

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. Business Environment

Despite various difficulties including the economic slowdown at home and abroad due to the global financial crisis, the rapid conglomeration of distribution companies and the melamine scare, Orion achieved total revenues of KRW 578.7 billion in 2008, representing a 4.6% increase from the previous year.

Domestic sales rose by 4.8%, giving Orion a 27.2% domestic market share, and although localization in line with the Company's globalization strategy decreased, exports advanced 1.1% over the previous year.

Slowing growth in the confectionery market, weakening consumer confidence, fiercer competition among companies, and reduced bargaining power amid corporate conglomeration led to an increase in various expenses. Nevertheless, the Company's operating income to sales edged up 0.1%p over 2007 to KRW 31.9 billion.

The Company made efforts to boost cost efficiencies and productivity, overcoming an uncertain management environment caused by stagnant domestic demand and exchange rate volatility with ongoing improvements in purchase processes and establishment of efficient sales networks.

Global Revenues

	2008	2007	2006
China	223	162	125
Russia	61	41	36
Vietnam	34	17	10

(in USD, mil.)

2. Business Results

Overcoming slumping consumer spending amid the economic recession and changes in confectionery market consumer patterns following the melamine scare, the successful launch of Orion's premium-brand products including Dr. You generated a KRW 22.2 billion year-on-year increase in sales to KRW 558.4 billion. Higher oil prices led to increased freight charges, contributing to a KRW 9.5 billion hike in SG&A from the previous year, but the Company's continued costcutting efforts resulted in a 0.5%p improvement in cost of sales and a KRW 1.8 billion rise in operating income to KRW 31.9 billion.

Meanwhile, Orion's sales in overseas markets first surpassed USD 100 million in 2005 to record USD 130 million, with this figure swelling to USD 310 million in 2008, a 45% increase over 2007. Moreover, sales in the Chinese market alone surged to USD 220 in 2008, with sales in China, Russia, Vietnam and other overseas markets rising by more than 40% over 2007.

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Summary of Profit and Loss

	(in KRW, 100 mil.)		
	2008	2007	2006
Sales	5,584	5,361	5,431
Cost of Sales	319	301	273
Net Income	-290	659	1,095
EPS (KRW)	—	11,093	18,434

Although operating income to sales rose by 0.1%p in 2008 over a year earlier, a net income dipped into the red. The deficit in net income was the result of an arbitration ruling requiring the Company to pay reparations to Buy The Way CVS Holdings Co., Ltd. in the amount of KRW 24.6 billion, leading to a reduction of KRW 76.2 billion in gain on equity method for a loss of KRW 2.8 billion. Contributing to the loss on equity method was the reduced gain on valuation using equity method of accounting amid deteriorating results from ON*media, Mediaplex, riseON and others, with ON*media, Sports TOTO and other major subsidiaries showing a KRW 50.8 billion gain on valuation using equity method of accounting, while Mediaplex and riseON recorded operating losses.

Key Financial Indicators

	(%)		
	2008	2007	2006
Operating Income to Sales	5.7	5.6	5.0
Net Income to Sales	-5.2	12.3	20.2
Return on Investment	-2.7	6.8	13.9
Return on Equity	-6.6	14.3	29.1

3. Financial Situation

As of the end of 2008, the Company's total assets stood at KRW 1,090.6 billion, an increase of KRW 121.3 billion from KRW 970.3 billion at year-end 2007. This increase was the result of a KRW 5.7 billion reduction in current assets relative to the previous year, which was offset by a KRW 126.0 billion in non-current assets. Looking at these figures in detail, the decrease in current assets was led by a KRW 1.4 billion drop in quick assets, while the main contributor to the rise in non-current assets was a KRW 69.5 billion increase in securities under equity method. Meanwhile, equity capital declined by KRW 17.2 billion from a year earlier to record KRW 442.5 billion. A KRW 40.8 billion decrease in retained earnings was the primary factor behind this decline. Liabilities expanded by KRW 137.5 billion on an increase in current portion of debentures.

Summarized Balance Sheet

	(in KRW, 100 mil.)		
	2008	2007	2006
Total Assets	10,906	9,703	8,246
Total Liabilities	6,481	5,106	4,081
Total Shareholders' Equity	4,425	4,597	4,165

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Working Capital

	(in KRW, 100 mil)		
	2008	2007	2006
Accounts Receivables & Inventory Assets	1,389	1,485	1,346
Trade Payable	371	368	495
Working Capital	1,760	1,853	851

Cash and Securities

	(in KRW, 100 mil)		
	2008	2007	2006
Cash and Short-term Financial Instruments	230	233	221
Marketable Securities	2	2	2

4. Cash Flow: Business, Investment and Financial Activities

The Company's net cash flow from business activities in 2008 rose to KRW 29.0 billion over the previous year. This figure was due to the combination of a KRW 29.0 billion loss in net income, the addition of expenses not involving cash outflows, and increases in loss on foreign currency translation and loss on disposition of securities under the equity method of KRW 63.5 billion and KRW 49.9 billion, respectively.

Net cash outflow from investment activities decreased by KRW 39.3 billion to KRW 56.4 billion. This was the result of KRW 30.3 billion in cash inflow from investment activities in 2008 led by KRW 9.2 billion in disposition of construction in-progress and a KRW 15.1 billion reduction in short-term financial instruments on the one hand, and a cash outflow from investment activities of KRW 86.7 billion due mainly to acquisitions of construction in-progress assets and securities under equity method of KRW 28.1 billion and KRW 28.9 billion, respectively. Meanwhile, net cash flow from financial activities totaled KRW 42.1 billion, with increased issuance of debentures and short- & long-term borrowings resulting in a KRW 50.0 billion rise in current portion of long-term debts.

Summarized Cash Flow

	(in KRW, 100 mil)		
	2008	2007	2006
Cash Flow from Business Activities	290	-222	240
Cash Flow from Investment Activities	-564	-957	288
Cash Flow from Financial Activities	421	1,191	-523

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5 Prospects for 2009

Major economic forecasting institutions have predicted an average of 0.5% domestic economic growth in 2009, sharply lower than in 2008. Notably, some domestic and foreign forecasting institutions have even predicted negative growth for the year ahead due to the impact of the global financial crisis of 2008 on the Korean economy.

Competition in the domestic confectionery market intensifying due to oversaturation is expected to weigh down sales and operating income figures. However, with its successful foray into the premium end of the market with Dr. You and other brands, the Company expects to achieve positive growth over 2008 despite the difficult economic environment, the melamine scare and other adversities.

This is the result of a five-stage project launched in 2001 in line with the "wellbeing" trend.

Since 2001, Orion has responded to this trend more aggressively than its competitors, launching a long-term health-related product development project. Stage 1 (2001-2007): Reduce trans-fat. Stage 2: (2001- June 2007): Reduce saturated fats.

Stage 3 (2007-2008): "Green Package" Project. Stage 4 (2001-2008): Dr. You Project. Stage 5 (2008-2009): Market O Project. Making efforts to make projects that consumers can eat with peace of mind.

The Company will seek to improve profitability by upgrading products and enhancing functionality, while focusing on niche-markets with well-being and healthy foods, and pursuing small-scale, high-quality strategies aimed at weightreduction and other specialized items. Orion will also continue to take decisive measure to renew its traditional lineup of cash cow products and launch new products in response to the well-being trend, responding effectively to changes in the market environment. As part of these efforts, Orion was the first Korean confectionery maker to offer a line of energy bar products in February 2008. Energy bars are currently the fastest-growing segment of the confectionery markets in the U.S., Europe and Japan. Additionally, with the launch in December 2008 of Market O based on organic ingredients, and its Dr. You product brand, Orion will strive to expand its lead in the premium brand market during 2009. Orion seeks to maintain the double-digit growth it has achieved in overseas confectionery markets since 2003 with the ultimate goal of surpassing domestic sales volume, while extending Sports TOTO's streak of black-ink operations begun in 2005, nurturing these as future growth

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Five-Year Management Index

(in KrW, 100mil)

	2008 2008.1.1~2008.12.31	2007 2007.1.1~2007.12.31	2006 2006.1.1~2006.12.31	2005 2005.1.1~2005.12.31	2004 2004.1.1~2004.12.31
profit and loss					
Total Sales	5,584.3	5,361.6	5,430.6	5,375.4	5,133.8
Gross profit	2,135.2	2,021.5	2,082.2	2,055.9	1,908.3
Operating income	318.9	300.6	272.9	406.0	432.8
Non-operating income	1,201.4	970.9	1,520.3	311.2	53.1
Non-operating Expenses	1,643.6	344.2	343.0	257.1	191.9
Recurring Profit	-123.3	927.3	1,450.3	460.1	294.0
Net income	-290.4	668.0	1,069.2	373.1	203.7
Financial Status					
Total Assets	10,905.8	9,702.6	8,246.4	7,447.2	6,939.2
Current Assets	1,649.9	1,706.8	1,608.3	1,390.0	1,246.2
Non-current Assets	9,255.9	7,995.8	6,638.1	6,057.2	5,692.9
Total liabilities	6,481.1	5,106.1	4,081.4	4,177.0	3,579.8
Capital Stock	297.7	297.0	295.9	295.0	293.9
Capital Surplus	1,323.4	1,299.8	1,276.8	1,266.8	1,252.9
Retained earnings	2,751.9	3,160.0	2,599.9	1,600.7	1,304.6
Total Shareholders' equity	4,424.7	4,596.5	4,164.9	3,270.2	3,359.4
Financial ratio (%)					
Current ratio	61.9	71.6	74.6	67.7	76.0
Debt ratio	146.5	110.9	98.0	127.7	106.6
ROA	-2.7	7.3	13.9	5.2	3.1
ROE	-6.6	15.0	25.7	11.3	6.5

Independent Accountants' Review Report on Internal Accounting Control System

To the President of Orion Corporation :

English translation of a Report Originally Issued in Korean

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Orion Corporation (the "Company") as of December 31, 2008. 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, 2008, 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, 2008 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, 2008. We did not review the Company's IACS subsequent to December 31, 2008. 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 20, 2009

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, 2008 and 2007, and the related non-consolidated statements of operation, appropriation of retained earnings, changes in equity and cash flows for the years then ended. 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, 2008 and 2007 and the results of its operations, the appropriation of its retained earnings, the changes in its equity and its cash flows for the years then ended 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, 2008 and 2007 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 2(a) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows 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 accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

As discussed in note 20(b) to the non-consolidated financial statements, the Company paid ₩24,601 million (\$19,563 thousand), as an indemnification to the buyer of investment transaction in 2006, which was resulted from the ultimate outcome of the International Committee of Arbitration. The Company recognized the amount of indemnification as an indemnification expenses in the statement of operation.

As described in note 28 to the non-consolidated financial statements, the Company adopted the changes in accounting policy regarding equity method accounted investments. As a result of the adoption of this accounting policy, the effect under the new method was to increase gain on valuation of equity method accounted investments and income tax for the year ended December 31, 2008 by ₩732 million (\$582 thousand) and ₩205 million (\$163 thousand), respectively, and to increase equity method accounted investments, other capital adjustments, unrealized gain on equity method accounted investments and retained earnings by ₩1,544 million (\$1,228 thousand), ₩18,338 million (\$14,583 thousand), ₩18,343 million (\$14,587 thousand) and ₩2,634 million (\$2,095 thousand), respectively, and to decrease deferred income tax liabilities by ₩1,096 million (\$871 thousand) as of December 31, 2008.

The prior period non-consolidated financial statements which have been presented for comparative purposes have been restated to reflect the above accounting changes.

As discussed in note 8 to the non-consolidated financial statements, the Company purchase 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, 2008 and 2007.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 20, 2009



This report is effective as of February 20, 2009, 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, 2008 and 2007

	Won (thousands)		U.S. dollars (note 3)	
	2008	2007	2008	2007
Assets				
Cash and cash equivalents	₩ 22,546,156	7,917,434	\$ 17,929,349	6,296,170
Short-term deposits	378,530	15,430,933	301,018	12,271,120
Current portion of held-to-maturity securities	130,555	59,340	103,821	47,189
Accounts and notes receivable trade, less allowance for doubtful accounts of ₩5,096,842 thousand (\$4,053,155) in 2008 and ₩4,773,563 thousand (\$3,796,074) in 2007	96,413,892	101,958,632	76,671,087	81,080,423
Other receivables	3,330,968	1,433,850	2,648,881	1,140,239
Interest income receivable	788	1,696	627	1,349
Advance payments	66,049	-	52,524	-
Prepaid expenses	1,490,225	578,179	1,185,070	459,784
Income tax refund receivable	2,482,798	-	1,974,392	-
Inventories	37,412,963	41,721,392	29,751,859	33,178,045
Current deferred tax assets	585,718	1,385,549	465,780	1,101,828
Current derivative assets	31,262	-	24,860	-
Other current assets	122,371	197,036	97,313	156,690
Total current assets	164,992,275	170,684,041	131,206,581	135,732,837
Long-term deposits	20,500	20,500	16,302	16,302
Non-current investments	2,816,239	4,727,712	2,239,553	3,759,612
Equity method accounted investments	618,856,019	547,438,958	492,132,023	435,339,132
Guarantee deposits	6,789,294	6,657,603	5,399,041	5,294,317
Property, plant and equipment, net	238,567,856	235,747,085	189,715,989	187,472,831
Intangible assets	3,523,978	2,996,078	2,802,368	2,382,567
Non-current derivatives assets	55,009,896	1,991,366	43,745,444	1,583,591
Total non-current assets	925,583,782	799,579,302	736,050,720	635,848,352
Total assets	₩ 1,090,576,057	970,263,343	\$ 867,257,301	771,581,189

Non-consolidated Balance Sheets

As of December 31, 2008 and 2007

	Won (thousands)		U.S. dollars (note 3)	
	2008	2007	2008	2007
Liabilities				
Accounts and notes payable trade	₩ 37,109,384	36,838,671	\$ 29,510,445	29,295,166
Short-term borrowings	85,554,028	33,412,173	68,035,012	26,570,317
Other payable	41,026,202	28,995,093	32,625,210	23,057,730
Advances received	88,055	158,902	70,024	126,363
Income taxes payable	-	1,501,036	-	1,193,667
Accrued expenses	1,479,234	1,145,740	1,176,329	911,125
Withholdings	2,288,080	367,630	1,819,547	292,350
Current portion of long-term debt and debentures, less discount on bonds	90,022,805	129,988,130	71,588,712	103,370,282
Provision for loss on sales returns	4,546,284	4,097,894	3,615,335	3,258,763
Current derivative liabilities	549,864	-	437,268	-
Other current liabilities	3,497,860	1,972,967	2,781,598	1,568,960
Total current liabilities	266,161,796	238,478,236	211,659,480	189,644,723
Long-term debt	115,879,380	64,249,597	92,150,600	51,093,119
Debentures, less discount on bonds	222,929,969	171,500,376	177,280,293	136,382,009
Retirement and severance benefits, net	10,919,812	11,305,305	8,683,747	8,990,302
Non-current derivative liabilities	1,645,420	4,142,996	1,308,485	3,294,629
Deferred income tax liabilities	25,572,714	15,949,767	20,336,154	12,683,710
Deposit received	4,997,748	4,983,545	3,974,352	3,963,058
Total non-current liabilities	381,945,043	272,131,586	303,733,631	216,406,827
Total liabilities	₩ 648,106,839	510,609,822	\$ 515,393,111	406,051,550
Stockholders' equity				
Common stock of ₩5,000 par value:				
Authorized-12,000,000 shares				
Issued and outstanding - 5,954,535 shares	₩ 29,772,675	29,701,070	23,676,083	23,619,141
Capital surplus	132,339,658	129,982,862	105,240,285	103,366,093
Capital adjustments	(34,984,652)	(25,496,546)	27,820,796	(20,275,583)
Accumulated other comprehensive income	40,150,859	9,461,574	31,929,113	7,524,115
Retained earnings	275,190,678	316,004,561	218,839,505	251,295,873
Total stockholders' equity	442,469,218	459,653,521	351,864,190	365,529,639
Total liabilities and stockholders' equity	₩ 1,090,576,057	970,263,343	\$ 867,257,301	771,581,189

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of operation

For the years ended December 31, 2008 and 2007

	Won (thousands) except earning per share				U.S. dollars (note 3)	
		2008	2007	2008	2007	
Sales	₩	558,431,124	536,157,054	\$	444,080,417	426,367,439
Cost of sales:		344,914,985	334,006,951		274,286,270	265,611,889
Gross profit		213,516,139	202,150,103		169,794,147	160,755,550
Selling, general and administrative expenses		181,622,489	172,087,708		144,431,403	136,849,072
Operating income		31,893,650	30,062,395		25,362,744	23,906,478
Interest income		1,596,902	1,218,781		1,269,902	969,210
Interest expense		(22,851,615)	(16,484,832)		(18,172,258)	(13,109,210)
Commission income		3,545,988	1,790,623		2,819,871	1,423,955
Loss on foreign currency translation, net		(60,348,134)	(1,808,865)		(47,990,564)	(1,438,461)
Loss on foreign currency exchange, net		(1,663,770)	(14,264)		(1,323,078)	(11,343)
Gain on disposal of property, plant and equipment, net		349,100	235,074		277,614	186,938
Gain (loss) on valuation of equity method accounted investments		(2,123,350)	74,601,656		(1,688,549)	59,325,373
Gain on valuation of the foreign currency swap		63,161,588	1,787,854		50,227,903	1,421,753
Indemnification expenses		(24,601,402)	-		(19,563,739)	-
Impairment loss on valuation of non-current investments		(1,845,420)	-		(1,467,531)	-
Other, net		560,064	1,338,824		445,379	1,064,671
Other income (expense)		(44,220,049)	62,664,851		(35,165,050)	49,832,886
Income (loss) before income taxes		(12,326,399)	92,727,246		(9,802,306)	73,739,364
Income taxes		16,717,777	25,922,546		13,294,455	20,614,351
Net income (loss)	₩	(29,044,176)	66,804,700	\$	(23,096,761)	53,125,013
Earnings per share						
Basic earnings per share	₩	(5,542)	12,782	\$	(4,407)	10,165
Diluted earnings per share	₩	(5,542)	12,612	\$	(4,407)	10,029

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2008 and 2007

Date of Appropriation for 2008: March 27, 2009

Date of Appropriation for 2007: March 28, 2008

	Won (thousands)		U.S. dollars (note 3)	
	2008	2007	2008	2007
Balance at beginning of year	₩ 7,434,854	5,511,361	\$ 5,912,409	4,382,792
Cumulative effect of accounting changes	-	499,799	-	397,454
Change in earnings of equity method accounted investments	-	422,034	-	335,614
Net income	(29,044,176)	66,804,700	(23,096,761)	53,125,013
Balance at end of year before appropriation	(21,609,322)	73,237,894	(17,184,352)	58,240,873
Transfer from voluntary reserves				
Reserve for research and manpower development	4,000,000	2,666,667		
Voluntary reserve	40,000,000	-	3,180,915	2,120,610
Unappropriated retained earnings available for appropriation	22,390,678	75,904,561	(14,003,437)	60,361,480
Appropriation of retained earnings				
Legal reserve	1,000,000	1,200,000	795,229	954,274
Reserve for business expansion	-	27,500,000	-	21,868,787
Voluntary reserve	-	28,000,000	-	22,266,402
Dividends	9,179,278	11,769,707	7,299,625	9,359,608
	10,179,278	68,469,707	8,094,854	54,449,071
Unappropriated retained earnings to be carried over to subsequent year	₩ 12,211,400	7,434,854	\$ (22,098,291)	5,912,409

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of Changes in Equity

For the years ended December 31, 2008 and 2007

(In thousands of Won)

	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at January 1, 2007	₩ 29,594,035	127,679,916	(15,000,310)	14,225,451	259,999,570	416,498,662
Cumulative effect of change in accounting policy	-	938,915	-	(1,134,514)	499,799	304,200
Balance at January 1, 2007 restated	29,594,035	128,618,831	(15,000,310)	13,090,937	260,499,369	416,802,862
Dividends	-	-	-	-	(11,721,542)	(11,721,542)
Change in earnings of equity method accounted investments, net of tax	-	-	-	-	422,034	422,034
Issuance of common stock for stock option	107,035	2,302,946	(732,707)	-	-	1,677,274
Stock compensation expense	-	-	814,746	-	-	814,746
Net income	-	-	-	-	66,804,700	66,804,700
Acquisition of investments in subsidiaries	-	(938,915)	(10,578,275)	-	-	(11,517,190)
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)
Change in equity of equity method accounted investments, net of tax	-	-	-	(783,103)	-	(783,103)
Balance at January 1, 2008	₩ 29,701,070	129,982,862	(25,496,546)	9,461,574	316,004,561	459,653,521

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of Changes in Equity

For the years ended December 31, 2008 and 2007

(In thousands of Won)

	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Cumulative effect of change in accounting policy	-	-	(10,578,274)	7,987,103	1,332,641	(1,258,530)
Balance at January 1, 2008, restated	29,701,070	129,982,862	(25,496,546)	9,461,574	316,004,561	459,653,521
Dividends	-	-	-	-	(11,769,707)	(11,769,707)
Issuance of common stock for stock option	71,605	2,356,796	(809,601)	-	-	1,618,800
Stock compensation expense	-	-	624,638	-	-	624,638
Net income	-	-	-	-	(29,044,176)	(29,044,176)
Acquisition of investments in subsidiaries	-	-	(9,303,143)	-	-	(9,303,143)
Change in fair value of available-for-sale securities, net of tax	-	-	-	(14,717)	-	(14,717)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(6,573,248)	-	(6,573,248)
Change in equity of equity method accounted investments, net of tax	-	-	-	37,277,250	-	37,277,250
Balance at December 31, 2008	₩ 29,772,675	132,339,658	(34,984,652)	40,150,859	275,190,678	442,469,218

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of Changes in Equity

For the years ended December 31, 2008 and 2007

(In U.S. dollar)

	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at January 1, 2007	\$ 23,534,024	101,534,724	(11,928,676)	11,312,486	206,759,101	331,211,659
Cumulative effect of change in accounting policy	-	746,652	-	(902,198)	397,454	241,908
Balance at January 1, 2007 restated	23,534,024	102,281,376	(11,928,676)	10,410,288	207,156,555	331,453,567
Dividends	-	-	-	-	(9,321,306)	(9,321,306)
Change in earnings of equity method accounted investments, net of tax	-	-	-	-	335,614	335,614
Issuance of common stock for stock option	85,117	1,831,369	(582,670)	-	-	1,333,816
Stock compensation expense	-	-	647,909	-	-	647,909
Net income	-	-	-	-	53,125,010	53,125,010
Acquisition of investments in subsidiaries	-	(746,652)	(8,412,146)	-	-	(9,158,798)
Change in fair value of available-for-sale securities, net of tax	-	-	-	7,846	-	7,846
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(2,271,273)	-	(2,271,273)
Change in equity of equity method accounted investments, net of tax	-	-	-	(622,746)	-	(622,746)
Balance at January 1, 2008	\$ 23,619,141	103,366,093	(20,275,583)	7,524,115	251,295,873	365,529,639

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of Changes in Equity

For the years ended December 31, 2008 and 2007

	(In U.S. dollar)					
	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Cumulative effect of change in accounting policy	-	-	(8,412,146)	6,351,573	1,059,754	(1,000,819)
Balance at January 1, 2008, restated	23,619,141	103,366,093	(20,275,583)	7,524,115	251,295,873	365,529,639
Dividends	-	-	-	-	(9,359,608)	(9,359,608)
Issuance of common stock for stock option	56,942	1,874,192	(643,818)	-	-	1,287,316
Stock compensation expense	-	-	496,730	-	-	496,730
Net income	-	-	-	-	(23,096,760)	(23,096,760)
Acquisition of investments in subsidiaries	-	-	(7,398,125)	-	-	(7,398,125)
Change in fair value of available-for-sale securities, net of tax	-	-	-	(11,703)	-	(11,703)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(5,227,235)	-	(5,227,235)
Change in equity of equity method accounted investments, net of tax	-	-	-	29,643,936	-	29,643,936
Balance at December 31, 2008	\$ 23,676,083	105,240,285	(27,820,796)	31,929,113	218,839,505	351,864,190

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	Won (thousands)		U.S. dollars (note 3)	
	2008	2007	2008	2007
Cash flows from operating activities				
Net income	₩ (29,044,176)	66,804,700	\$ (23,096,761)	53,125,013
Adjustments for:				
Depreciation	17,533,305	17,849,702	13,942,986	14,194,594
Allowance for doubtful accounts	2,138,772	2,277,502	1,700,813	1,811,135
Accrual for retirement and severance benefits	7,983,246	8,906,330	6,348,506	7,082,569
Amortization of discount on bonds	230,005	179,105	182,907	142,429
Amortization	1,058,987	776,183	842,137	617,243
Gain on disposal of property, plant and equipment, net	(349,100)	(235,074)	(277,614)	(186,938)
Gain on valuation of equity method accounted investments, net	2,123,350	(74,601,656)	1,688,549	(59,325,373)
Foreign currency translation loss, net	59,892,259	1,803,419	47,628,040	1,434,130
Gain on valuation of foreign currency swap	(63,161,588)	(1,787,854)	(50,227,903)	(1,421,753)
Stock compensation expense	624,638	814,746	496,730	647,909
Impairment loss on valuation of non-current investments	1,845,420	-	1,467,531	-
Loss on disposal of non-current investments	-	(8)	-	(6)
	875,118	22,787,095	695,921	18,120,949
Changes in assets and liabilities:				
Accounts and notes receivable - trade	6,098,836	(4,620,306)	4,849,969	(3,674,200)
Other receivables	(1,897,118)	317,506	(1,508,643)	252,490
Interest income receivable	907	(575)	721	(457)
Advance payments	(66,049)	-	(52,524)	-
Prepaid expenses	(912,045)	(13,640)	(725,284)	(10,847)
Income tax refund receivable	(2,482,798)	-	(1,974,392)	-
Other current assets	74,667	29,587	59,377	23,528
Inventories	4,308,429	(6,606,928)	3,426,186	(5,254,018)
Accounts and notes payable - trade	431,789	(12,757,395)	343,371	(10,145,046)
Other payables	12,031,109	(3,276,706)	9,567,482	(2,605,730)
Advances received	(70,846)	(125,393)	(56,339)	(99,716)
Income taxes payable	(1,501,036)	(27,108,061)	(1,193,667)	(21,557,106)
Accrued expenses	333,493	266,036	265,203	211,559
Withholdings	1,920,449	36,956	1,527,196	29,388
Deposits received	14,203	(88,632)	11,295	(70,483)
Payments of retirement and severance benefits	(9,083,227)	(7,767,434)	(7,223,242)	(6,176,886)
Transfer to the National Pension Fund	-	1,496	-	1,190
Severance benefit trust deposit	714,488	(2,298,396)	568,181	(1,827,750)
Provision for sales return	448,390	115,734	356,573	92,035
Deferred tax liabilities, net	16,196,330	19,307,818	12,879,785	15,354,130
Other current liability	1,524,891	(375,443)	1,212,637	(298,563)
Net cash provided by (used in) operating activities	₩ 28,959,980	(22,176,681)	\$ 23,029,806	(17,635,533)

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	Won (thousands)		U.S. dollars (note 3)	
	2008	2007	2008	2007
Cash flows from investing activities				
Increase in short-term deposits	₩ 15,052,402	-	\$ 11,970,101	-
Increase in guarantee deposits	(1,941,135)	(532,852)	(1,543,646)	(423,739)
Acquisition of non-current investments	(8,396,683)	(136,545)	(6,677,283)	(108,584)
Acquisition of equity method accounted Investments	(28,883,432)	(58,444,464)	(22,968,932)	(46,476,711)
Acquisition to property, plant and equipment	(45,889,382)	(39,934,971)	(36,492,550)	(31,757,432)
Acquisition to intangibles asset	(1,586,887)	(1,762,240)	(1,261,938)	(1,401,384)
Decrease in guarantee deposits	1,809,446	235,781	1,438,923	187,500
Proceeds from sale of current portion of held to maturity securities	59,340	148,580	47,189	118,155
Proceeds from sale of non-current investments	-	114	-	91
Proceeds from sale of property, plant and equipment	13,336,282	4,727,806	10,605,393	3,759,687
Net cash used in investing activities	(56,440,049)	(95,698,791)	(44,882,743)	(76,102,417)
Cash flows from financing activities				
Repayment of current portion of long-term debt	(130,019,342)	(70,015,979)	(103,395,103)	(55,678,711)
Dividends paid	(11,769,707)	(11,721,542)	(9,359,608)	(9,321,306)
Increase in short-term borrowings	52,557,240	5,859,986	41,795,022	4,660,029
Proceeds from issuance of bond	99,721,800	120,089,448	79,301,630	95,498,567
Increase in long-term debt	30,000,000	73,200,000	23,856,859	58,210,736
Proceeds from issuance of common stock for stock option	1,618,800	1,677,274	1,287,316	1,333,816
Net cash provided by financing activities	42,108,791	119,089,187	33,486,116	94,703,131
Net increase in cash and cash equivalents	14,628,722	1,213,715	11,633,179	965,181
Cash and cash equivalents at beginning of year	7,917,434	6,703,719	6,296,170	5,330,989
Cash and cash equivalents at end of year	₩ 22,546,156	7,917,434	\$ 17,929,349	6,296,170

See accompanying notes to non-consolidated financial statements

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

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, 2008, the Company has three manufacturing plants in Korea and 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. As of December 31, 2008, the Company's major stockholders consist of Lee, Hwa Koung (14.53%) and 8 related people (16.81%).

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

(a) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated 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 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 non-consolidated 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 changes in equity is not presented in the accompanying non-consolidated financial statements.

The Company prepares the non-consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items explained in note 28 related to accounting changes and the adoption of changes to Statements of Korean Accounting Standards ("SKAS") No.15 Investments in Associates, No.16 Income Taxes, the Company applied the same accounting policies that were adopted in the previous year's non-consolidated financial statements.

(b) Cash Equivalents

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

(c) Deposits

Deposits are held for cash management purposes. Short-term deposits are those maturing within one year and long-term deposits are those maturing after one year.

(d) 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.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

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

(e) 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 moving 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.

(f) Investments in Securities

Classification

Upon acquisition, the Company classifies debt and equity securities into the following categories: held-to-maturity, available-for-sale or trading securities.

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.

Initial recognition

Investments in securities 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, 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, held-to-maturity securities which mature within one year from the balance sheet date, short-term deposits and short-term loans are combined and presented as current assets. All other available-for-sale securities and held-to-maturity securities are combined and presented as long-term investments.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

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

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.

Investments in Securities

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized and a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the asset in prior years. For financial assets measured at amortized cost and available-for-sale assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

(g) Investments in Associates and Subsidiaries

Associates are entities of the Company and its subsidiaries that have the ability to significantly influence the financial and operating policies. It is presumed to have significant influence if the Company holds directly or indirectly 20 percent or more of the voting power unless it can be clearly demonstrated that this is not the case. 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 the 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 or loss.

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 operation.

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.

If the investee is a subsidiary, net income and net assets of the parent company's non-consolidated financial statements should agree with the parent company's share in the net income and net assets of the consolidated financial statements, except when the Company discontinues the application of the equity method due to its investment in a subsidiary being reduced to zero.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

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

(g) Investments in Associates and Subsidiaries Continued

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.

(h) 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 on December 31, 2000. Assets acquired through investment in kind or donation is recorded at their fair value upon acquisition.

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

Depreciation is computed by the declining-balance method (except buildings and structures acquired after January 1, 1995 for straight-line 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
Tool, furniture and fixture	5	2~54

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.

(i) Leases

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

The assumption of substantially all of 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 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.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

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

(i) Leases, Continued

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.

(j) Intangible Assets

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Impairment losses are determined as the amount required to reduce the carrying amount of an intangible asset to its recoverable amount.

Intangible assets, which consist of industrial property rights, are amortized using the straight-line method over their respective estimated useful lives, generally 5 years.

(k) Government Grant Received for Capital Expenditure

Government grant 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 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.

(l) Discount on Debentures

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

(m) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time 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 reduced 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 regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

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

(n) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the foreign exchange rate on the balance sheet date, with the resulting gains or losses recognized in the income statement. 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 operation 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 foreign-based operations are recorded net as accumulated other comprehensive income. These gains and losses are subsequently recognized as income in the year the foreign operations or the companies are liquidated or sold.

(o) Derivatives and Hedge Accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are initially recognized at fair value on the date 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 operation, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow are recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of operation. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect income or expense. 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 operation. 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 operation.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

(o) Derivatives and Hedge Accounting Continued

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 operation.

(p) Share-based Payments

The Company has granted shares or share options to its employees and other parties. For equity-settled 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 cash-settled 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.

(q) 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.

(r) 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.

(s) 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 operation 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.

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.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

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

(s) Income Taxes Continued

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.

Changes in deferred tax assets and liabilities due to a change in the tax rate except for those related to items initially recognized outside profit or loss directly in equity are recognized as income tax in the current year.

(t) 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.

(u) Use of Estimates

The preparation of non-consolidated 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 non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

3. Basis of Translating Financial Statements

The non-consolidated financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of ₩1,257.5 to US\$1, the basic exchange rate on December 31, 2008, 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, 2008 and 2007 are summarized as follows:

	(In thousands of Won)	
	2008	2007
Short-term deposits	₩ -	15,052,402
Long-term deposits	20,500	20,500
	₩ 20,500	15,072,902

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

5. Inventories

Inventories as of December 31, 2008 and 2007 are summarized as follows:

	(In thousands of Won)	
	2008	2007
Merchandise	₩ 4,635,864	14,318,018
Finished goods	15,638,928	10,602,144
Work-in-process	2,227,149	1,719,007
Raw materials	9,836,935	8,044,219
Supplies and parts	1,955,945	1,705,242
Raw materials in-transit	3,118,142	5,332,762
	₩ 37,412,963	41,721,392

6. Short-term Investments

Short-term investments as of December 31, 2008 and 2007 are summarized as follows:

	(In thousands of Won)	
	2008	2007
Current portion of held-to-maturity securities (Government bonds)	₩ 130,555	59,340

7. Non-current Investments

Non-current investments as of December 31, 2008 and 2007 are summarized as follows:

	(In thousands of Won)	
	2008	2007
Available-for-sale securities		
Marketable securities	₩ 38,011	43,914
Non-marketable securities	2,299,833	4,145,253
	2,337,844	4,189,167
Held-to-maturity securities	478,395	538,545
Equity method accounted investments	618,856,019	547,438,957
	₩ 621,672,258	552,166,669

(a) Available-for-sale Securities

As of December 31, 2008 and 2007, available-for-sale securities consists of marketable securities recorded at fair value, non-marketable securities recorded at cost.

(i) Marketable securities recorded at fair value

Marketable securities recorded at fair value as of December 31, 2008 and 2007 are summarized as follows:

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

7. Non-current Investments, Continued

(In thousands of Won)

	Acquisition cost	Fair value	Book value	
			2008	2007
KTIC Global Investment Advisory Co., Ltd.	₩ 58,800	12,143	12,143	9,075
Crown Confectionery Co., Ltd.	140	1,531	1,531	2,294
Lotte Confectionery Co., Ltd.	1,765	23,489	23,489	30,420
Savezone I&C Corp.	362	275	275	932
Hanshin Construction Co., Ltd.	319	573	573	1,193
	₩ 61,386	38,011	38,011	43,914

(a) Available-for-sale Securities, Continued

(ii) Non-marketable securities recorded at cost

Non-marketable securities record at cost as of December 31, 2008 and 2007 are summarized as follows:

(In thousands of Won)

	Acquisition cost	Book value	
		2008	2007
Orion Reports Corp. (*1)	₩ 2,150,000	2,150,000	2,150,000
Orion Beverage Corp. (*1)	100,000	100,000	100,000
Orion Int'l Euro Co., Ltd. (*1) (*2)	1,845,420	-	1,845,420
Kim's Club Mart	166,478	81	81
Chonggu Co., Ltd	195	195	195
Korea Food Industry Association	20,000	20,000	20,000
The Korea Economic Daily	28,400	28,400	28,400
Newcore Co.Ltd	1,077	1,077	1,077
E-land leisurvice	80	80	80
	₩ 4,311,650	2,299,833	4,145,253

These non-marketable securities are recorded at cost since their fair value is not readily determinable.

(*1) Investments in small affiliates, for which the effect of applying the equity method of accounting is not material, are recorded at cost.

(*2) The Company recorded an impairment loss of ₩1,845,000 thousand due to circumstances indicating that the carrying amount may not be recoverable.

(iii) Changes in unrealized losses

Changes in unrealized losses for the years ended December 31, 2008 and 2007 were as follows:

(In thousands of Won)

	2008	2007
Beginning balance	₩ (133,305)	(143,171)
Unrealized gains (losses) of securities	(14,717)	9,866
Net balance at end of year	₩ (148,022)	(133,305)

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

7. Non-current Investments, Continued

(b) Held-to-maturity Securities

Held-to-maturity securities as of December 31, 2008 and 2007 are summarized as follows:

(In thousands of Won)

	Face value	Book value	
		2008	2007
Government bonds	₩ 478,395	478,395	538,545

Maturities of debt securities classified as available-for-sale or held-to-maturity as of December 31, 2008 are summarized as follows:

(In thousands of Won)

	Amortized cost	Fair value
Held-to-maturity		
Due after one year through to five years	₩ 293,150	361,900
Due after five years through to ten years	185,245	176,645
	₩ 478,395	538,545

(c) Equity Method Accounted Investments

(i) Investments in companies accounted for using the equity method as of December 31, 2008 are summarized as follows:

(In thousands of Won, except percentage of ownership)

Company	Percentage of ownership	Cost	Market value or net assets	Balance at December 31, 2008
Listed				
On Media Corp.	37.39%	₩ 110,380,527	83,447,677	141,294,976
Mediaplex Corp.	57.50%	17,999,000	28,438,420	70,457,231
Unlisted				
Sports Toto Co., Ltd.	66.64%	105,795,649	60,386,594	110,019,510
RiseON Inc.	88.83%	33,753,002	1,208,408	2,936,982
Orion Snack International Corp.	100.00%	48,409,990	77,385,628	89,620,108
Mega Mark Co., Ltd.	100.00%	40,000,000	40,748,358	38,357,594
Orion Food (Rus) Co., Ltd. [*2]	72.29%	31,401,219	27,931,345	27,931,345
Orion Food VINA Co., Ltd. [*2]	63.41%	27,849,432	27,359,244	27,359,244
Sports Toto Online Co., Ltd.	30.00%	1,500,000	3,757,173	3,757,173
ORION Food NOVO Co., Ltd. [*2]	62.96%	12,548,123	8,794,384	8,794,384
PAN ORION Corp. Limited [*1] [*2]	100.00%	113,910,137	98,327,472	98,327,472
		₩ 543,547,079	457,784,703	618,856,019

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

7. Non-current Investments, Continued

(c) Equity Method Accounted Investments, Continued

(*1) The Company made an in kind investment in PAN ORION Corp. Limited which was newly-established in Hong Kong with the equity interests in Orion Food Co., Ltd., Orion Food (Shanghai) Co. Ltd. and Orion Food Guangzhou.

(*2) The Company accounted for its investments in Orion Food (Rus) Co., Ltd, Orion Food VINA Co., Ltd., Orion Food NOVO Co., Ltd., PAN ORION Corp. Limited by using equity method of accounting based on the unaudited financial statements as it was unable to obtain the audited financial statements and performed procedures to verify the unaudited financial statements.

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

(In thousands of Won, except percentage of ownership)

	Percentage of ownership	Cost	Market value or net assets	Balance at December 31, 2008
Listed				
On Media Corp.	37.39%	₩ 110,380,527	308,623,948	142,115,054
Mediaplex Corp.	57.50%	17,999,000	56,696,850	86,547,628
Unlisted				
Sports Toto Co., Ltd.	63.20%	90,973,697	11,749,112	73,178,290
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.	100.00%	40,000,000	39,144,491	38,828,811
Orion Food Co., Ltd.	91.67%	31,758,805	43,514,881	43,514,880
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
		₩ 451,802,876	607,474,400	547,438,957

(*1) The Company reclassified its investment in Mega Mark 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.

(*2) The Company accounted for its investments in Orion Food (Rus) Co., Ltd. by using equity method of accounting based on the unaudited financial statements as it was unable to obtain the audited financial statements and performed procedures to verify the unaudited financial statements.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

7. Non-current Investments, Continued

(c) Equity Method Accounted Investments, Continued

(ii) Changes in goodwill for equity method accounted investments for the year ended December 31, 2008 were as follows:

(In thousands of Won)

Company	Balance at Jan. 1, 2008	Amortized amount	Balance at Dec. 31, 2008
Sports Toto Co., Ltd.	₩ 61,429,179	11,796,263	49,632,916
Orion Snack International Corp.	17,269,141	2,467,020	14,802,121
	₩ 78,698,320	14,263,283	64,435,037

Changes in goodwill for equity method accounted investments for the year ended December 31, 2007 were as follows:

(In thousands of Won)

Company	Balance at Jan. 1, 2007	Amortized amount	Balance at Dec. 31, 2007
Sports Toto Co., Ltd.	₩ 73,225,441	11,796,262	61,429,179
Orion Snack International Corp.	19,736,161	2,467,020	17,269,141
	₩ 92,961,602	14,263,282	78,698,320

(iii) Details of eliminated unrealized gains (losses) from inter-company transactions as of December 31, 2008 are summarized as follows:

(In thousands of Won)

Company	2008			
	Inventory	Investments	Property, plant and equipment	Total
On Media Corp.	₩ -	17,523,779	-	17,523,779
RiseON Inc.	-	-	(1,728,574)	(1,728,574)
Orion Snack International Corp.	249,271	-	2,318,370	2,567,641
Mega Mark Co., Ltd.	-	-	2,390,764	2,390,764
	₩ 249,271	17,523,779	2,980,560	20,753,610

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

7. Non-current Investments, Continued

(c) Equity Method Accounted Investments, Continued

Details of eliminated unrealized gains (losses) from inter-company transactions as of December 31, 2007 are summarized as follows:

(In thousands of Won)

Company	2007			
	Inventory	Investments	Property, plant and equipment	Total
On Media Corp.	₩ -	19,116,850	-	19,116,850
RiseON Inc.	-	-	(843,049)	(843,049)
Orion Snack International Corp.	207,238	-	2,324,469	2,531,707
Mega Mark Co., Ltd.	-	-	315,680	315,680
Orion Food (Shanghai) Co., Ltd.	71,307	-	-	71,307
	₩ 278,545	19,116,850	1,797,100	21,192,495

(iv) Changes in the opening and closing balances of investments in companies accounted for using the equity method accounted for the year ended December 31, 2008 were as follows:

(In thousands of Won, except percentage of ownership)

Company	Percentage of ownership	Balance at Jan. 1, 2008	Net income (loss)	Changes in equity	Other increase (decrease)	Balance at Dec. 31, 2008
Sports Toto Co., Ltd.	66.64%	₩ 73,178,290	32,988,311	(10,969,043)	14,821,952	110,019,510
On Media Corp.	37.39%	142,115,054	4,686,726	(5,506,804)	-	141,294,976
RiseON Inc.	88.83%	15,170,791	(12,408,863)	175,054	-	2,936,982
Mediaplex Corp.	57.50%	86,547,628	(15,818,253)	(272,144)	-	70,457,231
Orion Snack International Corp.	100.00%	80,419,951	(7,321,699)	16,521,857	-	89,620,109
Mega Mark Co., Ltd.	100.00%	38,828,811	(471,218)	-	-	38,357,593
Orion Food Co., Ltd.	-	43,514,880	3,279,029	19,708,638	(66,502,547)	-
Orion Food (Shanghai) Co., Ltd.	-	18,713,599	432,299	10,986,863	(30,132,761)	-
Orion Food (Rus) Co., Ltd	72.29%	28,099,088	(3,798,714)	3,630,970	-	27,931,344
Orion Food VINA Co., Ltd.	63.41%	18,472,545	(1,308,674)	5,082,443	5,112,930	27,359,244
Sports Toto Online Co., Ltd.	30.00%	2,378,320	1,378,854	-	-	3,757,174
Orion Food NOVO Co., Ltd.	62.96%	-	(3,756,652)	2,913	12,548,123	8,794,384
PAN ORION Corp. Limited.	100.00%	-	(4,496)	(15,578,169)	113,910,137	98,327,472
		₩ 547,438,957	(2,123,350)	23,782,578	49,757,834	618,856,019

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

7. Non-current Investments, Continued

(c) Equity Method Accounted Investments, Continued

Changes in the opening and closing balances of investments in companies accounted for using the equity method accounted for the year ended December 31, 2007 were as follows:

(In thousands of Won, except percentage of ownership)

Company	Percentage of ownership	Balance at Jan. 1, 2007	Net income (loss)	Changes in equity	Other increase	Balance at Dec. 31, 2007
Sports Toto Co., Ltd.	63.20%	₩ 38,688,395	34,592,813	(14,790,239)	14,687,320	73,178,289
On Media Corp.	37.39%	129,843,987	16,594,726	(4,905,776)	582,116	142,115,053
RiseON Inc.	88.83%	20,811,503	(5,353,370)	(287,341)	-	15,170,792
Mediaplex Corp.	57.50%	55,314,887	36,912,032	(5,679,291)	-	86,547,628
Orion Snack International Corp.	100.00%	80,695,818	(2,616,058)	2,340,190	-	80,419,950
Mega Mark Co., Ltd.	100.00%	-	(661,755)	(509,434)	40,000,000	38,828,811
Orion Food Co., Ltd.	91.67%	40,615,045	(672,098)	3,571,934	-	43,514,881
Orion Food (Shanghai) Co., Ltd.	100.00%	17,307,570	22,062	1,383,967	-	18,713,599
Orion Food (Rus) Co., Ltd.	75.79%	22,830,566	(3,070,397)	(541,560)	8,880,480	28,099,089
Orion Food VINA Co., Ltd.	62.77%	15,446,385	(1,989,553)	139,049	4,876,664	18,472,545
Sports Toto Online Co., Ltd.	30.00%	1,535,066	843,254	-	-	2,378,320
		₩ 423,089,222	74,601,656	(19,278,501)	69,026,580	547,438,957

(v) Financial information of equity method accounted investments, which represents 100% of the entities' balances, as of December 31, 2008 is summarized as follows:

(In thousands of Won)

Company	Total assets	Total liabilities	Sales	Net income
Sports Toto Co., Ltd.	₩ 253,761,187	163,145,049	248,292,478	71,205,271
On Media Corp.	434,539,214	9,732,036	75,836,625	8,274,886
RiseON Inc.	94,268,542	92,908,182	87,862,525	(14,966,102)
Mediaplex Corp.	167,037,478	44,513,374	29,673,555	(27,507,713)
Orion Snack International Corp.	156,645,942	79,260,314	105,922,299	(4,818,745)
Mega Mark Co., Ltd.	52,712,966	11,964,608	31,647,822	1,603,867
Orion Food Co., Ltd. (*)	193,230,559	109,593,215	258,710,497	7,059,294
Orion Food (Shanghai) Co., Ltd. (*)	101,638,469	59,033,775	34,363,557	1,650,486
Orion Food (Rus) Co., Ltd. (*)	72,325,208	28,881,725	27,451,000	(3,989,646)
Orion Food VINA Co., Ltd. (*)	86,245,099	36,938,320	56,199,883	62,696
Sports Toto Online Co., Ltd.	26,239,675	13,715,764	14,660,236	4,596,179
Orion Food NOVO Co., Ltd. (*)	48,157,071	31,900,202	11,941,122	(7,733,260)
PAN ORION Corp. Limited (*)	85,246,679	-	-	(4,496)

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

7. Non-current Investments, Continued

(c) Equity Method Accounted Investments, Continued

(*) The following adjustments have been made to the financial statements of certain affiliates prior to applying the equity method accounted in order to adjust for the differences of accounting policies:

		(In thousands of Won)		
Company		Prepared	Adjustment	Adjusted
Orion Food Co., Ltd.	Net asset	₩ 83,637,344	(10,770,844)	72,866,500
	Net income	7,059,294	(3,241,347)	3,817,947
Orion Food (Shanghai) Co., Ltd.	Net asset	42,604,694	(2,982,676)	39,622,018
	Net income	1,650,486	(726,662)	923,824
Orion Food (Rus) Co., Ltd.	Net asset	43,443,483	(4,805,573)	38,637,910
	Net income	(3,989,646)	(1,305,458)	(5,295,104)
Orion Food VINA Co., Ltd.	Net asset	49,306,779	(6,160,203)	43,146,576
	Net income	62,696	(2,129,250)	(2,066,554)
Orion Food NOVO Co., Ltd.	Net asset	16,256,869	(2,288,660)	13,968,209
	Net income	(7,733,260)	(1,440,941)	(9,174,201)
PAN ORION Corp.Limited	Net asset	85,246,679	13,080,793	98,327,472
	Net income	(4,496)	-	(4,496)

Financial information of equity method accounted investments, which represents 100% of the entities' balances, as of December 31, 2007 is summarized as follows:

		(In thousands of Won)			
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.		443,318,565	12,056,716	87,467,021	38,506,708
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

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

7. Non-current Investments, Continued

(c) Equity Method Accounted Investments, Continued

(*) 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:

		(In thousands of Won)			
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)	

8. Transactions and Balances with Related Companies

(a) Details of related companies as of December 31, 2008 were as follows:

Relationship	Company
Subsidiary	Sports Toto Co., Ltd., On Media Corp., RiseON Inc., Mediaplex Corp., Orion Snack International Corp., MEGA MARK Co., Ltd., Sports Toto Online Co., Ltd., Orion Food (Rus) Co., Ltd., Orion Food VINA Co., Ltd., Orion Food NOVO Co., Ltd., Orion Snack Co., Ltd., ePLAYon Inc., On Game Network Inc., Digital On Media Inc., Badoo Television Inc., Orion Cinema Network Inc., Dong Ku Cable Television Network Co., Ltd., Chunnam Dongbu Cable Television Co., Ltd., Soo Sung Cable Television Co., Ltd., Young Dong Cable System, Inc., Inbase Development Co., Ltd., Inbase Pocheon Co., Ltd.
Investee under equity method of accounting	PAN ORION Corp.Limited
Other affiliates	Orion Food Co., Ltd., Orion Food (Shanghai) Co., Ltd., Orion Guangzhou Co., Ltd., Orion Reports Corp., Orion Beverage Corp., Orion Int'l Euro Co., Ltd., Motion101, Inc., Orion Loews Consulting Co., Ltd., Beijing Digital On Studio Co., Ltd., Beijing Zhongguan Megabox Cinema Co., Ltd., Supreme star Holding Limited., Rangbangaebo Food Yuhan Public Corp.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

8. Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2008 and 2007 were as follows:

					(In thousands of Won)	
Relationship	Name	Transaction	2008	2007		
Subsidiary	Orion Food Co., Ltd.	Sales - Export	₩ 193,045	123,628		
		Royalty	2,295,931	1,137,828		
	Orion Food(Russia) Co., Ltd.	Sales - Export	111,930	22,518		
		Royalty	-	230,800		
	Orion Food VINA Co., Ltd.	Sales - Export	1,083,155	13,763		
		Royalty	345,035	163,499		
		Commission income	332,525	-		
	Orion Food NOVO Co., Ltd.	Sales - Export	49,576	-		
	Orion Snack International Corp.	Other income	692,785	804,928		
	Mega Mark Co., Ltd.	Disposal-land	-	1,033,325		
Other affiliates	Orion Food (Shanghai) Co., Ltd.	Sales - Export	28,326	38,044		
	Orion Int'l Euro Co., Ltd	Sales - Export	1,615,449	-		
		Royalty	572,497	-		
			₩ 7,320,254	3,568,333		
Subsidiary	Orion Food VINA Co., Ltd.	Purchase - Import	₩ 17,216,923	11,147,824		
	Orion Snack International Corp.	Purchase - Domestic	104,136,110	95,261,034		
	Mega Mark Co., Ltd.	Construction cost	9,705,335	734,000		
Other affiliates	Orion Food Co., Ltd.	Purchase - Import	2,418,290	6,068,777		
	Orion Food (Shanghai) Co., Ltd.	Purchase - Import	1,770,485	3,117,492		
	Orion Int'l Euro Co., Ltd.	Purchase - Import	-	90,594		
			₩ 135,247,143	116,419,721		

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

8. Transactions and Balances with Related Companies, Continued

(c) Account balances with related companies as of December 31, 2008 were as follows:

(In thousands of Won)

Relationship	Name	Receivables		Payables		
		Accounts Receivable -trade	Other receivables	Accounts Payable -trade	Other payables	Deposit received
Subsidiary	Orion Snack International Corp.	₩ 53,148	71,230	16,160,539	7,266	4,642,199
	Orion Food (Rus) Co., Ltd.	46,240	-	-	-	-
	Orion Food VINA Co., Ltd.	322,848	345,035	1,173,712	-	-
	Orion Food NOVO Co., Ltd.	274,734	-	-	-	-
	Mega Mark Co., Ltd.	-	-	-	4,446,090	-
Other affiliates	Orion Food Co., Ltd.	-	2,299,075	22,024	-	-
	Orion Food (Shanghai) Co., Ltd.	2,641	-	413,571	-	-
	Other	1,676,493	574,573	-	-	149,080
		₩ 2,376,104	3,289,913	17,769,846	4,453,356	4,791,279

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

(In thousands of Won)

Relationship	Name	Receivables		Payables		
		Accounts Receivable -trade	Other receivables	Accounts Payable -trade	Other payables	Deposit received
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	-
Other affiliates	Orion Reports Corp.	-	2,140	149,080	-	-
		₩ 310,419	1,403,001	18,384,017	175,299	4,633,265

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

8. Transactions and Balances with Related Companies, Continued

(d) Key management personnel compensation in total and for each of the following categories for the years ended December 31, 2008 and 2007 was as follows:

Compensation details	(In thousands of Won)	
	2008	2007
Short-term employee benefits	₩ 12,112,732	5,946,629
Share-based payment	624,638	814,746
Total	₩ 12,737,370	6,761,375

(e) Details of guarantees which the Company had provided for related companies as of December 31, 2008 are as follows:

Guarantee recipient	(In U.S. dollars)	
	Guaranteed amount	
Orion Food (Rus) Co., Ltd.	\$	5,460,000
Orion Food VINA Co., Ltd.		42,500,000
Orion Food Novo Co., Ltd.		22,240,000
Orion Int'l Euro Co., Ltd.		12,500,000
	\$	82,700,000

9. Property, Plant and Equipment

(a) Property, plant and equipment at December 31, 2008 and 2007 are summarized as follows:

	(In thousands of Won)	
	2008	2007
Property, plant and equipment at cost	₩ 457,852,314	439,670,324
Accumulated depreciation	(219,173,251)	(203,801,773)
Government grants	(111,207)	(121,466)
Property, plant and equipment, net	₩ 238,567,856	235,747,085

(b) Insurance

As of December 31, 2008, inventories, buildings, machinery, equipment and tools were insured against fire damage up to ₩215,373,478 thousand. In addition, as of December 31, 2008, the Company maintained insurance policies covering loss and liability arising from cash robbery, products, gas accidents, directors' and officers' liability and automobile accidents.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

9. Property, Plant and Equipment, Continued

(c) Changes in property, plant and equipment for the year ended December 31, 2008 were as follows:

(In thousands of Won)

	2008					Book value as of December 31, 2008
	Book value as of January 1, 2008	Acquisition	Disposals	Depreciation	Other(*)	
Land	₩ 102,954,672	209,603	-	-	421,402	103,585,677
Buildings	51,810,576	2,670,361	-	2,104,702	9,723,114	62,099,349
Structures	1,512,118	-	-	128,137	-	1,383,981
Machinery and equipment	33,957,448	9,446,385	-	11,231,809	512,078	32,684,102
Vehicles	4,289,237	2,923,103	145,831	2,819,743	-	4,246,766
Furniture, fixtures and others	15,699,467	2,579,531	-	1,248,914	-	17,030,084
Construction-in-progress	25,523,567	28,060,400	12,841,353	-	(23,204,717)	17,537,897
	₩ 235,747,085	45,889,383	12,987,184	17,533,305	(12,548,123)	238,567,856

(*) Investments in kind to Orion Food NOVO Co. Ltd., amounting to KRW 12,548 million, adjusted from construction-in-progress were included.

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

(In thousands of Won)

	2007					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
	₩ 218,154,548	39,934,971	4,492,732	17,849,702	-	235,747,085

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

9. Property, Plant and Equipment, Continued

(d) The officially declared value of land at December 31, 2008, as announced by the Minister of Construction and Transportation, was as follows:

		(In thousands of Won)
	Book value	Declared value
Land	₩ 103,585,677	133,892,092

10. Capitalization of Interest

Interest costs of ₩272,440 thousand and ₩100,261 thousand, in relation to the completion of construction, were capitalized as part of the cost of qualifying assets as of December 31, 2008 and 2007, respectively. If the Company had expensed the interest costs, the differences in balances of the relevant accounts would have been as follows:

	2008		2007	
	Capitalized	Expensed	Capitalized	Expensed
Construction-in-progress	₩ 17,537,897	17,265,457	25,523,567	25,423,306
Stockholders' equity	442,469,219	442,068,384	459,653,521	459,440,648
Depreciation	17,533,307	17,520,125	17,849,702	17,832,129
Interest costs	22,851,615	23,124,055	16,484,832	16,585,093
Tax income	16,717,777	16,646,481	25,922,546	25,899,807
Net income	29,044,176	29,232,138	66,804,700	66,744,751

11. Intangible Assets

(a) Changes in intangible assets for the years ended December 31, 2008 and 2007 were as follows:

	2008		2007
Net balance at beginning of year	₩	2,996,078	2,010,021
Acquisition		1,586,887	1,762,240
Amortization		(1,058,987)	(776,183)
Net balance at end of year	₩	3,523,978	2,996,078

(b) Research and development costs incurred for the years ended December 31, 2008 and 2007 were ₩1,737,796 thousand and ₩1,673,605 thousand, respectively. There were no capitalized development costs for the years ended December 31, 2008 and 2007.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

12. Government Grants

The Company entered into an agreement with the Ministry of Labor for the construction of employees' dormitory, 1992, and received a grant in the amount of ₩354,977 thousand. The Company constructed the buildings and structures with the grant received from the Ministry of Labor and accounted for the acquisition as a deduction from the cost of acquired assets. Government grants of ₩10,259 thousand and ₩10,531 thousand for the years ended December 31, 2008 and 2007 were offset against the depreciation expenses, respectively. The accumulated government grants that were offset with depreciation expenses of the acquired assets increased to ₩243,770 thousand as of December 31, 2008 from ₩233,511 thousand as of December 31, 2007.

13. Pledged Assets

The following assets were pledged as collateral for the Company's short-term borrowings and long-term debt as of December 31, 2008:

(In thousands of Won)

Asset	Lender	Type of borrowings	Borrowing amount	Book value	Collateralized amount
Land, Buildings, Structures	KDB	Industry operating	₩ 20,000,000	21,147,021	₩ 12,000,000
					\$,500,000
Land, Buildings				12,325,423	₩ 26,000,000
					\$ 24,747,000
Land, Buildings	Kookmin Bank	Construction	627,743	1,346,066	₩ 974,400
Land, Buildings	SHINHAN BANK	Debentures	40,000,000	26,491,065	7,220,000
		Company purchase card (Used)	30,000,000		\$ 11,690,000
		Usance	\$ 912,943		
			€ 71,563		
			₩ 69,302,918	48,984,152	₩ 46,194,400
			\$ 912,943		\$,937,000
			€ 71,563		

14. Short-term borrowings

Short-term borrowings as of December 31, 2008 and 2007 are summarized as follows:

(In thousands of Won)

Lender	Annual Interest rate(%)	2008	2007
Woori Bank	CD(3M)+0.90	₩ 30,000,000	-
	7.85	10,000,000	-
Tong Yang Securities Inc.	7.16	10,000,000	-
The Export-Import Bank of Korea	5.60	-	9,500,000
KDB	CD(3M)+2.10	20,000,000	10,000,000
Nong Hyup Bank	CD(3M)+2.37	10,000,000	10,000,000
SHINHAN BANK and other banks	2.78-8.65	5,554,028	3,912,173
		₩ 85,554,028	33,412,173

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

15. Long-term Debt and Debentures

(a) Long-term debt and debentures as of December 31, 2008 and 2007 are summarized as follows:

(In thousands of Won)

Lender	Maturity	Annual interest rate	2008	2007
Local currency borrowings				
KDB	-	6.30%	₩ -	10,000,000
	2011.08.19	CD(3M)+1.30	30,000,000	-
Kookmin Bank	2022.03.26	3.00	627,742	647,085
			30,627,742	10,647,085
Foreign currency borrowings				
Citi Bank	2010.06.29	CD(3M)+0.60	27,110,056	20,226,365
The Export-Import Bank of Korea	2010.06.28	CD(3M)+0.45	31,437,500	23,455,000
Capital leases liabilities	2010.06.28	LIBOR(3M)+0.45	26,726,887	19,940,489
			85,274,443	63,621,854
Debentures				
Debentures			313,475,000	291,966,000
Less discount			(545,031)	(465,624)
			312,929,969	291,500,376
Less current portion of long-term debt and debentures (including current portion of discount of ₩ 31,212 thousand in 2007)			(90,022,805)	(130,019,342)
			₩ 338,809,349	235,749,973

(b) Aggregate maturities of the Company's long-term debt as of December 31, 2008 are summarized as follows:

(In thousands of Won)

December 31	Local currency debt	Foreign currency debt	Bonds	Total
2009	₩ 22,805	-	90,000,000	90,022,805
2010	26,377	85,274,443	163,475,000	248,775,820
2011	30,030,058	-	60,000,000	90,030,058
2012	33,844	-	-	33,844
2013 and thereafter	514,658	-	-	514,658
	₩ 30,627,742	85,274,443	313,475,000	429,377,185

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

16. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2008 and 2007 were as follows:

	(In thousands of Won)	
	2008	2007
Estimated retirement and severance benefits at beginning of year	₩ 32,301,167	31,162,271
Accrual for retirement and severance benefits	7,983,246	8,906,330
Transferred from (to) affiliated companies	(35,176)	277,877
Payments	(9,048,051)	(8,045,311)
Estimated retirement and severance benefits at end of year	31,201,186	32,301,167
Transfer to National Pension Fund	(104)	(104)
Deposit for severance benefit trust	(20,281,270)	(20,995,758)
Net balance at end of year	₩ 10,919,812	11,305,305

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% of the reserve balances of retirement and severance benefits as of December 31, 2008 and 2007. 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.

17. Provision for loss on sales returns

The Company recorded provision for loss on sales returns estimated using experience rate on return, amounting to ₩4,546 million and ₩ 4,098 million as of December 31, 2008 and 2007.

18. Leases

(a) The Company leases certain machinery from Citigroup Capital Korea, Inc. The gross amount of machinery and equipment and related accumulated depreciation recorded under capital leases as of December 31, 2008 and 2007 are summarized as follows:

	(In thousands of Won)	
	2008	2007
Machinery	₩ 29,800,357	29,800,357
Less accumulated depreciation	(17,859,142)	(13,685,357)
	₩ 11,941,215	16,115,000

(b) Depreciation charged on assets held under capital leases for the year ended December 31, 2008 amounted to ₩4,173,785 thousand.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

18. Leases, Continued

(c) Future minimum lease payments under non-cancelable capital and operating leases as of December 31, 2008 were as follows:

Year	(In thousands of Won)	
	Capital leases	Operating leases
Due within a year	₩ 1,555,430	171,827
Due after one year through to five years	27,115,745	20,038
Total minimum lease payments	28,671,175	191,865
Less unearned interest	(1,534,866)	-
Present value of non-current portion of net minimum lease payments	₩ 27,136,309	191,865

19. Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2008 are summarized as follows:

		2008		
		Foreign currency	Exchange rate	Translation into Won
Cash and cash equivalents	USD	7,999,958	1,257.50	₩ 10,059,947
	EUR	2	1,776.22	4
	JPY	33,758,009	13.94	470,550
Accounts and notes receivables	USD	10,651,918	1,257.50	13,394,786
	- trade	JPY	188,344,267	13.94
Total foreign currency denominated assets				₩ 26,550,599
Accounts and notes payable	USD	852,546	1,257.50	1,072,077
	- trade	JPY	49,214,148	13.94
Short-term borrowings	USD	3,674,930	1,257.50	4,621,224
	EUR	525,163	1,776.22	932,804
Debentures	USD	130,000,000	1,257.50	163,475,000
Long-term debt	USD	67,812,678	1,257.50	85,274,443
Total foreign currency denominated liabilities				₩ 256,061,539

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

19. Assets and Liabilities Denominated in Foreign Currency. Continued

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

(In thousands of Won)

		2007		
		Foreign currency	Exchange rate	Translation into Won
Cash and cash equivalents	USD	2,192,256	₩ 938.20	₩ 2,056,774
	EUR	362	1,381.26	500
	JPY	27,872,733	8.33	232,272
	HKD	1,584	120.26	190
Accounts and notes receivables - trade	USD	9,859,977	938.20	9,250,630
	JPY	117,337,465	8.33	977,808
Total foreign currency denominated assets				₩ 12,518,174
Accounts and notes payable - trade	USD	4,914,470	938.20	₩ 4,610,756
	JPY	71,468,958	8.33	595,572
Other payable	USD	999,982	938.20	938,183
Short-term borrowings	USD	3,680,055	938.20	3,452,628
	EUR	332,700	1,381.26	459,545
Bonds	USD	130,000,000	938.20	121,966,000
Long-term debt	USD	67,812,678	938.20	63,621,854
Total foreign currency denominated liabilities				₩ 195,644,538

20. Commitments and Contingencies

(a) The Company's contingencies with Banks for the year ended December 31, 2008 were as follows:

(In thousands of Won)

		2008		
Bank	Description	Amount	Maturity	
Kookmin Bank	Usance	\$ 5,000,000	2009.03.06	
Hana Bank	Company purchase card	₩ 30,000,000	-	
	Bank overdraft	3,000,000	2009.07.06	
Nong Hyup Bank	Usance	\$ 3,000,000	2009.05.02	
	Bank overdraft	₩ 1,000,000	2009.10.15	
SHINHAN BANK	Bank overdraft	5,000,000	2009.02.18	
	Company purchase card	30,000,000	2009.02.20	
Citi Bank	Usance	\$ 10,500,000	-	
	Usance	₩ 4,000,000	-	
Korea Exchange Bank	Usance	\$ 3,000,000	2009.07.20	
Woori Bank	Usance	1,000,000	2009.08.18	
	Bank overdraft	₩ 20,000,000	-	
Tong Yang Securities Inc.	Commercial paper discount	30,000,000	2009.12.28	
		₩ 123,000,000		
		\$ 22,500,000		

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

20. Commitments and Contingencies, Continued

(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 of the purchase price in an escrow account at HSBC according to the Shares Purchase Agreement. The buyer applied arbitration for disagreement at the International Committee of Arbitration on March 22, 2007. The Company paid ₩24,601 million, as an indemnification to the buyer of investment transaction in 2006, which was resulted from the ultimate outcome of the International Committee of Arbitration. The Company recognized the amount of indemnification as an indemnification expenses in the statement of operation.

21. Derivative Instruments and Hedge Accounting

(a) Details of foreign currency swaps outstanding as of December 31, 2008 and 2007 were as follows:

(In thousands of Won)

Bank	Item	Buying	Selling	Buying Rate	Selling Rate	Maturity
Citi Bank	Capital lease liability	\$ 21,253,985	₩ 20,000,000	LIBOR(3M)+0.39%	4.94%	2010.03.29
	Long-term debt	21,558,693	20,000,000	LIBOR(3M)+0.60%	5.62%	2010.06.29
HSBC	Long-term debt	25,000,000	23,200,000	LIBOR(3M)+0.45%	5.37%	2010.06.28
JPMorgan Chase Bank	Debentures	80,000,000	75,200,000	LIBOR(3M)+0.75%	5.03%	2010.08.31
Hana Bank	Debentures	20,000,000	18,160,000	LIBOR(3M)+1.20%	5.37%	2010.11.14
Korea Exchange Bank	Debentures	20,000,000	18,160,000	LIBOR(3M)+1.20%	5.37%	2010.11.14
Nong Hyup Bank	Debentures	10,000,000	9,080,000	LIBOR(3M)+1.20%	5.37%	2010.11.14
		\$ 197,812,678	₩ 183,800,000			

(b) Details of interest rate swaps outstanding as of December 31, 2008 were as follows:

(In thousands of Won)

Bank	Item	Principal	Buying Rate	Selling Rate	Maturity
Shinhan Bank	Debentures	30,000,000	CD(3M)+1.11%	6.19%	2009.02.20
JPMorgan Chase Bank	Short-term borrowing	30,000,000	CD(3M)+0.90%	6.71%	2009.08.18
JPMorgan Chase Bank	Long-term borrowing	30,000,000	CD(3M)+1.30%	6.87%	2011.08.19
Nong Hyup Bank	Short-term borrowing	20,000,000	CD(3M)+2.10%	6.62%	2009.10.29
		₩ 110,000,000			

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

21. Derivative Instruments and Hedge Accounting, Continued

Details of interest rate swap outstanding as of December 31, 2007 were as follows:

Bank	Item	Principal	Buying Rate	Selling Rate	Maturity
SHINHAN BANK	Debentures	₩ 10,000,000	CD(3M)+1.28%	7.25%	2008.12.31

(c) During the years ended December 31, 2008 and 2007, in relation to the derivative instruments, the Company recognized an unrealized gain of ₩63,162 million and ₩1,788 million in the statement of operation, respectively, and an unrealized loss of ₩6,573 million and ₩2,856 million in other comprehensive income, net of tax, respectively. As of December 31, 2008 and 2007, the fair value of the derivative instruments, was an asset of ₩52,846 million, and a liability of ₩2,152 million, respectively.

22. Stockholders' Equity

Transactions in stockholders' equity for the year ended December 31, 2008 are summarized as follows:

(In thousands of Won, except number of shares)

	Common stock	
	Number of shares	Amount
Balance at December 31, 2007	5,940,214	₩ 29,701,070
Issuance of common stock for stock option	14,321	71,605
Balance at December 31, 2008	5,954,535	₩ 29,772,675

23. Capital Adjustments

Details of capital adjustments as of December 31, 2008 and 2007 were as follows:

(In thousands of Won)

	2008	2007
Treasury stock (709,233 shares in 2008 and 2007)	₩ (16,588,756)	(16,588,756)
Stock options	1,485,520	1,670,484
Other capital adjustments	(19,881,416)	(10,578,274)
	₩ (34,984,652)	(25,496,546)

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

24. Retained Earnings

Retained earnings as of December 31, 2008 and 2007 are summarized as follows:

	(In thousands of Won)	
	2008	2007
Legal reserve	₩ 10,100,000	8,900,000
Reserve for business rationalization	7,700,000	7,700,000
Reserve for improvement of financial structure	22,500,000	22,500,000
Reserve for business expansion	114,500,000	87,000,000
Reserve for research and manpower development	18,000,000	20,666,666
Voluntary reserve	124,000,000	96,000,000
Unappropriated retained earnings	(21,609,322)	73,237,895
	₩ 275,190,678	316,004,561

(a) Legal reserve

The Korean Commercial Code requires the Company to appropriate a legal reserve in 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 require the Company to appropriate into a reserve 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 shareholder's 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.

Effective December 27, 2007, the above requirement has been removed and the Company is no longer required to appropriate a reserve for improvement of financial structure and, consequently, the existing balance as of December 31, 2008 is now regarded as a voluntary reserve.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

25. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2008 and 2007 were as follows:

	(In thousands of Won)	
	2008	2007
Salaries	₩ 82,869,751	72,275,321
Accrual for retirement and severance benefits	6,791,823	6,813,887
Other employee benefits	13,872,598	14,244,885
Travel	1,589,835	1,603,850
Communication	876,442	882,299
Utilities	687,902	676,630
Taxes and dues	2,832,885	2,528,046
Rent	1,545,823	1,161,876
Depreciation	4,920,993	5,061,879
Amortization	1,058,987	776,183
Repairs	502,783	495,939
Supplies	906,693	985,866
Insurance	581,502	586,643
Entertainment	104,411	113,307
Advertising	20,064,411	23,732,240
Development	1,737,796	1,673,605
Freight	11,793,665	10,975,702
Vehicle Maintenance	6,097,900	5,319,615
Commissions	14,620,942	13,040,444
Sales promotion	91,070	95,388
Research	486,356	337,542
Publication	70,353	65,963
Overseas Marketing	1,696,144	1,881,050
Training	1,037,620	1,027,890
Export expenses	2,076,051	3,032,439
Bad debts	2,138,772	2,277,502
Samples	122,214	66,006
Miscellaneous	446,767	355,711
	₩ 181,622,489	172,087,708

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

26. Income Taxes

(a) The Company was subject to income taxes on taxable income at the following normal tax rates.

Taxable income		Tax rate			
Prior to 2008	Thereafter	Prior to 2008	2008	2009	Thereafter
Up to ₩100 million	Up to ₩200 million	14.3%	12.1%	12.1%	11%
Over ₩100 million	Over ₩200 million	27.5%	27.5%	24.2%	22%

In December 2008, the Korean government reduced the corporate income tax rate (including resident tax) and increased the tax base from ₩100 million to ₩200 million beginning in 2008. Effective January 1, 2008, the income tax rate for those having their taxable income less than ₩200 million was reduced from 14.3% to 12.1%.

(b) The components of income tax expense for the years ended December 31, 2008 and 2007 were as follows:

	(In thousands of Won)	
	2008	2007
Current	₩ 521,447	6,614,728
Deferred	16,196,330	19,307,818
Income tax expense (benefit)	₩ 16,717,777	25,922,546

(c) Deferred tax assets and liabilities are measured using the tax rate to be applied for the year in which temporary differences are expected to be realized, and the change in deferred tax assets (liabilities) due to the change in the income tax rate amounting to ₩1,188 million of which ₩6,204 million was recognized directly to equity and ₩7,392 million was recognized in current income tax expense.

(d) The income tax expense calculated by applying statutory tax rates to the Company's income before income taxes for the year differs from the actual tax expense in the non-consolidated statement of operation for the years ended December 31, 2008 and 2007 for the following reasons:

	(In thousands of Won)	
	2008	2007
Income before income taxes	₩ (12,326,399)	92,727,246
Expense (benefit) for income taxes at normal tax rates	(3,420,560)	25,486,793
Non-deductible expense	1,287,201	702,008
Additional payment of income taxes	39,989	-
Tax credit	-	(313,153)
Special tax for rural development	-	56,937
Tax effects of temporary differences unrecognized in deferred tax assets (liabilities)	26,814,416	(10,402)
Effect of change in the income tax rate	(7,392,200)	-
Others	(611,069)	363
Income tax expenses	₩ 16,717,777	25,922,546
Effective tax rate	% -	27.96

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

26. Income Taxes, Continued

(e) Deferred tax assets have been recognized as the Company has determined it is probable that future profits will be available against which the Company can utilize the related benefit.

(f) The Company did not recognize deferred tax liabilities in the amount of ₩108,458,743 thousand and arising from the taxable temporary differences associated with equity method accounted investments and land as of December 31, 2008, 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.

(g) Deferred tax assets and liabilities that were directly charged or credited to accumulated other comprehensive income as of December 31, 2008 are as follows:

(In thousands of Won)

		Temporary differences	Deferred tax assets (liabilities)
Change in equity of equity method accounted investments	₩	5,778,948	2,362,304
Other capital adjustments		10,969,043	1,829,226
Change in fair value of non-current investments		5,903	(8,814)
Effective portion of changes in fair value of cash flow hedges		8,164,083	1,590,836
	₩	24,917,977	5,773,552

(h) 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 gross deferred tax assets (liabilities). As of December 31, 2008, details of gross deferred tax assets (liabilities) are as follows:

(In thousands of Won)

		Temporary differences	Deferred tax assets (liabilities)	
		at Dec. 31, 2008	Current	Non-current
Assets				
Allowance for doubtful accounts	₩	3,358,493	686,396	-
Accumulated depreciation		11,379,212	-	2,503,426
Provision for loss on sales returns		4,546,284	1,100,201	-
Impairment loss on valuation of non-current investments		2,155,898	-	474,298
Loss on valuation of the foreign currency swaps		12,103,568	125,501	2,548,693
Loss on foreign exchange translation, net		60,348,134	(680,855)	13,895,549
Others, net		107,172,715	-	4,580,763
		201,064,304	1,231,243	24,002,729
Liabilities				
Accrued interest income		(788)	(191)	-
Reserve for research and manpower development		(4,000,000)	(645,334)	(293,333)
Equity income on investment in affiliates		(88,977,441)	-	(14,565,354)
Gain on valuation of the foreign currency swaps		(63,161,588)	-	(13,895,550)
Change in equity of equity method accounted investments		(28,190,169)	-	1,656,670
Reserve for gain on investment in kind		(81,890,897)	-	(18,015,998)
Others, net		(80,700,761)	-	(4,461,878)
		(346,921,644)	(645,525)	(49,575,443)
Net deferred tax asset (liability)	₩	(145,857,340)	585,718	(25,572,714)

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

27. Earning (loss) Per Share

(a) Basic earnings (loss) per share for the years ended December 31, 2008 and 2007 were as follows:

	(In Won, except share information)	
	2008	2007
Adjusted net income (loss)	₩ (29,044,175,929)	66,804,700,293
Weighted-average number of common shares outstanding	5,240,607	5,226,641
Earnings (loss) per share	₩ (5,542)	12,782

(b) Diluted earnings (loss) per share for the years ended December, 31, 2008 and 2007 were as follows:

	(In Won, except share information)	
	2008	2007
Adjusted net income (loss)	₩ (29,044,175,929)	65,968,641,103
Weighted-average number of common shares outstanding and common equivalent shares	5,240,607	5,230,763
Diluted earnings (loss) per share	₩ (5,542)	12,612

28. Cumulative Effect of Accounting Changes

(a) In accordance with the revisions to SKAS No. 15 *Investments in Associates*, the Company adopted the changes in accounting policy regarding equity method accounted investments. As a result of the adoption of this accounting policy, the effect under the new method was to increase gain on valuation of equity method accounted investments and income tax for the year ended December 31, 2008 by ₩732 million and ₩205 million, respectively, and to increase equity method accounted investments, other capital adjustments, unrealized gain on equity method accounted investments and retained earnings by ₩1,544 million, ₩18,338 million, ₩18,343 million and ₩2,634 million, respectively, and to decrease deferred income tax liabilities by ₩1,096 million as of December 31, 2008.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

28. Cumulative Effect of Accounting Changes, Continued

The prior year non-consolidated financial statements have been restated to reflect the effects of the accounting changes. The amounts of adjustments including the net income of the previous three years are presented under the assumption that the new accounting policy had always been applied as follows:

(in thousands of Won, except earnings per share)

Account	2007		2006		2005		
	Prior	Restated	Prior	Restated	Prior	Restated	
Equity method accounted	₩						
Investments	549,183,384	547,438,958	422,685,632	423,089,223	350,494,073	350,539,440	
Deferred tax liabilities (assets)	15,050,114	14,564,218	3,054,753	3,154,143	(4,658,318)	(2,714,224)	
Other capital surplus							
(Other capital adjustments)	-	(10,578,274)	-	938,915	-	854,704	
Change in equity of equity method accounted							
investments, net of tax	4,463,902	12,451,005	14,368,622	13,234,109	25,433,986	22,437,419	
Retained earnings	71,905,254	73,237,895	111,766,236	112,266,035	41,599,296	41,842,433	
Gain on valuation of equity method accounted investments	87,796,492	88,964,887	42,595,781	42,954,004	26,600,409	26,342,514	
Loss on valuation of equity method accounted investments	(14,351,058)	(14,363,231)	(9,291,982)	(9,291,982)	(9,547,159)	(8,803,002)	
Income tax expense	25,599,167	25,922,546	38,106,533	38,210,165	8,699,112	8,837,955	
Net income	65,971,857	66,804,700	106,918,582	107,173,173	37,313,604	37,661,024	
Earnings per share	₩	12,622	12,782	20,536	20,585	7,198	7,265
Diluted earnings per share		12,452	12,612	20,513	20,562	7,198	7,265

29. Dividends

(a) Details of dividends for the years ended December 31, 2008 and 2007 were as follows:

(In Won, except number of shares)

	2008	2007
Total dividends	₩ 9,179,278,500	11,769,707,250
Number of shares	5,245,302	5,230,981
Dividend per share	₩ 1,750	2,250

(b) Dividends as a percentage of net income and par value for the years ended December 31, 2008 and 2007 were as follows:

(In thousands of Won, except par value)

	2008	2007
Dividend amount	₩ 9,179,279	11,769,707
Net income	₩ (29,044,176)	66,804,700
Dividends as a percentage of net income	(31.60%)	17.62%
Par value per share	₩ 5,000	5,000
Dividends as a percentage of par value	35%	45%

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

29. Dividends, Continued

(c) Dividend yield ratio for the years ended December 31, 2008 and 2007 was as follows:

	(In Won)	
	2008	2007
Dividend per share	₩ 1,750	2,250
Market price as of year end	182,500	250,000
Dividend yield ratio	0.96%	0.90%

30. Share-based Payments

(a) The terms and conditions of grants as of December 31, 2008 were as follows:

Type of arrangement	(In Won, except number of shares)			
	Equity-settled			
Date of grant	2005.1.28	2006.1.31	2007.3.23	2008.3.12[*]
Number granted	1,348	8,458	5,825	3,496
Exercise price	113,100	255,120	235,500	187,500
Contractual life	10 years	10 years	10 years	10 years
Vesting conditions	3 years' service	3 years' service	3 years' service	3 years' service

[*] The estimated fair value of each share option granted in the general employee share option plan was ₩63,616. This was calculated by applying a black-scholes model. The model inputs were the share price at grant date of ₩162,000, exercise price of ₩187,500, expected volatility of 39.52%, 0.8% of expected dividend yield ratio, maturity of six years, and a risk-free interest rate of 5.36%.

(b) The number and weighted average exercise prices of share options as of December 31, 2008 were as follows.

	(In Won, except number of options)	
	Share options	
	Number of options	Weighted average exercise price
Outstanding at January 1, 2008	29,952	₩ 177,008
Granted	3,496	178,105
Forfeited	-	-
Exercised	14,321	226,776
Cancelled	-	-
Expired	-	-
Outstanding at December 31, 2008	19,127	₩ 226,776
Exercisable at December 31, 2008	1,348	₩ 113,100

The weighted average share price at the date of exercise for share options exercised during the period was ₩186,617. The options outstanding at December 31, 2008 had an exercise price of ₩113,100, ₩255,120, ₩235,500 and ₩187,500 and a weighted average remaining contractual life of 8 years.

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

30. Share-based Payments, Continued

(c) Details of total expense recognized as employee costs for the years ended December 31, 2008 and 2007 were as follows.

	(In thousands of Won)	
	2008	2007
Total expense recognized for the year arising from share-based payment transactions (Selling and administrative expense)	₩ 624,638	814,746
Remaining expense to be recognized in the future years	429,747	835,023

31. Comprehensive Income

Comprehensive income for the years ended December 31, 2008 and 2007 was as follows:

	(In thousands of Won)	
	2008	2007
Net income	₩ (29,044,176)	66,804,700
Gain (loss) on valuation of non-current investments, net of tax	(14,717)	9,866
Loss on valuation of the foreign currency swap, net of tax	(6,573,247)	(2,856,126)
Changes in equity of equity method accounted investments, net of tax	37,277,250	(1,917,617)
Comprehensive income	₩ 1,645,110	62,040,823

32. Non-cash Investing and Financing Activities

Significant non-cash investing and financing activities for the years ended December 31, 2008 and 2007 are summarized as follows:

	(In thousands of Won)	
	2008	2007
Construction-in-progress transferred to investments on affiliates	₩ 12,548,123	-
Construction-in-progress transferred to property, plant and equipment	10,656,594	4,882,340
Stock-option transferred to capital surplus	809,601	732,070

Notes to non-consolidated Financial Statements

December 31, 2008 and 2007

33. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2008 and 2007 are as follows:

	(In thousands of Won)	
	2008	2007
Salaries	₩ 95,174,233	84,994,372
Accrual for retirement and severance benefits	7,983,246	8,906,330
Other employee benefits	17,336,556	17,821,224
Rent	1,545,823	1,161,876
Depreciation	17,533,305	17,849,702
Taxes and dues	3,429,411	3,086,802

34. Date of Authorization for Issue

The 2008 financial statements were authorized for issue on February 12, 2009, at the Board of Directors Meeting.

35. Results of Operations for the Last Interim Period

	(In thousands of Won except loss per share)	
	2008 4th Quarter	2007 4th Quarter
Revenue	₩ 136,166,740	140,302,680
Operating income	61,669	5,024,976
Net loss for the period	(47,088,597)	(10,361,659)
Loss per share	(8,985)	(1,982)