DALTON INVESTMENTS ISSUES LETTER TO DIRECTORS OF HYUNDAI HOME SHOPPING

Santa Monica, CA, and Seoul, Korea – March 6, 2019 – Dalton Investments, ann investment management firm with approximately four billion dollars of assets under management, including holdings in select equities listed in Korea, today issued the following letter to the directors of Hyundai Home Shopping (057050: KS). Following Dalton's recent proposals to the Korea National Pension Service and Korean government to improve shareholder returns, Dalton is focusing on Hyundai Home Shopping as an example of poor capital allocation in Korea.

Dear Directors of Hyundai Home Shopping:

Dalton Investments LLC ("Dalton" or "we") is a long-term, value-oriented investment management firm with approximately four billion dollars (US $4 billion) of assets under management. We are writing in our capacity as an investment adviser to the funds and accounts under Dalton's management that have invested in Hyundai Home Shopping ("Hyundai") over the past three years. Our clients and accounts currently own approximately 2.5% of the outstanding shares of Hyundai. In this letter, we make several recommendations to Hyundai's management in order to improve Hyundai's shareholder value. We also believe that our views are consistent with those of many other minority shareholders.

Hyundai has been generating a high level of profits and been in possession of significant cash; Hyundai appears to be a representative example of the Korea Discount, where a company's minority shareholders have been experiencing mediocre returns despite being long-time investors. Hyundai's long-term stock performance has been extremely disappointing. Since its listing in 2010, its total shareholder return (share price change + dividends) has been approximately - 17%. This is stunning: if Hyundai had simply paid out all cumulative net income and its estimated idle net cash during the same period, the total shareholder return would have been more than 100 percent (approximately US $1.4 billion) from dividends alone. At approximately seven times its 2010 earnings, excluding net cash equivalents, Hyundai's initial market value at listing date was low. Since then, Hyundai's core earning power has increased. Why, then, after eight years, are shareholders not receiving a better return on their investment? Where did the value go? The Korea National Pension Service, for example, currently owns approximately 11% of Hyundai and may have lost as much as $22 million (-14%) despite holding the shares for the last six years. Similarly, other minority shareholders that own approximately 50% of Hyundai's shares, including approximately 20% by Korean minority shareholders, have seen only a negligible return on their investment.

In our view, Hyundai's disappointing performance appears to be primarily due to poor capital allocation. While the company has created significant value, this value has not been shared with minority shareholders. Further, while long-term shareholders have suffered losses, management has seen its compensation remain stable or increase. Clearly, there is a lack of alignment of interest between that of management and that of ALL shareholders.

Since 2012, Hyundai has invested nearly one billion dollars (US $1 billion) in non-core businesses. As demonstrated by Hyundai's low stock price, we believe most of these are likely to be mediocre investments, and the financial market appears to agree with us. This is because

Hyundai appears to have used a flawed approach in its investment process, targeting a minimum return of only a bank deposit interest rate. New business projects require a much higher cost of capital. Indeed, Hyundai seems to have made investment decisions more for the benefit of Hyundai Department Store Group and its affiliates than for its own shareholders. It appears that the market also believes that Hyundai is playing the role of a cash dispenser for Hyundai Department Store Group.

In addition, Hyundai has returned only trivial amounts to its shareholders while its core business has been generating an exceptionally high return, approximately 100%, on capital employed. The core business has only minimal capital requirements to operate and grow. If the company has no good investment opportunities, it should return the capital to shareholders and allow them the opportunity to decide how to utilize these funds. But Hyundai has chosen to hoard cash: Hyundai's estimated average annual total payout ratio (dividends + share repurchases out of net income) to shareholders from 2010 to 2017 was only 10% while those of its US peers, Liberty Interactive ("LI," now "Qurate Retail") and Home Shopping Network ("HSN"), were 115% and 121%, respectively, even while the business environment surrounding home shopping in the United States seems to have been worse than that in Korea and even while LI was making two acquisitions of nearly two billion dollars (US $2 billion) each. (Paying out 100% does not mean the company is not investing: the income figures already reflect investments to a certain extent.) LI and HSN have been under the control of John Malone, one of the most successful capital allocators in the United States. But, Hyundai seems to have been allocating capital in a very different manner than Mr. Malone. We are not proposing Hyundai should not invest; rather, we are merely requesting that Hyundai adopt a more effective investment approach.

Because of its history of poor capital allocation, Hyundai now is valued by the market for less than the cash and the equity stakes it holds. Hyundai's net cash equivalents and equity stakes are approximately 30% greater than its market value; the market obviously now expects Hyundai to destroy rather than create economic value. We estimate Hyundai is worth two and a half times (2.5x) its current market price and is valued at a price to book ratio of 0.8x. Given this disparity between price and intrinsic value, the company should immediately use its cash to repurchase and cancel the repurchased shares.

To improve Hyundai's capital allocation and shareholder value, we recommend the following steps be taken:

- **Buyback and cancel shares (preferred) and/or increase dividends**;
    - $200 million and $165 million one-off for Hyundai and its de facto subsidiary Hyundai HCN ("HCN"), respectively – which is approximately half of each company's net cash equivalents
        - Even if Hyundai pays out approximately $200 million, it is estimated that Hyundai still would have approximately $200 million of net cash equivalents and that Hyundai annually would generate approximately $180 million of operating cash flow
        - Even if HCN pays out approximately $165 million, it is estimated that HCN still would have approximately $165 million of net cash equivalents and

that HCN annually would generate approximately $85 million of operating cash flow

        - Hyundai is the largest shareholder of HCN with an approximately 38% ownership, and other Hyundai Department Store affiliates additionally hold an approximately 30% ownership
        - If HCN pays out $165 million, it is estimated that Hyundai's share of the payout would be approximately $63 million
    - Increase annual, regular total payout ratio to 60-80% for Hyundai and 80-100% for HCN
        - If the company faces a good investment opportunity that can create "economic value added" even after already making significant investments, the company may obtain the necessary capital through other means, such as the usage of remaining net cash equivalents, issuance/exchange of stock and/or capital increase or adopting a temporary and flexible approach with capital return to shareholders (share repurchase and cancellation)

- **Pay 40-70% of senior management's annual compensation in restricted shares to align interests of management with those of minority shareholders;**

- **Evaluate senior management's performance primarily based on "economic value added";**

- **Split and merge companies to unlock value and streamline. (But this cannot substitute better capital allocations.)**

We also are notifying you that, at the upcoming shareholder meeting, **we plan to object to the appointment of the two independent directors and the two audit committee members proposed by the Board of Directors**. Based on the information that we have gathered, we understand that all of the 146 voting items presented at Hyundai's Board of Directors meetings were approved unanimously by every single attending independent director. This means that the independent directors did not provide any constructive objections to the main agenda items, such as Hyundai's less convincing investments in non-core businesses and the minimal return to shareholders, and that the audit committee members failed to play their roles of checking and auditing. Korea has adopted the "3% rule," limiting the voting power of shareholders with more than a 3% share to 3%, designed to allow minority shareholders to exercise some influence over the appointment of audit committee members. We are planning to continuously raise our voice as minority shareholders through this 3% rule.

It is time for change. We believe that we can increase shareholder value for all investors if our proposals are accepted. We are respectfully requesting that you now take the initiative for change, in light of the fact that the minority shareholders have not shared any of the fruit of the company during the past eight years since Hyundai's listing.

Respectfully submitted,

Dalton Investments

The full version of this letter and its accompanying presentation is available online at www.improvekorea.com.

About Dalton Investments

Dalton Investments LLC is a value-focused investment management firm with expertise in Asia equities, global equities and fixed income. Headquartered in Los Angeles, with a subsidiary office in Tokyo, Dalton manages $3.8 billion (November 30, 2018) in actively managed long-only and long/short strategies for pensions, endowments, foundations, financial institutions and family offices.

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