

Daelim Industrial Co., Ltd.

Non-Consolidated Financial Statements

December 31, 2007 and 2006

Daelim Industrial Co., Ltd.
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December 31, 2007 and 2006

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Report of Independent Auditors

To the Board of Directors and Shareholders of
Daelim Industrial Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Daelim Industrial Co., Ltd. (the “Company”) as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriations of retained earnings, cash flows for the years then ended and non-consolidated statement of changes in shareholders’ equity for the year ended December 31, 2007, expressed in Korean won. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements as of and for the years ended December 31, 2007 and 2006, of Yeochun NCC Co., Ltd. and some subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The equity-method investments in those subsidiaries represent 16.8% and 19.7% of the Company's total assets as of December 31, 2007 and 2006 respectively, and the equity in their net gains represents 23.9% and 43.0% of the Company's net income before income taxes for the years then ended, respectively. These financial statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in conformity with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations, the changes in its retained earnings, its cash flows for the years then ended and the changes in its shareholders’ equity for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea.

Samil PricewaterhouseCoopers

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
February 19, 2008

This report is effective as of February 19, 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Daelim Industrial Co., Ltd.
Non-Consolidated Balance Sheets
December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents (Note 14)	₩ 83,341	₩ 49,709
Short-term financial instruments (Notes 3 and 14)	6,161	6,099
Available-for-sale securities (Note 7)	-	11
Trade accounts and notes receivable, net (Notes 5, 14 and 23)	117,486	104,956
Construction work receivables, net (Notes 4, 5 and 14)	1,190,030	793,723
Lotting-out receivables, net (Notes 4 and 5)	801	45,573
Short-term loans receivable, net (Note 5)	76,134	115,320
Other accounts receivable, net (Notes 5 and 14)	214,810	206,268
Accrued income, net (Note 14)	10,800	9,094
Advance payments, net	297,290	27,422
Prepaid expenses, net	149,568	103,738
Inventories, net (Notes 6 and 10)	1,038,027	765,091
Current deferred income tax assets (Note 20)	24,323	2,507
Total current assets	3,208,771	2,229,511
Available-for-sale securities, net (Note 7)	526,867	580,307
Equity-method investments (Note 8)	994,457	927,863
Property, plant and equipment, net (Notes 10 and 12)	626,567	583,153
Intangible assets, net (Note 11)	17,516	19,820
Long-term financial instruments (Note 3)	129	31
Long-term trade accounts and notes receivable, net (Note 9)	1,218	5,961
Guarantee deposits, net	51,129	43,181
Long-term prepaid expenses	231	265
Long-term loans receivable, net (Notes 9 and 14)	202,436	119,239
Long-term other accounts receivable, net (Notes 9 and 14)	8,195	14,776
Derivative financial instruments (Note 15)	4,791	13,775
Other long-term assets, net	574	2,386
Total assets	₩ 5,642,881	₩ 4,540,268

Daelim Industrial Co., Ltd.
Non-Consolidated Balance Sheets
December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts and notes payable (Notes 14 and 23)	₩ 719,839	₩ 522,699
Short-term borrowings (Note 12)	80,000	168,661
Other accounts payable (Note 14)	168,928	51,159
Current maturities of long-term debts, net (Note 12)	200,000	179,637
Other advances received	447,237	393,810
Lotting-out advances received	1,674	23,995
Withholdings (Note 14)	23,830	21,977
Accrued expenses	6,979	3,738
Income tax payable	145,283	32,594
Total current liabilities	1,793,770	1,398,270
Debentures, net (Note 12)	411,258	329,689
Long-term borrowings, net of current maturities (Note 12)	200,000	70,062
Rental guarantees	55,683	32,959
Accrued severance benefits, net (Note 13)	14,944	16,089
Non-current deferred income tax liabilities (Note 20)	130,729	120,209
Derivative financial instruments (Note 15)	3,683	1,468
Reserve for loss on construction (Note 4)	6,847	13,272
Reserve for construction warranty	38,950	29,779
Reserve for contingent liabilities (Note 15)	35,583	19,220
Other liabilities	2,680	-
Total liabilities	2,694,127	2,031,017
Commitments and contingencies (Note 15)		
Shareholders' equity		
Common stock, ₩5,000 par value per share (Notes 1 and 16)		
issued and outstanding-34,800,000 shares	197,500	197,500
Preferred stock, ₩5,000 par value per share (Notes 1 and 16)		
issued and outstanding-3,800,000 shares	21,000	21,000
Capital surplus (Note 17)	1,237,418	1,236,208
Capital adjustments (Note 18)	-	(758)
Accumulated other comprehensive income (Note 18)	53,490	23,466
Retained earnings (Note 19)	1,439,346	1,031,835
Total shareholders' equity	2,948,754	2,509,251
Total liabilities and shareholders' equity	₩ 5,642,881	₩ 4,540,268

The accompanying notes are an integral part of these non-consolidated financial statements.

Daelim Industrial Co., Ltd.
Non-Consolidated Statements of Income
Years Ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Sales (Notes 23 and 24)	₩ 4,939,614	₩ 4,269,282
Cost of sales (Notes 23 and 24)	4,168,922	3,706,613
Gross profit	770,692	562,669
Selling and administrative expenses (Note 24)	333,744	293,720
Operating income	436,948	268,949
Non-operating income		
Interest income	15,186	13,629
Dividend income	1,864	1,798
Rental income	667	866
Gain on foreign currency transactions	5,095	1,522
Gain on foreign currency translation (Note 14)	7,054	4,940
Reversal of reserve for contingent liability	81	291
Gain on disposal of available-for-sale securities	64,027	904
Gain on transaction of derivative financial instruments	2,866	3,043
Gain on valuation of derivative financial instruments (Note 15)	3,299	8,143
Gain on disposal of property, plant and equipment	5,584	1,109
Gain on valuation of equity-method investments (Note 8)	169,975	156,827
Recovery of available-for-sale securities impairment loss (Note 7)	-	4,703
Recovery of property, plant and equipment impairment loss (Note 10)	-	5,649
Gain on disposal of other long-term assets	215	-
Recovery of overseas operations translation debit (Note 15)	-	7,388
Others	48,348	29,882
	324,261	240,694

Daelim Industrial Co., Ltd.
Non-Consolidated Statements of Income
Years Ended December 31, 2007 and 2006

(in millions of Korean won, except per share amounts)

	2007	2006
Non-operating expenses		
Interest expense	₩ 43,139	₩ 23,142
Loss on foreign currency transactions	4,188	3,178
Loss on foreign currency translation (Note 14)	7,927	9,492
Donations	3,847	5,087
Loss on transaction of derivative instruments	2,869	381
Loss on valuation of derivative instruments (Note 15)	5,866	2,145
Loss on disposal of property, plant and equipment	1,557	2,531
Other bad debt expense	39,880	6,281
Loss on disposal of available-for-sale securities	2,595	1,512
Loss on valuation of equity-method investments (Note 8)	6,887	4,395
Provision for contingent liability (Note 15)	29,742	17,707
Loss on redemption of debentures	-	4
Amortization of overseas operations translation credit	-	76,823
Others	6,535	12,208
	<u>155,032</u>	<u>164,886</u>
Income before income tax	606,177	344,757
Income tax expense (Note 20)	146,420	91,200
Net income	<u>₩ 459,757</u>	<u>₩ 253,557</u>
Basic earnings per share (Note 21)	<u>₩ 11,909</u>	<u>₩ 6,590</u>
Diluted earnings per share (Note 21)	<u>₩ 11,906</u>	<u>₩ 6,572</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

Daelim Industrial Co., Ltd.**Non-Consolidated Statements of Appropriations of Retained Earnings****Years ended December 31, 2007 and 2006****(Dates of Appropriations: February 29, 2008 and March 9, 2007 for the years ended December 31, 2007 and 2006, respectively)**

<i>(in millions of Korean won)</i>	2007	2006
Retained earnings before appropriations		
Unappropriated retained earnings		
carried over from prior year	₩ 838,851	₩ 653,875
Effect of equity-method investments	-	(84)
Dividends on treasury stock	54	692
Net income	459,757	253,557
	<u>1,298,662</u>	<u>908,040</u>
Transfer from voluntary reserve		
Reserve for technology development	9,000	8,341
Appropriations of retained earnings		
Legal reserve	(9,283)	(5,230)
Reserve for technology development	-	(20,000)
Cash dividends (Note 22)	(92,830)	(52,300)
	<u>(102,113)</u>	<u>(77,530)</u>
Unappropriated retained earnings		
carried forward to subsequent year	<u>₩ 1,205,549</u>	<u>₩ 838,851</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

Daelim Industrial Co., Ltd.
Non-Consolidated Statement of Changes in Shareholders' Equity
Year Ended December 31, 2007

(in millions of Korean won)

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Comprehensive Income	Retained Earnings	Total
Balance as of January 1, 2007	₩ 218,500	₩ 1,236,208	₩ (758)	₩ 49,692	₩ 1,031,835	₩ 2,535,477
Effect of accounting policy change	-	-	-	(26,226)	-	(26,226)
Shareholders' equity after adjustment	218,500	1,236,208	(758)	23,466	1,031,835	2,509,251
Dividends on treasury stock	-	-	-	-	54	54
Dividends	-	-	-	-	(52,300)	(52,300)
Shareholders' equity after appropriating retained earnings	218,500	1,236,208	(758)	23,466	979,589	2,457,005
Net income	-	-	-	-	459,757	459,757
Disposal of treasury stock	-	-	758	-	-	758
Gain and loss in overseas operation translation	-	-	-	1,747	-	1,747
Gain and loss on valuation of available-for-sale securities	-	-	-	(722)	-	(722)
Equity changes in equity-method investments	-	-	-	28,769	-	28,769
Negative equity changes in equity-method investments	-	-	-	230	-	230
Gain on disposal of treasury stock	-	1,417	-	-	-	1,417
Exercise of exchange rights	-	(207)	-	-	-	(207)
Balance as of December 31, 2007	₩ 218,500	₩ 1,237,418	₩ -	₩ 53,490	₩ 1,439,346	₩ 2,948,754

The accompanying notes are an integral part of these non-consolidated financial statements.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Cash flows from operating activities		
Net income	<u>₩ 459,757</u>	<u>₩ 253,557</u>
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	14,091	19,344
Amortization of intangible assets	2,824	2,957
Provision for severance benefits	22,568	23,007
Bad debt expense	64,841	14,080
Other bad debt expense	39,880	6,281
Interest expenses	2,066	2,157
Loss on redemption of debentures	-	3
Gain (loss) on disposal of available-for-sale securities, net	(61,432)	608
Recovery of available-for-sale securities impairment loss	-	(4,703)
Gain on valuation of equity-method investments, net	(163,088)	(152,432)
Gain (loss) on disposal of property, plant and equipment, net	(4,027)	1,422
Recovery of property, plant and equipment impairment loss	-	(5,649)
Loss (gain) on valuation of derivative instruments, net	2,567	(5,998)
Loss on foreign currency translation, net	2,269	4,517
Transfer to reserve for contingent liability	29,661	17,416
Return of present value discount	(600)	(1,681)
Gain on disposal of other long-term assets	(215)	-
Amortization of overseas operations translation asset	-	76,823
Recovery of overseas operations translation debit	-	(7,388)
Others, net	1,178	1,369
	<u>(47,417)</u>	<u>(7,867)</u>

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

(in millions of Korean won)

	2007	2006
Changes in operating assets and liabilities		
Decrease (increase) in trade accounts and notes receivable	₩ (7,821)	₩ 18,429
Increase in construction work receivable	(458,677)	(99,111)
Decrease (increase) in lotting-out receivables	45,292	(32,729)
Increase in other accounts receivable	(35,372)	(17,774)
Decrease (increase) in accrued income	(2,046)	172
Decrease (increase) in advance payments	(270,029)	18,001
Increase in prepaid expenses	(48,000)	(20,528)
Increase in current deferred income tax assets	(21,816)	(2,507)
Increase in inventories	(30,423)	(8,341)
Increase in lots	(242,513)	(157,347)
Decrease in long-term other accounts receivable	5,339	-
Increase (decrease) in trade accounts and notes payable	196,740	(42,038)
Increase (decrease) in other accounts payable	115,740	(9,295)
Increase in other advances received	53,427	2,273
Increase (decrease) in lotting-out advances received	(22,322)	6,266
Increase in withholdings	1,853	2,152
Increase in accrued expenses	3,241	1,567
Increase (Decrease) in income tax payables	101,102	(27,877)
Decrease in current deferred income tax liabilities	-	(205)
Accrued severance benefits, net	(23,712)	(15,588)
Increase in non-current deferred income tax liabilities	10,520	11,421
Increase (Decrease) in reserve for loss on construction	(6,425)	1,680
Increase in reserve for construction warranty	9,171	6,559
Decrease in reserve for contingent liability	(13,297)	-
Increase (Decrease) in overseas operation translation adjustment	1,747	(4,296)
Dividends	136,494	135,842
	<u>(501,787)</u>	<u>(233,274)</u>
Net cash (used in) provided by operating activities	<u>(89,447)</u>	<u>12,416</u>

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

<i>(in millions of Korean won)</i>	2007	2006
Cash flows from investing activities		
Proceeds from short-term financial instruments	₩ 36,913	₩ 26,136
Proceeds from short-term loans receivable	138,552	231,253
Proceeds from long-term financial instruments	3	-
Proceeds from available-for-sale securities	166,577	19,254
Decrease in guarantee deposits	26,474	17,972
Proceeds from long-term loans receivable	121,167	94,365
Decrease in derivative financial instruments	7,922	13,214
Decrease in other investments	3,245	2,478
Disposal of property, plant and equipment	39,249	11,778
Disposal of intangible assets	82	-
Acquisition of short-term financial instruments	(36,976)	(22,242)
Short-term loans receivable provided	(107,220)	(259,522)
Increase in equity-method investments	-	(16,807)
Acquisition of available-for-sale securities	(52,417)	(120,800)
Acquisition of held-to-maturity securities	(100)	-
Increase in guarantee deposits	(34,534)	(31,984)
Long-term loans receivable provided	(206,361)	(104,735)
Increase in derivative financial instruments	(4,963)	(12,775)
Increase in other investments	(2,896)	(3,037)
Acquisition of property, plant and equipment	(92,803)	(177,963)
Acquisition of intangible assets	(528)	(1,056)
Net cash provided by (used in) investing activities	<u>1,386</u>	<u>(334,471)</u>

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

<i>(in millions of Korean won)</i>	2007	2006
Cash flows from financing activities		
Proceeds from short-term borrowings	₩ -	₩ 152,361
Issuance of debentures	231,770	296,864
Increase in rental guarantees	24,849	7,253
Proceeds from long-term borrowings	380,000	50,000
Proceeds from other liabilities	4,505	-
Proceeds from derivative financial instruments	3,964	-
Payment of short-term borrowings	(88,661)	-
Repayment of current maturities of long-term debts	(380,300)	(100,395)
Repayment of long-term borrowings from National Housing Fund	(62)	-
Decrease in rental guarantees	(2,126)	(4,483)
Payment of cash dividends	(52,246)	(76,436)
Net cash provided by financing activities	<u>121,693</u>	<u>325,164</u>
Net increase in cash and cash equivalents	33,632	3,109
Cash and cash equivalents		
Beginning of year	<u>49,709</u>	<u>46,600</u>
End of year	<u>₩ 83,341</u>	<u>₩ 49,709</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

Daelim Industrial Co., Ltd.

Notes to Non-Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

1. The Company

Daelim Industrial Co., Ltd.(the “Company”) was incorporated on October 10, 1939, under the Commercial Code of the Republic of Korea to engage in the construction business in both domestic and overseas markets. In 1987, the Company also engaged in the manufacturing of petrochemical products and other related business activities.

In 1999, the Company and Hanwha Petrochemical Corporation spun off their naphtha cracking centers to form Yeochun NCC Co., Ltd. The Company also merged with Daelim Engineering Co., Ltd. for the purpose of operational efficiencies.

In 1976, the Company was listed on the Korean Stock Exchange. In addition, the Company’s capital stock including preferred stock (₩ 21,000 million) amounts to ₩218,500 million as of December 31, 2007. The largest shareholder of common stock as of December 31, 2007, is Daelim Corporation with 21.67% of ownership.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below:

Basis of Financial Statement Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company’s financial position, results of operations, changes in shareholders’ equity or cash flows, is not presented in the accompanying non-consolidated financial statements.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board (“KASB”) has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. . As SKFAS Nos. 18 through 20 became applicable to the Company on January 1, 2006, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2006.

And as SKFAS Nos. 11, 21 and 23 became effective for the Company on January 1, 2007, the Company adopted these Standards in its financial statements for the year ended December 31, 2007.

The statement of changes in shareholders’ equity has been prepared only for the year ended December 31, 2007, in accordance with SKFAS No. 21.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

The December 31, 2006 balance sheet was restated due to the application of SKAS No.21. The restatement did not affect the previously reported prior year's net income or shareholders' equity.

Therefore, in 2007, the company changed its method of accounting for the deferred tax in relation to the equity method investments to conform to the new requirements of KASB opinion 06-2. The company restated prior financial statements except accumulated profit and loss effects from the changes due to inability to calculate those effects on a reasonable basis.

The details which was restated according to the KASB's opinion 06-2 are as follow:

(in millions of Korean won)

Account	Before restatement	After restatement	Effect
Non-current deferred tax liabilities	₩ 93,983	₩ 120,209	₩ 26,226
Accumulated other comprehensive income	97,420	71,194	(26,226)

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Revenue Recognition

Revenues from construction contracts and housing projects are recognized using the percentage-of-completion method, measured principally by the percentage of costs incurred to date to total estimated contract costs or by units of work performed. Other sales revenues are recognized upon delivery of goods and services.

Cash and Cash Equivalents, and Short-Term Financial Instruments

Cash and cash equivalents include cash on hand, cash in banks, and highly liquid temporary cash investments with original maturities of three months or less. Investments which are readily convertible into cash within four to 12 months of purchase are classified in the balance sheet as short-term financial instruments. The carrying amount of these investments approximates fair value.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts receivable based on the aggregate estimated collectability of the receivables.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit which are stated at actual cost determined using the specific identification method. If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

Investments in Affiliates and Other Investments

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, *Investments in Securities*. This statement requires investments in equity and debt securities to be classified into three categories: trading, available-for-sale and held-to-maturity.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the weighted-average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings provided by independent credit rating agencies.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the income statement when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities for the amortization of discounts or premiums. Subsequent recoveries in fair value are also recorded as recovery gain of impairment losses in the statement of income, up to the amortized cost of the investment which would be recorded as of the recovery date if the investments were not impaired.

Investments in equity securities of companies, over which the Company exercises significant control or influence, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as other comprehensive income or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses of the investees equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Company's initial proportionate shares in the net book value of the investee are amortized over five years or within a weighted-averaged useful life of depreciable properties using the straight-line method.

Unrealized profit arising from sales by the Company to its consolidated subsidiaries is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company, and vice versa or sales between equity method investees is also eliminated.

The Company assesses the potential impairment of equity method security when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the asset is reduced to its estimated recoverable value by recording an impairment loss charged to current operations and presenting it as a reduction from the said carrying value. However, any recovery of the impaired asset is recorded in current operations and should not exceed the carrying amount of the asset before impairment.

Foreign currency financial statements of equity method investees are translated into Korean won using the foreign exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustment account, a component of shareholders' equity.

Daelim Industrial Co., Ltd.
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Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as described below:

	Estimated useful life
Buildings	20 ~ 40 years
Structures	10 ~ 40 years
Machinery and equipment	4 ~ 8 years
Others	4 ~ 12 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals, enhancing the value of the assets over the recently appraised value of the assets, are capitalized.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the asset is reduced to its estimated realizable value by recording an impairment loss charged to current operations and presenting it as a reduction from the said carrying value. However, any recovery of the impaired asset is recorded in current operations and should not exceed the carrying amount of the asset before impairment.

Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets as described below.

	Estimated useful lives
Goodwill	5 years
Industrial property rights and rights to use pier	5 ~ 10 years
Rights to operate parking lot business, and rights to rent donated buildings	20 ~ 40 years
Others	4 ~ 5 years

The Company assesses the potential impairment of intangible assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of accumulated amortization before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Daelim Industrial Co., Ltd.
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Government grants

The Company recognizes government grants or customers' donations, which are to be repaid, as liabilities. The government grants or customers' donations, which are intended to be used for the acquisition of certain assets, are deducted from the cost of the acquired assets. Before the acquisitions of the assets specified by the grant or donation, the amounts are recognized as a deduction from the account under which the asset to be acquired is to be recorded, or from the other assets acquired as a temporary investment of the grant or donation received.

Present Value Discount Account

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar transactions are stated at present value if the difference between the nominal value and present value is material. Such differences are presented as present value discounts and are directly deducted from the nominal value of the related receivables or payables. The present value discount is amortized using the effective interest rate method and the resulting amortization is recorded as interest expense or interest income.

Discounts on Debentures

Discounts on debentures are amortized over the repayment period of the debentures using the effective interest rate method. Amortization is included in interest expense.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

The Company has made deposits to the National Pension Fund in accordance with the National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

Reserve for Loss on Construction

When a loss on construction is expected based on cost estimates, the expected loss is charged to operations when first identified and is included in the non-consolidated balance sheet as a reserve for loss on construction.

Reserve for Construction Warranty

The Company provides a provision for estimated warranty costs relating to construction defects during the warranty period. Estimated costs of product warranties are charged to operations at the time of completion of construction and are included in the accompanying non-consolidated balance sheet as a reserve for construction warranty. The company appropriated ₩ 38,950 million as Reserve for Construction Warranty about the completed construction which had not expired the period of warranty.

Daelim Industrial Co., Ltd.
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Reserve for Contingent Liabilities

When the Company has a present obligation as a result of a past event and it is probable that an outflow of economic benefits, will occur a reliable estimate of the obligation is made and the expected loss is recorded as a reserve for contingent liabilities.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date, and the resulting translation gains and losses are recognized in current operations.

Derivative Financial Instruments

Derivative financial instruments for trading or hedging purposes are valued at the estimated market price, and resulting unrealized gains or losses are recognized in current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Translation of Foreign Currency Financial Statements

Accounts of overseas construction business units are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign currency financial statements of these overseas construction business units into Korean won, income and expenses are translated at the average exchange rates during the year, and assets and liabilities are translated at the rate prevailing on the balance sheet date. Resulting translation gains and losses are offset against each other, and the net amount is recorded as overseas operations translation debit (credit), presented as accumulated other comprehensive income in shareholders' equity. Overseas operations translation debit (credit) is offset against subsequent overseas operations translation debit (credit) until they are recognized as non-operating expenses at the time when overseas construction business units are liquidated.

Income Tax

The Company recognizes deferred income tax for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred income tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred income tax assets are recognized when it is more likely that such deferred income tax assets will be realized. The total income tax provision includes the current tax expense under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities during the year.

The Company classified deferred income tax assets and liabilities into current and non-current, and within each classification, amounts for deferred income tax assets and liabilities are offset against each other and presented as net amount. Deferred income tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity account. Application of revised SKFAS No.16, *Deferred Income Taxes*, prior's additional payment of income taxes of ₩ 87 million and income tax refund of ₩ 367 million were reclassified as income tax expense. The income before income tax decreased to ₩ 280 million as a result of application of revised SKFAS No.16.

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Notes to Non-Consolidated Statements of Cash Flows
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3. Restricted Bank Deposits

Restricted bank deposits as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

Type	Institutions	2007	2006	Description
Short-term financial instruments	Woori Bank and others	₩ 2,161	₩ 2,099	Construction work and others
Long-term financial instruments	Woori Bank and others	129	31	Key money for checking accounts
Severance insurance deposit	Kyobo Life Insurance and others	29,513	25,054	Severance insurance deposit
		<u>₩ 31,803</u>	<u>₩ 27,184</u>	

4. Summary of Major Construction Contracts

Backlog of Contracts

The Company's backlog of contracts as of December 31, 2007, consists of the following:

(in millions of Korean won)

Type	Beginning balance	Contract increase	Revenue recognized	Ending balance
Architecture	₩ 5,826,782	₩ 2,564,141	₩ 1,869,920	₩ 6,521,003
Civil engineering	3,892,793	655,020	1,009,883	3,537,930
Lotting-out	396,770	965,983	130,098	1,232,655
Plant	686,291	842,636	657,799	871,128
Overseas	693,693	2,198,034	537,292	2,354,435
Others	-	24,780	24,780	-
	<u>₩ 11,496,329</u>	<u>₩ 7,250,594</u>	<u>₩ 4,229,772</u>	<u>₩ 14,517,151</u>

In addition, the Company's cumulative construction revenues and costs under construction projects as of December 31, 2007, amount to ₩ 7,363,589 million and ₩ 6,328,647 million, respectively.

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Notes to Non-Consolidated Statements of Cash Flows
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Major Construction Contracts

The Company's major construction contracts as of December 31, 2007, are as follows:

(in millions of Korean won)

Project	Customer	Contract amount	Period of construction
Paju Tongildognsan Condominium	CIT Land Co., Ltd..	₩ 374,980	December 2006 ~ March 2010
Pusan-Geoje Highway	GK Marine Load Co., Ltd.	348,982	July 2003 ~ March 2010
Sema e-pyunhansesang	Miwon Spinning Co., Ltd.	331,500	December 2006 ~ December 2009
Sinhyeon e-pyunhansesang	Sinhyeon Union of Korea National Housing Corporation Redevelopment	325,390	December 2005 ~ October 2009
Dangjin Thermoelectric Power Plant	Hyundai Green Power Co., Ltd.	324,100	September 2007~October 2010
SPGD PH-6,7 & 8	Iran	309,001	June 2003 ~ August 2008
Haan e-pyunhansesang	Haan Union of Korea National Housing Corporation bon first Area	292,746	January 2006 ~ March 2010
Singori Nuclear Division #1 and #2	Korea Hydroelectric Power Plant	276,059	June 2003 ~ March 2010
Incheon Int'l Airport Equipment #1	Incheon Int'l Airport Train Co., Ltd.	270,843	April 2001 ~ December 2009
Kuwait EWDP	Kuwait	263,985	April 2003 ~ June 2008
SK No.2 FCC(E)	SK Ulsan Complex	255,137	May 2006 ~ April 2008
Hantan river dam	Korea Water Resources Corporation	254,723	February 2007 ~ November 2012
Incheon Bridge Project	KODA Development Co., Ltd.	249,025	May 2005 ~ October 2009
SAHARA PDH&PP	Saudi	245,352	January 2006 ~ October 2008
Wondang e-pyunhansesang	Wondang Korea National Housing Corporation Redevelopment	241,659	July 2006 ~ November 2009
Iran PTA-1	Iran	235,901	December 1999 ~ December 2008
Gyeongsan e-pyunhansesang	Vlue Hodings Co., Ltd	234,337	May 2007 ~ February 2010
Jamsil 1 Area APT	Jamsil 1 Area Redevelopment	222,948	March 2005 ~ June 2008
Namyangju yangji e-pyunhansesang	CEL Group Co.,Ltd	221,493	June 2006 ~ February 2009
Seongdang e-pyunhansesang	Daegu-Seongdang Korea National Housing Corporation Redevelopment	219,349	May 2005 ~ June 2008
Boryung Thermoelectric Power Plant 7th and 8th	Korea Midland Power Co. Ltd (Boryeong)	218,653	March 2004~December 2008
Jamsil 2 Area APT	Jamsil 22nd Redevelopment Union	215,196	December 2004 ~ July 2008
Incheon Int'l Airport Equipment #2	Incheon Int'l Airport Train Co., Ltd.	206,096	December 2003 ~ December 2009

In addition, the Company's construction retained deposits as of December 31, 2007, amount to ₩ 33,409 million (2006: ₩ 30,337 million).

Details of Major Construction Contracts

The financial information on the Company's major construction contracts as of December 31, 2007,

Daelim Industrial Co., Ltd.
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follows:

(in millions of Korean won)

Project	Revenue		Contract amount		Collection	
	Cumulative realized revenue	Revenue for the period	Cumulative billed amount	Billed amount for the period	Cumulative collected amount	Trade receivables
Paju Tongildognsan Condominium	₩ 3,585	₩ 3,585	₩ -	₩ -	₩ -	₩ -
Pusan-Geoje Highway	161,600	63,944	169,243	67,917	169,079	164
Sema e-pyunhansesang	30,846	30,846	-	-	-	-
Sinhyeon e-pyunhansesang	94,952	89,484	19,760	19,760	19,760	-
Dangjin Thermoelectric Power Plant	25,183	25,183	28,057	28,057	24,447	3,610
SPGD PH-6,7 & 8	286,672	38,800	285,658	41,771	283,445	2,213
Haan e-pyunhansesang	52,466	45,124	93,911	46,964	93,911	-
Singori Nuclear Division	134,465	61,722	109,398	49,650	109,398	-
Incheon Int'l Airport Equipment #1	262,376	31,988	270,857	38,777	269,978	879
Kuwait EWDP	258,998	7,612	251,778	774	245,836	5,942
SK No.2 FCC(E)	205,816	191,778	243,925	218,106	214,362	29,563
Hantan river dam	20,335	20,335	3,348	3,348	3,348	-
Incheon Bridge Project	150,665	44,694	141,710	54,230	119,814	21,896
SAHARA PDH&PP	212,403	161,169	187,104	131,229	171,093	16,011
Wondang e-pyunhansesang	35,662	35,662	37,271	37,271	37,271	-
Iran PTA-1	235,330	649	244,553	36	240,632	3,921
Gyeongsan e-pyunhansesang	2,381	2,381	-	-	-	-
Jamsil 1 Area APT	156,119	83,272	101,610	37,605	101,610	-
Namyangju yangji e-pyunhansesang	104,503	90,593	89,142	77,177	89,142	-
Seongdang e-pyunhansesang	166,883	123,718	78,361	33,114	78,361	-
Boryung Thermoelectric Power Plant 7th and 8th	210,374	105,317	226,888	122,775	224,382	2,506
Jamsil 2 Area APT	152,673	86,310	139,633	40,014	139,633	-
Incheon Int'l Airport Equipment #2	119,901	63,237	126,088	76,957	121,977	4,111

In addition, the Company recorded a reserve for loss on construction amounting to ₩ 6,847million for Outer Port Breakwater Construction for Asansi Roundabout Road, SPGD PH-6,7&8 and other projects.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
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Joint Construction Contracts

The Company's joint construction contracts as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

Project	Contract amount	Percentage of ownership (%)	Representative company
Pusan-Geoje Highway	₩ 1,638,415	21.30	Daewoo E&C Co., Ltd.
Incheon Int'l Airport Equipment #1	1,401,154	19.33	The Company
Pusan New Harbor 1-1 Area	1,277,764	1.86	Samsung Corp.
Incheon Bridge Project	1,245,127	20.00	Samsung Corp.
Seosuwon-Pyeongtaek Highway	950,136	18.00	Doosan Engineering Co., Ltd.
Singori Nuclear Division #1 and #2	771,114	35.80	Hyundai E&C Co., Ltd.
Pentaport Project	718,411	25.00	SK E&C Co., Ltd.
Sinbundang line 2 Area	444,677	40.00	The Company
Yeosu Development Complex Road 3rd Phase	394,890	25.00	The Company
Pyungtak LNG Facilities	340,829	49.00	The Company
Sungnam-Janghowon Road	301,703	20.00	Hyundai E&C Co., Ltd.
Hantan river dam	283,025	90.00	The Company
Dongnamgeon Building	270,297	55.00	The Company
Pohang-Youngil New Harbor Ground	260,924	36.88	The Company
Songdo Cogeneration Plant	232,908	30.00	Doosan Engineering Co., Ltd.
Busan New Hongsam Container Harvor 1 Area	222,876	35.00	The Company
Incheon University Moving Construction field	218,818	13.13	SK E&C Co., Ltd.
Others	7,378,540		-
2007	₩ 18,351,608		
2006	₩ 16,111,980		

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
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Uncompleted Construction

The Company's uncompleted constructions as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

Project	Amount	Expected completion date
Cheongju Gangseo e-pyunhansesang	₩ 760	Sept. 30, 2008
Yangsan 3 e-pyunhansesang	13,737	Aug. 31, 2009
Gwangju Gwangcheon 2 e-pyunhansesang	1,213	Dec. 31, 2009
Gwangju Sinhyeon 2 e-pyunhansesang	1,041	Jan. 31, 2010
Yugok e-pyunhansesang	4,059	Feb. 28, 2010
Hansoop e-pyunhansesang	22,981	May 31, 2011
Pyeongchon e-pyunhansesang	1,621	Unsettled
Chungnam HappyCity Apartment	829	Unsettled
Chuncheon Toegye e-pyunhansesang	531	Unsettled
Pohang Jangseong e-pyunhansesang	430	Unsettled
Pyeongtaek YongJuk e-pyunhansesang	6	Unsettled
Yangsan 5 e-pyunhansesang	2	Unsettled
Gwanggyo e-pyunhansesang	2	Unsettled
2007	₩ 47,212	
2006	₩ 8,207	

Summary of Subscribed Sales and Lotting-out Constructions

A summary of the Company's major subscribed sales and lotting-out constructions as of December 31, 2007, follows:

(in millions of Korean won)

Project	Contract amount	Cumulative revenue	Revenue for the year	Cumulative collected amount	Receivables (Advances)
Kumdan e-pyunhansesang	₩ 253,910	₩ 253,905	₩ 59,612	₩ 253,089	₩ 816
Yangsan 3 e-pyunhansesang	230,738	101	101	101	-
Cheongju-Kangseo e-pyunhansesang	137,738	77,922	63,078	79,676	(1,754)

Daelim Industrial Co., Ltd.
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5. Current Receivables

The Company's current receivables as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007			2006	
	Gross amount	Allowance for doubtful accounts	Discounts on present value	Carrying value	Carrying value
Trade accounts and notes receivable ¹	₩ 119,776	₩ (2,156)	₩ (134)	₩ 117,486	₩ 104,956
Construction work receivables	1,283,955	(93,925)	-	1,190,030	793,723
Lotting-out receivables	2,133	(1,332)		801	45,573
Short-term loans receivable	89,650	(13,516)		76,134	115,320
Other accounts and notes receivable	234,729	(19,919)		214,810	206,268
	<u>₩ 1,730,243</u>	<u>₩ (130,848)</u>	<u>₩ (134)</u>	<u>₩ 1,599,261</u>	<u>₩ 1,265,840</u>

¹ Discounts on present value and related receivable amounts were reclassified from long-term accounts and notes receivable, and long-term other accounts receivable.

6. Inventories

The Company's inventories as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007	2006
Finished housing, net	₩ 12,742	₩ 8,510
Unfinished housing	47,212	8,207
Land	905,365	662,852
Merchandise	152	1,014
Finished products, net	34,271	37,272
Raw materials	7,925	7,532
Work-in-process	3,990	3,853
Supplies	24,547	32,921
Construction supplies and materials	1,430	1,996
Materials-in-transit	393	934
	<u>₩ 1,038,027</u>	<u>₩ 765,091</u>

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7. Available-For-Sales Securities

Available-for-sale securities as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

	2007	2006
Equity securities		
Marketable equity securities	₩ 32,815	₩ 35,212
Non-marketable equity securities	23,840	10,879
Capital investments	22,029	22,029
SOC equity securities	447,130	510,785
	<u>525,814</u>	<u>578,905</u>
Debt securities	1,053	1,413
Less: current maturities	-	(11)
	<u>1,053</u>	<u>1,402</u>
	<u>₩ 526,867</u>	<u>₩ 580,307</u>

Marketable Equity Securities

Marketable equity securities as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

	2007				2006	
Investees	Number of shares	Percentage of ownership (%)	Acquisition cost	Fair value	Carrying value	Carrying value
KT Corp.	628,179	0.23	₩ 33,922	₩ 30,718	₩ 30,718	₩ 29,210
Korea Ratings	60,000	1.32	420	2,097	2,097	1,062
Hanhwa Chemical Co., Ltd. ¹	-	-	-	-	-	₩ 4,940
			<u>₩ 34,342</u>	<u>₩ 32,815</u>	<u>₩ 32,815</u>	<u>₩ 35,212</u>

¹ In 2007, the Hanwha Chemical Co., Ltd. available-for-sale securities were sold, resulting to a ₩ 9,315 million gain on disposal.

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Non-Marketable Equity Securities

Non-marketable equity securities as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

Investees	Number of shares	Percentage of ownership (%)	2007		2006	
			Acquisition cost	Net asset value	Carrying value	Carrying value
Korea Economic Daily Co., Ltd.	41,806	0.22	₩ 527	₩ 260	₩ 232	₩ 232
Korea Asset Investment Co., Ltd. ¹	-	-	-	-	-	450
Institute of Social Development and Policy Research Co., Ltd.	2,000	1.67	10	-	-	-
Kihyup Technology Banking Corp.	60,000	1.03	300	391	300	300
Jeju International Convention Center Co., Ltd.	100,000	0.30	500	435	500	500
Microglove Co., Ltd.	31,287	1.56	15	17	15	15
Korea Housing Guarantee Co., Ltd.	1,565,564	0.24	32,958	9,133	6,455	6,455
South West Coast Leisure Company ²	60,000	21.43	300	230	300	-
Bum Chun ABS Specialty Co., Ltd. ³	-	-	-	-	-	1
Sun Woo ABS Specialty Co., Ltd. ³	-	-	-	-	-	-
Yeosu Petrochemical Logistics Corporation	5,000	5.00	25	22	25	25
PentaPort Development Co., Ltd.	780,000	6.50	3,900	1,614	3,900	2,574
PentaPort Co., Ltd.	3,900	6.50	20	19	20	20
Metrocorona Co., Ltd.	4,464	7.44	22	19	22	22
Corona Development Co., Ltd.	490,200	5.70	2,451	1,494	2,451	285
Alpha Dome City Co., Ltd	1,920,000	4.00	9,600	9,600	9,600	-
Alpha Dome City Asset Management Co., Ltd	4,000	4.00	20	20	20	-
			₩ 50,648	₩ 23,234	₩ 23,840	₩ 10,879

¹ Loss on disposal of available-for-sale securities amounts to ₩ 306 million, resulting from the sale of equities in Korea Asset Investment Co., Ltd.

² The Company did not apply the equity method on these securities as it deemed it has no control or significant influence over these investees.

³ Bum Chun ABS Special Co., Ltd. and Sun Woo ABS Special Co., Ltd. were sold resulting to gains on sale of available-for-sale securities of ₩ 28 million and ₩ 270 million, respectively.

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Capital Investments

Capital investments as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>			2007			2006
Investees	Number of shares	Percentage Of ownership (%)	Acquisition cost	Net asset value	Carrying value	Carrying value
Korea Construction Financial Cooperative	22,887	0.60	₩ 21,703	₩ 29,809	₩ 21,703	₩ 21,703
Engineering Financial Cooperative	2,111	0.43	173	599	173	173
Korea Electric Engineers Association	200	0.15	20	31	20	20
Electronic Contractors' Financial Cooperative	300	0.01	57	86	57	57
Information and Communication Financial Cooperative	520	0.07	76	149	76	76
			<u>₩ 22,029</u>	<u>₩ 30,674</u>	<u>₩ 22,029</u>	<u>₩ 22,029</u>

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SOC Equity Securities

SOC equity securities as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

Investees	Number of shares	Percentage of ownership ¹ (%)	2007			2006
			Acquisition cost	Net asset value	Carrying value	Carrying value
Kangnam Circle Expressway Co., Ltd.	414,000	11.50	₩ 2,070	₩ 1,409	₩ 2,070	₩ 1,552
Kyounggi Highway Co., Ltd.	7,648,000	16.00	38,240	36,982	38,240	38,240
Gyeonggi CES Co., Ltd. ¹	-	-	-	-	-	1,015
Kongju Circumcentances Co., Ltd. ²	224,840	22.00	1,124	1,052	1,124	1,124
Neo Trans Co., Ltd.	2,858	14.29	14	16	14	14
Taegu-Pusan Highway Co., Ltd. ³	-	-	-	-	-	81,585
Manwolsan Tunnel Co., Ltd. ²	2,680,000	40.00	13,400	10,549	13,400	13,400
Misiryung Expressway Co., Ltd.	798,000	10.00	3,990	2,643	3,990	3,990
Seoul Highway Co., Ltd.	11,040,000	12.00	55,200	42,352	55,200	55,200
Sudogwon Seobu Expressway Co., Ltd.	969	9.69	5	5	5	5
Sinbundang Railway Project Co., Ltd	4,122,000	13.46	20,610	19,550	20,610	15,861
Yeongcheon-Sangju Expressway Co., Ltd. ²	16,940	24.20	85	65	85	12
Echosulihall Co., Ltd. ²	640,000	100.00	3,200	1,619	3,200	3,200
Yongma Tunnel Co., Ltd.	72,960	9.60	365	249	365	365
Yong-in LHT Co., Ltd.	3,340,712	15.42	16,703	15,081	16,703	15,303
Airport Railroad Co., Ltd. ⁴	32,585,000	17.67	162,925	134,849	162,925	162,925
Bridge of Ilsan Co., Ltd. ²	2,717,104	26.00	13,586	12,891	13,586	13,586
GK Marine Load Co., Ltd. ²	18,318,000	21.30	91,590	90,107	91,590	91,590
Pyeongtaek-Dangjin Port Grain Quay Co.,Ltd.	199,334	8.31	997	969	997	18
Pohang-Youngil New Harbor Co., Ltd. ²	4,602,000	29.50	23,010	22,112	23,010	11,800
Seoul-MunSan Expressway co., Ltd.	1,490	14.90	7	7	7	-
Seoul-Northern Expressway co., Ltd.	1,760	17.60	9	9	9	-
			₩ 447,130	₩ 392,516	₩ 447,130	₩ 510,785

¹ Because of cancellation of Yangju CES construction work on January 8, 2007, the Company sold available-for-sale securities for ₩ 1,015 million.

² The Company classified some SOC equity securities as available-for-sales securities because the Company cannot exercise significant control or influence due to the investees' business nature.

³ On December 18, 2007, the Company sold the securities in Sindaeu Express Co., Ltd. to the consortium led by the National Pension Service as per their sale contract dated July 28, 2006, resulting to a ₩ 54,414 million gain on sale of available-for-sale securities.

⁴ In 2007, the amount which the Company received from The Korea Development Bank (KDB) was recorded as advances since the sale contract with KDB did not meet the conditions of a true sale.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
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Details of the contract is as follows:

(in millions of Korean won)

Investees	Buyer	Sale contracts date	Number of sale shares	Sales value	Advances received
Airport Railroad Co., Ltd.	Korea Development Bank, others	2007-05-17	32,585,000	unsettled	₩ 162,925

Non-marketable equity securities, capital investments, and SOC equity securities which do not have reasonably measurable fair values are carried at cost. Impairment losses are recognized when the decline in the net asset value is significant and recovery is remote. The Company calculated the net asset value using unaudited financial statements as of December 31, 2007, or the latest financial statements of investees which reflect paid-in capital increase and other significant subsequent events.

Debt securities

Debt securities as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

	2007		Gains on		2006	
	Acquisition cost	Fair market value	Valuation of debt Securities	Carrying value	Carrying value	
Current assets						
Government and municipal bond	₩ -	₩ -	₩ -	₩ -	₩ 11	
Non-current assets						
Government and municipal bond	1,241	1,053	(188)	1,053	1,402	

The maturities of debt securities as of December 31, 2007, are as follows:

(in millions of Korean won)

Maturity	Investments	Acquisition cost	Fair market Value	Carrying value
1 year ~ 5 years	National Housing Bond and others	₩ 1,166	₩ 995	₩ 995
5 year ~ 10 years	SMRT bond	75	58	58
		₩ 1,241	₩ 1,053	₩ 1,053

In addition, interest income in debt securities for the year ended December 31, 2007, amounted to ₩ 140 million.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

The changes in unrealized gains or losses on available-for-sales securities recorded as an accumulated other comprehensive income for the year ended December 31, 2007, are as follows:

(in millions of Korean won)

Beginning balance	Increase	Decrease	Tax effect	Ending balance
₩ 982	₩ 2,543	₩ 3,540	₩ (274)	₩ 259

8. Equity-Method Investments

Equity-method investments as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

Investees	Number of shares	Percentage of ownership (%)	2007			2006
			Acquisition cost	Net asset value⁴	Carrying value	Carrying value
Yeochoon NCC Co., Ltd.	10,000,000	50.00	₩ 300,000	₩ 499,524	₩ 429,402	₩ 462,423
Daelim Motors Co., Ltd.	13,280,000	100.00	76,377	98,641	97,793	100,978
Poly Mirae Co., Ltd.	3,799,610	50.00	56,531	52,493	48,763	31,775
Korea Development Corp.	5,975,685	49.80	30,182	150,450	137,164	124,159
KR Copolymer Co., Ltd.	640,000	40.00	17,826	359	736	4,256
Samho Int'l Co., Ltd.	6,734,109	46.76	30,538	79,177	74,805	45,482
Ora Resort Co., Ltd.	10,000,000	100.00	10,002	160,189	159,677	116,704
Daelim Concrete Mfg. Co., Ltd.	1,386,964	65.64	20,509	41,452	41,183	38,137
Daelim I&S Co., Ltd.	129,375	12.55	3,420	4,713	4,669	3,581
Daelim Saudi Arabia Co., Ltd	5,000	50.00	1,148	-	-	-
P.T.Daelim Utama Construction	319,999	100.00	114	-	-	-
Daelim Philippines, Inc.	45,000	25.00	101	244	244	312
Daelim Malaysia, Sdn. Bhd.	187,500	25.00	57	-	-	-
Asia Pacific Engineering, Ltd.	65,000	100.00	76	8	8	21
Global Industry Trade, Ltd.	65,000	100.00	76	9	9	21
Integrated Engineering, Ltd.	40,000	100.00	47	4	4	14
Dealim Contractor(B) Sdn. Bhd. ¹	-	-	-	-	-	-
			₩ 547,004	₩ 1,087,263	₩ 994,457	₩ 927,863

1 Investments in Dealim Contractor(B) Sdn. Bhd. have been reclassified from equity-method investments to available-for-sale securities as the company was liquidated in 2007.

In addition, fair market values of Korea Development Corp. and Samho Int'l Co., Ltd. are ₩ 144,612 million and ₩ 170,036 million, respectively, as of December 31, 2007.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

Details of equity-method investment valuations for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

Investees	Beginning balance	Acquisition (disposal)	Reclassification	Dividends	Gain(loss) on valuation	Retained earnings	Capital adjustments	Carrying value
Yeochoon NCC Co., Ltd.	₩ 462,423	₩ -	₩ -	₩ (130,000)	₩ 96,979	₩ -	₩ -	₩ 429,402
Daelim Motors Co., Ltd.	100,978	-	-	-	(3,214)	-	29	97,793
Poly Mirae Co., Ltd.	31,775	-	-	(1,500)	18,488	-	-	48,763
Korea Development Corp.	124,159	-	-	(4,781)	18,954	-	(1,168)	137,164
KR Copolymer Co., Ltd.	4,256	-	-	-	(3,520)	-	-	736
Samho Int'l Co., Ltd.	45,482	-	-	-	29,142	-	181	74,805
Ora Resort Co., Ltd.	116,704	-	-	-	2,064	-	40,909	159,677
Daelim Concrete Mfg. Co., Ltd.	38,137	-	-	-	3,046	-	-	41,183
Daelim I&S Co., Ltd.	3,581	-	-	(213)	1,301	-	-	4,669
Daelim Philippines, Inc.	312	-	-	-	(117)	-	49	244
Asia Pacific Engineering	21	-	-	-	(13)	-	-	8
Global Industry Trade, Ltd.	21	-	-	-	(12)	-	-	9
Integrated Engineering, Ltd.	14	-	-	-	(10)	-	-	4
Total for 2007	₩ 927,863	₩ -	₩ -	₩ (136,494)	₩ 163,088	₩ -	₩ 40,000	₩ 994,457
Total for 2006	₩ 896,746	₩ 16,807	₩ 2,173	₩ (135,842)	₩ 152,432	₩ (116)	₩ (4,337)	₩ 927,863

The changes in differences between the initial purchase price and the Company's initial proportionate ownership in the net asset value of investees for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

Investee	2007				2006			
	Beginning balance	Increase/decrease	Amortization/reversal	Ending balance	Beginning balance	Increase/decrease	Amortization/reversal	Ending balance
Korea Development Corp.	₩ (13,991)	₩ -	₩ (7,309)	₩ (6,682)	₩ (21,300)	₩ -	₩ (7,309)	₩ (13,991)
Daelim I&S Co., Ltd.	19	-	19	-	-	47	28	19
	₩ (13,972)	₩ -	₩ (7,290)	₩ (6,682)	₩ (21,300)	₩ 47	₩ (7,281)	₩ (13,972)

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Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity-method investments, along with changes in such amounts, for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

Investees	2007				2006			
	Beginning balance	Increase (decrease)	Reversal	Ending balance	Beginning balance	Increase (decrease)	Reversal	Ending balance
Yechun NCC Co., Ltd.	₩ (81,521)	₩ (36,611)	₩ 48,010	₩ (70,122)	₩ (73,928)	₩ (28,611)	₩ 21,018	₩ (81,521)
Daelim Motors Co., Ltd.	(903)	-	55	(848)	(958)	-	55	(903)
Poly Mirae Co., Ltd.	(4,011)	-	281	(3,730)	(5,809)	-	1,798	(4,011)
Korea Development Corp.	(282)	-	19	(263)	(300)	-	18	(282)
KR Copolymer Co., Ltd.	396	(15)	(4)	377	400	-	(4)	396
Samho Int'l Co., Ltd.	(14,596)	-	10,224	(4,372)	(14,727)	-	131	(14,596)
Ora Resort Co., Ltd.	(461)	(90)	39	(512)	(512)	6	45	(461)
Daelim Concrete Mfg. Co., Ltd.	(288)	-	18	(270)	(311)	-	23	(288)
Daelim I&S Co., Ltd	-	(51)	7	(44)	-	-	-	-
	₩ (101,666)	₩ (36,767)	₩ 58,649	₩ (79,784)	₩ (96,145)	₩ (28,605)	₩ 23,084	₩ (101,666)

The Company obtained signatures from auditors and representative directors of the investees on the unaudited financial statements. The Company also confirmed that the adjusted financial statements appropriately reflect significant transactions or accounting events, and concluded that there are no additional adjustments needed based on the review of the financial statements of the investees.

The losses on valuation of equity-method investments which were not reflected by the Company due to capital deficiency of investee as of December 31, 2007, are as follows:

(in millions of Korean won)

	2007	2006
Daelim Malaysia, Sdn. Bhd.	₩ (851)	₩ (792)
Daelim Saudi Arabia Co., Ltd.	(4,803)	(4,304)
P.T.Daelim Utama Construction	(1,457)	(951)

The changes in equity of equity-method investments recorded as an accumulated other comprehensive income for the year ended December 31, 2007, are as follows:

(in millions of Korean won)	Beginning balance	Increase	Decrease	Ending balance
Equity changes in equity-method investments	₩ 73,275	₩ 40,938	₩ 12,169	₩ 102,044
Negative equity changes in equity-method investments	(2,081)	-	(230)	(1,851)

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

The financial information of investees as of December 31, 2007, follows:

(in millions of Korean won)

Investees	Total assets	Total liabilities	Total shareholders' equity	Sales	Net income
Yeochun NCC Co., Ltd.	₩ 2,172,999	₩ 1,173,951	₩ 999,048	₩ 4,468,155	₩ 171,160
Daelim Motors Co., Ltd.	210,594	111,953	98,641	214,906	(3,268)
Poly Mirae Co., Ltd.	268,886	163,900	104,986	803,274	36,414
Korea Development Corp.	746,288	444,180	302,108	805,343	35,872
KR Copolymer Co., Ltd.	43,422	42,525	897	84,770	(8,753)
Samho Int'l Co., Ltd.	479,567	310,240	169,327	616,328	42,594
Ora Resort Co., Ltd.	192,388	32,199	160,189	35,589	2,115
Daelim Concrete Mfg. Co., Ltd.	125,415	62,264	63,151	119,969	4,587
Daelim I&S Co., Ltd.	68,612	31,056	37,556	158,395	10,737
Daelim Saudi Arabia Co.,Ltd.	51,511	61,118	(9,607)	89,409	(911)
P.T.Daelim Utama Construction	5,947	7,404	(1,457)	-	(546)
Daelim Philippines, Inc.	15,720	14,748	972	49,278	(469)
Daelim Malaysia, Sdn. Bhd.	60	3,466	(3,406)	-	(3)
Asia Pacific Engineering	8	-	8	-	(13)
Global Industry, Ltd.	9	-	9	-	(12)
Integrated Engineering, Ltd.	4	-	4	2,833	(10)
	<u>₩ 4,381,430</u>	<u>₩ 2,459,004</u>	<u>₩ 1,922,426</u>	<u>₩ 7,448,249</u>	<u>₩ 289,494</u>

9. Non-Current Receivables

The Company's non-current receivables as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007			2006	
	Gross amount	Allowance for doubtful accounts	Present value discount account	Carrying value	Carrying value
Long-term trade accounts and notes receivable	₩ 1,284	₩ -	₩ (66)	₩ 1,218	₩ 5,961
Long-term loans receivable	217,828	(15,392)	-	202,436	119,239
Long-term other accounts receivable	21,053	(12,858)	-	8,195	14,776
	<u>₩ 240,165</u>	<u>₩ (28,250)</u>	<u>₩ (66)</u>	<u>₩ 211,849</u>	<u>₩ 139,976</u>

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

10. Property, Plant and Equipment

The Company's property, plant and equipment as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007	2006
Land	₩ 375,237	₩ 353,399
Buildings	248,775	217,540
Structures	18,843	21,183
Machinery and equipment	157,047	170,005
Ships	875	875
Vehicles	4,076	4,087
Tools and furniture	42,575	51,089
Construction-in-progress	27,726	25,761
	<hr/> 875,154	<hr/> 843,939
Less : Accumulated depreciation	(221,271)	(233,446)
Accumulated impairment	(26,880)	(26,880)
Government grants	(436)	(460)
	<hr/> ₩ 626,567	<hr/> ₩ 583,153

As of December 31, 2007, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounted to approximately ₩ 434,907 million (2006: ₩ 423,689 million).

Insurance coverage as of December 31, 2007 and 2006, consists of the following:

<i>(in millions of Korean won)</i>		Insurance coverage	
Type	Insured assets	2007	2006
Fire insurance	Inventories	₩ 60,879	₩ 70,468
	Property, plant and equipment	970,092	1,010,011
		<hr/> ₩ 1,030,971	<hr/> ₩ 1,080,479

The Company is insured by Samsung Fire & Marine Insurance Co., Ltd. and others.

In addition, the Company's construction projects are insured against fire and other casualty losses for up to ₩ 19,067 billion and the Company maintains employers' liability insurance and commercial general liability insurance for up to ₩ 504 billion and ₩ 4,029 billion, respectively, as of December 31, 2007.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

Changes in the property, plant and equipment for the years ended of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007						Total
	Land	Buildings and structures	Machinery and equipment	Vehicles	Others	Construction- in-progress	
Balance as of January ¹	₩ 353,399	₩ 238,723	₩ 170,005	₩ 4,087	₩ 51,964	₩ 25,761	₩ 843,939
Acquisition/transfer	44,188	41,318	1,776	674	2,806	10,616	101,378
Disposal/transfer	(22,350)	(12,423)	(14,734)	(685)	(11,320)	(8,651)	(70,163)
Balance as of December 31	375,237	267,618	157,047	4,076	43,450	27,726	875,154
Accumulated depreciation	-	(43,207)	(136,649)	(3,054)	(38,361)	-	(221,271)
Accumulated impairment	(11,376)	(15,504)	-	-	-	-	(26,880)
Government grants	-	(436)	-	-	-	-	(436)
Book value as of December 31	₩ 363,861	₩ 208,471	₩ 20,398	₩ 1,022	₩ 5,089	₩ 27,726	₩ 626,567
Depreciation ¹	₩ -	₩ 5,865	₩ 5,276	₩ 450	₩ 2,500	₩ -	₩ 14,091

¹Government grants used in acquiring a building were offset against depreciation amounting to ₩24 million.

<i>(in millions of Korean won)</i>	2006						Total
	Land	Buildings and structures	Machinery and equipment	Vehicles	Others	Construction- in-progress	
Balance as of January 1	₩ 235,678	₩ 202,162	₩ 162,348	₩ 3,846	₩ 51,583	₩ 27,564	₩ 683,181
Acquisition/transfer	130,540	36,806	11,460	525	1,883	15,861	197,075
Disposal/transfer	(12,819)	(245)	(3,803)	(284)	(1,502)	(17,664)	(36,317)
Balance as of December 31	353,399	238,723	170,005	4,087	51,964	25,761	843,939
Accumulated depreciation	-	(40,066)	(144,438)	(3,270)	(45,672)	-	(233,446)
Accumulated impairment ¹	(11,376)	(15,504)	-	-	-	-	(26,880)
Government grants	-	(460)	-	-	-	-	(460)
Book value as of December 31	₩ 342,023	₩ 182,693	₩ 25,567	₩ 817	₩ 6,292	₩ 25,761	₩ 583,153
Depreciation ²	₩ -	₩ 5,186	₩ 10,616	₩ 366	₩ 3,176	₩ -	₩ 19,344

¹Recovery of the impaired asset in the Pusan branch amounting to ₩ 5,649 million was recorded.

²Government grants used in acquiring a building were offset against depreciation amounting to ₩ 25 million.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

Changes in government grants for the years ended of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007		
	Deduction from buildings account	Others ¹	Total
Balance as of January 1, 2007	₩ 460	₩ 28	₩ 488
Received	-	-	-
Retirement	-	(28)	(28)
Offset against depreciation	(24)	-	(24)
Balance as of December 31, 2007	₩ 436	₩ -	₩ 436

<i>(in millions of Korean won)</i>	2006		
	Deduction from buildings account	Others ¹	Total
Balance as of January 1, 2006	₩ 485	₩ 579	₩ 1,064
Received	-	-	-
Used in acquisition	-	-	-
Offset against depreciation	(25)	(551)	(576)
Balance as of December 31, 2006	₩ 460	₩ 28	₩ 488

¹ The Company received other government grants from the Ministry of Culture and Tourism in relation to research and development of Youngam•Haenam leisure city project which were offset against related expenses.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

11. Intangible assets

The changes in intangible assets for the years ended December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

	2007				
	Beginning balance	Increase	Impairment	Amortization	Ending balance
Goodwill	₩ 321	₩ -	₩ -	₩ 167	₩ 154
Industrial property rights	17	10	4	4	19
Rights to operate parking lot business	807	-	-	117	690
Rights to use pier	8	-	-	3	5
Rights to rent donated buildings	16,328	-	-	1,256	15,072
Others	2,339	517	3	1,277	1,576
	<u>₩ 19,820</u>	<u>₩ 527</u>	<u>₩ 7</u>	<u>₩ 2,824</u>	<u>₩ 17,516</u>

(in millions of Korean won)

	2006				
	Beginning balance	Increase	Impairment	Amortization	Ending balance
Goodwill	₩ 488	₩ -	₩ -	₩ 167	₩ 321
Industrial property rights	13	8	-	4	17
Rights to operate parking lot business	924	-	-	117	807
Rights to use pier	11	-	-	3	8
Rights to rent donated buildings	17,584	-	-	1,256	16,328
Others	2,697	1,052	-	1,410	2,339
	<u>₩ 21,717</u>	<u>₩ 1,060</u>	<u>₩ -</u>	<u>₩ 2,957</u>	<u>₩ 19,820</u>

Amortization of intangible assets included in cost of sales and selling and administrative expenses for the year ended December 31 2007, amounts to ₩ 1,398 million (2006: ₩ 1,394 million) and ₩ 1,426 million (2006: ₩ 1,563 million), respectively. In addition, ordinary research and development costs incurred for the year ended December 31, 2007, amounts to ₩ 6,825 million (2006: ₩6,087 million).

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

12. Short-Term Borrowings, Long-Term Borrowings and Debentures

Short-Term Borrowings and Long-Term Borrowings

The Company's short-term borrowings and long-term borrowings as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

Type	Creditor	Annual interest rates (%) as of Dec 31, 2007	2007	2006
Short-term borrowings				
Enterprising note	Hana Bank and others	6.05	₩ 30,000	₩ -
CP discounting	Woori Bank and others	-	-	100,000
General loans	Korea Construction Financial Cooperative	-	-	68,661
232th private	Kookmin Bank	6.23	50,000	-
			<u>₩ 80,000</u>	<u>₩168,661</u>
Long-term borrowings				
General loans	Korea Housing Guarantee	1.00	₩ 20,000	₩ 20,000
Loans for equipment purchases	Korea Development Bank	-	-	300
Loans for National Housing Fund	Kookmin Bank	-	-	62
Long-term CP discounting	Shinhan Bank	5.59	50,000	50,000
General loans	Nonghyup Bank etc	6.50 ~ 6.62	180,000	-
			<u>250,000</u>	<u>70,362</u>
Less: Current maturities			<u>(50,000)</u>	<u>(300)</u>
			<u>₩ 200,000</u>	<u>₩ 70,062</u>

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

Non-Guaranteed Debentures

The Company's non-guaranteed debentures as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

Series	Issued date	Maturity	Annual interest rates (%) as of		2007	2006
			Dec 31, 2007			
221 st public	2004.07.16	2007.07.16	-	₩	-	₩ 30,000
222-1 st public	2004.11.23	2007.11.23	-		-	30,000
222-2 nd public	2004.11.23	2009.11.23	4.00		30,000	30,000
223-2 nd public	2004.12.27	2007.12.27	-		-	50,000
224 th private	2005.12.23	2007.01.23	-		-	70,000
225 th public	2006.07.20	2009.07.20	4.50		50,000	50,000
226 th private	2006.10.18	2008.10.18	5.31		50,000	50,000
227-1 st public	2006.11.23	2009.11.23	4.50		50,000	50,000
227-2 nd public	2006.11.23	2010.11.23	4.50		50,000	50,000
228-1 st private	2006.12.26	2008.12.26	5.23		50,000	50,000
228-2 nd private	2006.12.26	2008.12.26	6.56		50,000	50,000
230-1 st public	2007.07.11	2009.07.11	5.00		50,000	-
230-2 nd public	2007.07.11	2010.07.11	5.00		50,000	-
231 st foreign currency public	2007.09.20	2010.09.20	Libor+0.60		28,146	-
233-1 st foreign currency public	2007.10.18	2010.10.18	Libor+0.60		28,146	-
233-2 nd public	2007.10.18	2009.10.18	5.00		30,000	-
233-3 rd public	2007.10.18	2010.10.18	5.55		50,000	-
Exchangeable bonds	2004.02.18	2009.02.18	-		-	2,309
					566,292	512,309
		Add: Premium on debentures			-	252
		Less: Current maturities			(150,000)	(180,000)
		Discounts on debentures			(5,034)	(2,804)
		Exchange rights			-	(68)
				₩	411,258	₩ 329,689

The Company sold 3,231,770 treasury shares to DLIC, Ltd., the Company's overseas special purpose vehicle. DLIC, Ltd. issued exchangeable bonds amounting to US\$ 110 million at par value for the Company's 3,026,569 shares of common stock. After exercising all exchange rights, the company had no exchangeable bonds as of December 31, 2007.

The Company applied the foreign exchange rate of ₩938.20 : US\$1 on the foreign currency debentures of 231st series and 233-1st series which amount to US\$30 million each.

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In addition, the Company issued 234th public debentures amounting to ₩230,000 million on January 21, 2008 (Note 31).

The aggregate annual maturities of long-term debts outstanding as of December 31, 2007, exclusive of adjustment relating to discounts and others, are as follows:

(in millions of Korean won)

Year ending December 31	Long-term borrowings	Debentures	Total
2009	₩ 2,000	₩ 210,000	₩ 212,000
2010	2,000	206,292	208,292
2011	182,000	-	182,000
2012	2,000	-	2,000
Thereafter	12,000	-	12,000
	<u>₩ 200,000</u>	<u>₩ 416,292</u>	<u>₩ 616,292</u>

13. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2007 and 2006, consist of the following:

(in millions of Korean won)

	2007	2006
Balance at the beginning of the year	₩ 41,323	₩ 25,376
Actual severance payments	(19,426)	(7,060)
Provision for severance benefits	22,568	23,007
	<u>44,465</u>	<u>41,323</u>
Less: Cumulative deposits to the National Pension Fund	(8)	(180)
Severance insurance deposit	(29,513)	(25,054)
Balance at the end of the year	<u>₩ 14,944</u>	<u>₩ 16,089</u>

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14. Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006, consist of the following:

(in millions of Korean won, in thousands of foreign currencies)

		2007		2006
		Foreign currency	Korean won Equivalent	Korean won Equivalent
Assets				
Cash and cash equivalents	US\$	1,197	₩ 1,123	₩ 2,456
	EUR	29,051	40,127	13,038
	JPY	151,108	1,259	1,732
	SG\$	19	12	11
	SEK	37,504	5,498	-
	CHF	-	-	2,683
Short-term financial instruments	US\$	480	450	446
Construction work receivables	US\$	327,366	307,135	261,917
	EUR	5,638	7,788	366
	KWD	8	29	-
Trade accounts and notes receivable	US\$	4,188	3,929	3,114
	EUR	134	185	-
Other accounts receivable	US\$	37,135	34,840	24,560
	EUR	11	15	1,358
	INR	249,571	5,957	-
	IRR	-	-	273
Accrued income	US\$	12	11	3
	EUR	28	38	10
	JPY	5	-	-
	SEK	16	2	-
	CHF	-	-	3
Long-term loans receivable	US\$	10,772	10,107	10,283
Long-term construction work receivable	US\$	275	258	-
	SAR	12,771	3,196	-
	INR	40,243	961	-
Long-term other accounts receivable	US\$	-	-	5,618
	SAR	21,770	5,447	8,562
	INR	-	-	2,511
			₩ 428,367	₩ 338,944

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(in millions of Korean won, in thousands of foreign currencies)

Liabilities		2007		2006
		Foreign currency	Korean won Equivalent	Korean won Equivalent
Trade accounts and notes payable	US\$	310,303	₩ 291,126	₩ 263,600
	EUR	952	1,314	171
	IDR	1,658,237	165	-
Other accounts payable	US\$	1,563	1,466	446
	EUR	30,360	41,934	11,157
Withholdings	US\$	17	16	16
	KWD	-	-	100
	CNY	-	-	36
			₩ 336,021	₩ 275,526

As a result of translation of assets and liabilities denominated in foreign currency above, the Company recorded gains and losses on foreign currency translation for the year ended December 31, 2007, amounting to ₩7,054 million (2006: ₩4,940 million) and ₩ 7,927 million (2006: ₩9,492 million), respectively.

Financial Information of Overseas Branch Office

Financial information of overseas branch office as of December 31, 2007 and 2006, follows:

<i>(in millions of Korean won)</i>	2007	2006
Current assets	₩ 45,665	₩ 55,701
Non-current assets	7,388	12,646
Current liabilities	32,482	9,805
Non-current liabilities	352	816

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15. Commitments and Contingencies

Pledged Notes and Checks

As of December 31, 2007, the Company has pledged 12 checks, consisting of 11 blank checks and one check amounting to ₩ 4,509 million, and 88 notes, consisting of 53 blank notes and 35 notes amounting to ₩ 146,916 million, to financial institutions and others as collaterals for borrowings and indemnification liabilities.

Litigation

As of December 31, 2007, the Company is involved in 79 pending cases as a defendant with aggregate claims of ₩ 88,627 million and SAR 30,180 thousand, including an indemnity claim, and 13 cases as a plaintiff with aggregate amounts of ₩ 52,219 million and SAR 13,108 thousand, including an overdue payment claim.

As of December 31, 2007, the final outcome of the cases cannot be reasonably ascertained. The Company records contingent liabilities on cases where it is the defendant.

Contingent Liabilities

The Company's contingent liabilities as of December 31, 2007, are as follows:

(In millions of Korean won)

	Litigation¹	Guarantees²	Surcharges³	Total
Beginning balance	₩ 1,520	₩ 6,000	₩ 11,700	₩ 19,220
Increase	2,718	25,663	2,850	31,231
Decrease	318	-	14,550	14,868
Ending balance	<u>₩ 3,920</u>	<u>₩ 31,663</u>	<u>₩ -</u>	<u>₩ 35,583</u>

¹ The Company recorded reserve for contingent liabilities amounting to ₩ 3,920 million on cases lost at the first trial.

² The Company considered potential losses from guarantees provided.

³ The Company has reserved contingent liabilities of ₩11,700 million after the Korean Fair Trade Commission ("KFTC") announced that the synthetic resins manufacturing companies would be penalized due to collusion. This amount was paid as a penalty on August 13, 2007. In addition, the Company paid in 2007 other penalties amounting to ₩2,850 million from the KFTC due to collusion with other major construction companies.

Collaterals and Guarantees

As of December 31, 2007, the Company has pledged its land, investment securities and others for up to a maximum of ₩ 764,623 million as collaterals for its short-term and long-term borrowings.

As of December 31, 2007, the Company has provided guarantees regarding operating activities amounting to approximately ₩ 7,929,976 million for Hyundai Engineering & Construction Co., Ltd. and other companies. The Company was provided with performance guarantees of ₩ 5,657,626 million for domestic construction contracts and ₩ 362,531 million for overseas contracts, for a total of ₩ 6,020,157 million.

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Commitments arising from Financial Transactions

The Company's major agreements with financial institutions as of December 31, 2007, are as follows:

(in millions of Korean won, in thousands of foreign currency)

Type	Financial institutions		Credit line		Balance outstanding
Bank overdrafts	Hana Bank and others	₩	26,000	₩	-
General loans	Woori Bank and others	₩	110,000	₩	-
Commercial paper discounting	Woori Bank and others	₩	300,000	₩	50,000
General loans(long-term)	Nonghyup and others	₩	180,000	₩	180,000
Private deventures	Kookmin Bank and others	₩	200,000	₩	200,000
B2B	Woori Bank	₩	70,000	₩	30,432
Sight L/C, D/A, others	Woori Bank and others	US\$	200,754	US\$	117,406
Usance, DA/DP	National Bank of Kuwait	KWD	10,000	KWD	-
Payment guarantee in foreign currency	Woori Bank and others	US\$	220,176	US\$	83,462
	National Bank of Kuwait	KWD	38,500	KWD	23,808
Payment guarantee in local currency	Woori Bank	₩	40,000	₩	37,541
	Standard Chartered First Bank	₩	6,567	₩	4,876

Including commitments above, the Company has entered into comprehensive credit limit contracts with Woori Bank for ₩ 180,000 million and US\$ 60.4 million, with Korea Exchange Bank for ₩ 25,000 million, and with Citibank Korea for US\$ 40 million.

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Foreign Currency Forward Contracts

The Company enters into foreign currency forward contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy. The use of foreign currency forward contracts allows the Company to reduce its exposure to the risk that the eventual Korean won cash outflows, resulting from operating expenses, capital expenditures, purchasing materials and debt service, will be adversely affected by changes in exchange rates. These transactions do not meet the requirements for hedge accounting for financial statement purposes. Therefore, the resulting realized and unrealized gains or losses, measured by quoted market prices, are recognized in income or losses as the exchange rates change.

A summary of the terms of outstanding foreign currency forward contracts as of Dec 31, 2007, follows:

(in thousands)

	Buying Amount		Paying Amount	Contracted exchange rate	Number of Contracts
EUR	11,426	US\$	15,451	1.3260 ~ 1.4025	12
EUR	502	KRW	621,739	1,236.73 ~ 1,238.03	3
SEK	361,775	KRW	51,475,842	142.10 ~ 142.8	10
JPY	259,963	US\$	2,270	113.26 ~ 116.06	7
JPY	97,400	KRW	796,995	818.27	1
KRW	149,121,747	US\$	163,202	894.73 ~ 941.17	89

In 2007, the Company recorded valuation gains of ₩ 2,396 million, and losses of ₩ 2,773 million on foreign currency forward contracts upon settlement.

Foreign Exchange Fluctuation Insurance

In order to reduce the impact of changes in foreign exchange rates on future cash flows regarding expected bill, the Company enters into a foreign exchange fluctuation insurance contract with Korea Export Insurance Company.

A summary of the terms of outstanding foreign exchange fluctuation insurance contracts as of December 31, 2007, follows:

(in thousands)

		Total Coverage Amount		Remaining Coverage Amount	Contracted exchange rate	Termination date
Korea Export Insurance Company	EUR	32,887	EUR	12,566	1,431.80 ~ 1,435.30	September 2008
	US\$	88,970	US\$	13,873	1,008.50 ~ 1,009.90	December 2008

In 2007, the Company recorded valuation losses of ₩ 2,157 million on foreign exchange fluctuation insurance contracts upon settlement.

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Interest Rate Swap Contracts

In order to reduce the impact of changes in interest rates, the Company entered into interest rate swap contracts. In 2007, the Company recorded valuation gains of ₩ 903 million and losses of ₩ 20 million on interest rate swap contracts upon settlement.

A summary of the terms of outstanding interest rate swap contracts as of December 31, 2007, follows:

(in millions of Korean won)

	Amount	Effective date	Termination date	Paying Interest rate	Receiving Interest rate	Settlement Period
Shinhan Bank	₩ 50,000	2006.10.18	2008.04.18	4.76%	CD+0.25%	3 months
Korea Exchange Bank	50,000	2006.12.26	2008.06.26	5.57%	CD+0.77%	3 months
Kookmin bank	50,000	2007.11.21	2011.05.21	6.48%	CD+1.20%	1 months
Nonghyup bank	50,000	2007.11.21	2011.05.21	6.49%	CD+1.20%	1 months

Currency swap

In order to reduce the impact of changes in interest rates and exchange rate, the Company entered into currency swap contracts. In 2007, the Company recorded valuation losses of ₩ 916 million on currency swap contracts upon settlement.

A summary of the terms of outstanding interest rate swap contracts as of Dec 31, 2007, follows:

(in millions of Korean won)

	Buying Amount	Paying Amount	Paying Interest rate	Receiving Interest rate	Settlement Period	Period of contract
Calyon	US\$ 30,000	KRW 28,200	Libor 3M + 0.60%	4.80%	3 months	2007.09.20~ 2010.09.20
Standard Chartered First Bank	US\$ 30,000	KRW 27,654	Libor 3M + 0.60%	5.50%	3 months	2007.10.18~ 2010.10.18

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16. Capital Stock

The Company is authorized to issue 90 million shares of common stock and 30 million shares of preferred stock with par value of ₩5,000 per share.

As of December 31, 2007, capital stock consists of the following:

<i>(in millions of Korean won)</i>	Number of shares issued and outstanding	Amount
Common stock	34,800,000	₩ 197,500
Preferred stock	3,800,000	21,000

The Company had retired 4,700,000 shares of common treasury stock and 400,000 shares of preferred treasury stock on January 28, 2004 and November 3, 2004, respectively.

17. Capital Surplus

The Company's capital surplus as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007	2006
Additional paid-in capital	₩ 296,044	₩ 296,044
Revaluation reserve	695,189	695,189
Other capital surplus	246,185	244,975
	<u>₩ 1,237,418</u>	<u>₩ 1,236,208</u>

Revaluation Reserve

In accordance with the Asset Revaluation Law, effective January 1, 1995 and July 1, 1999, the Company revalued a substantial portion of its property, plant and equipment.

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18. Capital Adjustments and Accumulated Other Comprehensive Income

The Company's capital adjustments as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007	2006
Capital adjustments		
Treasury stock	₩ -	₩ (758)
Accumulated other comprehensive income		
Accumulated overseas operations translation	₩ (46,962)	₩ (48,710)
Accumulated loss on valuation of available-for-sale securities	259	982
Accumulated equity changes in equity-method investments	102,044	73,274
Accumulated negative equity changes in equity-method investments	(1,851)	(2,081)
	<u>₩ 53,490</u>	<u>₩ 23,465</u>

Treasury Stock

During the year ended December 31, 2007, the Company disposed of 55,041 shares of treasury stock with a total cost of ₩ 758 million and reported gains of ₩ 1,417 million as an other capital surplus.

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19. Retained Earnings

The Company's retained earnings as of December 31, 2007 and 2006, consist of the following:

<i>(in millions of Korean won)</i>	2007	2006
Legal reserve	₩ 55,363	₩ 70,414
Voluntary reserve	85,321	53,381
Retained earnings before appropriations	1,298,662	908,040
	<u>₩ 1,439,346</u>	<u>₩ 1,031,835</u>

Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, with the ratification by the Company's majority shareholders.

Reserve for Improvement of Financial Structure

According to revision of the regulations regarding securities issuance and disclosure (formerly the provisions of the Financial Control Regulation for publicly listed companies), the Company has been exempted to appropriate a reserve for improvement of financial structure, and the reserve can be also available for dividends and was reclassified as a voluntary reserve from the current year.

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20. Income Tax

Income tax expense for the year ended December 31, 2007, consists of:

<i>(in millions of Korean won)</i>	Amount
Current income tax expense	₩ 188,346
Deferred income tax from temporary differences	(11,296)
Deferred income tax liabilities directly charged to the shareholders' equity ¹	(10,726)
Income tax refunds and others ²	<u>(19,904)</u>
Income tax expense	<u>₩ 146,420</u>

¹ Deferred income tax liabilities directly charged to the shareholders' equity were calculated as follows:

<i>(in millions of Korean won)</i>	Amount
Valuation losses of available-for sale securities	₩ 274
Net equity changes in equity-method-investments	<u>(11,000)</u>
	<u>₩ (10,726)</u>

² According to revision of SKFAS No.16, *Deferred Income Taxes*, income tax refunds were deducted in calculating income tax expense.

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The reconciliation between financial income before income tax and taxable income for the year ended December 31, 2007, follows:

<i>(in millions of Korean won)</i>	Amounts
Income before income tax	₩ 606,177
Add (deduct):	
Loss on valuation of assets	(3,080)
Reserve for construction warranty and others	(16,475)
Accrued income	(1,821)
Valuation of equity-method investments	(26,594)
Allowance for doubtful accounts	104,312
Reserve for research and human resource development	9,000
Exchangeable bond	51
Entertainment expenses	3,413
Valuation of available-for-sale securities	(2,696)
Present value discount	(600)
Quasi-sales	(5,662)
Reserve for contingent liability	36,830
Depreciation	(521)
Others	(15,963)
Taxable income	<u>₩ 686,371</u>

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The significant changes in accumulated temporary differences and the related tax effect for the year ended December 31, 2007, are as follows:

<i>(in millions of Korean won)</i>	Beginning balance ¹	Increase/decrease	Ending balance	Deferred income tax assets (liabilities)	
				Current	Non-current
Loss on valuation of assets	₩ 5,977	₩ (3,033)	₩ 2,944	₩ (240)	₩ (570)
Loss on impairment of assets	44,167	(2,413)	41,754	(81)	(11,402)
Present value discount	799	(600)	199	(51)	(4)
Depreciation	14,345	(520)	13,825	(117)	(3,684)
Allowance for doubtful accounts and others ¹	66,261	81,644	147,905	(32,158)	(8,516)
Exchangeable bonds	(10,488)	(1,958)	(12,446)	3,423	-
Reserve for contingent liability	43,052	2,746	45,798	(367)	(12,227)
Provision for other estimated liabilities	19,220	16,363	35,583	-	(9,785)
Others	9,103	(1,095)	8,008	(195)	(2,008)
Sales	(44,616)	(4,866)	(49,482)	-	13,607
Accrued income	(10,247)	(1,821)	(12,068)	3,318	-
Capitalized interest expense	(2,556)	-	(2,556)	-	703
Reserves for research and human resource development	(48,000)	9,000	(39,000)	2,475	8,250
Loss on valuation of equity-method investments	(408,325)	(53,161)	(461,486)	-	97,641
Reserve for construction warranty and others	(244,464)	240	(244,224)	7	57,111
Others	16,244	4,327	20,571	(337)	1,613
				<u>₩ (24,323)</u>	<u>₩ 130,729</u>

¹ Beginning balance was adjusted reflecting final corporate income tax return.

Deferred income tax assets (liabilities) directly charged to the shareholders' equity for the year ended December 31, 2007, follows:

<i>(in millions of Korean won)</i>	Amount	Deferred income tax assets (liabilities)
Loss (gain) on valuation of available-for-sale securities	₩ (996)	₩ 274
Net equity changes in equity-method investments	40,000	(11,000)

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Deferred income tax as of December 31, 2007, was calculated based on the Corporate Income Tax Law enacted rate of 27.5%. In addition to the current income tax, deferred income tax is recognized for temporary differences between amounts reported for financial reporting and income tax purposes. As a result of tax adjustment, effective tax rate of the Company for the year ended December 31, 2007, is approximately 24.15%.

21. Earnings Per Share

Basic Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock as adjusted by extraordinary gains or losses and net of related income tax, by the weighted average number of common shares outstanding during the year.

Basic earnings per share for the years ended December 31, 2007 and 2006, is calculated as follows:

(in millions of Korean won, except per share amounts and number of shares)

	2007	2006
Net income as reported on the Statements of Income	₩ 459,757	₩ 253,557
Less: Preferred stock dividends	9,310	5,320
Less: Supplementary income allocated to preferred stock ¹	36,122	19,848
Net income allocated to common stock	414,325	228,389
Weighted average number of common shares outstanding during the year ²	34,791,254	34,659,454
Basic earnings per share in Korean won	₩ 11,909	₩ 6,590

¹ Supplementary income allocated to preferred stock which could be divided for the year ended December 31, 2007, is calculated as follows:

Supplementary income: 459,757,013,520 - 83,519,997,600 - 9,310,000,000 = 366,927,015,920

Supplementary income allocated to preferred stock:

$366,927,015,920 \times 3,800,000 \text{ shares} \div (3,800,000 \text{ shares} + 34,800,000 \text{ shares}) = 36,122,348,718$

² The weighted-average number of common shares outstanding for the year ended December 31, 2007, is calculated as follows:

	Number of shares issued	Number of days outstanding	Weighted number of shares
January 1, 2007	34,800,000	365	12,702,000,000
Acquisition of treasury stock	(55,041)	365	(20,089,965)
Disposal of treasury stock	55,041	307	16,897,587
	<u>34,800,000</u>		<u>12,698,807,622</u>

Weighted-average number of common shares outstanding:

$12,698,807,622 \text{ shares} \div 365 \text{ days} = 34,791,254 \text{ shares}$

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Diluted Earnings Per Share

Diluted earnings per share is computed by dividing diluted net income, as adjusted, by adding back the after-tax amount of interest expense on exchangeable bonds, by the weighted average number of common shares and diluted securities outstanding during the year. Diluted ordinary income per share is computed by dividing diluted net income allocated to common stock, as adjusted, by extraordinary gains or losses and net of related income tax, by the weighted average number of common shares and diluted securities outstanding during the year.

Diluted earnings per share for the years ended December 31, 2007 and 2006, is calculated as follows:

(in millions of Korean won, except per share amounts and number of shares)

	2007	2006
Net income allocated to common stock	₩ 459,757	₩ 253,557
Add: Interest expense on exchangeable bond, net of tax	17	302
Less: Preferred stock dividends	9,310	5,320
Less: Supplementary income allocated to preferred stock ¹	36,124	19,850
Diluted net income allocated to common stock	414,340	228,690
Weighted average number of common shares outstanding during the year	34,791,254	34,659,454
Weighted average number of diluted securities outstanding during the year ²	8,746	140,546
Diluted earnings per share in Korean won	₩ 11,906	₩ 6,572

¹ Supplementary income allocated to preferred stock which could be divided for the year ended December 31, 2007, is calculated as follows:

Supplementary income:

$$459,757,013,520 + 16,676,402 - 83,519,997,600 - 9,310,000,000 = 366,943,692,322$$

Supplementary income allocated to preferred stock:

$$366,943,692,322 \times 3,800,000 \text{ shares} \div (3,800,000 \text{ shares} + 34,800,000 \text{ shares}) = 36,123,990,436$$

² The weighted-average number of diluted securities outstanding for the year ended December 31, 2007, is calculated as follows:

	Number of shares issued	Number of days outstanding	Weighted number of shares
Redeemed exchangeable bonds	55,041	58	3,192,378
Unredeemed exchangeable bonds	-	365	-
	<u>55,041</u>		<u>3,192,378</u>

Weighted average number of diluted securities outstanding:

$$3,192,378 \text{ shares} \div 365 \text{ days} = 8,746 \text{ shares}$$

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22. Dividends

Details of dividends declared for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won, except dividend per share)</i>	2007		2006	
	Common stock	Preferred Stock	Common stock	Preferred stock
Total dividends	₩ 83,520	₩ 9,310	₩ 46,980	₩ 5,320
Number of shares	34,800,000	3,800,000	34,800,000	3,800,000
Dividend per share	₩ 2,400	₩ 2,450	₩ 1,350	₩ 1,400
Dividend ratio	48%	49%	27%	28%
Dividend payout ratio ¹	18.17%	2.02%	18.53%	2.10%
Dividend yield ratio ²	1.34%	3.04%	1.78%	3.52%

¹ Dividend payout ratio = Total dividends ÷ net income

² Dividend yield ratio = Dividend per share ÷ market price as of balance sheet date

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23. Related Party Transactions

The significant transactions which occurred in the normal course of business with related companies for the year ended December 31, 2007, and the related account balances as of December 31, 2007, are as follows:

(in millions of Korean won)

Type ¹	Sales	Purchases	Receivables ²	Payables
Companies which exercise significant control or influence over the Company	₩ 321,909	₩ 41	₩ 20,368	₩ -
Subsidiaries	19,541	58,998	7,602	19,052
Equity-method investees	194,337	646,064	37,657	115,928
Other related parties	15,895	44,601	1,966	4,961
Total for 2007	₩ 551,682	₩ 749,704	₩ 67,593	₩ 139,941
Total for 2006	₩ 652,392	₩ 669,892	₩ 68,973	₩ 100,160

¹ Details of related party type are as follows:

Type	Name
Companies which exercise significant control or influence over the Company	Daelim Corporation
Subsidiaries	Korea Development Corp., Samho International Co., Ltd., Daelim Motor Co., Daelim Concrete products Co., Ltd., ORA Resort Co., Ltd., Daelim Saudi Arabia Co.,Ltd.
Equity-method investees	Yechun NCC Co., Ltd, Poly Mirae Co., Ltd., KR Copolymer Co., Ltd, Daelim I&S Co., Ltd, Daelim Philippines, Inc, Asia Pacific Engineering Ltd., Global Industry Trade Ltd, Integrated Engineering Ltd., P.T. Daelim Utama Co., Ltd. Daelim Malaysia, Sdn. Bhd.
Other related parties	Daelim H&L Co., Ltd., Web-Tech Venture Capital Co., Ltd., Manwolsan Tunnel Co., Ltd., Echo Hall Co., Ltd. Yeongcheon-Sangju Expressway Co., Ltd. and Sudogwon Seobu Expressway Co., Ltd, Sang-hai Trade Company Ltd.

² Receivables are presented before deducting allowance for bad debts of ₩ 11,102 million as of December 31, 2007 (2006 : ₩ 11,358 million).

For the year ended December 31, 2007, the Company recorded short-term benefits of ₩ 14,598 million as key management compensation. Key management consists of executive officers who have the authority and responsibility in the planning, directing and control of the Company's operations.

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

The Company is contingently liable for construction performance guarantees of its affiliated companies.
The details of guarantees as of December 31, 2007 and 2006, are as follows:

(in thousands of US dollars)

Affiliated company	Project	2007.12.31	2006.12.31	Period of guarantee
Asia Pacific Engineering, Ltd.	China BASF-YPC GTCC Power Plant	US\$ -	US\$ 3,294	2002.03.26~2007.03.29
Global Industry Trade, Ltd.	China BASF-YPC GTCC Power Plant	-	92,606	2002.03.26~2007.03.29
Daelim Malaysia, Sdn. Bhd.	China Integrated Isocyanates Project	95,400	95,400	2003.09.05 ~ 2009.03.31
Daelim Philippines Inc.	Philippines Petro FCC Project	89,044	64,585	2006.02.16 ~ Expiration of obligation
Daelim Philippines Inc.	BTX Project	20,660	-	2007.04.05 ~ Expiration of obligation
Daelim Saudi Arabia Co.,Ltd.	Alwaha P D H / PP Plant	154,109	94,109	2006.10.09 ~ Expiration of obligation

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

24. Sales, Cost of Sales, and Selling and Administrative Expenses

Details of sales, cost of sales, and selling and administrative expenses for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Sales		
Construction revenue	₩ 4,099,674	₩ 3,474,623
Lotting-out revenue	130,098	155,861
Sales of finished products	683,933	608,576
Other revenues	25,909	30,222
	<u>₩ 4,939,614</u>	<u>₩ 4,269,282</u>
Cost of sales		
Cost of construction	₩ 3,438,965	₩ 3,000,534
Cost of lotting-out	96,821	120,519
Cost of finished products	608,499	558,350
Other costs	24,637	27,210
	<u>₩ 4,168,922</u>	<u>₩ 3,706,613</u>
Selling and Administrative Expenses		
Payroll	₩ 98,535	₩ 91,482
Commission	49,086	65,182
Transportation expenses	23,948	20,414
Provision for severance benefits	8,592	7,376
Welfare expenses	15,262	14,283
Warranty expenses	7,396	10,610
Bad debt expense	64,841	14,080
Others	66,084	70,293
	<u>₩ 333,744</u>	<u>₩ 293,720</u>

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

25. Value Added Information

Value added information for the year ended December 31, 2007, includes the following:

(in millions of Korean won)

	Cost of construction	Cost of lotting- out	Cost of finished products	Other costs	Selling, general and administra- tive expenses	Ordinary research and develop- ment costs	Total
Payroll	₩ 182,666	₩ 3,307	₩ 16,695	₩ 996	₩ 98,535	₩ 2,174	₩ 304,373
Provision for severance benefits	11,322	211	1,999	211	8,592	233	22,568
Welfare expenses	30,392	655	2,553	-	15,262	333	49,195
Rental expenses	45,826	731	-	-	2,789	-	49,346
Depreciation	1,013	4	7,813	2,026	2,361	874	14,091
Amortization of intangible assets	-	-	-	1,397	1,427	-	2,824
Taxes and dues	32,847	14,763	659	-	8,690	50	57,009
	<u>₩ 304,066</u>	<u>₩ 19,671</u>	<u>₩ 29,719</u>	<u>₩ 4,630</u>	<u>₩ 137,656</u>	<u>₩ 3,664</u>	<u>₩ 499,406</u>

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

26. Segment Information

The Company is classified into two business segments, namely, construction and petrochemical divisions. The construction division is divided into civil engineering, architecture, plant, lotting-out, overseas construction and others.

Financial information of the business segments as of and for the years ended December 31, 2007 and 2006, are as follows:

(in millions of Korean won)

	2007							
	Civil engineering	Architecture	Plant	Lotting-out	Overseas construction	Petro-chemical	Others	Total
External sales	₩1,009,883	₩1,869,920	₩657,799	₩130,098	₩537,292	₩711,886	₩22,736	₩4,939,614
Operating income (loss)	114,223	184,254	64,269	29,257	87,323	32,851	(75,229)	436,948
Plant, property & equipment and intangible assets	-	-	-	-	186	181,908	461,988	644,082
Depreciation/amortization	-	-	-	-	138	10,147	6,630	16,915

(in millions of Korean won)

	2006							
	Civil engineering	Architecture	Plant	Lotting-out	Overseas construction	Petro-chemical	Others	Total
External sales	₩1,114,414	₩1,548,484	₩557,185	₩155,860	₩ 227,106	₩642,098	₩ 24,135	₩4,269,282
Operating income (loss)	121,859	121,591	75,094	27,692	(23,497)	12,408	(66,198)	268,949
Plant, property & equipment and intangible assets	-	-	-	-	246	213,397	389,330	602,973
Depreciation/ amortization	-	-	-	-	158	16,131	6,012	22,301

A summary of information of the Company's sales by geographic area for the year ended December 31, 2007, follows:

(In millions of Korean won)

	Domestic	Saudi	Philippine	Iran	Others	Total
Sales	₩ 4,402,322	₩ 293,316	₩ 104,523	₩ 93,345	₩ 46,108	₩ 4,939,614

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

27. Employee Welfare

The Company's contribution to employees' welfare amounted to ₩ 33,852 million (2006: ₩ 35,559 million) for the year ended December 31, 2007.

28. Operating Results for the Final Interim Period

Significant operating results for the three-month periods ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won except net income per share)</i>	2007	2006
Sales	₩ 1,639,981	₩ 1,229,406
Net income	167,021	28,530
Net income per share	4,326	738

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

29. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2007 and 2006, are as follows:

<i>(in millions of Korean won)</i>	2007	2006
Reclassification of the current portion of debentures	₩ 150,000	₩ 230,000
Reclassification from held-to-maturity securities to available-for-sale securities	50,000	-
Reclassification to other accounts in property, plant and equipment from construction-in-progress	8,576	17,661
Reclassification to other accounts in intangible assets from construction-in-progress	74	-
Reclassification to inventories from property, plant and equipment	-	1,453
Exercise of exchangeable bonds	2,309	21,245

30. Comprehensive Income

Comprehensive income for the year ended December 31, 2007 and 2006, consists of:

<i>(in millions of Korean won)</i>	2007	2006
Net income	₩ 459,757	₩ 253,557
Other comprehensive income		
Overseas operations translation	1,747	65,139
Valuation gains(losses) of available-for sale securities	(722)	2,994
Net equity changes in equity-method-investments	28,999	(3,145)
Comprehensive income	<u>₩ 489,781</u>	<u>₩ 318,545</u>

Daelim Industrial Co., Ltd.
Notes to Non-Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

31. Subsequent Events

The Company issued public debentures as of January 21, 2008, consisting of the following:

(in millions of Korean won)

Type	Issued date	Maturity	Par value	Par interest rate
234- ^{1st} public	2008.01.21	2.5 years	10,000	6.60%
234- ^{2nd} public	2008.01.21	3 years	150,000	6.66%
234- ^{3rd} public	2008.01.21	5 years	70,000	6.82%

In addition, on January 25, 2008, the finance committee decided to establish new plant in the Yeosu National Industrial Complex to strengthen the competitiveness in C4-Induction of Petrol-Chemical department. The Company planned to invest ₩1,169 million from January 2008 to January 2010.

32. Approval of Financial Statements

Non-consolidated financial statements of the Company for the year ended December 31, 2007, were approved by the Board of Directors on February 1, 2008.

**Report of Independent Accountants'
Review of Internal Accounting Control System**

To the President of Daelim Industrial Co., Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Daelim Industrial Co., Ltd. (the "Company") as of December 31, 2007. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2007, the Company's IACS has been designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2007, and we did not review management's assessment of its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

February 19, 2008

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
Daelim Industrial Co., Ltd.

I, as the Internal Accounting Control Officer (“IACO”) of Daelim Industrial Co., Ltd. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2007.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2007, in all material respects, in accordance with the IACS standards.

February 1, 2008

Han Jip, Shon
Internal Accounting Control Officer

Jong In, Kim
Chief Executive Officer