ABN·AMRO

Produced by: ABN AMRO Asia Ltd, Seoul Branch

Monday 15 January 2007

Change of target price

Modetour Network

Good gets better

Modetour's gains from improving brand equity are materialising much faster than we initially thought, as observed in 4Q06. We upgrade our DCF-based target price for Modetour from W26,000 to W38,000, after raising our 2007F earnings by 70%. Buy.

Key forecasts

	FY04A	FY05A	FY06F	FY07F	FY08F
Revenue (Wb)	31.6	38.9	66.3	87.4	101.5
EBITDA (Wb)	3.23	3.51	11.4▲	18.7▲	20.1▲
Reported net profit (Wb)	2.86	2.93	8.44▲	13.4▲	15.2▲
Normalised net profit (Wb)[1]	2.86	2.93	8.44	13.4	15.2
Normalised EPS (W)	486.7	450.8	1061▲	1597▲	1805▲
Dividend per share (W)	0.00	100.0	150.0	200.0	250.0
Dividend yield (%)	0.00	0.41	0.61	0.82	1.02
Normalised PE (x)	50.2	54.2	23.0▼	15.3▼	13.5▼
EV/EBITDA (x)	20.3	40.3	16.3	8.71	7.41
Price/book value (x)	0.69	7.03	4.12	3.31	2.72
ROIC (%)	141.2	40.7	108.6	62.0	70.7

1. Post-goodwill amortisation and pre-exceptional items
Source: Company data, ABN AMRO forecasts
Accounting Standard: Local GAAP

year to Dec, fully diluted

Faster-than-expected benefits from stronger brand recognition

Modetour's 4Q06 results were significantly above our forecast. Top line grew 106% yoy on the back of industry-wide factors, including Chusuk demand, increased honeymoon demand from the double-spring year, but more importantly, as a result of TV advertising (started in 26 October) which would have led to increased brand recognition by travellers by December 2006. Modetour package tourists grew 96% yoy in December vs 68% in November and 58% in October. In cost terms, total marketing costs rose only to 3% of revenue from 1% of 2005 revenue. Profit margins expanded due to increased package tour scale and scale economies on both qoq and yoy basis. Package tours accounted for 64% of revenue in 4Q06 vs 55% in 4Q05.

Earnings upgrade on the back of results and bullish guidance

We have upgrade our 2007 and 2008 forecasts on the back of the 4Q results and also to reflect management's guidance for 2007. Our 2007 and 2008 sales forecasts rise 23% and 20%, respectively, while our net profit rises 70% and 61%, to capture the bulk discount benefits (provide 14 package tourists to airline and hotel, get one free) from increasing scale.

A strong won should continue to support sentiment

A strengthening won should support sentiment regarding the structurally-growing outbound travel demand. ABN AMRO believes the won will continue to appreciate against the US dollar to W870 by end-2007 and W850bn by 2008.

Target price raised to W38,000

We raise our 12-month forward three-stage DCF-based target price from W26,000 to W38,000, leaving about 55% potential upside. At our target, the stock would trade at 07F P/E of 23.8x and P/B of 5.1x for an ROE forecast of 24% - at a sufficient premium to non-cyclical consumer names to reflect superior growth and return prospects. Currently, the stock is trading at 07F P/E of 15.3x and P/B of 3.3x.

Buy

Absolute performance
n/a

Short term
Neutral

Market relative to region

Consumer Services
Korea

Price
W24450.00

Target price
W38000.00 (from W26000.00)

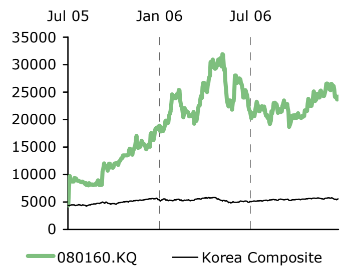
Market capitalisation
W205.38bn (US$218.50m)

Avg (12mth) daily turnover
W1193.75m (US$1.26m)

Reuters	Bloomberg
080160.KQ	080160 KS

Asset allocation	
Equities	Underweight
Cash	Overweight
Bonds	Overweight

Price performance	(1M)	(3M)	(12M)
Price (W)	25450.0	20700.0	18380.0
Absolute %	-3.9	18.1	33.0
Rel market %	-4.7	13.3	34.4
Rel sector %	-5.8	13.8	36.4



Stock borrowing: Difficult
Volatility (30-day): 36.04%
Volatility (6-month trend): ↓
52-week range: 34050.00-16788.00
Korea Composite: 1388.37
BBG AP Leisure & Hotels: 187.62

Source: ABN AMRO, Bloomberg

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Priced at close of business 15 January 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

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Very strong 4Q earnings

We raise our earnings forecasts in the short to medium term to reflect faster growth and improving margins from a change in sales mix to the more profitable package tours.

Table 1 : Quarterly results

W bn	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06P	2006
Sales	8.1	8.5	12.8	9.4	14.7	12.4	20.0	19.3	66.3
% yoy change	*26.8%*	*29.9%*	*26.0%*	*10.7%*	*80.1%*	*44.6%*	*56.3%*	*105.5%*	*70.6%*
% qoq change	*-4.0%*	*5.0%*	*49.6%*	*-26.6%*	*56.2%*	*-15.8%*	*61.7%*	*-3.4%*	
Operating Profit	0.6	0.0	2.2	0.4	3.1	0.2	4.4	2.6	10.3
Recurring Profit	0.7	0.4	2.4	0.6	3.4	0.5	4.9	2.9	11.7
Net Profit	0.5	0.3	1.7	0.4	2.4	0.4	3.5	2.0	8.4
Profit Margins									
Operating Profit Margin	7.4%	0.2%	16.9%	4.4%	21.1%	1.7%	22.0%	13.7%	15.6%
Recurring Profit Margin	8.6%	4.7%	18.5%	6.2%	23.1%	4.4%	24.5%	14.8%	17.6%
Net Profit Margin	6.5%	3.2%	13.2%	4.8%	16.6%	3.1%	17.7%	10.5%	12.7%

Source: Company data

Table 2 : Earnings revisions

	Previous			Revised			% Change		
	2006F	2007F	2008F	2006F	2007F	2008F	2006F	2007F	2008F
Net sales (W bn)	53.8	71.1	84.8	66.3	87.4	101.5	23%	23%	20%
Operating profit (W bn)	5.9	9.7	11.5	10.3	17.1	19.1	75%	76%	66%
Net profit (W bn)	5.3	7.9	9.4	8.4	13.4	15.2	58%	70%	61%
EPS (W) *	1,251.5	1,888.4	2,247.4	1,055.3	1,596.6	1,804.5	-16%	-15%	-20%
Sales growth (%)	34.7%	26.1%	19.3%	70.6%	31.7%	16.2%	35.9ppt	5.6ppt	-3.1ppt
Operating margin (%)	11.0%	13.6%	13.6%	15.6%	19.6%	18.8%	4.6ppt	5.9 ppt	5.3ppt
Net margin (%)	9.9%	11.1%	11.1%	12.7%	15.4%	14.9%	2.8ppt	4.2 ppt	3.8ppt
EPS growth (%)	177.0%	50.9%	19.0%	134.1%	51.3%	13.0%	-42.9ppt	0.4ppt	-6.0ppt

Source: ABN AMRO forecasts
**Note: Decrease in revised EPS is due to the rights issue and bonus issue carried out by Modetour during 2006*

Table 3 : Modetour market share assumptions

Market share	2005	2006F	2007F	2008F	2009F	2010F
Previous	4.7%	5.9%	7.0%	7.7%	8.4%	9.1%
Revised	4.7%	6.4%	7.5%	8.0%	8.4%	9.1%

Source: Company data, ABN AMRO forecasts

From micro cap to small cap

Modetour's market cap has increased to over US$200m (from under US$100m less than a year ago), and with it, interest of foreign investors should also have increased. Average daily turnover is still low at US$0.8m.

Risks to our forecast and target price

Risks to our valuation and target price include: 1) a decrease in outbound tourist numbers due to outbreaks of disease; and, 2) slower-than-expected growth in the number of tourists handled each month due to a faster-than-expected increase in competition.

DISCLOSURES APPENDIX

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more, a Hold 5-10% and a Sell less than 5%. This structure applies to research on Asian and European stocks published from 1 November 2005; on Australian stocks from 7 November 2006 and on continental European small and mid cap stocks from 23 November 2006. For UK small caps a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Asset allocation: The asset allocation is the responsibility of the economics team. The recommended weight (Over, Neutral and Under) for equities, cash and bonds is based on a number of metrics and does not relate to a particular size change in one variable.

Stock borrowing rating: The stock borrowing rating is the subjective view and responsibility of the ABN AMRO equity finance team: Easy implies ready availability. Moderate implies some availability. Hard implies availability is tight. Impossible implies no availability.

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The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 15 Jan 2007)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	587 (22)	341 (3)
Add	19 (47)	2 (0)
Hold	522 (17)	287 (3)
Reduce	1 (0)	1 (0)
Sell	138 (7)	91 (1)
Total (IB%)	**1267 (19)**	**722 (3)**

Trading recommendations (as at 15 Jan 2007)

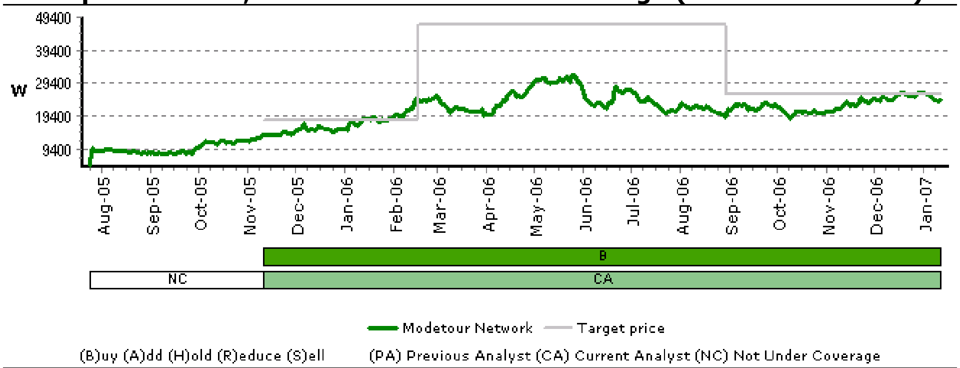
	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	6 (17)	3 (0)
Trading Sell	4 (75)	1 (0)
Total (IB%)	**10 (40)**	**4 (0)**

Valuation and risks to target price

Modetour Network (RIC: 080160.KQ, Rec: Buy, CP: W24450.00, TP: W38000.00): Risks to our forecast and DCF-based target price include: 1) a decrease in outbound tourist numbers due to outbreaks of disease; and, 2) slower-than-expected growth in the number of tourists handled each month due to a faster-than-expected increase in competition.

Modetour Network

Stock performance, recommendations and coverage (as at 14 Jan 2007)



Gina Kim, CFA started covering this stock on 10 Nov 05
Moved to new recommendation structure between 1 November 2005 and 31 January 2006

Trading recommendation history (as at 15 Jan 2007)

Date	Rec	Analyst
19 Apr 2006	n/a	CA
09 Mar 2006	Trading Buy	CA

Regulatory disclosures

Subject companies: **080160.KQ**

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MODETOUR NETWORK: KEY FINANCIAL DATA

Income statement

Wb	FY04A	FY05A	FY06F	FY07F	FY08F
Revenue	31.6	38.9	66.3	87.4	101.5
Cost of sales	0.00	0.00	0.00	0.00	0.00
Operating costs	-28.4	-35.4	-54.9	-68.7	-81.4
EBITDA	**3.23**	**3.51**	**11.4**	**18.7**	**20.1**
DDA & Impairment (ex gw)	-0.24	-0.31	-1.11	-1.55	-1.00
EBITA	**2.99**	**3.20**	**10.3**	**17.1**	**19.1**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**2.99**	**3.20**	**10.3**	**17.1**	**19.1**
Net interest	0.18	0.24	0.72	1.05	1.36
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	0.85	0.62	0.66	0.87	1.02
Reported PTP	**4.02**	**4.05**	**11.7**	**19.0**	**21.5**
Taxation	-1.15	-1.12	-3.28	-5.61	-6.34
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**2.86**	**2.93**	**8.44**	**13.4**	**15.2**
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	**2.86**	**2.93**	**8.44**	**13.4**	**15.2**

Source: Company data, ABN AMRO forecasts *year to Dec*

Balance sheet

Wb	FY04A	FY05A	FY06F	FY07F	FY08F
Cash & market secs (1)	2.46	13.6	36.7	50.8	65.4
Other current assets	1.72	3.07	11.5	16.0	19.0
Tangible fixed assets	0.52	0.51	3.07	1.92	1.32
Intang assets (incl gw)	0.00	0.00	0.00	0.00	0.00
Oth non-curr assets	7.14	9.39	14.4	14.4	14.4
Total assets	**11.8**	**26.5**	**65.7**	**83.0**	**100.1**
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	3.02	4.64	7.41	10.5	12.0
Long term debt (3)	0.00	0.00	0.00	0.00	0.00
Oth non-current liab	2.84	7.29	8.42	10.6	12.6
Total liabilities	**5.86**	**11.9**	**15.8**	**21.1**	**24.7**
Total equity (incl min)	5.99	14.6	49.8	62.0	75.5
Total liab & sh equity	**11.8**	**26.5**	**65.7**	**83.0**	**100.1**
Net debt (2+3-1)	-0.30	-7.77	-30.4	-42.9	-56.2

Source: Company data, ABN AMRO forecasts *year ended Dec*

Cash flow statement

Wb	FY04A	FY05A	FY06F	FY07F	FY08F
EBITDA	3.23	3.51	11.4	18.7	20.1
Change in working capital	0.58	0.64	-7.35	-2.88	-1.98
Net interest (pd) / rec	0.18	0.24	0.72	1.05	1.36
Taxes paid	-1.15	-1.12	-3.28	-5.61	-6.34
Other oper cash items	1.75	0.45	2.31	2.38	1.54
Cash flow from ops (1)	**4.58**	**3.72**	**3.84**	**13.6**	**14.7**
Capex (2)	-0.17	-0.37	-3.67	-0.40	-0.40
Disposals/(acquisitions)	0.01	-0.16	-5.00	0.00	0.00
Other investing cash flow	-5.55	-2.08	0.00	0.00	0.00
Cash flow from invest (3)	**-5.71**	**-2.62**	**-8.67**	**-0.40**	**-0.40**
Incr / (decr) in equity	0.00	5.69	27.2	0.00	0.00
Incr / (decr) in debt	0.18	1.60	0.68	0.58	0.69
Ordinary dividend paid	0.00	0.00	-0.42	-1.26	-1.68
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-0.53	2.72	0.45	1.59	1.36
Cash flow from fin (5)	**-0.35**	**10.0**	**28.0**	**0.91**	**0.37**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**-1.48**	**11.1**	**23.1**	**14.1**	**14.7**
Equity FCF (1+2+4)	4.41	3.34	0.17	13.2	14.3

Lines in bold can be derived from the immediately preceding lines. *year to Dec*
Source: Company data, ABN AMRO forecasts

MODETOUR NETWORK: PERFORMANCE AND VALUATION

Standard ratios

Performance	Modetour FY04A	FY05A	FY06F	FY07F	FY08F	Hana Tour Service FY05F	FY06F	FY07F	Korea aggregate 2007	2008	2009
Sales growth (%)	39.8	22.9	70.6	31.7	16.2	38.0	31.1	15.7	5.82	3.15	7.14
EBITDA growth (%)	369.2	8.65	226.2	63.2	7.86	63.0	50.4	13.0	13.3	9.19	-13.8
EBIT growth (%)	534.1	6.93	222.8	65.6	11.8	51.3	54.4	19.8	13.4	9.17	-15.1
Normalised EPS growth (%)	189.7	-7.39	135.4	50.5	13.0	46.2	43.0	20.1	n/a	n/a	n/a
EBITDA margin (%)	10.2	9.02	17.2	21.4	19.8	18.7	21.5	21.0	19.7	22.5	24.1
EBIT margin (%)	9.46	8.23	15.6	19.6	18.8	16.2	19.1	19.8	12.3	14.1	16.7
Net profit margin (%)	9.04	7.54	12.7	15.4	14.9	14.3	15.8	16.4	10.7	12.0	13.6
Return on avg assets (%)	21.7	12.1	16.1	16.2	14.7	20.3	21.8	19.8	3.65	3.75	1.82
Return on avg equity (%)	62.7	28.4	26.2	24.0	22.1	46.3	46.9	40.3	15.5	15.1	11.3
ROIC (%)	141.2	40.7	108.6	62.0	70.7	49.7	76.5	108.4	14.5	14.7	8.03
ROIC - WACC (%)	130.8	30.3	98.2	51.7	60.3	39.3	66.1	98.1	n/a	n/a	n/a
					year to Dec			*year to Dec*			*year to Dec*
Valuation											
EV/sales (x)	2.07	3.63	2.80	1.86	1.47	5.95	4.44	3.73	0.82	0.76	0.45
EV/EBITDA (x)	20.3	40.3	16.3	8.71	7.41	31.8	20.7	17.8	4.57	3.98	5.31
EV/EBITDA @ tgt price (x)	55.6	72.8	26.2	14.8	13.1	31.5	20.5	17.6	n/m	n/m	n/m
EV/EBIT (x)	21.9	44.2	18.0	9.50	7.80	36.7	23.2	18.9	7.88	6.83	8.93
EV/invested capital (x)	11.5	20.6	9.57	8.52	7.76	26.6	30.7	33.0	1.35	1.20	1.65
Price/book value (x)	0.69	7.03	4.12	3.31	2.72	16.2	11.4	8.33	n/a	n/a	n/a
Equity FCF yield (%)	3.07	2.10	0.09	6.43	6.97	-2.41	3.76	4.19	5.07	6.88	6.36
Normalised PE (x)	50.2	54.2	23.0	15.3	13.5	40.4	28.3	23.5	n/a	n/a	n/a
Norm PE @tgt price (x)	78.1	84.3	35.8	23.8	21.1	40.0	28.0	23.3	n/a	n/a	n/a
Dividend yield (%)	0.00	0.41	0.61	0.82	1.02	0.80	0.96	1.28	2.15	2.55	3.57
					year to Dec			*year to Dec*			*year to Dec*

Per share data	FY04A	FY05A	FY06F	FY07F	FY08F
Tot adj dil sh, ave (b)	0.01	0.01	0.01	0.01	0.01
Reported EPS (KRW)	486.7	450.8	1061	1597	1805
Normalised EPS (KRW)	486.7	450.8	1061	1597	1805
Dividend per share (KRW)	0.00	100.0	150.0	200.0	250.0
Equity FCF per share (KRW)	751.0	514.0	21.1	1571	1703
Book value per sh (KRW)	35242	3480	5933	7379	8984
					year to Dec

Solvency	FY04A	FY05A	FY06F	FY07F	FY08F
Net debt to equity (%)	-5.03	-53.2	-61.0	-69.2	-74.5
Net debt to tot ass (%)	-2.54	-29.3	-46.3	-51.7	-56.2
Net debt to EBITDA	-0.09	-2.22	-2.66	-2.30	-2.79
Current ratio (x)	1.39	3.59	6.50	6.37	7.01
Operating CF int cov (x)	-31.2	-19.6	-8.83	-17.4	-14.4
Dividend cover (x)	0.00	6.98	6.70	7.98	7.22
					year to Dec

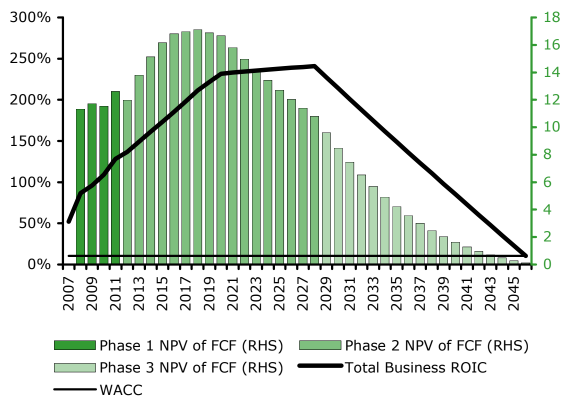
Priced as follows: 080160.KQ - W24450.00; 039130.KQ - W62600.00
Source: Company data, ABN AMRO forecasts

MODETOUR NETWORK: VALUATION METHODOLOGY

Economic Profit Valuation	**W bn**	**%**
Adjusted Opening Invested Capital	14.6	4
NPV of Economic Profit During Explicit Period	43.3	12
NPV of Econ Profit of Remaining Business (1, 2)	192.5	54
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	108.2	30
Enterprise Value	358.6	100
Plus: Other Assets	30.4	8
Less: Minorities	0.0	0
Less: Net Debt (as at 31 Dec 2007)	0.0	0
Equity Value	319.5	89
No. Shares (millions)	8.4	
Per Share Equity Value	**38037.23**	
Current Share Price	24450.00	

Discounted Cash Flow Valuation	**W bn**	**%**
Value of Phase 1: Explicit (2007 to 2011)	47.2	13
Value of Phase 2: Value Driver (2012 to 2028)	246.8	69
Value of Phase 3: Fade (2029 to 2046)	63.4	18
Terminal Value	1.1	0
Enterprise Value	358.6	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		6.1
FCF Grth Rate at end of Phs 1 implied by Current Price		10.4

Returns, WACC and NPV of Free Cash Flow



Sensitivity Table		No of Years in Fade Period				
		15	**18**	**20**	**23**	**25**
WACC	**7.0%**	55527.66	57471.85	58653.46	60082.41	60863.52
	8.0%	48925.84	50382.23	51258.14	52316.51	52894.64
	9.0%	43410.15	44505.50	45157.68	45945.06	46374.87
	10.0%	38774.76	39601.80	40089.52	40677.87	40998.81
	11.0%	34856.81	35483.68	35849.98	36291.48	36532.17

Performance Summary	**2007**	**2008**	**2009**	**Phase 2 Avg (2012 - 2028)**
Invested Capital Growth (%)	-2.6	1.1	-0.8	5.2
Operating Margin (%)	15.6	19.6	18.8	24.0
Capital Turnover (x)	4.6	6.3	7.2	13.2

Source: ABN AMRO

1. In periods following the Explicit Period i.e. Phase 2 and Phase 3

2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter

3. Net Investment is defined as capex over and above depreciation after Phase 1

Modetour Network

Company description — Buy

Modetour is a wholesale tour operator that provides outbound package tours and airline tickets to retail travel agencies at a mark-up, made possible by bulk purchasing from suppliers. Package tours account for roughly 50% of net sales. The company was the first wholesale tour operator to be established in Korea, in 1989 and the second to go public, in July 2005. Modetour is second in terms of market share, handling 4% of Korea's outbound tourists per annum, following the market leader, Hana Tour.

Price relative to country

Strategic analysis — Average SWOT company score: 3

Strengths — 4
Modetour has the scale advantage, which is important in the tour operator market for bargaining power with suppliers. The company is the second-largest tour operator in Korea.

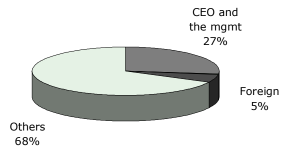
Weaknesses — 2
The company falls behind the market leader, Hana Tour, on brand equity, which is an important determinant of scale.

Opportunities — 4
The market for outbound tours is increasing, with increased leisure time from the five-day work/school week and a rapidly ageing population.

Threats — 3
Competition is intense, with high returns on investment and no entry barriers apart from scale. Increased competition is likely to reduce returns when the market matures.

Scoring range is 1-5 (high score is good)

Shareholding structure



Source: Company data

Market data

Headquarters
188-3 Euljiro-1-ga, Jung-gu, Seoul, South Korea

Website
www.modetour.co.kr

Shares in issue
8.4m

Freefloat
54%

Majority shareholders
Jong-ung Woo (13%), Seong-geun Hong (8%), Ki-chung Hong (5%)

Korea

Country view — Neutral

Korea's macro outlook has clearly worsened during the past few months, in our view, but after significant underperformance ytd, it is now the cheapest Asian market in terms of 2006F P/B and second-cheapest in terms of 2007F PE. We move our weighting back to Neutral. At the sector level, we favour more domestically-oriented sectors. Notably, the removal of the interconnection uncertainty makes us turn more optimistic on the wireless sector.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position — Average competitive score: 3-

Supplier power — 3-
High. The global-tour-operator market is highly fragmented. Suppliers can request prepayment for purchases (airline tickets, hotel reservations) and can choose operators that guarantee volume.

Barriers to entry — 2+
Low. Scale is the only significant barrier to entry. Scale is increased as brand equity is enhanced. Marketing and promotion activities build brand equity.

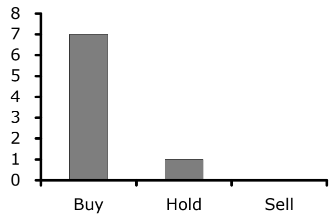
Customer power — 3-
High. The tour-operator market is highly fragmented. Customers have a wide choice, which is normally determined by the price, services and credibility of the tour operator.

Substitute products — 2-
Widely available. The range of leisure activities is broadening as Korea's population ages and leisure time increases.

Rivalry — 3+
High. Competition is intense as the barriers to entry are low. The market is seeing consolidation as more smaller retail agencies partner with wholesale agencies like Modetour.

Scoring range 1-5 (high score is good)   Plus = getting better   Minus = getting worse

Broker recommendations



Source: Bloomberg