

## Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) presents Orion's business performance in 2007 and includes forward-looking statements on the Company's future management plans for the purpose of assisting investors. Please note, however, that future performance results may differ materially from those projected herein for reasons beyond the Company's control. Orion is under no obligation to publicly revise any of these forward-looking statements whether as a result of new information or otherwise.

In this MD&A, 'the Company' refers to Orion unless otherwise stated.

### 1. Sales Environment

Due to various challenges including worsening economic woes at home and abroad, fiercer competition among companies and weaker bargaining power due to the rapid conglomeration of distributors, Orion achieved total revenues of KRW 553.7 billion, a 1.0% drop from the previous year.

Nevertheless, despite sluggish growth of the confectionery market and lower consumer confidence in addition to the previously mentioned challenges, business profit to sales ratio increased 0.6%p year-on-year, recording KRW 30.1 billion, a 10% growth.

The Company strives to boost cost effectiveness and productivity through constant improvements of purchase process and establishment of efficient sales networks even under uncertain management environment caused by sluggish domestic economy and instable exchange rate.

### 2. Management Performance

Facing a tough economic environment, including sluggish demand as a result of the economic downturn and changes in consumption trends in the confectionery market, Orion recorded sales volume of KRW 536.2 billion, a decrease of KRW 6.9 billion from the year before with the cost of sales dropping 1.1%p vis-à-vis sales year-on-year. SG&A decreased by KRW 8.8 billion compared to last year thanks to continued efforts to reduce costs. This resulted in business profit of KRW 30.1 billion, an increase of KRW 2.8 billion from 2006.

Orion's overseas market sales recorded USD 130 million in 2005, surpassing USD 100 million for the first time since its overseas entry. In 2007, sales reached USD 210 million, a 40.0% increase over 2006. In the Chinese market alone, 2007 sales volume increased significantly to USD 130 million. China, Russia and Vietnam each achieved a year-on-year growth rate of over 30%.

(Unit: KRW billion)

Summary of Profit and Loss	2007	2006	2005
Sales	536.2	543.1	537.5
Cost of Sales	334.0	334.8	332.0
SG&A	172.1	180.9	165.0
Business Profit	30.1	27.3	40.6
Net Profit	66.0	106.9	37.3

## Management's Discussion and Analysis

In 2007, business profit to sales ratio increased 0.6%p from the year before, while net profit to sales ratio dropped 7.4%p. The latter's decrease is attributed to the reduction of non-operating revenues of KRW 56.1 billion year-on-year. The equity-method income of non-operating revenues was increased by KRW 45.2 billion from 2006, but gain on disposition of investment stock using the equity method was reduced by KRW 90.5 billion compared to 2006.

Main Financial Indices	(Unit: %)		
	2007	2006	2005
Business Profitability	5.61	5.03	7.55
Sales Net Profitability	12.30	19.69	6.76
Return Rate on Total Assets	7.34	13.91	5.19
Return Rate on Equity	15.04	25.74	11.26

### 3. Financial Situation

As of year-end 2007, Orion recorded total assets of KRW 972 billion, an increase of KRW 147.4 billion from the previous year's KRW 824.6 billion. This is attributed to current asset and non-current asset increases of KRW 9.9 billion and 137.5 billion, respectively, year-on-year. In more detail, the rise of current assets is the result of the increase of quick assets by KRW 3.2 billion over the year before. The rise in non-current assets is due to the increase of investment stock using the equity method by KRW 126.5 billion year-on-year. Meanwhile, equity recorded a rise of KRW 44.5 billion over 2006 to reach KRW 461 billion, mainly due to the increase of retained earnings by KRW 54.7 billion. Debt rose by KRW 103 billion from last year due to the higher current portion of debentures, while cash and securities recorded KRW 23.3 billion – an increase of KRW 1.2 billion without much fluctuation.

Summarized Balance Sheet	(Unit: KRW billion)		
	2007	2006	2005
Total Assets	972.0	824.6	744.7
Total Debts	511.1	408.1	417.7
Total Capital	460.9	416.5	327.0

Working Capital	(Unit: KRW billion)		
	2007	2006	2005
Trade Receivables and Inventory Assets	143.7	134.6	129.7
Debt Purchases	36.8	49.5	40.6
Working Capital	106.9	85.1	89.1

Cash and Securities	(Unit: KRW billion)		
	2007	2006	2005
Cash and Short-term Financial Products	23.3	22.1	6.6
Marketable Securities	0.1	0.2	0.3

## Management's Discussion and Analysis

### 4. Cash Flow: Business, Investment, and Financial Activities

Cash flow recorded KRW (22.2) billion in 2007, a decrease of KRW 46.2 billion year-on-year. Specifically, deducting items including costs without cash outflow and revenues without cash inflow increased by KRW 5.2 billion and 52.6 billion respectively, but asset debt fluctuation due to net income and business activities dropped respectively by KRW 40.9 billion and KRW 63.1 billion. So there was an overall reduction of KRW 46.2 billion compared to 2006.

Net cash flow as a result of investment activities recorded outflow of KRW 95.7 billion. Disposition of construction in-progress led to inflow of KRW 3.5 billion, and showing cash inflow due to investment remained at KRW 5.1 billion. However, thanks to the acquisition of investment stock using the equity method and of construction in-progress, there was outflow of KRW 58.4 billion and 20.6 billion, respectively. Overall, KRW 100.8 billion of cash flow occurred due to investment activities.

Meanwhile, net cash flow due to financial activities recorded KRW 119.1 billion. As for cash inflow due to financial activities, issuance of debentures and increasing long-term borrowings led to inflow of KRW 120.1 billion and 73.2 billion, a total of KRW 200.8 billion. Thanks to repayment of current long-term debts and payment of dividends, there was an outflow of KRW 70 billion and 11.7 billion respectively, a total of KRW 81.7 billion.

(Unit: KRW billion)

Summarized Cash Flow	2007	2006	2005
Flow by Business Activities	22.2	24.0	41.3
Flow by Investment Activities	95.7	28.8	-76.9
Flow by Financial Activities	119.1	-52.3	40.5

## Management's Discussion and Analysis

### 5. Prospects for 2008

Major economic forecasting institutions have predicted that domestic growth in 2008 will average 4.5%, somewhat upgraded from 2007. In Korea, the impact of international oil and raw materials price hikes and economic downturn in the U.S. as a result of the sub-prime mortgage crisis will not be stronger than expected.

Fiercer competition as a result of quantitative saturation of the domestic confectionery market was expected to affect 2007 sales and operating income in the confectionery sector. However, as the confectionery market turned from positive growth to negative from the latter half of the year, the fourth quarter results of the Company were higher than expected. This is presumably the result of the three-stage project launched in 2001 to meet the health-conscious well-being trend. Specifically, Stage One involved lowering trans-fat; Stage Two reducing saturated fats; and Stage Three, the most recent stage, launching the 'Dr. You Project.'

In the year 2008, Orion will seek to raise profitability through product sophistication and functional improvements, develop niche-market-focused well-being products and healthy food, and pursue small-scale highly effective strategies to promote specialized products like those for weight loss. Orion will also continue to renew its existing cash-generating products, and launch products that meet the well-being trend, proactively responding to the market environment.

As the energy bar is showing greater growth than other snacks in confectionery majors like the United States, Europe and Japan, in February 2008, Orion launched four types of energy bars in the domestic market: the Cereal Bar (99 Kcal), High Protein Bar, Dark Chocolate Bar (100% whole wheat) and Rice Bar (100% organic rice). Notably, Orion is the first confectionery company in Korea to enter the energy bar market.

Furthermore, Orion's driving engines in 2007 were the double-digit growth rate of the Company's overseas confectionery sales and Sports TOTO turning in the black after 2005.

## Management's Discussion and Analysis

### Five-Year Summary of Management's Discussion and Analysis

(Unit: KRW billion)

	2007	2006	2005	2004	2003
<b>Profit and Loss</b>					
Total Sales	536.16	543.06	537.54	513.38	511.44
Gross Profit	202.15	208.22	205.59	190.83	205.80
Operating Income	30.06	27.29	40.60	43.28	49.39
Non-operating Income	95.92	152.03	31.12	5.31	3.59
Non-operating Expenses	34.41	34.30	25.71	19.19	44.78
Recurring Profit	91.57	145.03	46.01	29.40	8.21
Net Income	65.97	106.92	37.31	20.37	6.26
<b>Financial Status</b>					
Total Assets	972.01	824.65	744.72	693.92	615.00
Current Assets	170.68	160.83	139.00	124.62	115.07
Non-current Assets	801.32	663.81	605.72	569.29	499.93
Total Liabilities	511.10	408.15	417.70	357.98	326.00
Capital Stock	29.70	29.59	29.50	29.39	27.16
Capital Surplus	129.98	127.68	126.68	125.29	117.17
Retained Earnings	314.67	259.99	160.07	130.46	114.81
Total Shareholders' Equity	460.91	416.50	327.02	335.94	289.00
<b>Financial Ratio (%)</b>					
Current Ratio	71.6	74.6	67.7	76.0	76.4
Debt Ratio	110.9	98.0	127.7	106.6	112.8
ROA	7.3	13.9	5.2	3.1	1.1
ROE	15.0	25.7	11.3	6.5	2.3

# Independent Accountants' Review Report on Internal Accounting Control System

To the President of Orion Corporation :

English Translation of a Report Originally Issued in Korean

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We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Orion Corporation (the "Company") as of December 31, 2007. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "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 Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because

of its inherent limitations, however, IACS may not prevent or detect misstatements. 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 Report on the Operations of Internal Accounting Control System as of December 31, 2007 is not prepared, in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2007. We did not review the Company's IACS subsequent to December 31, 2007. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
February 26, 2008

## Independent Auditors' Report

The Board of Directors and Stockholders  
Orion Corporation

Based on a report originally issued in Korean

We have audited the accompanying non-consolidated balance sheets of Orion Corporation (the "Company") as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the years then ended and the nonconsolidated statement of changes in equity for the year ended December 31, 2007. These nonconsolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit 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 provide a reasonable basis for our opinion.

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

The accompanying non-consolidated financial statements as of and for the years ended December 31, 2007 and 2006 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the non-consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 3 to the non-consolidated financial statements.

Without qualifying our opinion, we draw attention to the following: As discussed in note 2A to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying nonconsolidated financial statements are not intended to present the financial position, results of operations, cash flows and changes in equity in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the non-consolidated accompanying financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

As discussed in note 7 to the non-consolidated financial statements, the Company purchases merchandise from and sells finished goods to Orion Snack International Corp. and other related parties and has balances due from and to the related parties in relation to the above transactions as of December 31, 2007 and 2006.

As discussed in note 18B to the non-consolidated financial statements, the Company sold its investment in Buy The Way Co., Ltd. to Buy The Way CVS Holdings Co., Ltd. on July 20, 2006 and deposited ₩15,052 million (\$1,461 thousand) of the purchase price in an escrow account at HSBC according to the Shares Purchase Agreement. As of December 31, 2007, the Company is in the process of arbitration, which was filed by the buyer, at the International Committee of Arbitration and the ultimate outcome of the arbitration cannot presently be determined. The Company recorded an estimated loss amounting to ₩1,371 million (\$1,461 thousand) as a reduction in gains on the sale of investment in 2006. As of December 31, 2007, no additional allowance is provided relative to this matter, as management of the Company is unable to predict the ultimate result of this arbitration.

As discussed in note 27 to the non-consolidated financial statements, the Company changed its method of computing deferred tax assets and liabilities for temporary differences arising from investment securities accounted for under the equity method. Effective January 8, 2007, under Korea Accounting Institute Opinion 06-2, the Company determines deferred taxes based on net of all temporary differences from equity method accounted securities while the Company previously computed deferred taxes by grouping temporary differences based on their origins. The effect of the above change has been accounted for retroactively. The effect of this change in method of computing deferred income tax assets or liabilities was to decrease retained earnings and accumulated other comprehensive income as of January 1, 2007 by ₩436 million (\$465 thousand) and ₩8,079 million (\$8,611 thousand) respectively, and to decrease accumulated other comprehensive income as of December 31, 2007 by ₩6,077 million (\$6,477 thousand). The prior year's non-consolidated financial statements have been restated retroactively to conform to the accounting change.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
February 26, 2008



This report is effective as of February 26, 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.

## Non-consolidated Balance Sheets

As of December 31, 2007 and 2006

	Won (thousands) except share data		U.S. dollars (note 3)	
	2007	2006	2007	2006
<b>Assets</b>				
Cash and cash equivalents (Note 16)	₩ 7,917,434	6,703,719	\$ 8,438,962	7,145,298
Short-term deposits (Note 4,18)	15,430,933	15,430,933	16,447,381	16,447,381
Current portion of held-to-maturity securities (Note 6)	59,340	203,390	63,249	216,787
Accounts and notes receivable - trade less allowance for doubtful accounts of ₩ 4,773,563 thousand (\$5,088,001) in 2007 and ₩ 3,161,385 thousand (\$3,396,628) in 2006 (Note 7,16)	101,958,632	99,480,973	108,674,730	106,033,866
Other receivable (Note 7)	1,433,850	1,751,356	1,528,299	1,866,719
Accrued income	1,696	1,121	1,808	1,195
Prepaid expenses	578,179	564,539	616,264	601,726
Inventories (Note 5, 8)	41,721,392	35,114,464	44,469,614	37,427,482
Current portion of deferred income tax assets (Note 24, 27)	1,385,549	1,355,988	1,476,816	1,445,308
Other current assets	197,036	226,624	210,015	241,552
<b>Total currents assets</b>	<b>170,684,041</b>	<b>160,833,107</b>	<b>181,927,138</b>	<b>171,427,314</b>
Long-term deposits (Note 4)	20,500	20,500	21,850	21,850
Held-to-maturity securities (Note 6)	538,545	406,530	574,019	433,308
Available-for-sale securities (Note 6)	4,189,167	14,175,665	4,465,111	15,109,428
Investment accounted by equity method (Note 6)	549,183,384	422,685,632	585,358,542	450,528,280
Guarantee deposits	6,657,604	6,360,533	7,096,146	6,779,507
Property, plant and equipment, net (Note 8, 9,12)	235,747,085	218,154,548	251,275,938	232,524,566
Intangible assets (Note 10)	2,996,078	2,010,021	3,193,432	2,142,423
Foreign currency swap (Note 19)	1,991,366	-	2,122,539	-
<b>Total non-current assets</b>	<b>801,323,729</b>	<b>663,813,429</b>	<b>854,107,577</b>	<b>707,539,362</b>
<b>Total assets</b>	<b>₩ 972,007,770</b>	<b>824,646,536</b>	<b>\$ 1,036,034,715</b>	<b>878,966,676</b>

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Balance Sheets

As of December 31, 2007 and 2006

	Won (thousands) except share data		U.S. dollars (note 3)	
	2007	2006	2007	2006
<b>Liabilities</b>				
Accounts and notes payable-trade (Note 7.16)	₩ 36,838,671	49,530,716	\$ 39,265,264	52,793,345
Short-term borrowings (Note 12,13,16)	33,412,173	27,476,833	35,613,060	29,286,754
Other payable (Note 7,16)	28,995,093	32,262,083	30,905,023	34,387,213
Advances received	158,902	284,295	169,369	303,022
Income taxes payable (Note 24)	1,501,036	28,609,097	1,599,910	30,493,602
Accrued expenses	1,145,741	879,705	1,221,212	937,652
Withholdings	367,630	330,674	391,846	352,456
Provision for loss on sales returns	4,097,894	3,982,160	4,367,826	4,244,468
Current portion of long-term debt and debenture (Note 12, 14,16)	129,988,130	69,948,651	138,550,554	74,556,226
Other current liabilities	1,972,967	2,348,409	2,102,928	2,503,101
<b>Total current liabilities</b>	<b>238,478,237</b>	<b>215,652,623</b>	<b>254,186,992</b>	<b>229,857,839</b>
Long-term debt (Note 12,14,16)	64,249,597	10,647,085	68,481,770	11,348,417
Debentures, less discount on bonds (Note 14, 16)	171,500,376	159,901,939	182,797,246	170,434,810
Retirement and severance benefits (Note 17)	11,305,305	12,463,309	12,049,995	13,284,277
Foreign currency swaps (Note 19)	4,142,996	-	4,415,899	-
Deferred income tax liabilities (Note 24, 27)	16,435,663	4,410,740	17,518,294	4,701,279
Guarantee deposit received (Note 7)	4,983,545	5,072,177	5,311,815	5,406,285
<b>Total non-current liabilities</b>	<b>272,617,482</b>	<b>192,495,250</b>	<b>290,575,019</b>	<b>205,175,068</b>
<b>Total liabilities</b>	<b>511,095,719</b>	<b>408,147,873</b>	<b>544,762,011</b>	<b>435,032,907</b>
<b>Equity</b>				
Common stock of ₩ 5,000 par value: Authorized - 12,000,000 shares Issued - 5,940,214 shares (Note 20)	29,701,070	29,594,035	31,657,504	31,543,418
Capital surplus	129,982,862	127,679,916	138,544,939	136,090,296
Capital adjustments (Note 21)	(14,918,272)	(15,000,309)	(15,900,951)	(15,988,392)
Accumulated other comprehensive income (Note 27, 29)	1,474,471	14,225,451	1,571,596	15,162,493
Retained earnings (Note 22, 27)	314,671,920	259,999,570	335,399,616	277,125,954
<b>Total stockholders' equity</b>	<b>460,912,051</b>	<b>416,498,663</b>	<b>491,272,704</b>	<b>443,933,769</b>
<b>Total equity and liabilities</b>	<b>₩ 972,007,770</b>	<b>824,646,536</b>	<b>\$ 1,036,034,715</b>	<b>878,966,676</b>

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Balance Sheets

As of December 31, 2007 and 2006

	Won (thousands) except share data		U.S. dollars (note 3)	
	2007	2006	2007	2006
Sales (Note 7)	₩536,157,053	543,062,406	\$ 571,474,156	578,834,370
Cost of goods sold (Note 7)	334,006,951	334,843,015	356,008,262	356,899,398
<b>Gross profit</b>	<b>202,150,102</b>	<b>208,219,391</b>	<b>215,465,894</b>	<b>221,934,972</b>
Selling, general and administrative expenses (Note 23)	172,087,708	180,927,083	183,423,266	192,844,898
<b>Operating income</b>	<b>30,062,394</b>	<b>27,292,308</b>	<b>32,042,628</b>	<b>29,090,074</b>
Interest income	1,218,781	1,427,528	1,299,063	1,521,560
Interest expense	(16,484,832)	(14,286,862)	(17,570,701)	(15,227,949)
Commission income	1,790,623	4,575,967	1,908,573	4,877,390
Foreign currency translation loss, net	(1,808,865)	(23,455)	(1,928,016)	(25,000)
Foreign currency exchange gain (loss), net	(14,264)	332,389	(15,204)	354,284
Gain on disposition of property, plant and equipment, net	235,074	6,037,566	250,559	6,435,265
Gain on valuation of investments using equity method, net (Note 6)	73,445,434	33,303,798	78,283,345	35,497,546
Gain on disposition of investments using the equity method	-	90,475,041	-	96,434,706
Gain on valuation of foreign currency swaps, net	1,787,854	-	1,905,621	-
Other, net	1,338,826	(4,109,165)	1,427,015	(4,379,839)
<b>Other income</b>	<b>61,508,631</b>	<b>117,732,807</b>	<b>65,560,255</b>	<b>125,487,963</b>
<b>Income before income taxes</b>	<b>91,571,025</b>	<b>145,025,115</b>	<b>97,602,883</b>	<b>154,578,037</b>
Income taxes (Note 24)	25,599,167	38,106,533	27,285,405	40,616,641
<b>Net income</b>	<b>₩ 65,971,858</b>	<b>106,918,582</b>	<b>\$ 70,317,478</b>	<b>113,961,396</b>
<b>Earning per share</b>		won		U.S.dollars(note3)
Earning per share of common stock (Note 25)	₩ 12,622	20,536	\$ 13.45	21.89
Diluted earnings per share (Note 25)	₩ 12,452	20,513	\$ 13.27	21.86

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2007 and 2006

Date of Appropriation for 2007: March 28, 2008

Date of Appropriation for 2006: March 23, 2007

	Won (thousands)		U.S. dollars (note 3)	
	2007	2006	2007	2006
<b>Unappropriated retained earnings:</b>				
Balance at beginning of year	₩ 5,511,361	2,750,195	\$ 5,874,399	2,931,353
Cumulative effect of accounting changes	-	2,097,459	-	2,235,620
Change resulting from equity method	422,034	-	449,834	-
Net income	65,971,858	106,918,582	70,317,478	113,961,396
<b>Balance at end of the year before appropriation</b>	<b>71,905,253</b>	<b>111,766,236</b>	<b>76,641,711</b>	<b>119,128,369</b>
<b>Transfer form voluntary reserves</b>				
Reserve for research and human resource development	2,666,667	2,666,667	2,842,323	2,842,323
<b>Appropriations:</b>				
Legal reserve	1,200,000	1,200,000	1,279,045	1,279,045
Reserve for investment in plant and equipment improvement	27,500,000	48,000,00	29,311,447	51,161,799
Voluntary reserve	28,000,000	48,000,000	29,844,383	51,161,799
Dividends (Note 26)	11,769,707	11,721,542	12,544,987	12,493,650
	<b>68,469,707</b>	<b>108,921,542</b>	<b>72,979,862</b>	<b>116,096,293</b>
<b>Unappropriated retained earnings to be carried over to subsequent year</b>	<b>₩ 6,102,213</b>	<b>5,511,361</b>	<b>\$ 6,504,172</b>	<b>5,874,399</b>

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Statement of Changes in Equity

For the year ended December 31, 2007

Won (thousands)

	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total equity
<b>Balance at January 1, 2007</b>	<b>₩ 29,594,035</b>	<b>127,679,916</b>	<b>(15,000,309)</b>	<b>14,225,451</b>	<b>259,999,570</b>	<b>416,498,663</b>
Dividends	-	-	-	-	(11,721,542)	(11,721,542)
Balance after appropriation	29,594,035	127,679,916	(15,000,309)	14,225,451	248,278,028	404,777,121
Change in retained earnings by equity method, net of tax	-	-	-	-	422,034	422,034
Issuance of common stock by stock options	107,035	2,302,946	(732,707)	-	-	1,677,274
Stock compensation expense	-	-	814,745	-	-	814,745
Net income	-	-	-	-	65,971,858	65,971,858
Change in fair value of available-for-sale securities, net of tax	-	-	-	9,866	-	9,866
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(2,856,126)	-	(2,856,126)
Changes in accumulated other comprehensive income by equity method, net of tax	-	-	-	(9,904,720)	-	(9,904,720)
<b>Balance at December 31, 2007</b>	<b>₩ 29,701,070</b>	<b>129,982,862</b>	<b>(14,918,271)</b>	<b>1,474,471</b>	<b>314,671,920</b>	<b>460,912,052</b>

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Statement of Changes in Equity

For the year ended December 31, 2007

U.S. dollars (note 3)

	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total equity
<b>Balance at January 1, 2007</b>	<b>\$ 31,543,418</b>	<b>136,090,296</b>	<b>(15,988,392)</b>	<b>15,162,493</b>	<b>277,125,954</b>	<b>443,933,769</b>
Dividends	-	-	-	-	(12,493,650)	(12,493,650)
Balance after appropriation	31,543,418	136,090,296	(15,988,392)	15,162,493	264,632,304	431,440,119
Change in retained earnings by equity method, net of tax	-	-	-	-	449,834	449,834
Issuance of common stock by stock option	114,086	2,454,643	(780,972)	-	-	1,787,757
Stock compensation expense	-	-	868,413	-	-	868,413
Net income	-	-	-	-	70,317,478	70,317,478
Change in fair value of available-for-sale securities, net of tax	-	-	-	10,516	-	10,516
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(3,044,261)	-	(3,044,261)
Changes in accumulated other comprehensive income by equity method, net of tax	-	-	-	(10,557,152)	-	(10,557,152)
<b>Balance at December 31, 2007</b>	<b>\$ 31,657,504</b>	<b>138,544,939</b>	<b>(15,900,951)</b>	<b>1,571,596</b>	<b>335,399,616</b>	<b>491,272,704</b>

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

	Won (thousands)		U.S. dollars (note 3)	
	2007	2006	2007	2006
<b>Cash flows from operating activities:</b>				
Net income	₩ 65,971,858	106,918,582	\$ 70,317,478	113,961,396
Adjustments for				
Depreciation	17,849,702	16,410,812	19,025,476	17,491,806
Provision for allowance for doubtful accounts	2,277,502	2,836,700	2,427,523	3,023,556
Provision for retirement and severance benefits	8,906,330	8,333,922	9,492,997	8,882,884
Amortization of discount on bonds	179,105	179,857	190,903	191,704
Amortization of intangible assets	776,183	498,413	827,311	531,244
Provision for (recovery of) reserve for sales return	115,734	(1,175,644)	123,357	(1,253,085)
Gain on disposal of property, plant and equipment, net	(235,074)	(6,037,566)	(250,559)	(6,435,265)
Gain on valuation of investments using equity method, net	(73,445,434)	(33,303,798)	(78,283,345)	(35,497,546)
Foreign currency translation loss, net	1,803,419	37,242	1,922,212	39,695
Gain on valuation of foreign currency swaps, net	(1,787,854)	-	(1,905,621)	-
Stock compensation expense	814,746	83,377	868,414	888,692
Gain on disposition of investments using equity method	-	(90,475,041)	-	(96,434,706)
Others, net	(8)	-	(9)	-
	23,226,209	5,057,250	24,756,137	5,390,375
Change in accounts and notes receivable-trade	(4,620,306)	(10,017,628)	(4,924,649)	(10,677,497)
Change in other receivable	317,506	(1,142,982)	338,420	(1,218,271)
Change in accrued income	(575)	(189)	(613)	(201)
Change in prepaid expenses	(13,640)	281,191	(14,538)	299,713
Change in other current assets	29,587	(36,872)	31,536	(39,301)
Change in inventories	(6,606,928)	2,215,038	(7,042,132)	2,360,944
Change in accounts and notes payable - trade	(12,757,395)	8,932,588	(13,597,735)	9,520,985
Change in other payable	(3,276,706)	(3,426,980)	(3,492,545)	(3,652,718)
Change in advances received	(125,393)	(227,218)	(133,653)	(242,185)
Change in income taxes payable	(27,108,061)	23,635,173	(28,893,691)	25,192,041
Change in accrued expenses	266,036	(58,207)	283,560	(62,041)
Change in withholdings	36,956	(8,188)	39,390	(8,727)
Change in guarantee deposits received	(88,632)	117,260	(94,470)	124,984
Payments of retirement and severance benefits	(7,767,434)	(7,111,322)	(8,279,081)	(7,579,751)
Transfer to the National Pension Fund	1,496	519	1,595	553
Change in severance benefit trust deposit	(2,298,396)	(734,667)	(2,449,793)	(783,060)
Change in deferred tax liabilities	18,984,438	6,077,147	20,234,958	6,477,454
Change in other current liabilities	(375,443)	484,505	(400,174)	516,420
<b>Net cash provided by (used in) operating activities</b>	<b>₩ (22,176,681)</b>	<b>24,036,418</b>	<b>\$ (23,637,478)</b>	<b>25,619,717</b>

See accompanying notes to non-consolidated financial statements.

## Non-consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

	Won (thousands)		U.S. dollars (note 3)	
	2007	2006	2007	2006
<b>Cash flows from investing activities:</b> (Note 30)				
Change in short-term deposits	₩ -	(15,052,402)	\$ -	(16,043,916)
Change in guarantee deposits received	(532,852)	(789,949)	(567,951)	(841,984)
Purchase of available-for-sale and held-to-maturity security	(136,545)	(11,938,460)	(145,539)	(12,724,856)
Purchase of investments accounted by the equity method	(58,444,464)	(80,064,902)	(62,294,249)	(85,338,842)
Additions to property, plant and equipment	(39,934,971)	(33,547,552)	(42,565,520)	(35,757,357)
Additions to intangible assets	(1,762,240)	(1,262,199)	(1,878,320)	(1,345,341)
Change in guarantee deposits	235,781	983,598	251,312	1,048,388
Proceeds from sale of current portion of held-to-maturity securities	148,580	322,400	158,367	343,637
Proceeds from sale of available-for-sale securities	114	2	122	2
Proceeds from disposition of investments accounted by equity method	-	150,524,024	-	160,439,164
Proceeds from disposition of property, plant and equipment	4,727,806	19,578,911	5,039,230	20,868,590
<b>Net cash provided by (used in) investing activities</b>	<b>(95,698,791)</b>	<b>28,753,471</b>	<b>(102,002,548)</b>	<b>30,647,485</b>
<b>Cash flows from financing activities:</b> (Note 30)				
Change in short-term borrowings	5,859,986	(22,352,692)	6,245,988	(23,825,082)
Repayment of current portion of long-term debt	(70,015,979)	(71,887,713)	(74,627,989)	(76,623,015)
Dividends paid	(11,721,542)	(9,084,975)	(12,493,650)	(9,683,410)
Proceeds from issuance of bond	120,089,448	50,000,000	127,999,839	53,293,540
Proceeds of long-term debt	73,200,000	-	78,021,745	-
Proceeds from issuance of common stock by stock options	1,677,274	1,036,640	1,787,757	1,104,924
<b>Net cash provided by (used in) financing activities</b>	<b>119,089,187</b>	<b>(52,288,740)</b>	<b>126,933,690</b>	<b>(55,733,043)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,213,715</b>	<b>501,149</b>	<b>1,293,664</b>	<b>534,159</b>
Cash and cash equivalents at beginning of year	6,703,719	6,202,570	7,145,298	6,611,139
<b>Cash and cash equivalents at end of year</b>	<b>₩ 7,917,434</b>	<b>6,703,719</b>	<b>\$ 8,438,962</b>	<b>7,145,298</b>

See accompanying notes to non-consolidated financial statements.

# Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

## 1. Organization and Description of Business

Orion Corporation ("the Company") was incorporated as Tong Yang Confectionery Corporation in 1956, under the laws of the Republic of Korea to engage in the business of manufacturing and selling confectioneries. On September 1, 2001, the Company and its affiliates were legally separated from the Tong Yang Group to establish their identity as a confectionery, food and entertainment business group. Accordingly, the Company changed its name from Tong Yang Confectionery Corporation to Orion Corporation on August 29, 2003.

As of December 31, 2007, the Company has three manufacturing plants in Korea and four overseas subsidiaries to produce biscuits, chocolates, pies and gums. The Company also sells merchandise purchased from Orion Snack International Corp., a 100% owned company organized locally.

On June 27, 1975, the Company was listed on the Korea Exchange Market.

## 2. Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

### A. Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory nonconsolidated 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 solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language nonconsolidated financial statements.

Certain information included in the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations, cash flows or and changes in equity is not presented in the accompanying non-consolidated financial statements.

Effective January 1, 2007, the Company adopted Statements of Korea Accounting Standards ("SKAS") No. 21 (Preparation and Presentation of Financial Statements), No. 22 (Share-based Payments) and No. 23 (Earnings per Share). Certain accounts of the prior year's nonconsolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications have not resulted in any change to reported net income or stockholders' equity.

### B. Changes in Presentation of Financial Statements

According to SKAS No. 21, *Preparation and Presentation of Financial Statements*, a statement of changes in equity has been included in the financial statements and the capital adjustment account has been split into capital adjustments and accumulated other comprehensive income. Only the current year's statement of changes in equity is required to be presented in the financial statements. In addition, earnings per share data are now presented as a separate item in the statement of income. A statement of comprehensive income has been included in the notes to the financial statements.

### C. Cash Equivalents

The Company considers short-term financial instruments with maturities of three months or less the acquisition date to be cash equivalents.

### D. Short-term Deposits

Short-term financial instruments are instruments handled by financial institutions which are held for short-term cash

# Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

management purposes, maturing within one year. Such investments may include time deposits, installment savings deposits and restricted bank deposits.

Deposits are held for cash management purposes. Short-term deposits, (including MMDAs, time deposits, installment savings deposits and restricted bank deposits), are those maturing within one year and long-term deposits are those maturing after one year.

## E. Allowance for Doubtful Accounts

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection and presented as a deduction from trade receivables.

## F. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined by the specific identification method for materials in transit and by the weighted-average method for all other inventories. Amounts of inventory written down to net realizable value due to losses occurring in the normal course of business are recognized as cost of goods sold and are deducted as an allowance from the carrying value of inventories.

## G. Investments in Securities

**CLASSIFICATION** Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries and associates) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at each balance sheet date.

**INITIAL RECOGNITION** Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities. Investments in securities (excluding investments in subsidiaries and associates) are initially recognized at cost.

**SUBSEQUENT MEASUREMENT AND INCOME RECOGNITION** Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the income statement using the effective interest method.

**FAIR VALUE INFORMATION** The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using the Company's credit rating as announced by accredited credit rating agencies in Korea. The fair value of investments in money market funds is determined by investment management companies.

**PRESENTATION** Trading securities are presented as current assets. Available-for-sale securities, which mature within one year from the balance sheet date or where the likelihood of disposal within one year from the balance sheet date is probable, are presented as current assets. Held-to-maturity securities, which mature within one year from the balance sheet date, are presented as current assets. All other available-for-sale securities and held-to-maturity securities are presented as longterm investments.

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

**IMPAIRMENT** The Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

### H. Investments in Associates and Subsidiaries

Associates are all entities over which the Company has the ability to significantly influence the financial and operating policies and procedures, generally accompanying a shareholding of over 20 per cent of the voting rights. Subsidiaries are entities controlled by the Company.

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's investments in associates and subsidiaries include goodwill identified on acquisition. Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life. Amortization of goodwill is recorded together with equity income.

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Company reviews goodwill for impairment and records any impairment loss immediately in the statement of income.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary. Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

### I. Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluations made in accordance with the Asset Revaluation Law which allowed for asset revaluation prior to the Law being revoked. Assets acquired through investment in kind or donation are recorded at their fair value upon acquisition

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed by the declining-balance method using rates based on the useful lives of the respective assets as follows:

	Useful lives of assets acquired on or after January 1, 1995	Useful lives of assets acquired before January 1, 1995
Buildings	50	10~60
Structures	20	2~40
Machinery and equipment	10	2~10
Vehicles	5	2~15
Tools, furniture and fixtures	5	2~54

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

The Company capitalizes as part of the cost of qualifying assets interest costs on all borrowings incurred until the acquisition or construction of a qualifying asset is substantially complete and the asset is ready for its intended use.

### J. Leases

The Company classifies and accounts for leases as either operating or capital leases, depending on the terms of the lease. Leases where the Company assumes substantially all the risks and rewards of ownership are classified as capital leases. All other leases are classified as operating leases.

The assumption of substantially all the risks and rewards of ownership is evidenced when one or more of the criteria listed below are met:

- Ownership of the leased property will be transferred to the lessee at the end of the lease term.
- The lessee has a bargain purchase option, and it is reasonably certain at the inception of the lease that the option will be exercised.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease.

Where the Company is a lessee under a capital lease, the present value of future minimum lease payments is capitalized and a corresponding liability is recognized. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

### K. Intangible Assets

An intangible asset is an asset where: (1) it is probable that future economic benefits that are attributable to the asset will flow into the entity and (2) the cost of the asset can be measured reliably.

Intangible assets, which consist of industrial property rights, are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized using the straight-line method over a reasonable period, generally 5 years, based on the nature of the asset.

When the recoverable amounts of the intangible assets are substantially below the carrying amount of the assets due to obsolescence, sharp decline in market value or for other reasons, the Company reduces its carrying amount to the recoverable amount and the amount impaired is recognized as impairment loss.

### L. Contributions Received for Capital Expenditure

Contributions received from third parties for capital expenditure are presented as a reduction of the acquisition cost of the acquired assets and, accordingly, reduce depreciation expense related to the acquired assets over their useful lives.

Income from grants that do not require the Company to fulfill any subsequent obligations and which is directly related to the Company's operating activities is recognized as operating income, net of related costs. Other income from grants is recognized as other income.

### M. Discount (Premium) on Debentures

Discount (premium) on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

# Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

## N. Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be paid to the employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to a new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

## O. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩938.2 to US\$1, the rate of exchange on December 31, 2007 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at the rate of exchange at the balance sheet date. Foreign currency amounts in the statement of income are translated using an average rate and foreign currency balances in the capital account are translated using the historical rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreignbased operations are recorded net as accumulated other comprehensive income. These gains and losses are subsequently.

## P. Derivatives

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

**HEDGE ACCOUNTING** Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction it is designated as a cash flow hedge. The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

**FAIR VALUE HEDGE** Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

# Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

**CASH FLOW HEDGE** The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of income. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

**DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING** Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the statement of income.

**SEPARABLE EMBEDDED DERIVATIVES** Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of income.

## Q. Share-based Payments

The Company has granted shares or share options to its employees and other parties. For equitysettled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest. For cashsettled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

## R. Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense generated by the provision is presented net of the amount of expected reimbursement.

## S. Revenue Recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

## T. Income Taxes

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted.

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

### U. Earnings Per Share

Earnings per share are calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of shares outstanding during the period.

Diluted earnings per share are determined by adjusting net income attributable to stockholders and the weighted-average number of shares outstanding for the effects of all dilutive potential shares, which comprise stock options granted to employees.

### V. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from those estimates.

### 3. Basis of Translating Financial Statements

The financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of ₩938.20 to US\$1, the basic exchange rate on December 31, 2007, solely for the convenience of the reader. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

### 4. Restricted Deposits

Deposits which are restricted in use for expenditures for certain business purposes as of December 31, 2007 and 2006 were as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Short-term deposits	₩ 15,052,402	15,052,402	\$ 16,043,916	16,043,916
Long-term deposits	20,500	20,500	21,850	21,850
	<b>₩ 15,072,902</b>	<b>15,072,902</b>	<b>\$ 16,065,766</b>	<b>16,065,766</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### 5. Inventories

Inventories as of December 31, 2007 and 2006 are summarized as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Merchandise	₩ 14,318,018	11,343,576	\$ 15,261,158	12,090,787
Finished goods	10,602,144	10,922,713	11,300,516	11,642,201
Work-in-process	1,719,007	1,402,593	1,832,239	1,494,983
Raw materials	8,044,219	6,779,409	8,574,098	7,225,974
Supplies and parts	1,705,242	1,170,406	1,817,568	1,247,502
Raw materials in-transit	5,332,762	3,495,767	5,684,035	3,726,035
	<b>₩ 41,721,392</b>	<b>35,114,464</b>	<b>\$ 44,469,614</b>	<b>37,427,482</b>

### 6. Investments

Investments other than those accounted for using the equity method as of December 31, 2007 and 2006 are summarized as follows:

#### A. Available-for-sale securities

	Percentage of ownership	Acquisition cost	Won (thousands)	
			Book value 2007	2006
Orion Reports Corp. (*1)	86.00%	₩ 2,150,000	2,150,000	2,150,000
Orion Beverage Corp. (*1)	100.00%	100,000	100,000	100,000
Korea Investment Corp.	0.09%	58,800	9,075	4,704
Kim's Club Mart	0.01%	166,478	81	81
Mega Mark Co., Ltd. (*2)	-	-	-	10,000,000
Orion International Euro Co., Ltd. (*1)	100.00%	1,845,420	1,845,420	1,845,420
Others	-	52,338	84,591	75,460
		<b>₩ 4,373,036</b>	<b>4,189,167</b>	<b>14,175,665</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

	Percentage of ownership	Acquisition cost	Book value 2007	2006
Orion Reports Corp. (*1)	86.00%	\$ 2,291,622	2,291,622	2,291,622
Orion Beverage Corp. (*1)	100.00%	106,587	106,587	106,587
Korea Investment Corp.	0.09%	62,673	9,673	5,014
Kim's Club Mart	0.01%	177,444	86	86
Mega Mark Co., Ltd. (*2)	-	-	-	10,658,708
Orion International Euro Co., Ltd. (*1)	100.00%	1,966,979	1,966,979	1,966,979
Others	-	55,786	90,164	80,432
		<b>₩ 4,661,091</b>	<b>4,465,111</b>	<b>15,109,428</b>

(\*1) Investments in small affiliates, for which the effect of applying the equity method of accounting is not material, are recorded at cost. Also, these non-marketable securities are recorded at cost since their fair value is not readily determinable.

(\*2) The Company reclassified investments in affiliates where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material, for the year ended December 31, 2007.

### B. Held-to maturity securities

Held-to maturity securities as of December 31, 2007 and 2006 are summarized as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Government bonds:				
Current assets	₩ 59,340	203,390	\$ 63,249	216,787
Non-current assets	538,545	406,530	574,019	433,308
	<b>₩ 597,885</b>	<b>609,920</b>	<b>\$ 637,268</b>	<b>650,095</b>

Maturities of debt securities classified as held-to-maturity securities at December 31, 2007 were as follows:

	Won (thousands)	U.S. dollars
Due within one year	₩ 59,340	\$ 63,249
Due after one year through five years	361,900	385,738
Due after five years through ten years	176,645	188,281
	<b>₩ 597,885</b>	<b>\$ 637,268</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### C. Investments accounted by equity method

Investments in affiliated companies accounted for using the equity method as of December 31, 2007 are as follows:

Won (thousands)

Company	Percentage of ownership	Cost	Net assets	Balance at December 31, 2007
Listed:				
On Media Corp. (*1)	37.39%	₩ 110,380,527	163,762,008	139,473,926
Mediaplex Corp. (*1)	57.50%	17,999,000	86,547,628	86,547,628
Unlisted:				
Sports Toto Co., Ltd.	63.20%	90,973,697	11,749,112	77,586,312
RiseON Inc.	88.83%	33,753,002	14,327,742	15,170,791
Orion Snack International Corp.	100.00%	48,409,990	65,682,517	80,419,951
Mega Mark Co., Ltd. (*3)	100.00%	40,000,000	39,144,491	38,828,811
Orion Food Co., Ltd.	91.67%	31,758,805	43,514,881	43,492,413
Orion Food (Shanghai) Co., Ltd.	100.00%	22,890,134	18,784,906	18,713,599
Orion Food (Rus) Co., Ltd. (*2)	75.79%	31,401,219	28,099,088	28,099,088
Orion Food Vina Co., Ltd.	62.77%	22,736,502	18,472,545	18,472,545
Sports Toto Online Co., Ltd.	30.00%	1,500,000	2,378,320	2,378,320
		<b>₩ 451,802,876</b>	<b>492,463,238</b>	<b>549,183,384</b>

U.S. dollars

Company	Percentage of ownership	Cost	Net assets	Balance at December 31, 2007
Listed:				
On Media Corp. (*1)	37.39%	\$ 117,651,382	174,549,145	148,661,187
Mediaplex Corp. (*1)	57.50%	19,184,609	92,248,591	92,248,591
Unlisted:				
Sports Toto Co., Ltd.	63.20%	96,966,209	12,523,036	82,696,986
RiseON Inc.	88.83%	35,976,340	15,271,522	16,170,103
Orion Snack International Corp.	100.00%	51,598,796	70,009,078	85,717,279
Mega Mark Co., Ltd. (*3)	100.00%	42,634,833	41,722,971	41,386,496
Orion Food Co., Ltd.	91.67%	33,850,783	46,381,242	46,357,294
Orion Food (Shanghai) Co., Ltd.	100.00%	24,397,926	20,022,283	19,946,279
Orion Food (Rus) Co., Ltd. (*2)	75.79%	33,469,643	29,949,998	29,949,998
Orion Food Vina Co., Ltd.	62.77%	24,234,174	19,689,347	19,689,347
Sports Toto Online Co., Ltd.	30.00%	1,598,806	2,534,982	2,534,982
		<b>\$ 481,563,501</b>	<b>524,902,195</b>	<b>585,358,542</b>

(\*1) The market values of investments in On Media Corp. and Mediaplex Corp. as of December 31, 2007 are ₩308,623,948 thousand (\$328,953,259) and ₩56,696,850 thousand (\$60,431,518), respectively.

(\*2) The Company used unaudited financial statements of the above affiliated companies when applying the equity method of accounting.

(\*3) The Company reclassified its investment in Mega Co., Ltd., where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material for the year ended December 31, 2007.

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

Investments in affiliated companies accounted for using the equity method as of December 31, 2006 are as follows:

Won (thousands)

Company	Percentage of ownership	Cost	Net assets	Balance at December 31, 2006
Listed:				
On Media Corp.	38.01%	₩ 110,380,527	150,553,908	124,322,860
Mediaplex Corp.	57.50%	17,999,000	55,314,887	55,314,887
Unlisted:				
Sports Toto Co., Ltd.	59.08%	90,973,697	11,749,112	43,840,574
RiseON Inc.	88.83%	33,753,002	14,327,742	20,811,503
Orion Snack International Corp.	100.00%	48,409,990	63,532,099	80,695,818
Orion Food Co., Ltd.	91.67%	31,758,805	40,615,045	40,580,403
Orion Food (Shanghai) Co., Ltd.	100.00%	22,890,134	17,307,570	17,307,570
Orion Food (Rus) Co., Ltd.	68.45%	22,520,739	22,830,566	22,830,566
Orion Food Vina Co., Ltd.	63.45%	17,859,838	15,446,385	15,446,385
Sports Toto Online Co., Ltd.	30.00%	1,500,000	1,535,066	1,535,066
		<b>₩ 398,045,732</b>	<b>393,212,380</b>	<b>422,685,632</b>

U.S. dollars

Company	Percentage of ownership	Cost	Net assets	Balance at December 31, 2006
Listed:				
On Media Corp.	38.01%	\$ 117,651,382	160,471,017	132,512,108
Mediaplex Corp.	57.50%	19,184,609	58,958,524	58,958,524
Unlisted:				
Sports Toto Co., Ltd.	59.08%	96,966,209	12,523,036	46,728,388
RiseON Inc.	88.83%	35,976,340	15,271,522	22,182,374
Orion Snack International Corp.	100.00%	51,598,796	67,717,010	86,011,317
Orion Food Co., Ltd.	91.67%	33,850,783	43,290,391	43,253,467
Orion Food (Shanghai) Co., Ltd.	100.00%	24,397,926	18,447,634	18,447,634
Orion Food (Rus) Co., Ltd.	68.45%	24,004,198	24,334,434	24,334,434
Orion Food Vina Co., Ltd.	63.45%	19,036,280	16,463,851	16,463,851
Sports Toto Online Co., Ltd.	30.00%	1,598,806	1,636,182	1,636,182
		<b>\$ 424,265,329</b>	<b>419,113,601</b>	<b>450,528,279</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

Changes in goodwill (negative goodwill) for equity method accounted investments for the year ended December 31, 2007 are as follows:

Won (thousands)

Company	Balance at January 1, 2007	Increase	Amortized amount	Balance at December 31, 2007
Sports Toto Co., Ltd.	₩ 78,377,619	-	12,540,419	65,837,200
On Media Corp.	48,067	-	48,067	-
Orion Snack International Corp.	19,736,161	-	2,467,020	17,269,141
Orion Food Co., Ltd.	(34,641)	-	(12,173)	(22,468)
	<b>₩ 98,127,206</b>	<b>-</b>	<b>15,043,333</b>	<b>83,083,873</b>

U.S. dollars

Company	Balance at January 1, 2007	Increase	Amortized amount	Balance at December 31, 2007
Sports Toto Co., Ltd.	\$ 83,540,417	-	13,366,467	70,173,950
On Media Corp.	51,233	-	51,233	-
Orion Snack International Corp.	21,036,198	-	2,629,525	18,406,673
Orion Food Co., Ltd.	(36,923)	-	(12,975)	(23,948)
	<b>\$ 104,590,925</b>	<b>-</b>	<b>16,034,250</b>	<b>88,556,675</b>

Changes in goodwill (negative goodwill) for equity method accounted investments for the year ended December 31, 2006 are as follows:

Won (thousands)

Company	Balance at January 1, 2006	Increase	Amortized amount	Balance at December 31, 2006
Sports Toto Co., Ltd.	₩ 90,925,009	-	12,547,390	78,377,619
On Media Corp.	96,135	-	48,068	48,067
RiseON Inc.	(184,256)	-	(184,256)	-
Mediaplex Corp.	(17,418)	-	(17,418)	-
Orion Snack International Corp.	22,203,181	-	2,467,020	19,736,161
Orion Food Co., Ltd.	(53,261)	-	(18,620)	(34,641)
Orion Food (Shanghai) Co., Ltd.	(42,868)	-	(42,868)	-
	<b>₩ 112,926,522</b>	<b>-</b>	<b>14,799,316</b>	<b>98,127,206</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

Company	Balance at January 1, 2006	Increase	Amortized amount	Balance at December 31, 2006
Sports Toto Co., Ltd.	\$ 96,914,314	-	13,373,897	83,540,417
On Media Corp.	102,467	-	51,234	51,233
RiseON Inc.	(196,393)	-	(196,393)	-
Mediaplex Corp.	(18,565)	-	(18,565)	-
Orion Snack International Corp.	23,665,723	-	2,629,525	21,036,198
Orion Food Co., Ltd.	(56,770)	-	(19,847)	(36,923)
Orion Food (Shanghai) Co., Ltd.	(45,692)	-	(45,692)	-
	<b>\$ 120,365,084</b>	<b>-</b>	<b>15,774,159</b>	<b>104,590,925</b>

Details of eliminated unrealized gains (losses) from inter-company transaction for the years ended December 31, 2007 are as follows:

Won (thousands)

Company	Balance at January 1, 2007	Current assets	Investments	Property and others	Balance at December 31, 2007
On Media Corp.	₩ (26,279,115)	-	(1,991,033)	-	(24,288,082)
RiseON Inc.	(451,169)	-	-	(1,294,218)	843,049
Orion Snack International Corp.	(2,572,442)	(34,636)	-	(6,099)	(2,531,707)
Mega Mark co., Ltd.	-	-	-	315,680	(315,680)
Orion Food Co., Ltd.	-	71,307	-	-	(71,307)
	<b>₩ (29,302,726)</b>	<b>36,671</b>	<b>(1,991,033)</b>	<b>(984,637)</b>	<b>(26,363,727)</b>

U.S. dollars

Company	Balance at January 1, 2007	Current assets	Investments	Property and others	Balance at December 31, 2007
On Media Corp.	\$ (28,010,142)	-	(2,122,184)	-	(25,887,958)
RiseON Inc.	(480,888)	-	-	(1,379,469)	898,581
Orion Snack International Corp.	(2,741,891)	(36,918)	-	(6,501)	(2,698,472)
Mega Mark co., Ltd.	-	-	-	336,474	(336,474)
Orion Food Co., Ltd.	-	76,004	-	-	(76,004)
	<b>\$ (31,232,921)</b>	<b>39,086</b>	<b>(2,122,184)</b>	<b>(1,049,496)</b>	<b>(28,100,327)</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

Details of eliminated unrealized gains (losses) from inter-company transactions for the years ended December 31, 2006 are as follows:

Won (thousands)

Company	Balance at January 1, 2006	Current assets	Investments	Property and others	Balance at December 31, 2006
On Media Corp.	₩ 28,270,149	-	(1,991,034)	-	26,279,115
RiseON Inc.	1,690,758	-	-	(1,239,589)	451,169
Orion Snack International Corp.	2,657,025	(78,483)	-	(6,100)	2,572,442
Buy The Way Co., Ltd.	103,646	(103,646)	-	-	-
	<b>₩ 32,721,578</b>	<b>(182,129)</b>	<b>(1,991,034)</b>	<b>(1,245,689)</b>	<b>29,302,726</b>

U.S. dollars

Company	Balance at January 1, 2006	Current assets	Investments	Property and others	Balance at December 31, 2006
On Media Corp.	\$ 30,132,327	-	(2,122,185)	-	28,010,142
RiseON Inc.	1,802,130	-	-	(1,321,242)	480,888
Orion Snack International Corp.	2,832,045	(83,653)	-	(6,502)	2,741,890
Buy The Way Co., Ltd.	110,473	(110,473)	-	-	-
	<b>\$ 34,876,975</b>	<b>(194,126)</b>	<b>(2,122,185)</b>	<b>(1,327,744)</b>	<b>31,232,920</b>

Changes in balance of investments in affiliated companies accounted for using the equity method for the year ended December 31, 2007 are as follows:

Won (thousands)

	Balance at January 1, 2007	Net income (loss)	Accumulated other comprehensive income	Other increase	Balance at December 31, 2007
Sports Toto Co., Ltd.	₩ 43,840,574	33,848,657	(14,790,239)	14,687,320	77,586,312
On Media Corp.	124,322,860	16,170,488	(1,601,538)	582,116	139,473,926
RiseON Inc.	20,811,503	(5,353,371)	(287,341)	-	15,170,791
Mediaplex Corp.	55,314,887	36,912,031	(5,679,290)	-	86,547,628
Orion Snack International Corp.	80,695,818	(2,616,058)	2,340,191	-	80,419,951
Mega Mark Co., Ltd.	-	(661,755)	(509,434)	40,000,000	38,828,811
Orion Food Co., Ltd.	40,580,403	(659,924)	3,571,934	-	43,492,413
Orion Food (Shanghai) Co., Ltd.	17,307,570	22,062	1,383,967	-	18,713,599
Orion Food (Rus) Co., Ltd.	22,830,566	(3,070,398)	(541,560)	8,880,480	28,099,088
Orion Food Vina Co., Ltd.	15,446,385	(1,989,552)	139,048	4,876,664	18,472,545
Sports Toto Online Co., Ltd.	1,535,066	843,254	-	-	2,378,320
	<b>₩ 422,685,632</b>	<b>73,445,434</b>	<b>(15,974,262)</b>	<b>69,026,580</b>	<b>549,183,384</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

	<b>Balance at January 1, 2007</b>	<b>Net income (loss)</b>	<b>Accumulated other comprehensive income</b>	<b>Other increase</b>	<b>Balance at December 31, 2007</b>
Sports Toto Co., Ltd.	\$ 46,728,388	36,078,296	(15,764,484)	15,654,786	82,696,986
On Media Corp.	132,512,108	17,235,651	(1,707,033)	620,461	148,661,187
RiseON Inc.	22,182,374	(5,706,002)	(306,269)	-	16,170,103
Mediaplex Corp.	58,958,524	39,343,457	(6,053,390)	-	92,248,591
Orion Snack International Corp.	86,011,317	(2,788,380)	2,494,34	-	85,717,279
Mega Mark Co., Ltd.	-	(705,345)	(542,992)	42,634,833	41,386,496
Orion Food Co., Ltd.	43,253,467	(703,394)	3,807,221	-	46,357,294
Orion Food (Shanghai) Co., Ltd.	18,447,634	23,515	1,475,130	-	19,946,279
Orion Food (Rus) Co., Ltd.	24,334,434	(3,272,648)	(577,232)	9,465,444	29,949,998
Orion Food Vina Co., Ltd.	16,463,851	(2,120,605)	148,207	5,197,894	19,689,347
Sports Toto Online Co., Ltd.	1,636,182	898,800	-	-	2,534,982
	<b>\$ 450,528,279</b>	<b>78,283,345</b>	<b>(17,026,500)</b>	<b>73,573,418</b>	<b>585,358,542</b>

Changes in balance of investments in affiliated companies accounted for using the equity method for the year ended December 31, 2006 are as follows:

Won (thousands)

	<b>Balance at January 1, 2006</b>	<b>Net income</b>	<b>Accumulated other comprehensive income</b>	<b>Other increase</b>	<b>Balance at December 31, 2006</b>
Sports Toto Co., Ltd.	₩ 34,623,768	15,396,182	(22,084,176)	15,904,800	43,840,574
On Media Corp.	93,718,178	21,035,362	9,569,320	-	124,322,860
RiseON Inc.	23,325,087	(2,513,584)	-	-	20,811,503
Mediaplex Corp.	39,788,191	2,794,559	12,732,137	-	55,314,887
Orion Snack International Corp.	83,016,886	(1,219,427)	(1,101,641)	-	80,695,818
Orion Food Co., Ltd.	30,354,752	2,531,857	(1,609,206)	9,303,000	40,580,403
Orion Food (Shanghai) Co., Ltd.	17,421,751	802,754	(916,935)	-	17,307,570
Orion Food (Rus) Co., Ltd.	-	(1,365,438)	1,675,265	22,520,739	22,830,566
Orion Food Vina Co., Ltd.	-	(1,520,712)	(892,741)	17,859,838	15,446,385
Sports Toto Online Co., Ltd.	-	35,066	-	1,500,000	1,535,066
Buy The Way Co., Ltd.	28,245,460	(2,672,821)	(7,244,004)	(18,328,635)	-
	<b>₩ 350,494,073</b>	<b>33,303,798</b>	<b>(9,871,981)</b>	<b>48,759,742</b>	<b>422,685,632</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

	Balance at January 1, 2006	Net income	Accumulated other comprehensive income	Other increase	Balance at December 31, 2006
Sports Toto Co., Ltd.	\$ 36,904,464	16,410,341	(23,538,879)	16,952,462	46,728,388
On Media Corp.	99,891,471	22,420,979	10,199,659	-	132,512,108
RiseON Inc.	24,861,530	(2,679,156)	-	-	22,182,374
Mediaplex Corp.	42,409,072	2,978,639	13,570,813	-	58,958,524
Orion Snack International Corp.	88,485,276	(1,299,752)	(1,174,207)	-	86,011,317
Orion Food Co., Ltd.	32,354,244	2,698,633	(1,715,206)	9,915,798	43,253,468
Orion Food (Shanghai) Co., Ltd.	18,569,336	855,632	(977,334)	-	18,447,634
Orion Food (Rus) Co., Ltd.	-	(1,455,381)	1,785,616	24,004,199	24,334,434
Orion Food Vina Co., Ltd.	-	(1,620,883)	(951,547)	19,036,281	16,463,851
Sports Toto Online Co., Ltd.	-	37,376	-	1,598,806	1,636,182
Buy The Way Co., Ltd.	30,106,012	(2,848,882)	(7,721,172)	(19,535,958)	-
	<b>\$ 373,581,405</b>	<b>35,497,546</b>	<b>(10,522,257)</b>	<b>51,971,588</b>	<b>450,528,280</b>

Summarized financial information of affiliates as of and for the year ended December 31, 2007 is as follows:

Won (thousands)

Company	Total assets	Total liabilities	Sales	Net income
Sports Toto Co., Ltd.	₩ 184,109,882	165,519,515	229,685,389	77,060,267
On Media Corp.	451,509,677	13,480,324	86,854,978	37,639,855
RiseON Inc.	109,620,630	93,491,233	92,464,803	(7,483,494)
Mediaplex Corp.	228,598,062	78,092,991	41,680,637	61,652,792
Orion Snack International Corp.	129,113,813	63,431,296	96,687,065	(189,772)
Mega Mark Co., Ltd.	44,401,857	5,257,366	11,218,052	156,611
Orion Food Co., Ltd. (*)	103,420,238	51,053,495	141,047,122	1,746,850
Orion Food (Shanghai) Co., Ltd. (*)	27,187,856	6,908,627	24,313,331	551,884
Orion Food (Rus) Co., Ltd. (*)	58,926,134	18,705,991	20,917,647	(2,674,168)
Orion Food Vina Co., Ltd. (*)	37,242,263	4,649,648	26,821,812	(688,669)
Sports Toto Online Co., Ltd.	18,837,308	10,909,575	12,160,533	2,810,845
	<b>₩ 1,392,967,720</b>	<b>511,500,061</b>	<b>783,851,369</b>	<b>170,583,001</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

Company	Total assets	Total liabilities	Sales	Net income
Sports Toto Co., Ltd.	\$ 196,237,350	176,422,421	244,814,953	82,136,290
On Media Corp.	481,250,988	14,368,284	92,576,186	40,119,223
RiseON Inc.	116,841,430	99,649,577	98,555,535	(7,976,438)
Mediaplex Corp.	243,656,003	83,237,040	44,426,175	65,713,912
Orion Snack International Corp.	137,618,645	67,609,567	103,055,921	(202,272)
Mega Mark Co., Ltd.	47,326,644	5,603,673	11,956,994	166,927
Orion Food Co., Ltd. (*)	110,232,614	54,416,430	150,338,011	1,861,916
Orion Food (Shanghai) Co., Ltd. (*)	28,978,742	7,363,704	25,914,870	588,237
Orion Food (Rus) Co., Ltd. (*)	62,807,647	19,938,170	22,295,509	(2,850,318)
Orion Food Vina Co., Ltd. (*)	39,695,441	4,955,924	28,588,587	(734,032)
Sports Toto Online Co., Ltd.	20,078,137	11,628,198	12,961,557	2,995,998
	<b>\$ 1,484,723,641</b>	<b>545,192,988</b>	<b>835,484,298</b>	<b>181,819,443</b>

(\*) The following adjustments have been made to the financial statements of certain affiliates prior to applying the equity method in order to adjust for the difference of depreciation method:

Won (thousands)

Company		Prepared	Adjustment	Adjusted
Orion Food Co., Ltd.	Net asset	₩ 52,366,743	(4,897,690)	47,469,053
	Net income	1,746,850	(2,480,021)	(733,171)
Orion Food (Shanghai) Co., Ltd.	Net asset	20,279,230	(1,494,324)	18,784,906
	Net income	551,884	(458,515)	93,369
Orion Food (Rus) Co., Ltd.	Net asset	40,220,143	(3,145,215)	37,074,928
	Net income	(2,674,168)	(1,631,528)	(4,305,696)
Orion Food Vina Co., Ltd.	Net asset	32,592,616	(3,161,782)	29,430,834
	Net income	(688,669)	(2,456,169)	(3,144,838)

U.S. dollars

Company		Prepared	Adjustment	Adjusted
Orion Food Co., Ltd.	Net asset	\$ 55,816,183	(5,220,305)	50,595,878
	Net income	1,861,916	(2,643,382)	(781,466)
Orion Food (Shanghai) Co., Ltd.	Net asset	21,615,039	(1,592,756)	20,022,283
	Net income	588,237	(488,718)	99,519
Orion Food (Rus) Co., Ltd.	Net asset	42,869,477	(3,352,393)	39,517,084
	Net income	(2,850,318)	(1,738,998)	(4,589,316)
Orion Food Vina Co., Ltd.	Net asset	34,739,518	(3,370,051)	31,369,467
	Net income	(734,032)	(2,617,959)	(3,351,991)

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

Summarized financial information of affiliates as of and for the year ended December 31, 2006 is as follows:

Won (thousands)

Company	Total assets	Total liabilities	Sales	Net income
Sports Toto Co., Ltd.	₩ 107,849,404	166,319,304	164,178,290	49,567,612
On Media Corp.	412,068,727	16,018,534	74,625,560	46,597,830
RiseON Inc.	117,781,449	93,845,085	99,102,483	(4,432,543)
Mediaplex Corp.	177,756,807	81,565,020	88,470,418	3,854,958
Orion Snack International Corp.	114,070,664	50,538,564	94,573,083	1,163,011
Orion Food Co., Ltd. (*)	79,135,651	34,829,941	84,810,742	4,977,028
Orion Food (Shanghai) Co., Ltd. (*)	20,341,052	3,033,482	33,667,262	1,704,206
Orion Food (Rus) Co., Ltd. (*)	50,490,879	17,137,240	17,527,588	(373,693)
Orion Food Vina Co., Ltd. (*)	27,737,910	3,393,726	1,430,760	(1,828,757)
Sports Toto Online Co., Ltd.	11,774,051	6,657,164	8,115,696	2,626,390
	<b>₩ 1,119,006,594</b>	<b>473,338,060</b>	<b>666,501,882</b>	<b>103,856,042</b>

U.S. dollars

Company	Total assets	Total liabilities	Sales	Net income
Sports Toto Co., Ltd.	\$ 114,953,532	177,274,892	174,992,848	52,832,671
On Media Corp.	439,212,030	17,073,688	79,541,207	49,667,267
RiseON Inc.	125,539,809	100,026,737	105,630,444	(4,724,518)
Mediaplex Corp.	189,465,793	86,937,774	94,298,037	4,108,887
Orion Snack International Corp.	121,584,592	53,867,580	100,802,689	1,239,619
Orion Food Co., Ltd. (*)	84,348,381	37,124,218	90,397,295	5,304,869
Orion Food (Shanghai) Co., Ltd. (*)	21,680,934	3,233,300	35,884,952	1,816,463
Orion Food (Rus) Co., Ltd. (*)	53,816,754	18,266,084	18,682,145	(398,308)
Orion Food Vina Co., Ltd. (*)	29,565,029	3,617,274	1,525,005	(1,949,219)
Sports Toto Online Co., Ltd.	12,549,617	7,095,677	8,650,284	2,799,392
	<b>\$ 1,192,716,471</b>	<b>504,517,224</b>	<b>710,404,906</b>	<b>110,697,123</b>

(\*) The following adjustments have been made to the financial statements of certain affiliates prior to applying the equity method in order to adjust the difference of depreciation method:

Won (thousands)

Company		Prepared	Adjustment	Adjusted
Orion Food Co., Ltd.	Net asset	₩ 46,800,267	(2,494,557)	44,305,710
	Net income	4,977,028	(2,136,057)	2,840,971
Orion Food (Shanghai) Co., Ltd.	Net asset	18,244,957	(937,387)	17,307,570
	Net income	1,704,206	(944,321)	759,885
Orion Food (Rus) Co., Ltd.	Net asset	35,047,920	(1,694,281)	33,353,639
	Net income	(373,693)	(1,367,414)	(1,741,107)
Orion Food Vina Co., Ltd.	Net asset	25,027,523	(683,339)	24,344,184
	Net income	(1,828,757)	(705,763)	(2,534,520)

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

Company		Prepared	Adjustment	Adjusted
Orion Food Co., Ltd.	Net asset	\$ 49,883,039	(2,658,876)	47,224,163
	Net income	5,304,869	(2,276,761)	3,028,108
Orion Food (Shanghai) Co., Ltd.	Net asset	19,446,767	(999,133)	18,447,634
	Net income	1,816,463	(1,006,524)	809,939
Orion Food (Rus) Co., Ltd.	Net asset	37,356,555	(1,805,885)	35,550,670
	Net income	(398,308)	(1,457,487)	(1,855,795)
Orion Food Vina Co., Ltd.	Net asset	26,676,106	(728,351)	25,947,755
	Net income	(1,949,219)	(752,252)	(2,701,471)

### 7. Transactions and Balance with Related Companies

A. Details of subsidiary relationships as of December 31, 2007 are as follows:

Controlled subsidiary	Control relationship	Controlled subsidiary	Control relationship
Orion Snack International Corp.	Subsidiary	Orion Food Co., Ltd.	Subsidiary
Orion Food (Shanghai) Co., Ltd.	"	Orion Food (Rus) Co., Ltd.	"
On Media Corp.	"	Mediaplex Corp.	"
RiseON Inc.	"	Sports Toto Co., Ltd.	"
Soo Sung Cable Television Co., Ltd.	"	Young Dong Cable System, Inc.	"
ORION FOOD VINA Co., Ltd.	"	Sports Toto Online Co., Ltd.	"
MEGA MARK Co., Ltd.	"	ChonNam DongBu Cable TV Co., Ltd.	"
Orion Snack Co., Ltd.	"	MEGABOX Inc.	"
ePLAYon Inc.	"	On Game Network Inc.	"
Digital On Media Inc.	"	Dong Ku Cable Television Network. Co., Ltd.	"
Badoo Television Inc.	"	Orion Cinema Network Inc.	"
Motion101, Inc.	Associate	Orion Loews Consulting Co., Ltd.	Associate
Orion Int'l Euro Co., Ltd	"	Orion Reports Corp.	"
Orion Beverage Corp.	"	Beijing DisitalOnStudio Co., Ltd.	"
Beijing Zhongguan Megabox Cinema Co., Ltd.	"		

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

B. Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2007 and 2006 are summarized as follows:

Won (thousands)

Relationship	Name	Transaction	Sales to	
			2007	2006
Subsidiary	Orion Food Co., Ltd.	Export	₩ 123,628	305,671
		Royalty	1,137,828	927,276
	Orion Food (Shanghai) Co., Ltd.	Export	38,044	232,980
		Royalty	-	232,550
	Orion Food (Rus) Co., Ltd.	Export	22,518	136,015
		Royalty	230,800	3,904,181
	Orion Food Vina Co., Ltd.	Export	13,763	246,310
		Royalty	163,499	-
	Orion Int'l Euro Co., Ltd.	Royalty	230,800	-
	Orion Snack International Corp.	Domestic sales	804,928	897,470
	Mega Mark Co., Ltd.	Disposal of tangible assets	1,033,325	-
	Buy The Way Co., Ltd.	Domestic sales	-	1,798,469
			<b>₩ 3,799,133</b>	<b>8,680,922</b>

Won (thousands)

Relationship	Name	Transaction	Purchases from	
			2007	2006
Subsidiary	Orion Food Co., Ltd.	Import	₩ 6,068,777	15,860,770
		Import	3,117,492	7,292,987
	Orion Food Vina Co., Ltd.	Import	11,147,824	220,365
	Orion Int'l Euro Co., Ltd.	Import	90,594	-
	Orion Snack International Corp.	Domestic purchase	95,261,034	93,173,633
	Mega Mark Co., Ltd.	Construction fee	734,000	-
	Buy The Way Co., Ltd.	Domestic purchase	-	197,078
			<b>₩ 116,419,721</b>	<b>116,744,833</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

Relationship	Name	Transaction	Sales to	
			2007	2006
Subsidiary	Orion Food Co., Ltd.	Export	\$ 131,771	325,806
		Royalty	1,212,778	988,356
	Orion Food (Shanghai) Co., Ltd.	Export	40,550	248,327
		Royalty	-	247,868
	Orion Food (Rus) Co., Ltd.	Export	24,001	144,974
		Royalty	246,003	4,161,353
	Orion Food Vina Co., Ltd.	Export	14,670	262,535
		Royalty	174,269	-
	Orion Int'l Euro Co., Ltd.	Royalty	246,003	-
	Orion Snack International Corp.	Domestic sales	857,949	956,587
Mega Mark Co., Ltd.	Disposal of tangible assets	1,101,391	-	
Buy The Way Co., Ltd.	Domestic sales	-	1,916,936	
			<b>\$ 4,049,385</b>	<b>9,252,742</b>

U.S. dollars

Relationship	Name	Transaction	Purchases from	
			2007	2006
Subsidiary	Orion Food Co., Ltd.	Import	\$ 6,468,532	16,905,532
	Orion Food (Shanghai) Co., Ltd.	Import	3,322,844	7,773,382
	Orion Food Vina Co., Ltd.	Import	11,882,140	234,881
	Orion Int'l Euro Co., Ltd.	Import	96,562	-
	Orion Snack International Corp.	Domestic purchase	101,535,956	99,311,056
	Mega Mark Co., Ltd.	Construction fee	782,349	-
	Buy The Way Co., Ltd.	Domestic purchase	-	210,060
				<b>\$ 124,088,383</b>

C. Account balances with related companies as of December 31, 2007 were as follows:

Won (thousands)

Relationship	Name	Receivables		Payables		Guarantee deposits received
		Accounts receivable	Other receivables	Accounts payables	Other payables	
Subsidiary	Orion Snack International Corp.	₩ 71,321	99,534	16,225,872	10,299	4,633,265
	Orion Food Co., Ltd.	41,806	1,137,828	492,615	-	-
	Orion Food (Shanghai) Co., Ltd.	-	-	811,040	-	-
	Orion Food (Rus) Co., Ltd.	41,395	-	-	-	-
	Orion Food VINA Co., Ltd.	-	163,499	705,410	-	-
	Orion Food Novo Co., Ltd.	155,897	-	-	-	-
	On Media Corp.	-	-	-	165,000	-
	Orion Reports Corp.	-	2,140	149,080	-	-
		<b>₩ 310,419</b>	<b>1,403,001</b>	<b>18,384,017</b>	<b>175,299</b>	<b>4,633,265</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

Relationship	Name	Receivables		Payables		
		Accounts receivable	Other receivables	Accounts payable	Other payables	Guarantee deposits received
Subsidiary	Orion Snack International Corp.	\$ 76,019	106,090	17,294,683	10,977	4,938,462
	Orion Food Co., Ltd.	44,560	1,212,778	525,064	-	-
	Orion Food (Shanghai) Co., Ltd.	-	-	864,464	-	-
	Orion Food (Rus) Co., Ltd.	44,122	-	-	-	-
	Orion Food VINA Co., Ltd.	-	174,269	751,876	-	-
	Orion Food Novo Co., Ltd.	166,166	-	-	-	-
	On Media Corp.	-	-	-	175,869	-
	Orion Reports Corp.	-	2,281	158,900	-	-
		<b>\$ 330,867</b>	<b>1,495,418</b>	<b>19,594,987</b>	<b>186,846</b>	<b>4,938,462</b>

Account balances with related companies as of December 31, 2006 were as follows:

Won (thousands)

Relationship	Name	Receivables		Payables		
		Accounts receivable	Other receivables	Accounts payable	Other payables	Guarantee deposits received
Subsidiary	Orion Snack International Corp.	₩ 95,687	110,297	23,572,235	18,144	4,633,265
	Orion Food Co., Ltd.	30,150	508,863	691,290	-	-
	Orion Food (Shanghai) Co., Ltd.	5,633	15,338	649,578	-	-
	Orion Food (Rus) Co., Ltd.	104,827	1,069,040	-	-	-
	Orion Food VINA Co., Ltd.	7,414	-	63,437	-	-
		<b>₩ 243,711</b>	<b>1,703,538</b>	<b>24,976,540</b>	<b>18,144</b>	<b>4,633,265</b>

U.S. dollars

Relationship	Name	Receivables		Payables		
		Accounts receivable	Other receivables	Accounts payable	Other payables	Guarantee deposits received
Subsidiary	Orion Snack International Corp.	\$ 101,990	117,562	25,124,957	19,339	4,938,462
	Orion Food Co., Ltd.	32,136	542,382	736,826	-	-
	Orion Food (Shanghai) Co., Ltd.	6,004	16,348	692,366	-	-
	Orion Food (Rus) Co., Ltd.	111,732	1,139,459	-	-	-
	Orion Food VINA Co., Ltd.	7,902	-	67,616	-	-
		<b>\$ 259,764</b>	<b>1,815,751</b>	<b>26,621,765</b>	<b>19,339</b>	<b>4,938,462</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

D. Key management personnel compensation in total and for each of the following categories for the year ended December 31, 2007 was as follows:

Compensation details	Won (thousands)	U.S. dollars
Short-term employee benefits	₩ 5,946,629	\$ 6,338,338
Share-based payment	814,746	868,414
	<b>₩ 814,746</b>	<b>\$ 868,414</b>

E. The Company had provided guarantees for related companies as of December 31, 2007 and December 31, 2006 as follows:

Guarantee recipient	2007	2006
Orion Food (Shanghai) Co., Ltd.	\$ 20,000,000	-
Orion Food (Rus) Co., Ltd.	5,460,000	5,460,000
Orion Food VINA Co., Ltd.	12,500,000	-
Orion Food Novo Co., Ltd.	10,000,000	-
	<b>\$ 47,960,000</b>	<b>5,460,000</b>

### 8. Property, Plant and Equipment

A. Changes in property, plant and equipment for the year ended December 31, 2007 were as follows:

	Won (thousands)					Book value as of December 31, 2007
	Book value as of January 1, 2007	Acquisition	Disposals	Depreciation	Other	
Land	₩ 102,777,737	388,043	211,108	-	-	102,954,672
Buildings	53,303,454	658,286	97,035	2,073,935	19,806	51,810,576
Structures	1,650,593	-	-	138,475	-	1,512,118
Machinery and equipment	32,250,533	8,219,908	-	11,375,380	4,862,387	33,957,448
Vehicles	4,099,818	3,180,385	193,183	2,797,783	-	4,289,237
Furniture, fixtures and others	10,673,306	6,928,652	438,509	1,464,129	147	15,699,467
Construction-in- progress	13,399,107	20,559,697	3,552,897	-	(4,882,340)	25,523,567
	<b>₩ 218,154,548</b>	<b>39,934,971</b>	<b>4,492,732</b>	<b>17,849,702</b>	<b>-</b>	<b>235,747,085</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

	<b>Book value as of January 1, 2007</b>	<b>Acquisition</b>	<b>Disposals</b>	<b>Depreciation</b>	<b>Other</b>	<b>Book value as of December 31, 2007</b>
Land	\$ 109,547,790	413,604	225,014	-	-	109,736,380
Buildings	56,814,596	701,648	103,427	2,210,547	21,111	55,223,381
Structures	1,759,319	-	-	147,596	-	1,611,723
Machinery and equipment	34,374,902	8,761,360	-	12,124,686	5,182,676	36,194,252
Vehicles	4,369,876	3,389,880	205,908	2,982,075	-	4,571,773
Furniture, fixtures and others	11,376,366	7,385,048	467,395	1,560,572	157	16,733,604
Construction-in- progress	14,281,717	21,913,980	3,786,928	-	(5,203,944)	27,204,825
	<b>\$232,524,566</b>	<b>42,565,520</b>	<b>4,788,672</b>	<b>19,025,476</b>	<b>-</b>	<b>251,275,938</b>

Changes in property, plant and equipment for the year ended December 31, 2006 were as follows:

Won (thousands)

	<b>Book value as of January 1, 2006</b>	<b>Acquisition</b>	<b>Disposals</b>	<b>Depreciation</b>	<b>Other</b>	<b>Book value as of December 31, 2006</b>
Land	₩ 107,077,386	2,960,769	7,260,418	-	-	102,777,737
Buildings	56,801,203	86,279	3,871,345	2,188,739	2,476,056	53,303,454
Structures	1,801,366	-	-	150,773	-	1,650,593
Machinery and equipment	29,349,676	8,260,954	12,204	10,080,424	4,732,531	32,250,533
Vehicles	4,235,903	2,442,244	58,696	2,519,633	-	4,099,818
Furniture, fixtures and others	5,670,854	6,398,199	12,404	1,471,243	87,900	10,673,306
Construction-in- progress	21,090,224	13,399,107	2,326,279	-	(18,763,945)	13,399,107
	<b>₩ 226,026,612</b>	<b>33,547,552</b>	<b>13,541,346</b>	<b>16,410,812</b>	<b>(11,467,458)</b>	<b>218,154,548</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

	Book value as of January 1, 2006	Acquisition	Disposals	Depreciation	Other	Book value as of December 31, 2006
Land	\$ 114,130,661	3,155,797	7,738,668	-	-	109,547,790
Buildings	60,542,745	91,962	4,126,354	2,332,913	2,639,156	56,814,596
Structures	1,920,024	-	-	160,705	-	1,759,319
Machinery and equipment	31,282,963	8,805,109	13,007	10,744,430	5,044,267	34,374,902
Vehicles	4,514,925	2,603,117	62,563	2,685,603	-	4,369,876
Furniture, fixtures and others	6,044,398	6,819,655	13,222	1,568,155	93,690	11,376,366
Construction-in- progress	22,479,454	14,281,717	2,479,513	-	(19,999,941)	14,281,717
	<b>\$ 240,915,170</b>	<b>35,757,357</b>	<b>14,433,327</b>	<b>17,491,806</b>	<b>(12,222,828)</b>	<b>232,524,566</b>

### B. Insurance

As of December 31, 2007, buildings, machinery and equipment, furniture, fixtures and others and inventories were insured against fire damage up to ₩181,184,158 thousand (\$193,118,906). In addition, as of December 31, 2007, the Company maintained insurance policies covering loss and liability arising from cash robbery and automobile accidents.

C. The officially declared value of land at December 31, 2007, as announced by the Minister of Construction and Transportation, was as follows:

	Won (thousands)		U.S dollars	
	Book value	Declared value	Book value	Declared value
Land	₩ 102,954,672	121,418,350	\$ 109,736,380	129,416,276

The officially declared value, which is used for government purposes, is not intended to represent fair value.

### 9. Capitalization of Interest

Interest costs of ₩100,261 thousand (\$106,865) and ₩118,682 thousand (\$126,500), in relation to the completion of construction, were capitalized as part of the cost of qualifying assets as of December 31, 2007 and 2006, respectively. If the Company had expensed the interest costs, the differences in balances of the relevant accounts would have been as follows:

Related account	2007		2006	
	Capitalized	Expensed	Capitalized	Expensed
Construction-in-progress	₩ 25,523,567	25,423,306	13,399,107	13,280,425
Stockholders' equity	460,912,052	460,699,179	416,498,661	416,345,737
Depreciation	17,849,702	17,832,129	16,410,813	16,393,184
Interest costs	16,484,832	16,585,093	14,286,862	14,405,544
Tax income	25,599,167	25,576,428	38,106,533	38,078,743
Net income	65,971,858	65,911,909	106,918,582	106,845,319

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

U.S. dollars

Related account	2007		2006	
	Capitalized	Expensed	Capitalized	Expensed
Construction in-progress	\$ 27,204,825	27,097,960	14,281,717	14,155,217
Stockholders' equity	491,272,705	491,045,810	443,933,768	443,770,771
Depreciation	19,025,476	19,006,746	17,491,807	17,473,016
Interest costs	17,570,701	17,677,567	15,227,949	15,354,449
Tax income	27,285,405	27,261,168	40,616,641	40,587,021
Net income	70,317,478	70,253,580	113,961,396	113,883,307

### 10. Intangible Assets

Changes in industrial property right for the years ended December 31, 2007 and 2006 were as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Net balance at beginning of year	₩ 2,010,021	₩ 1,246,235	\$ 2,142,423	\$ 1,328,326
Increases	1,762,240	1,262,199	1,878,320	1,345,341
Amortization	(776,183)	(498,413)	(827,311)	(531,244)
Other changes	-	-	-	-
<b>Net balance at end of year</b>	<b>₩ 2,996,078</b>	<b>₩ 2,010,021</b>	<b>\$ 3,193,432</b>	<b>\$ 2,142,423</b>

### 11. Research and Development Costs

Research and development costs incurred and expensed for the years ended December 31, 2007 and 2006 were ₩1,673,605 thousand (\$1,783,847) and ₩1,395,650 thousand (\$1,487,583), respectively. There were no capitalized development costs for the years ended December 31, 2007 and 2006.

### 12. Pledged Assets

Property, plant and equipment have been provided as collateral for short-term borrowings, long-term debt, and other current liabilities for up to ₩46,194,400 thousand (\$49,237,263) and \$40,937,000 as of December 31, 2007.

# Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

## 13. Short-term borrowings

Short-term borrowings as of December 31, 2007 and 2006 are summarized as follows:

Lender	Annual interest rate (%)	Won (thousands)		U.S. dollars	
		2007	2006	2007	2006
Woori Bank	5.32	₩ -	23,200,000	\$ -	24,728,203
Nong Hyup Bank and other banks	1.2~6.5	3,912,173	4,276,833	4,169,871	4,558,551
The Export-Import Bank of Korea	5.6	9,500,000	-	10,125,773	-
Korea Industrial Bank	5.77	10,000,000	-	10,658,708	-
Nong Hyup Bank	7.65	10,000,000	-	10,658,708	-
		<b>₩ 33,412,173</b>	<b>27,476,833</b>	<b>\$ 35,613,060</b>	<b>29,286,754</b>

## 14. Long-term Debt and Debentures

A. Long-term debt and debentures as of December 31, 2007 and 2006 are summarized as follows:

Lender	Maturity	Annual interest rate	Won (thousands)	
			2007	2006
<b>Borrowings:</b>				
Korea Industrial Bank	2008.04.28	6.30%	₩ 10,000,000	10,000,000
Kookmin Bank	2022.03.26	3.00%	647,085	663,064
Citibank	2010.06.29	LIBOR(3M)+0.6	20,226,365	-
The Export-Import Bank of Korea	2010.06.28	LIBOR(3M)+0.45	23,455,000	-
Capital leases liabilities			19,940,489	-
			74,268,939	10,663,064
Less current portion			(10,019,342)	(15,979)
			64,249,597	10,647,085
<b>Debentures:</b>				
Debentures			291,966,000	230,000,000
Less current portion			(120,000,000)	(70,000,000)
Less discount			(465,624)	(98,061)
			171,500,376	159,901,939
			<b>₩ 235,749,973</b>	<b>170,549,024</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

			U.S. dollars	
Lender	Maturity	Annual interest rate	2007	2006
<b>Borrowings:</b>				
Korea Industrial Bank	2008.04.28	6.30%	\$ 10,658,708	10,658,708
Kookmin Bank	2022.03.26	3.00%	689,709	706,741
Citi Bank	2010.06.29	LIBOR(3M)+0.6	21,558,692	-
The Export-Import Bank of Korea	2010.06.28	LIBOR(3M)+0.45	25,000,000	-
Capital leases liabilities			21,253,985	-
			79,161,094	11,365,449
Less current portion			(10,679,324)	(17,032)
			68,481,770	11,348,417
<b>Debentures:</b>				
Debentures			311,198,039	245,150,287
Less current portion			(127,904,498)	(74,610,957)
Less discount			(496,295)	(104,520)
			182,797,246	170,434,810
			<b>\$ 251,279,016</b>	<b>181,783,227</b>

B. Aggregate maturities of the Company's long-term debt as of December 31, 2007 were as follows:

				Won (thousands)
December 21, 2007	Borrowings	Debentures	Total	
2008	₩ 10,019,342	120,000,000	130,019,342	
2009	22,805	50,000,000	50,022,805	
2010	63,648,232	121,966,000	185,614,232	
2011	30,059	-	30,059	
2012 and thereafter	548,501	-	548,501	
	<b>₩ 74,268,939</b>	<b>291,966,000</b>	<b>366,234,939</b>	

				U.S. dollars
December 21, 2007	Borrowings	Debentures	Total	
2008	\$ 10,679,324	127,904,498	138,583,822	
2009	24,307	53,293,541	53,317,848	
2010	67,840,79	130,000,000	197,840,793	
2011	32,039	-	32,039	
2012 and thereafter	584,631	-	584,631	
	<b>\$ 79,161,094</b>	<b>311,198,039</b>	<b>390,359,133</b>	

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### 15. Leases

A. The Company leases certain machinery. As of December 31, 2007, the gross amount of machinery related accumulated depreciation recorded under capital leases was as follows:

	Won (thousands)	U.S. dollars
		<b>2007</b>
Machinery	₩ 29,800,357	\$ 31,763,331
Less accumulated depreciation	(13,685,357)	(14,586,823)
	<b>₩ 16,115,000</b>	<b>\$ 17,176,508</b>

B. Future minimum lease payments under non-cancelable capital and operating leases as of December 31, 2007 were as follows:

Year	Won (thousands)		U.S. dollars	
	Capital leases	Operating leases	Capital leases	Operating leases
Due within a year	₩ 1,160,481	234,487	\$ 1,236,923	249,933
Due after one year through to five years	21,391,090	117,244	21,253,985	124,967
<b>Total minimum lease payments</b>	<b>22,551,571</b>	<b>351,731</b>	<b>24,037,062</b>	<b>374,900</b>
Less unearned interest	(2,611,082)	-	(2,783,077)	-
<b>Present value of non-current portion of net minimum capital lease payments</b>	<b>₩ 19,940,489</b>	<b>351,731</b>	<b>\$ 21,253,985</b>	<b>374,900</b>

### 16. Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2007 and 2006 are summarized as follows:

	2007			2006		
		Foreign currency	Won equivalent (thousands)		Foreign currency	Won equivalent (thousands)
<b>Assets:</b>						
Cash and cash equivalents	USD	2,192,256	₩ 2,056,774	USD	1,581,358	₩ 1,470,030
	EUR	362	500	EUR	18,241,758	142,620
	JPY	27,872,733	232,272		-	-
	HKD	1,584	190		-	-
Accounts and notes receivable-trade	USD	9,859,977	9,250,630	USD	6,923,194	6,435,801
	JPY	117,337,465	977,808	JPY	31,101,843	243,164
			<b>₩ 12,518,174</b>			<b>₩ 8,291,615</b>
<b>Liabilities:</b>						
Accounts and notes payable -trade	USD	4,914,470	₩ 4,610,756	USD	3,877,903	₩ 3,604,898
	JPY	71,468,958	595,572		-	-
Other payable	USD	999,982	938,183		-	-
Short-term borrowings	USD	3,680,055	3,452,628	USD	4,133,706	3,842,693
	EUR	332,700	459,545	EUR	355,200	434,140
Debentures	USD	130,000,000	121,966,000		-	-
Long-term debt	USD	67,812,678	63,621,854		-	-
			<b>₩ 195,644,538</b>			<b>₩ 7,881,731</b>

# Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

## 17. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2007 and 2006 are summarized as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
<b>Estimated retirement and severance benefits at January 1, 2007</b>	<b>₩ 31,162,271</b>	<b>29,939,671</b>	<b>\$ 33,214,955</b>	<b>31,911,822</b>
Provision for retirement and severance benefits	8,906,330	8,333,922	9,492,997	8,882,884
Transferred from (to) affiliated companies	277,877	(37,341)	296,181	(39,801)
Payments	(8,045,311)	(7,073,981)	(8,575,262)	(7,539,950)
<b>Estimated retirement and severance benefits at December 31, 2007</b>	<b>32,301,167</b>	<b>31,162,271</b>	<b>\$ 34,428,871</b>	<b>33,214,955</b>
Transfer to National Pension Fund	(104)	(1,600)	(111)	(1,705)
Deposit for severance benefits trust	(20,995,758)	(18,697,362)	(22,378,765)	(19,928,973)
<b>Net balance at December 31, 2007</b>	<b>₩ 11,305,305</b>	<b>12,463,309</b>	<b>\$ 12,049,995</b>	<b>13,284,277</b>

The Company maintains employees' severance benefit insurance arrangements with Tongyang Insurance Co., Ltd. and Kyobo Insurance Co., Ltd. Under these arrangements, the Company has made deposits in the amount equal to 65 %, 60% of the reserve balances of retirement and severance benefits as of December 31, 2007 and 2006. The deposit amount is to be used to guarantee the required payments to the retirees and accounted for as a reduction of the reserve balance.

## 18. Commitments and Contingencies

A. The Company has entered into bank overdraft agreements and other borrowing agreements with various financial institutions for borrowings up to ₩120,000 million (\$127,905 thousand) and \$41,500 thousand, as of December 31, 2007.

B. The Company sold its investment in Buy The Way Co., Ltd. to Buy The Way CVS Holdings Co., Ltd. on July 20, 2006 and deposited ₩15,052 million (\$1,461 thousand) of the purchase price in an escrow account at HSBC according to the Shares Purchase Agreement. As of December 31, 2007, the Company is in the process of arbitration, which was filed by the buyer, at the International Committee of Arbitration and the ultimate outcome of the arbitration cannot presently be determined. The Company recorded an estimated loss amounting to ₩1,371 million (\$1,461 thousand) as a reduction in gains on the sale of investment in 2006. As of December 31, 2007, no additional allowance is provided relative to this matter, as management of the Company is unable to predict the ultimate result of this arbitration.

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### 19. Derivative Instruments

The Company contracted a foreign currency capital lease agreement in the amount of US\$ 21 million and borrowed long-term debt in the amount of US\$47 million in 2007. In addition, the Company issued foreign currency denominated debentures amounting to US\$130 million in 2007. To hedge against foreign exchange risks, the Company entered into US\$/KRW cross currency swap contracts, which expire in 2010, with Citibank Korea, HSBC, JPMorgan Chase Bank, and other financial institutions for US\$197,813 thousand. The contract was recorded at fair value with unrealized gains from movements in the fair value being recorded in the statements of income. During the year ended December 31, 2007, unrealized gains and losses were ₩1,991 million (\$2,122 thousand) and ₩204 million (\$217 thousand), respectively. As of December 31, 2007, the fair value of the cross-currency swap contracts was an asset of ₩1,991 million (2,122 thousand) and liabilities of ₩204 million (\$217 thousand), respectively.

Won (millions), U.S. dollars (thousands)

Description	Currency swap transaction	
	Buy	Sell
Position		
Contract amount	\$197,813	₩ 183,800
Contract date	2007.03.29 ~ 2007.11.14	
Expiry date	2010.03.29 ~ 2010.11.14	
Exchange rate (₩ /1US\$)	908 ~ 941	

In addition to the above swap contracts, the Company has entered into contracts to exchange floating interest rates to fixed interest rates with certain financial institutions to hedge against certain interest rate risks. The portion of the loss on the interest rate swap contracts, which are determined to be effective hedges and qualified for cash flow hedge accounting, amounting to ₩3,939 million (4,198 thousand) was recognized in equity and liability.

### 20. Stockholders' Equity

A. Transactions in stockholders' equity for the year ended December 31, 2007 are summarized as follows:

	Won (thousands), except number of shares		U.S.dollars, except number of shares
	Number of shares	Common stock	Amount
<b>Balance at December 31, 2006</b>	<b>5,918,807</b>	<b>₩ 29,594,035</b>	<b>\$ 31,543,418</b>
Increase in capital stock without consideration	21,407	107,035	114,086
<b>Balance at December 31, 2007</b>	<b>5,940,214</b>	<b>₩ 29,701,070</b>	<b>\$ 31,657,504</b>

# Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

## 21. Capital Adjustments

Details of capital adjustments as of December 31, 2007 and 2006 were as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Treasury stock (709,233 shares in 2007 and 2006)	₩ (16,588,756)	(16,588,756)	\$ (17,681,471)	(17,681,471)
Stock options	1,670,484	1,588,447	1,780,520	1,693,079
	<b>₩ (14,918,272)</b>	<b>(15,000,309)</b>	<b>\$ (15,900,951)</b>	<b>(15,988,392)</b>

## 22. Retained Earnings

Retained earnings as of December 31, 2007 and 2006 are summarized as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Legal reserve	₩ 8,900,000	7,700,000	\$ 9,486,250	8,207,205
Reserve for business rationalization	7,700,000	7,700,000	8,207,205	8,207,205
Reserve for improvement of financial structure	22,500,000	22,500,000	23,982,093	23,982,093
Reserve for business expansion	87,000,000	39,000,000	92,730,761	41,568,962
Reserve for research and manpower development	20,666,666	23,333,333	22,027,997	24,870,320
Voluntary reserve	96,000,000	48,000,000	102,323,598	51,161,799
Unappropriated retained earnings	71,905,254	111,766,237	76,641,712	119,128,370
	<b>₩ 314,671,920</b>	<b>259,999,570</b>	<b>\$ 335,399,616</b>	<b>277,125,954</b>

### A. Legal reserve

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stock in connection with a free issue of shares.

### B. Reserve for business rationalization

Until December 10, 2002 under the Special Tax Treatment Control Law, investment tax credits were allowed for certain investments. The Company was, however, required to appropriate from retained earnings the amount of tax benefits received and transfer such amount into a reserve for business rationalization.

Effective December 11, 2002, the Company was no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

### C. Reserve for improvement of financial structure

Until December 26, 2007 the Regulations on Securities Issuance and Disclosure required the Company to appropriate into a reserve for improvement of financial structure an amount equal to at least 50% of the net gain on sale of property, plant and equipment and 10% of net income for each year until the Company's shareholders' equity equals 30% of total assets. The reserve may be used to reduce a deficit or transferred to common stock in connection with a free issue of shares.

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

Effective December 27, 2007, the above requirement has been removed and the Company is no longer required to appropriate into a reserve for improvement of financial structure and, consequently, the existing balance as of December 31, 2007 is now regarded as a voluntary reserve.

### D. Reserve for research and manpower development

Under the Korean Tax Incentives Limitation Law ("TILL"), the Company is allowed to deduct from taxable income, amounts appropriated from retained earnings as reserve for research and manpower development. The reserve is added back to taxable income over three years, after a two-year grace period.

### E. Voluntary reserve

The voluntary reserve, the business rationalization reserve and the business expansion reserve are unrestricted.

## 23. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2007 and 2006 were as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Salaries	₩ 72,275,321	73,029,272	\$ 77,036,155	77,839,770
Provision for retirement and severance benefits	6,813,887	6,433,084	7,262,723	6,856,836
Other employee benefits	14,244,885	14,626,472	15,183,207	15,589,930
Travel	1,603,850	2,101,960	1,709,497	2,240,418
Communication	882,299	962,413	940,417	1,025,808
Utilities	676,630	698,660	721,200	744,681
Entertainment	113,307	141,686	120,771	151,019
Sales promotion and commission	95,388	102,482	101,671	109,233
Advertising	23,732,240	28,163,443	25,295,502	30,018,592
Supplies	985,866	1,250,589	1,050,806	1,332,966
Repairs	495,939	1,302,148	528,607	1,387,922
Insurance	586,643	625,318	625,286	666,508
Vehicle maintenance	5,319,615	5,244,189	5,670,022	5,589,628
Freight	10,975,702	10,719,563	11,698,680	11,425,669
Depreciation	5,061,879	4,876,722	5,395,309	5,197,956
Amortization	776,183	498,413	827,311	531,244
Taxes and dues	2,528,046	3,062,619	2,694,570	3,264,356
Bad debts	2,277,502	2,836,700	2,427,523	3,023,556
Rent	1,161,876	1,638,502	1,238,410	1,746,431
Development	1,673,605	1,395,650	1,783,847	1,487,583
Commissions	13,040,444	14,333,848	13,899,429	15,278,030
Publication	65,963	75,456	70,308	80,426
Overseas marketing	1,881,050	1,710,437	2,004,956	1,823,105
Training	1,027,890	998,985	1,095,598	1,064,789
Export expenses	3,032,439	3,309,185	3,232,188	3,527,164
Samples	66,006	78,599	70,354	83,776
Research	337,542	406,817	359,776	433,614
Miscellaneous	355,711	303,871	379,143	323,888
	<b>₩ 172,087,708</b>	<b>180,927,083</b>	<b>\$ 183,423,266</b>	<b>192,844,898</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### 24. Income Taxes

A. The Company is subject to a number of income taxes on taxable income at the following normal tax rates:

Taxable income	Tax rate
Up to ₩ 100 million	14.3%
Over ₩ 100 million	27.5%

B. The components of income tax expense for the years ended December 31, 2007 and 2006 are summarized as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Current	₩ 6,614,728	32,029,386	\$ 7,050,446	34,139,187
Deferred	18,984,439	6,077,147	20,234,959	6,477,454
<b>Income tax charge</b>	<b>₩ 25,599,167</b>	<b>38,106,533</b>	<b>\$ 27,285,405</b>	<b>40,616,641</b>

C. The charge for income taxes calculated by applying statutory tax rates to the Company's taxable income for the year differs from the actual charge in the statement of income for the years ended December 31, 2007 and 2006 for the following reasons:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Provision for income taxes at normal tax rates	₩ 25,168,832	39,868,706	\$ 26,826,724	42,494,890
Tax effects of permanent differences, net	702,371	1,937,119	748,637	2,064,719
Tax credits	(313,153)	(454,919)	(333,781)	(484,885)
Other	41,117	(3,244,373)	43,825	(3,458,082)
<b>Actual provision for income taxes</b>	<b>₩ 25,599,167</b>	<b>38,106,533</b>	<b>\$ 27,285,405</b>	<b>40,616,642</b>

D. The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, were approximately 27.96 % and 26.28 % for the years ended December 31, 2007 and 2006.

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

E. The tax effects of temporary differences that resulted in significant portions of deferred tax assets and liabilities at December 31, 2007 and 2006 are presented below:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
<b>Deferred tax assets:</b>				
Allowance for doubtful accounts	₩ 1,008,990	979,271	\$ 1,075,453	1,043,776
Equity income on investment in affiliates	-	4,475,425	-	4,770,225
Depreciation	2,833,054	2,430,540	3,019,670	2,590,642
Provision for loss on sales returns	1,126,921	1,095,094	1,201,152	1,167,229
Other current liability	377,025	377,025	401,860	401,860
Loss on valuation of the foreign currency swaps	1,083,358	-	1,154,720	-
Others	140,367	89,803	149,613	95,718
<b>Total deferred tax assets</b>	<b>6,569,715</b>	<b>9,447,158</b>	<b>7,002,468</b>	<b>10,069,450</b>
<b>Deferred tax liabilities:</b>				
Accrued interest income	466	308	497	328
Reserve for technology development	2,200,000	2,933,333	2,344,916	3,126,554
Equity income on investment in affiliates	15,866,331	-	16,911,459	-
Others	3,553,033	9,568,270	3,787,074	10,198,540
<b>Total deferred tax liabilities</b>	<b>21,619,830</b>	<b>12,501,911</b>	<b>23,043,946</b>	<b>13,325,422</b>
<b>Net deferred tax liability</b>	<b>₩ (15,050,115)</b>	<b>(3,054,753)</b>	<b>\$ (16,041,478)</b>	<b>(3,255,972)</b>

F. Deferred tax assets have been recognized because it is probable that future profits will be available against which the Company can utilize the related benefit.

G. The Company did not recognize a deferred tax liability in the amount of ₩28,645 million (\$30,532 thousand) arising from the taxable temporary differences as of December 31, 2007 since it is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets in the amount of ₩8,661 million (\$9,231 thousand) have not been recognized as of December 31, 2007.

H. Deferred tax assets and liabilities that were directly charged or credited to accumulated other comprehensive income as of December 31, 2007 are as follows:

	Won (thousands)		U.S. dollars	
	Temporary differences	Deferred tax asset (liabilities)	Temporary differences	Deferred tax asset (liabilities)
Accumulated other comprehensive income	₩ 8,016,935	(3,553,033)	\$ 8,545,017	(3,787,074)
Loss on valuation of the foreign currency swaps	(3,939,485)	1,083,358	(4,198,982)	1,154,720
Others	398,246	(109,518)	424,479	(116,732)
	<b>₩ 4,475,696</b>	<b>(2,579,193)</b>	<b>\$ 4,770,514</b>	<b>(2,515,622)</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

I. In accordance with SKAS No. 16, *Income Taxes*, deferred tax amounts should be presented as a net current asset or liability and a net non-current asset or liability. In addition, the Company is required to disclose aggregate deferred tax assets (liabilities). As of December 31, 2007, details of aggregate deferred tax assets (liabilities) are as follows:

Won (thousands)

	Temporary differences at December 31, 2007	Deferred tax assets (liabilities) Current	Deferred tax assets (liabilities) Non-current
<b>Assets</b>			
Allowance for doubtful accounts	₩ 3,669,057	1,008,990	-
Accumulated depreciation	10,302,015	-	2,833,054
Provision for loss on sales returns	4,097,894	-	1,126,921
Other current liabilities	1,371,000	377,025	-
Loss on valuation of the foreign currency swaps	3,939,485	-	1,083,358
Others, net	510,428	-	140,367
	<b>23,889,879</b>	<b>1,386,015</b>	<b>5,183,700</b>
<b>Liabilities</b>			
Accrued interest income	(1,695)	(466)	-
Reserve for technology development	(8,000,000)	-	(2,200,000)
Equity income on investment in affiliates	(89,235,873)	-	(15,866,330)
Other comprehensive income	(8,016,935)	-	(3,553,033)
	<b>(105,254,503)</b>	<b>(466)</b>	<b>(21,619,363)</b>
<b>Net deferred tax asset (liability)</b>	<b>₩ (81,364,624)</b>	<b>1,385,549</b>	<b>(16,435,663)</b>

U.S. dollars

	Temporary differences at December 31, 2007	Deferred tax assets (liabilities) Current	Deferred tax assets (liabilities) Non-current
<b>Assets</b>			
Allowance for doubtful accounts	\$ 3,910,741	1,075,453	-
Accumulated depreciation	10,980,617	-	3,019,670
Provision for loss on sales returns	4,367,826	-	1,201,152
Other current liability	1,461,309	401,860	-
Loss on valuation of foreign currency swaps	4,198,982	-	1,154,720
Others, net	544,050	-	149,613
	<b>25,463,525</b>	<b>1,477,313</b>	<b>5,525,155</b>
<b>Liabilities</b>			
Accrued interest income	(1,807)	(497)	-
Reserve for technology development	(8,526,967)	-	(2,344,916)
Equity income on investment in affiliates	(95,113,913)	-	(16,911,459)
Other comprehensive income	(8,545,017)	-	(3,787,074)
	<b>(112,187,704)</b>	<b>(497)</b>	<b>(23,043,449)</b>
<b>Net deferred tax asset (liability)</b>	<b>\$ (86,724,179)</b>	<b>1,476,816</b>	<b>(17,518,294)</b>

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### 25. Earnings Per Share

A. Basic earnings per share for the years ended December 31, 2007 and 2006 were as follows:

	Won		U.S. dollars	
	2007	2006	2007	2006
Net income	₩ 65,971,858,041	106,918,581,531	\$ 70,317,478	113,961,396
Weighted-average number of common shares outstanding	5,226,641	5,206,340	5,226,641	5,206,340
<b>Earnings per share</b>	<b>₩ 12,622</b>	<b>20,536</b>	<b>\$ 13.45</b>	<b>21.89</b>

B. Diluted earnings per share for the years ended December 31, 2007 and 2006 were as follows:

	Won		U.S. dollars	
	2007	2006	2007	2006
Net income	₩ 65,971,858,041	106,918,581,531	\$ 70,317,478	113,961,396
Share - based payment X (1-27.5%)	15,309,621	180,258,442	16,318	192,132
Diluted effect of investee	(851,368,811)	-	(907,449)	-
	<b>₩ 65,135,798,851</b>	<b>107,098,839,973</b>	<b>\$ 69,426,347</b>	<b>114,153,528</b>
Weighted average number of common shares (diluted) at December 31	5,230,763	5,221,000	5,230,763	5,221,000
<b>Diluted earnings per share</b>	<b>₩ 12,452</b>	<b>20,513</b>	<b>\$ 13.27</b>	<b>21.86</b>

### 26. Dividends

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

	Won (thousands except par value)		U.S. dollars	
	2007	2006	2007	2006
Dividend amount	₩ 11,769,707	11,721,542	\$ 12,544,987	12,493,650
Net income	65,971,858	106,918,582	70,317,478	113,961,396
Dividends as a percentage of net income	17.84%	10.96%	17.84%	10.96%
Par value per share	5,000	5,000	5,329	5,329
Dividends as a percentage of par value	45.00%	45.00%	45.00%	45.00%

B. Dividend yield ratio for the years ended December 31, 2007 and 2006 was as follows:

	Won		U.S. dollars	
	2007	2006	2007	2006
Dividend per share	₩ 2,250	2,250	\$ 2,398	2,398
Market price as of year end	250,000	272,500	266,468	290,450
Dividend yield ratio	0.90%	0.83%	0.90%	0.83%

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### 27. Change in Accounting Policy

As discussed in note 27 to the non-consolidated financial statements, the Company changed its method of computing deferred tax assets and liabilities for temporary differences arising from investment securities accounted for under the equity method. Effective January 8, 2007, under Korea Accounting Institute Opinion 06-2, the Company determines deferred taxes based on net of all temporary differences from equity method accounted securities while the Company previously computed deferred taxes by grouping temporary differences based on their origins. The effect of the above change has been accounted for retroactively. The effect of this change in method of computing deferred income tax assets or liabilities was to decrease retained earnings and accumulated other comprehensive income as of January 1, 2007 by ₩436 million (\$465 thousand) and ₩8,079 million (\$8,611 thousand) respectively, and to decrease accumulated other comprehensive income as of December 31, 2007 by ₩6,077 million (\$6,477 thousand).

Net incomes, income taxes expense, earnings per share and other balances of prior three years which were computed retroactively applying new accounting policy are as follows:

Won (thousands), except Earnings per share

Accounts	2006		2005		2004	
	Presented	Adjusted	Presented	Adjusted	Presented	Adjusted
Income tax expense	₩ 35,573,237	38,106,533	8,699,112	6,601,653	9,036,834	9,036,834
Net income	109,451,878	106,918,582	37,313,604	39,411,064	20,366,376	20,366,376
Earnings per share	21,023	20,536	7,198	7,603	4,042	4,042
Deferred tax asset(liability)	5,460,249	(3,054,753)	3,373,494	4,658,318	12,140,750	10,403,790
Accumulated other comprehensive income by equity method, net of tax	(22,447,787)	(14,368,622)	(26,246,622)	(25,433,986)	(66,608,741)	(64,871,780)
Retained earnings	112,202,073	111,766,236	39,501,837	41,599,296	21,756,593	21,756,593

U.S.dollars

Accounts	2006		2005		2004	
	Presented	Adjusted	Presented	Adjusted	Presented	Adjusted
Income tax expense	\$ 37,916,475	40,616,641	9,272,130	7,036,509	9,632,098	9,632,098
Net income	116,661,563	113,961,396	39,771,482	42,007,103	21,707,926	21,707,926
Earnings per share	22	22	8	8	4	4
Deferred tax asset (liability)	5,819,920	(3,255,972)	3,595,709	4,965,165	12,940,471	11,089,096
Accumulated other comprehensive income by equity method, net of tax	(23,926,441)	(15,315,095)	(27,975,508)	(27,109,343)	(70,996,313)	(69,144,937)
Retained earnings	119,592,915	119,128,369	42,103,855	44,339,476	23,189,718	23,189,718

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### 28. Share-based Payments

A. The terms and conditions of grants as of December 31, 2007 were as follows:

	1st Grant	2nd Grant	3rd Grant
Grant date	2005.1.28	2006.1.31	2007.3.23
Exercise price- Won	113,100	255,120	235,500
- USD	125,550	271,925	251,013
Number of shares	15,381	8,303	5,718
Exercisable period	within 7 years starting from January 28, 2005	within 7 years starting from January 31, 2006	within 7 years starting from March 23, 2007

The estimated fair value of each share option granted in the general employee share option plan was ₩102,777. This was calculated by applying a binomial option pricing model. The model inputs were the share price at grant date of ₩231,000, exercise price of ₩235,500, expected volatility of 40 percent, ₩943 expected dividends, contractual life of six years, and a risk-free interest rate of 5 percent.

B. The number and weighted average exercise prices of share options as of December 31, 2007 were as follows.

	Share options	
	Number of options	Weighted average exercise price
Outstanding at January 1, 2007	45,534	₩ 123,167
Granted	5,718	235,500
Forfeited	-	-
Exercised	21,407	78,400
Changed	444	-
Cancelled	-	-
Expired	-	-
Outstanding at December 31, 2007	29,401	177,008
Exercisable at December 31, 2007	-	₩ -

Won, except number of options

The weighted average share price at the date of exercise for share options exercised during the period was ₩240,000. The options outstanding at 31 December 2007 had an exercise price of ₩113,100, ₩255,120, ₩235,500 and a weighted average remaining contractual life of 8 years.

C. The total compensation cost recognized in the statement of income for share-based employee compensation awards for the year ended December 31, 2007 amounted to ₩814,745 thousand (\$868,414).

## Notes to Non-consolidated Financial Statements

December 31, 2007 and 2006

### 29. Comprehensive Income

Comprehensive income for the years ended December 31, 2007 and 2006 was as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Net income	₩ 65,471,858	109,451,878	\$ 69,784,543	116,661,563
Gain (loss) on valuation of available-for-sale securities, net of tax	9,866	(2,005)	10,515	(2,137)
Loss on valuation of the foreign currency swap, net of tax	(2,856,126)	-	(3,044,261)	-
Changes by equity method, net of tax	(9,904,719)	(3,798,834)	(10,557,151)	(4,049,066)
<b>Comprehensive income</b>	<b>₩ 52,720,879</b>	<b>105,651,039</b>	<b>\$ 56,193,646</b>	<b>112,610,360</b>

### 30. Non-cash Investing and Financing Activities

Significant non-cash investing and financing activities for the years ended December 31, 2007 and 2006 are summarized as follows:

	Won (thousands)		U.S. dollars	
	2007	2006	2007	2006
Construction-in-progress transferred to investments on affiliates	₩ -	11,467,458	\$ -	12,222,829
Construction-in-progress transferred to buildings and structures	4,882,340	18,763,945	5,203,944	19,999,941
Long-term liabilities transferred to current portion	129,954,094	69,935,448	138,514,276	74,542,153
Change in capital adjustment to equity method	9,904,719	3,877,403	10,557,151	4,132,811
Long-term financial instruments transferred to current asset	4,530	275,000	4,828	293,114
Stock-option transferred to capital surplus	732,070	493,953	780,292	526,490

### 31. Employee Welfare and Contributions to Society

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund, workmen's accident compensation insurance, unemployment insurance and medical insurance. The amounts of welfare spending during the years ended December 31, 2007 and 2006 are ₩17,821,224 thousand (\$18,995,123) and ₩18,356,766 thousand (\$19,565,941), respectively.

The Company donated ₩157,115 thousand (\$167,464) and ₩92,360 thousand (\$98,444) to the Korea Red Cross and others during the years ended December 31, 2007 and 2006, respectively.

### 32. Date of Authorization for Issue

The 2007 financial statements will be authorized for issue on March 28, 2008, at the Board of Directors Meeting.