sale price of ethanol varies with domestic price of the molasses, the major raw material.

Year	2008	2009	2010	2011	2012	2013
Sale Price per unit of Ethanol (THB/Litre)	16.79	21.55	22.17	22.87	23.62	24.41

3) Cost of goods sold of THAIAL is divided into two categories which are variable costs and fixed costs.

- Variable Cost

- Major variable cost of THAIAL is the cost of molasses and fuel cost which is husk. The molasses and husk prices in the second half of 2008 are as follow.

Year	2H08
Molasses Price per Kilogram	3.10
Husk Price per Kilogram	1.10

- Growth in cost per kilogram of molasses and husk is set equal to Thai headline inflation according to the Ministry of and Bank of Thailand.

Year	2009 hence
Growth of cost per kilogram of molasses and husk (%)	3.55

- Fixed costs included labour cost and overhead expenses

- Growth in fixed costs are set equal to Thai headline inflation according to the Ministry of Commerce for the first five months of 2008, and Bank of Thailand afterward.

Year	2008	2009 hence
Growth in fixed cost (%)	5.80	3.55

- Depreciation and amortization expenses are calculated based on the accounting policy of THAIAL.

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4) Selling and Administration Expenses

- Fixed Cost

- Salary, welfare and bonus, including other expenses such as water, electricity and rent expenses, are assumed to grow according to the Thailand's headline inflation in each period as follows.

Year	2008	2009 onwards
Growth Rate of Fixed Cost (%)	5.80	3.55

- Depreciation and amortization expenses are calculated based on THAIAL's policy.
- From 2009 onwards, no advisory fee to liquor expert will be paid according to the agreement of the THAIAL share acquisition.

- Variable Cost

- Becoming independent from THBEV's umbrella, THAIAL will no longer pay advisory, commission and management fee to THBEV from 2009 onwards.
- Other expenses are assumed at 0.51% of sale revenue based on the historical average.

- Idle Cost

The idle cost of THAIAL can be classified into 2 categories, which are depreciation and labor cost. In the case that THAIAL runs below the maximum capacity, those fixed costs will be allocated, by the proportion of idle capacity, as idle cost and transferred from production cost to selling and administration expenses.

The selling and administration expenses during in 2007 and projection period are as follows.

Year	2007	Average during Projection Period 2008-2013
Selling and Administration Expenses % of Sale revenue	24.87	9.62

5) Capital Expenditure (CAPEX)

THAIAL has no capital expenditure plan throughout the projection period.

6) Working Capital

Working capital days are based on THAIAL's policy as well as historical figures during 2005 to 2007 as follow.

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	Period (Days)
Receivable Days	43
Inventory Days	90
Payable Days	35

## 7) Terminal Value

Terminal value growth after 2013 is assumed at 2.50% per annum based on Thailand's core inflation forecasted by Bank of Thailand.

## 8) Discount Rate

Weighted Average Cost of Capital is calculated based on Capital Asset Pricing Model (CAPM). The beta is calculated from listed companies in foreign stock exchanges, which operate in similar business to THAIAL, the details of which are presented in the appendix.

<b>Ke</b>	=	Rf + Beta(Rm – Rf)
Risk free rate (Rf)	=	Yield to maturity of a benchmarked 10-year-to-maturity Thai Government Bond as of 23 July 2008 at 5.46% (Source: Thai Bond Market Association)
Market Return (Rm)	=	12.51% (32- year historical average of SET Index return)
Beta (THAIAL)	=	1.64 times
<b>Ke</b>	=	17.01 %
<b>Kd (After Tax)</b>	=	5.25 %
<b>WACC</b>	=	11.13 %

## 9) Interest-Bearing Debt to Equity Ratio

Interest-bearing debt to equity ratio is assumed at 1 times throughout projection period.

**Result of Share Valuation based on Discounted Cash Flow Methodology**

The Financial Advisor evaluates THAIAL's shares from its future cash flows from operation in 95-degree alcohol and ethanol business. Given the view that THAIAL is freed from THBEV's umbrella from 2009 onwards, the limitations on raw material sourcing are alleviate, and thus, THAIAL are projected to generate sale revenue in a normal level as those other companies within the same industry where all companies operate under the macro views on government policy and industry trends as mentioned earlier. The future cash flows are then discounted to the present value at the weighted average cost of capital of 11.13% in which interest bearing debt to equity ratio is targeted at 1 time, and the net debt of THB 863.56 million as of 30 June 2008. The equity value is added up with the appraisal value of land owned by 2 of THAIAL's subsidiaries, which equal to THB 297.34 million and THB 92.92 million. This yields THAIAL share value of THB 1,641.12 million.

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### Results of THAIAL Share Valuation

Valuation Methodology	Equity Value (THB million)
Adjusted Book Value Approach	1,607.49
<b>Discounted Cash Flow Approach</b>	<b>1,641.12</b>
<b>THAIAL Divestment Transaction Amount</b>	<b>1,590.00</b>

### Opinion of The Financial Advisor

According to the various methodologies of THAIAL share valuation, the sale and purchase price of THAIAL shares to the Connected Persons at THB 1,590 million in total is closed to the share value based on the adjusted book value approach and the discounted cash flows approach whereby THAIAL's future performance is taken into consideration. Therefore, the Financial Advisor is of an opinion that THAIAL share price of THB 1,590 million in total is fair and beneficial to the Company.

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### 3.2 Fairness of the Conditions of the Connected Transaction

THAIAL share divestment has the payment terms as follow.

- One-time cash payment in full amount to the Seller.
- Other Conditions:
  - THAIAL repay outstanding loan and accrued interests to THBEV within 30 days from the date that the Buyer becomes the shareholder of THAIAL.
  - THAIAL engages in a contract with the liquor expert in which THAIAL is obliged to pay advisory fee to the liquor expert in a lump sum advanced payment and monthly payment. The advanced fee payment in lump sum amount as of 31 December 2007 was THB 342.97 million. This contract is not related to alcohol manufacturing, and the Buyer does not receive any benefits from this contract. Therefore, such contract will be transferred from THAIAL to the Seller's subsidiary, Sura Bangyikhan Company Limited. In addition, the lump sum advanced payment as of 31 December 2007 and the monthly payment starting from 1 January 2008 will be refunded to THAIAL.

Such terms and conditions are considered a normal business practice, and thus considered fair.

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**4. Independent Financial Advisor Opinion for Shareholders' Resolution**

The Financial Advisor suggests the shareholders to approve this transaction for the following reasons:

- This Connected Transaction is reasonable for the following reason:
  - The divestment of THAIAL which produces and sells industrial alcohol and ethanol are implemented for the purpose of refocusing core alcoholic beverage business, which generates more than 98% of total sale revenue to THBEV as of the first quarter of 2008, and in which THBEV have expertise.
  
- This Connected Transaction is beneficial in that:
  - Thai Alcohol has experienced a halt in business operation from time to time throughout the year as a result of raw material management issue. This adversely affects the operating performance of THAIAL especially in 2007. THBEV, on the other hand, has had to support fundings to THBEV through short-term loan at low interest. Therefore, a separation of industrial alcohol business from THBEV should result in a better profit margin level and reduce reliance on fundings by a low profit margin subsidiary. In addition, THBEV can also fully utilize its resources such as raw material management and funding capacity to support higher profit-margin products.
  
- If the Company does not enter into the Connected Transaction, given the existence of the raw material management issue which adversely affects the operating performance of THAIAL, the Company would still hold an underperformed investment in THAIAL and continue to support fundings to THAIAL that has a halt in business operation on a regular basis. On the contrary, the divestment of THAIAL enables THBEV to use the proceeds from divestment to invest in higher return businesses.
  
- Such transaction has to be executed with the Connected Persons since it is time consuming to find an unrelated counterparty to acquire THAIAL shares, given the current oversupplied ethanol market condition, the nature of this business which requires significant working capital for raw material procurement, and the raw material price fluctuations by supply of sugar cane in each year and by seasons.
  
- The divestment of THAIAL to Connected Persons at THB 1,590 million in total is considered fair as this amount is closed to the equity value of THB 1,641.12 million based on the discounted cash flow approach the valuation methodology that, in the Financial Advisor's opinion, best reflects the future performance of THAIAL.
  
- The terms and conditions of this Connected Transaction are fair and are considered a normal business practice.

If the shareholders resolve to approve this Connected Transaction, the Buyer which are Connected Persons to THBEV, shall make a payment of THB 1,590 million to THBEV and THAIAL will no longer be a subsidiary of THBEV.

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SICCO Advisory Company Limited, the Independent Financial Advisor, hereby certifies that the opinion expressed herein have been prudently made in compliance with the professional standards with due regard to the shareholders' benefits.

Best regards,

SICCO Advisory Company Limited

<Mr. Siripong Sutharaj>

<Mr. Chakkris Uthayophas>

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Mr. Siripong Sutharaj

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Mr. Chakkris Uthayophas

Director

Director

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### Appendix 1

Data of comparable firms in industrial alcohol business for the calculation of weighted average cost of capital for THAIAL share valuation.

Company	Listed Exchange	Market Capitalization (THB million)	Beta (times)	Debt-to-Equity Ratio (times)	Government Bond Yield (%)	Market Return (%)
MGP Ingredients	NASDAQ	3,475.53	0.873	0.14	4.14	5.25
Pacific Ethanol	NASDAQ	3,131.70	1.137	0.73	4.14	5.25
Green Plains	NASDAQ	1,790.07	0.729	1.25	4.14	5.25
Xethanol Corp.	AMEX	457.43	0.409	0.01	4.14	5.25
Aventine	NYSE	9,438.76	1.481	0.89	4.14	5.25
Cosan	NYSE	89,720.32	0.989	0.68	4.14	5.25
Verasun Energy	NYSE	36,440.71	1.405	1.22	4.14	5.25
Crop Energies	FWB	13,794.60	0.710	0.24	4.57	14.46
Renova Energy	LSE	1,444.28	0.064	0.59	4.54	5.66
Korea Alcohol	KDQ	4,110.00	0.297	0.15	5.54	17.77
Jinro Distillers	KDQ	5,638.78	0.809	0.01	5.54	17.77

Source : Bloomberg, ADB, Thai BMA, BOT and IMF

