

SSANGYONG MOTOR COMPANY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of
Ssangyong Motor Company:

We have audited the accompanying balance sheets of Ssangyong Motor Company (the "Company") as of December 31, 2008 and 2007, and the related statements of operations, appropriations of retained earnings (disposition of accumulated deficit) and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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.

We cannot obtain enough evidences to presume asset potentiality of development cost and calculate partial provision for liability, because the Company has faced a serious crisis of liquidity with global financial crisis and economic slump, started an enterprise revival procedure. And we have been unable to apply other audit procedures to confirm the fairness of the financial statements.

In our opinion, based on our audits the financial statements except for the effects described in the preceding paragraph referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and changes in its retained earnings (accumulated deficit) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea. (See Note 2)

Without qualifying our opinion, we draw attention to the following:

The Company applied for starting an enterprise revival procedure on January 9, 2009, according to an obligator's revival and bankruptcy law 34th article to Seoul Central District Court, for business normalization. Also, the Court decides orders comprehensive prohibition to all obligee or mortgagee and preservative measures of the Company's fortune on January 12, 2009. And the Court makes a decision of starting an enterprise procedure on February 6, 2009.

(1) Event subsequent to balance sheet date

As explained in Note 28 to the financial statements, the Company applied for starting an enterprise revival procedure to Seoul Central District Court, for business normalization on January 9, 2009, and the Court makes a decision of starting an enterprise procedure on February 6, 2009.

(2) Substantial doubt about the Company's ability to continue as a going concern

The accompanying financial statements have been prepared assuming that the company will continued as a going concern. As explained in Note 29 to the financial statements, the Company has suffered sharply decrease of sales from global financial crisis and economic slump, has operating loss of ₩227,389 million and net loss of ₩709,684 million for the year ended December 31, 2008, and the Company's current liability exceeds current assets as of 245,062 million.

These factors raise substantial doubt about the Company's ability to continue as a going concern, the decision of starting an enterprise revival procedure would be changed from findings on investigation or conclusions of party interested assembly. Also, the Company does its best for rapid revival with restructuring powerfully, strengthening competitiveness, innovating structure of cost, working out its own salvation as explained in Note 30 to the financial statements if the company fails to successfully execute the plans, the Company cannot continue as a going concern. These factors affect the Company's realization of its assets or payment of the liabilities at book value.

The accompanying financial statements do not include adjustments to asset, liabilities, profit and loss with regards to above uncertainties.

March 27 , 2009

Notice to Readers

This report is effective as of March 27, 2009, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

SSANGYONG MOTOR COMPANY

BALANCE SHEETS

AS OF DECEMBER 31, 2008 AND DECEMBER 31, 2007

ASSETS	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
CURRENT ASSETS:				
Cash and cash equivalents (Notes 14 and 22)	₩ 77,500,410	₩ 68,089,365	\$ 61,631	\$ 54,147
Short-term financial instruments (Note 3)	5,428,999	104,248,613	4,317	82,901
Available-for-sale securities (Note 4)	956	7,991	1	6
Trade receivables, net of allowance for doubtful accounts of ₩1,382,624 thousand in 2008 and ₩2,962,070 thousand in 2007, and present value discount of ₩103,981 thousand in 2008 and ₩54,569 thousand in 2007 (Notes 11, 14 and 18)	112,742,539	,186,806	89,656	213,270
Short-term loans, net of allowance for doubtful accounts of ₩40,254 thousand in 2008 and ₩30,173 thousand in 2007 (Note 5)	3,056,640	2,987,153	2,431	2,375
Other receivables, net of allowance for doubtful accounts of ₩3,583,099 thousand in 2008 and ₩3,575,379 thousand in 2007 (Notes 14 and 18)	33,055,686	48,287,417	26,287	38,400
Advanced payments, net of allowance for doubtful accounts of ₩103,598 thousand in 2008 and ₩235,579 thousand in 2007	13,242,357	24,974,433	10,531	19,860
Prepaid expenses	1,904,529	2,272,612	1,515	1,807
Inventories, net of allowance for valuation of ₩49,718,302 thousand in 2008 and ₩10,427,270 thousand in 2007 (Notes 2 and 6)	366,531,785	294,721,750	291,477	234,371
Derivative assets (Note 20)	-	17,485,886	-	13,905
Other current assets, net of allowance for doubtful accounts of ₩18 thousand in 2008 and ₩25,464 thousand in 2007	<u>1,163,864</u>	<u>3,585,652</u>	<u>926</u>	<u>2,851</u>
	<u>614,627,765</u>	<u>834,847,678</u>	<u>488,772</u>	<u>663,893</u>
NON-CURRENT ASSETS:				
Long-term financial instruments (Note 3)	9,000	9,000	7	7
Available-for-sale securities (Note 4)	560,000	560,901	445	446
Equity securities using the equity method (Note 4)	3,732,333	2,215,777	2,968	1,762
Long-term loans, net of allowance for doubtful accounts of ₩279,769 thousand in 2008 and ₩286,014 thousand in 2007 (Note 6)	26,682,971	26,457,345	21,219	21,040
Long-term trade receivables, net of allowance for doubtful accounts of ₩1,799 thousand in 2008 and ₩3,599 thousand in 2007, and present value discount of ₩16,014 thousand in 2008 and ₩26,756 thousand in 2007 (Note 11)	162,123	329,518	129	262
Guarantee deposits, net of allowance for doubtful accounts of ₩249,423 thousand in 2008 and ₩274,005 thousand in 2007	28,215,027	30,667,479	22,437	24,388
Advances for employee contribution	12,362,880	11,165,110	9,831	8,879
Other investments in properties (Note 8)	16,085,618	258,892	12,790	207
Property, plant and equipment, net (Notes 6, 7 and 8)	867,756,226	1,416,131,364	690,065	1,126,148
Intangible assets (Note 9)	<u>135,094,532</u>	<u>94,586,749</u>	<u>107,431</u>	<u>75,218</u>
	<u>1,090,660,710</u>	<u>1,582,382,135</u>	<u>867,322</u>	<u>1,258,357</u>
Total Assets	<u>₩ 1,705,288,475</u>	<u>₩ 2,417,229,813</u>	<u>\$ 1,356,094</u>	<u>\$ 1,922,250</u>

(Continued)

SSANGYONG MOTOR COMPANY

BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2008 AND DECEMBER 31, 2007

LIABILITIES AND SHAREHOLDERS' EQUITY	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
CURRENT LIABILITIES:				
Trade payables (Notes 14 and 18)	₩ 222,840,046	₩ 297,658,123	\$ 177,209	\$ 236,706
Short-term borrowings (Notes 10 and 14)	165,616,787	81,866,665	131,703	65,103
Other payables (Notes 14, 18 and 21)	222,830,111	183,792,133	177,201	146,157
Advances from customers (Note 18)	6,474,264	9,893,709	5,149	7,868
Withholdings	7,553,765	10,580,192	6,007	8,414
Accrued expenses (Note 14)	29,671,248	24,834,592	23,595	19,749
Current portion of debentures, net of present value discount of ₩70,728 thousand in 2008 and ₩19,626 thousand in 2007 (Note 10)	149,929,272	149,980,374	119,228	119,269
Accrued warranties and product liabilities (Notes 11 and 12)	48,955,974	51,556,414	38,931	40,999
Derivative liabilities (Note 20)	-	22,133,924	-	17,602
Other current liabilities	5,818,767	3,200,007	4,627	2,543
	<u>859,690,234</u>	<u>835,496,133</u>	<u>683,650</u>	<u>664,410</u>
LONG-TERM LIABILITIES:				
Long-term borrowings (Note 10)	118,000,000	-	93,837	-
Debentures, net of present value discount of ₩0 thousand in 2008 and ₩341,714 thousand in 2007 (Note 10)	-	149,658,286	-	119,013
Convertible bonds, net of conversion right adjustment of ₩66,739,957 thousand in 2008, ₩82,917,732 thousand in 2007 and discount on bonds of ₩2,852,160 thousand in 2008 ₩3,543,524 thousand in 2007, and premium on bond redemption of ₩61,106,185 thousand in 2008 and 2007 (Note 10)	242,866,068	225,996,929	193,134	179,719
Accrued severance indemnities, net of National Pension Fund of ₩557,046 thousand in 2008 and ₩1,057,662 thousand in 2007, and severance insurance deposits of ₩ 4,384,745 thousand in 2008 and ₩4,959,174 thousand in 2007 (Note 2)	180,066,979	169,571,053	143,194	134,848
Accrued warranties and product liabilities (Notes 11 and 12)	39,912,925	66,718,330	31,740	53,056
Other long-term liabilities	6,882,275	3,344,733	5,474	2,660
	<u>587,728,247</u>	<u>615,289,331</u>	<u>467,379</u>	<u>489,296</u>
Total Liabilities	₩ <u>1,447,418,481</u>	₩ <u>1,450,785,464</u>	\$ <u>1,151,029</u>	\$ <u>1,153,706</u>

(Continued)

SSANGYONG MOTOR COMPANY

BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2008 AND DECEMBER 31, 2007

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	Korean Won		Translation into U.S. Dollars (Note 2)	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(In thousands)		(In thousands)	
SHAREHOLDERS' EQUITY:				
Capital stock (Note 13)	₩ 604,023,100	₩ 604,023,100	\$ 480,336	\$ 480,336
Capital surplus (Note 13)	44,914,324	44,914,324	35,717	35,717
Accumulated other comprehensive income:				
Gain on valuation of available-for-sale securities (Notes 4 and 17)	90	781	1	1
Negative capital changes due to investment securities using the equity method (Notes 5 and 20)	-	(192,492)	-	(153)
Capital changes due to investment securities using the equity method (Notes 5 and 20)	917,717	-	730	-
Retained earnings (net loss of ₩709,683,613 thousand for the year ended December, 31 and net income of ₩11,571,330 thousand for the year ended December 31, 2007) (Note 13)	<u>(391,985,237)</u>	<u>317,698,636</u>	<u>(311,719)</u>	<u>252,643</u>
Total Shareholders' Equity	<u>257,869,994</u>	<u>966,444,349</u>	<u>205,065</u>	<u>768,544</u>
Total Liabilities and Shareholders' Equity	<u>₩ 1,705,288,475</u>	<u>₩ 2,417,229,813</u>	<u>\$ 1,356,094</u>	<u>\$ 1,922,250</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
SALES (Notes 18 and 27)	₩ 2,495,216,766	₩ 3,119,335,284	\$ 1,984,268	\$ 2,480,585
COST OF SALES (Notes 2 and 19)	2,186,790,732	2,532,148,199	1,738,999	2,013,637
GROSS PROFIT	308,426,034	587,187,085	245,269	466,948
SELLING AND ADMINISTRATIVE EXPENSES	535,814,756	543,100,919	426,095	431,889
OPERATING INCOME (LOSS)	(227,388,722)	44,086,166	(180,826)	35,059
OTHER INCOME (EXPENSES):				
Interest income	6,596,711	10,632,622	5,246	8,455
Interest expense	(42,584,147)	(31,700,792)	(33,864)	(25,209)
Reversal of allowance for doubtful accounts, net	1,907,700	(405,315)	1,517	(322)
Gain (loss) on disposal of available-for-sale securities, net	1,124	148,401	1	118
Gain (loss) on using the equity method, net (Note 4)	406,346	(584,007)	323	(464)
Gain(loss) on disposal of investments, net (Note 8)	(8,105)	7,900,400	(6)	6,283
Gain (loss) on disposal of property, plant and equipment, net	15,518,561	13,719,399	12,341	10,910
Gain(loss) on impairment of property, plant and equipment, net (Notes 2 and 8)	(517,687,494)	(3,125,859)	(411,680)	(2,486)
Gain on foreign currency transactions, net	8,483,913	(10,292,598)	6,747	(8,185)
Gain (loss) on foreign currency translation, net (Note 14)	1,327,488	(2,067,790)	1,056	(1,644)
Reparation for product warranty expenses	7,491,938	7,759,789	5,958	6,171
Depreciation expense on assets not in use	(349,344)	(196,490)	(278)	(156)
Fees earned	72,977,357	32,600,791	58,034	25,925
Donations	(111,300)	(218,787)	(89)	(174)
Loss on derivative valuation, net (Note 21)	-	(4,648,038)	-	(3,696)
Loss on derivative transaction, net (Note)	(37,988,215)	(5,763,378)	(30,209)	(4,583)
Loss on disposal of Trade receivables	(27,308,289)	(46,308,461)	(21,716)	(36,826)
Others, net	29,030,865	69,283	23,084	53
	<u>(482,294,891)</u>	<u>(32,480,830)</u>	<u>(383,535)</u>	<u>(25,830)</u>
INCOME(LOSS) BEFORE INCOME TAXES EXPENSES	(709,683,613)	11,605,336	(564,361)	9,229
INCOME TAXES EXPENCENCES (Note 16)	262	34,006	-	27
NET INCOME(LOSS)	(709,683,875)	11,571,330	(564,361)	9,202
ORDINARY INCOME(LOSS) PER SHARE (Note 17)				
	(5,875)	96	(4.67)	0.08
NET INCOME(LOSS) PER SHARE (Note 17)				

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won (In thousands)				
	Capital stock	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at January 1, 2007	₩ 604,023,100	₩ 15,440,281	₩ (249,450)	₩ 306,127,307	₩ 925,341,238
Net income	-	-	-	11,571,330	11,571,330
Consideration for conversion rights	-	29,474,043	-	-	29,474,043
Gain on valuation of available-for-sale securities	-	-	(89,653)	-	(89,653)
Negative capital changes due to investment securities using the equity method	-	-	147,391	-	147,391
Balance at December 31, 2007	<u>₩ 604,023,100</u>	<u>₩ 44,914,324</u>	<u>₩ (191,712)</u>	<u>₩ 317,698,637</u>	<u>₩ 966,444,349</u>
Balance at January 1, 2008	₩ 604,023,100	₩ 44,914,324	(191,712)	317,698,637	966,444,349
Net loss	-	-	-	(709,683,875)	(709,683,875)
Gain on valuation of available-for-sale securities	-	-	(690)	-	(690)
Capital changes due to investment securities using the equity method	-	-	917,717	-	917,717
Negative capital changes due to investment securities using the equity method	-	-	192,492	-	192,492
Balance at December 31, 2008	<u>₩ 604,023,100</u>	<u>₩ 44,914,324</u>	<u>₩ 917,807</u>	<u>₩ (391,985,238)</u>	<u>₩ 257,869,993</u>

	Translations into U.S. Dollars (Note 2) (In thousands)				
	Capital stock	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at January 1, 2007	\$ 480,336	\$ 12,279	\$ (198)	\$ 243,441	\$ 735,858
Net income	-	-	-	9,202	9,202
Consideration for conversion rights	-	23,439	-	-	23,439
Gain on valuation of available-for-sale securities	-	-	(71)	-	(71)
Negative capital changes due to investment securities using the equity method	-	-	117	-	117
Balance at December 31, 2007	<u>480,336</u>	<u>35,717</u>	<u>(152)</u>	<u>252,643</u>	<u>768,544</u>
Balance at January 1, 2008	480,336	35,717	(152)	252,643	768,544
Net loss	-	-	-	(564,361)	(564,361)
Gain on valuation of available-for-sale securities	-	-	(1)	-	(1)
Capital changes due to investment securities using the equity method	-	-	730	-	730
Negative capital changes due to investment securities using the equity method	-	-	153	-	153
Balance at December 31, 2008	<u>\$ 480,336</u>	<u>\$ 35,717</u>	<u>\$ 730</u>	<u>\$ (311,718)</u>	<u>\$ 205,065</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income(loss)	₩ (709,683,875)	₩ 11,571,330	\$ (564,361)	\$ 9,202
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Provision for retirement and severance indemnities	32,904,688	30,620,361	26,167	24,350
Depreciation	148,518,882	160,861,360	118,106	127,922
Warranty expense	707,071	684,423	562	544
Reversal of allowance for doubtful accounts, net	(1,907,700)	1,729,729	(1,517)	1,376
Amortization of intangible assets	39,314,553	26,394,824	31,264	20,990
Amortization of present value discount	17,159,751	8,280,303	13,646	6,585
Loss (gain) on disposal of available-for-sale securities, net	(1,124)	(148,401)	(1)	(118)
Loss on using the equity method, net	(406,346)	584,007	(323)	464
Loss (gain) on valuation of inventories	30,975,868	1,134,737	24,633	902
Loss (gain) on foreign currency translation, net	(1,327,488)	2,067,790	(1,056)	1,644
Loss on disposal of investments, net	8,105	(7,900,400)	6	(6,283)
Loss on disposal of property, plant and equipment, net	(15,518,561)	(13,719,399)	(12,341)	(10,910)
Depreciation expense on assets not in use	349,344	196,490	278	156
Loss on impairment of property, plant and equipment, net	517,687,494	3,125,859	411,680	2,486
Loss on derivative valuation, net	0	4,648,038	0	3,696
Loss on derivative transaction, net	37,988,215	5,763,378	30,209	4,583
Loss on disposal of Trade receivables	27,308,289	46,308,461	21,716	36,826
Others, net	7,356,844	7,514,715	5,852	5,977
	<u>841,117,885</u>	<u>278,146,275</u>	<u>668,881</u>	<u>221,190</u>
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in trade receivables	129,407,324	(137,749,267)	102,908	(109,542)
Decrease (increase) in other receivables	16,743,977	(23,207,212)	13,315	(18,455)
Decrease (increase) in accrued income	2,544,610	(2,538,285)	2,024	(2,019)
Decrease (increase) in advanced payments	11,864,058	(16,744,626)	9,435	(13,316)
Decrease in prepaid expenses	368,083	389,287	293	310
Decrease (increase) in income tax refund receivables	(97,376)	2,414,185	(77)	1,920
Decrease (increase) in inventories	(106,869,251)	35,588,264	(84,985)	28,301
Decrease in long-term trade receivables	169,195	155,754	135	124
Decrease in trade payables	(74,151,906)	(226,787,504)	(58,968)	(180,348)
Increase (decrease) in other payables	37,969,771	(17,276,338)	30,195	(13,739)
Increase (decrease) in advances received	(3,419,446)	2,093,469	(2,719)	1,665

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SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Decrease in withholdings	₩ (3,026,427)	₩ (7,747,961)	\$ (2,407)	\$ (6,161)
Increase (decrease) in accrued expenses	4,855,545	(355,919)	3,861	(283)
Increase (decrease) in warranties and product liabilities	(2,600,440)	4,484,731	(2,068)	3,566
Payments of severance indemnities	(28,461,736)	(32,774,745)	(22,634)	(26,063)
Decrease in Severance insurance deposit	574,428	676,344	457	538
Decrease in National Pension Fund	500,616	733,009	398	583
Increase in long-term non-trade payables	3,537,544	960,333	2,813	764
Others, net	(21,780,779)	11,799,011	(17,322)	9,382
	<u>(31,872,210)</u>	<u>(405,887,470)</u>	<u>(25,346)</u>	<u>(322,773)</u>
Net cash provided by (used in) operating activities	<u>99,561,800</u>	<u>(116,169,865)</u>	<u>79,174</u>	<u>(92,381)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Withdrawal (acquisition) of short-term financial instruments, net	98,819,614	(99,671,539)	78,584	(79,262)
Collection of short-term loans, net	5,108,888	5,604,758	4,063	4,457
Disposal (acquisition) of available-for-sale securities, net	8,371	1,106,832	7	880
Collection (Extension) of long-term loans	(5,407,836)	(6,176,886)	(4,300)	(4,912)
Payment of guarantee deposits	2,477,034	6,674,571	1,970	5,308
Disposal (acquisition) of property, plant and equipment	(123,458,928)	(71,929,388)	(98,178)	(57,200)
Disposal (acquisition) of intangible assets	(76,466,023)	(48,869,381)	(60,808)	(38,862)
Withdrawal (acquisition) of derivative, net	(42,636,253)	(9,473,332)	(33,906)	(7,533)
Others, net	(1,159,874)	17,110,964	(923)	13,606
Net cash used in investing activities	<u>(142,715,007)</u>	<u>(205,623,401)</u>	<u>(113,491)</u>	<u>(163,518)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term borrowings	636,163,208	340,456,313	505,895	270,741
Repayment of short-term borrowings	(551,598,956)	(331,796,085)	(438,647)	(263,854)
Issue of convertible bond	-	247,481,016	-	196,804
Proceeds from long-term debt	118,000,000	-	93,837	-
Repayment of current portion of long-term debt	(150,000,000)	-	(119,284)	-
Net cash provided by financing activities	<u>52,564,252</u>	<u>256,141,244</u>	<u>41,801</u>	<u>203,691</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	9,411,045	(65,652,022)	7,484	(52,208)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR	<u>68,089,365</u>	<u>133,741,387</u>	<u>54,147</u>	<u>106,355</u>
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	<u>₩ 77,500,410</u>	<u>₩ 68,089,365</u>	<u>\$ 61,631</u>	<u>\$ 54,147</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. THE COMPANY:

SSANGYONG MOTOR COMPANY (the “Company”) was incorporated on December 6, 1962, under the Commercial Code of the Republic of Korea, to manufacture and distribute motor vehicles and parts. The main office of the Company is located in Pyungtaek and its factories are located in Pyungtaek and Changwon. The Company’s stock was listed on the Korea Stock Exchange since May 1975.

As of December 31, 2008, the capital stock of the Company is ₩604,023 million and the major shareholders of the Company are as follows:

	<u>Number of shares</u>	<u>Percentage of ownership (%)</u>
SAIC Motor Corporation Limited	62,004,680	51.33
Other shareholders	58,799,940	48.67
	<u>120,804,620</u>	<u>100.00</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed by the Company in preparing its financial statements are summarized below. The 2008 financial statements to be submitted to the shareholders’ meeting confirmed through the board of legal administrators, which was scheduled on February 20, 2008.

Basis of Financial Statement Presentation

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

The accompanying financial statements are stated in Korean Won, the currency of the country in which the Company is incorporated and operates. The translation of Korean Won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,257.50 to US\$1.00 at December 31, 2008, announced by Seoul Money Brokerage Services, Ltd. Such translations should not be construed as representations that the Korean Won amounts could be converted into U.S. dollars at that or any other rate.

The significant accounting policies followed by the Company in the preparation of its financial statements are summarized below.

Adoption of Statements of Korea Accounting Standards (“SKAS”)

(1) Newly adopted standards

Through December 31, 2008, the Korea Accounting Standards Board (“KASB”) has issued Statements of Korea Accounting Standards (“SKASs”) No. 1 through No. 25 to revise the previous Financial Accounting Standards. As a result, certain SKASs were amended, and interpretations and opinions were released. A summary of the amended SKASs, Interpretations and Opinions which have been adopted by the Company are as follows:)

SKASs/Interpretation/Opinion	Key Requirements
SKAS No. 5 "Property, Plant and Equipment"	<ul style="list-style-type: none"> • Scope out assets in the process of construction or development to be used as inventories • Classify spare parts and repair tools as property, plant and equipment if they meet the following conditions: <ul style="list-style-type: none"> ① Useful life of the asset is more than one year; ② The asset is attached to a specific property, plant and equipment for use; and ③ The frequency of the use of the asset is irregular.
SKAS No. 15 "Investments in Associates"	<ul style="list-style-type: none"> • Clarify that receivables collected after the balance sheet date and short-term loans are excluded from long-term investments • Clarify that upon additional purchase of subsidiary’s stocks, the purchase price should be compared to the net assets of the subsidiary in the consolidated balance sheet
SKAS No. 16 "Income Taxes"	<ul style="list-style-type: none"> • Include additional income tax or tax refunds for the prior periods in income tax expense for the current period • Amend note disclosure items as follows: <ul style="list-style-type: none"> ① In the disclosure for details of income tax expense, total income tax effect and intra-period allocation should be disclosed together; ② Disclosure of details of tax adjustment items is no longer required, but the reconciliation between income before income tax expense and income tax expense should be disclosed.
SKAS No. 20 "Related Party Disclosures"	<ul style="list-style-type: none"> • Disclose the name of the ultimate controlling party (before amendment: the ultimate controlling company) in the note if it is different from the parent, and the name of the next most senior parent (before amendment: the next ultimate parent) which prepares its consolidated financial statements if either the parent or the ultimate controlling party does not produce its consolidated financial statements available for public use
Interpretation 53-70 "Accounting for Derivative Instruments"	<ul style="list-style-type: none"> • Clarify guidelines to distinguish guarantee contracts and credit derivatives • Set up a basis which can allow the designation of existing derivatives as hedging instruments considering its economic substance • Revise provisions in order to expand the scope of hedge accounting for foreign exchange risk, which was previously permitted on a limited basis.

As a result of adopting the above amended standards, the newly adopted SKAS does not affect the Company’s net assets and net income of the current and prior period financial statements.

(2) Recent Changes in Korean Accounting Standards

Korea Financial Accounting Standards, SKAS, Interpretation on Korea Financial Accounting Standards, Opinion on Application of Accounting Standards and Opinion on Financial Reporting Practice (collectively referred to as “KFAS and others”) that were issued or amended by the Korea Accounting Institute and the Financial Supervisory Service for the year ended December 31, 2008 and adopted by the Company for the year ended December 31, 2008 are summarized below.

Accounting Standards	Description
Korea Financial Accounting Standards	<ul style="list-style-type: none"> · Introduction of the functional currency accounting: An entity’s books of record maybe maintained in a foreign currency, if the majority of transactions (assets, liabilities, revenues, expenses, gain, or loss) arise in currency (or currencies) other than Korean won. · Exceptions to accounting for large non-issuers regarding over-the-counter derivatives exposed to foreign currency exchange risks: For entities other than those listed on the Korea Exchange, registered with KOSDAQ Stock Market or with Financial Supervisory Commission, are financial institutions, or operate under the Small and Medium Corporation Law, over-the-counter derivative products carrying foreign currency exchange risk may be exempt from fair value accounting subsequent to the effective date of the contract.
SKAS No.5, Tangible Assets	<ul style="list-style-type: none"> · Application of the cost method or the revaluation method may be chosen by each tangible asset type. Consistent application of the method chosen is required.
SKAS No.8, Investments in Securities	<ul style="list-style-type: none"> · In rare cases, the trading securities may be reclassified as other categories of securities when an entity changes its intention to trade the securities in the near future.
SKAS No.15, Investments in Associates	<ul style="list-style-type: none"> · Clarifies that in applying the equity method to subsidiaries, except for those instances where the total investment is equal to or less than zero, the net assets and net income or loss on the non-consolidated financial statements of the subsidiary are identical to the net interest in the subsidiary’s net assets and net income or loss on the consolidated financial statements of the parent. · Clarifies that Subparagraphs (Ga) to (Sa) of Paragraph 39 are illustrative. In addition, the difference between the consideration for the net interest and the net interest in the net assets of the subsidiary, as described under Subparagraphs (Na) to (Ra) is recognized as additional paid-in-capital in the consolidated financial statements of the parent.
SKAS No.21, Preparation and Presentation of Financial Statements	<ul style="list-style-type: none"> · Recommends disclosing the present status of the preparation for and the effects on the financial statements of the International Financial Reporting Standards when the initial adoption of such standards is expected to materially impact the entity’s accounting policies.
Opinion on Application of Accounting Standards 08-3, Factors to Consider for Fair Value of Financial Instruments	<ul style="list-style-type: none"> · Valuation method should be used to determine fair value when the market price in the principal or most advantageous market does not constitute fair value.

As a result of adopting the above amended standards, the newly adopted SKAS does not affect the Company’s net assets and net income of the current and prior period financial statements.

Cash and Cash Equivalents

Cash and cash equivalents includes cash, substitute securities including checks issued by others, and checking accounts, ordinary deposits and financial instruments, which can be easily converted into cash and whose value changes due to changes in interest rates are not material, with maturities (or date of redemption) of three months or less from acquisition.

Revenue Recognition

Revenue from sale of goods is recognized when all of the following conditions have been satisfied:

- (1) The Company has transferred significant risks and rewards of ownership of the goods to the buyer.
- (2) The Company retains neither continuing managerial involvement, to the degree usually associated with ownership, nor effective control over the goods sold.
- (3) It is probable that the economic benefits associated with the transaction will flow into the Company.
- (4) Costs incurred or to be incurred with respect to the transaction can be measured reliably.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of individual accounts and prior year collection experience.

Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined by the specific identification method of materials-in-transits and the weighted average method for finished goods and work-in-process and others. When applying the lower of cost or market method, the market value of merchandise and finished goods are referred to the net realizable values, whereas the raw materials and supplies held for use in production of inventories are referred to the current replacement costs. Valuation loss incurred when the market value of an inventory falls below its carrying amount is presented as allowance for valuation account and added to the cost of goods sold.

The Company recognized loss on valuation of inventories amounting to ₩32,783,359 thousand and ₩2,509,696 thousand for the years ended December 31, 2008 and 2007, respectively, which is included in cost of sales. The Company maintains perpetual inventory records, which are adjusted through physical count at the end of the year.

The Company reversed loss on valuation of inventories amounting ₩1,807,492 thousand and ₩1,374,959 thousand for the years ended December 31, 2008 and 2007, which is deducted from cost of sales.

Securities (excluding equity method investment securities)

Debt and equity securities are initially stated at the market value of consideration given for acquisition (market value of securities acquired if market value of consideration given is not available) plus incidental costs attributable to the acquisition of the securities and are classified into trading, available-for-sale and held-to-maturity securities depending on the purpose and nature of acquisition. The Company presents trading securities as short-term investments, and available-for-sale securities and held-to-maturity securities as short-term investments or long-term investment securities depending on their nature in the balance sheet. The moving average method for equity securities and the specific identification method for debt securities are used to determine the cost of securities for the calculation of gain (loss) on disposal of those securities.

The following is the specific valuation method applied for debt and equity securities;

(1) Trading securities

Securities that are bought and held principally for the purpose of selling them in the near term with active and frequent buying and selling, including securities which consist of a portfolio of securities with the clear objective of generating profits on short-term differences in price, are classified as trading securities. Trading securities are recorded at their fair value and unrealized gains or losses from trading securities are recorded as gain (loss) on valuation of trading securities included in the non-operating income (expense).

(2) Held-to-maturity security

Debt securities that have fixed or determinable payments with a fixed maturity are classified as held-to-maturity securities only if the Company has both the positive intent and ability to hold those securities to maturity. However, debt securities, whose maturity dates are due within one year from the balance sheet date are classified as current assets.

After initial recognition, held-to-maturity securities are stated at amortized cost in the balance sheet. When held-to-maturity securities are measured at amortized costs, the difference between their acquisition cost and face value is amortized using the effective interest rate method and the amortization is included in the cost and interest income.

When the possibility of not being able to collect the principal and interest of held-to-maturity securities according to the terms of the contracts is highly likely, the difference between the recoverable amount (the present value of expected cash flows using the effective interest rate upon acquisition of the securities) and book value is recorded as loss on impairment of held-to-maturity securities included in the non-operating expense and the held-to-maturity securities are stated at the recoverable amount after impairment loss. If the value of impaired securities subsequently recovers and the recovery can be objectively related to an event occurring after the impairment loss was recognized, the reversal of impairment loss is recorded as reversal of impairment loss on held-to-maturity securities included in non-operating income. However, the resulting carrying amount after the reversal of impairment loss shall not exceed the amortized cost that would have been measured, at the date of the reversal, if no impairment loss was recognized.

(3) Available-for-sale securities

Debt and equity securities that do not fall under the classifications of trading or held-to-maturity securities are categorized and presented as available-for-sale securities included in investment assets. However, if an available-for-sale security matures or it is certain that such security will be disposed of within one year from the balance sheet date, it is classified as a current asset.

Available-for-sale securities are recorded at fair value. Unrealized gain or loss from available-for-sale securities are presented as gain or loss on valuation of available-for-sale securities included in accumulated other comprehensive income under shareholders' equity. In addition, accumulated gain or loss on valuation of available-for-sale securities is reflected in either gain or loss on disposal of available-for-sale securities or loss on impairment of available-for-sale securities upon disposal or recognition of impairment of the securities. However, available-for-sale equity securities that are not marketable and whose fair value cannot be reliably measured are recorded at acquisition cost.

When there is objective evidence that the available-for-sale securities are impaired and the recoverable amount is lower than the cost (amortized cost for debt securities) of the available-for-sale securities, an impairment loss is recognized as loss on impairment of available-for-sale securities in non-operating expense and the related unrealized gain or loss remaining in shareholders' equity is adjusted to the impairment loss. If the value of impaired securities subsequently recovers and the recovery can be objectively related to an event occurring after the impairment loss was recognized, the reversal of impairment loss can be recognized up to the previously recorded impairment loss as a reversal of loss on impairment of available-for-sale securities in non-operating income. However, if the fair value increases after the impairment loss is recognized but does not relate to the recovery of impairment loss as described above, the increase in fair value is recorded in shareholders' equity.

Equity Method Investment Securities

Investments in equity securities of companies, over which the Company exercises significant influence, are reported using the equity method of accounting.

(1) Accounting for changes in the equity of the investee

Under the equity method of accounting, the Company records changes in its proportionate equity of the net assets of the investee depending on the nature of the underlying changes in the investee as follows; (i) “equity in income (loss) of associates” in the non-operating income (expense) for net income (loss) of the investee; (ii) “increase (decrease) in retained earnings of associates” in the retained earnings for changes in beginning retained earnings of the investee; (iii) “increase (decrease) in equity of associates” in the accumulated other comprehensive income (loss) for other changes in stockholder(s) or shareholder(s) equity of the investee.

When the equity method investee’s unappropriated retained earnings carried over from prior period changes due to significant error corrections, the Company records the changes in equity as “equity in income (loss) of associates” included in the non-operating income (expense) if the impact of the changes on the Company’s non-consolidated financial statements is not significant. If the changes result from the changes in accounting policies of the equity method investee, they are reflected in the unappropriated retained earnings carried over from prior period in accordance with SKAS on changes in accounting policy and errors corrections. When the investee declares cash dividends, the dividends to be received are deducted directly from equity method investment securities.

(2) Treatment of Investment difference

Difference between the acquisition cost and the Company’s proportionate equity in the fair value of net assets of the investee upon acquisition (“Investment difference”) is considered as (negative) goodwill and accounted for in accordance with accounting standards for business combination. The goodwill portion which is amortized over useful lives within 20 years on a straight line method and the negative goodwill portion which is amortized over the weighted average useful lives of depreciable non-monetary assets of the investee are included in “equity in income (loss) of associates”.

When the Company’s equity interest in the investee increases due to an increase (or decrease) in contributed capital with (or without) consideration, the changes in the Company’s proportionate equity in the investee are accounted for as investment difference. If the Company’s equity interest decreases, the changes are accounted for as “gain (loss) on disposal of the equity method investment securities”. However, if the investee is the Company’s subsidiary, those changes are accounted for included in the capital surplus (capital adjustments).

(3) Difference between the fair value and book value of net asset of the investee

Upon acquisition of the equity method investment securities, the Company’s proportionate shares in the differences between the fair values and book values of the identifiable assets and liabilities of the investee are amortized/reversed and included in “equity in income (loss) of associates” in accordance with the investee’s methods of accounting for the assets and liabilities.

(4) Elimination of unrealized gain or loss from intercompany transactions

The Company’s proportionate share in the gain (loss) arising from transactions between the Company and the investee, which remains in the book value of assets held as of balance sheet date, is considered unrealized gain (loss) and adjusted to equity method investment securities. If the investee is a subsidiary of the Company, unrealized gain (loss) from sale of an asset by the Company to the investee (downstream transaction) is fully eliminated and adjusted to equity method investment securities.

(5) Impairment loss on equity method investment securities

When there is objective evidence that the equity method investment securities is impaired and the recoverable amount is lower than the carrying amount of the equity method investment securities, an impairment loss is recognized as “loss on impairment of equity method investment securities” included in non-operating expense and the unamortized investment difference is first reduced. When the recoverable amount is recovered after the recognition of impairment loss, the reversal of impairment loss is recognized as income up to the previously recorded impairment loss. The book value of the equity method investment securities after the reversal of the impairment loss cannot exceed the book value calculated as if the impairment loss would not been originally recognized. The reversal of the impairment loss recognized against the unamortized investment difference is not allowed.

(6) Translation of financial statements of overseas investees

For overseas investees whose financial statements are prepared in foreign currencies, the equity method of accounting is applied after assets and liabilities are translated in accordance with the accounting treatments for the translation of the financial statements of overseas’ subsidiaries for consolidated financial statements. The Company’s proportionate share of the difference between assets net of liabilities and stockholder(s) or shareholder(s) equity after translation into Korean won is accounted for as “increase (decrease) in equity of associates” included in accumulated other comprehensive income (loss).

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are stated at cost (acquisition cost or manufacturing cost plus expenditures directly related to preparing the assets ready for use). Assets acquired from investment-in-kind, by donation or free of charge in other ways are stated at fair value. However, certain assets for which the revaluation method in accordance with the Korean Assets Revaluation Act or revaluation model in accordance with the amendment to the Statement of Korea Accounting Standards (“SKASs”) No. 5 is elected are recorded at revalued amounts.

Expenditures after acquisition or completion that increase future economic benefit in excess of the most recently assessed capability level of the asset are capitalized and other expenditures are charged to expense as incurred. In accordance with the Company’s policy, borrowing costs in relation to the manufacture, purchase, construction or development of assets are charged to current operations as incurred.

When the expected future cash flow from use or disposal of the property, plant and equipment is lower than the carrying amount due to obsolescence, physical damage or other causes, the carrying amount is adjusted to the recoverable amount (the higher of net sales price or value in use) and the difference is recognized as an impairment loss. When the recoverable amount subsequently exceeds the carrying amount of the impaired asset, the excess is recorded as a reversal of impairment loss to the extent that the reversed asset does not exceed the carrying amount before previous impairment as adjusted by depreciation. The Company recorded loss on impairment of property, plant and equipment totaling ₩515,687,494 thousand and ₩6,973,306 thousand for the years ended December 31, 2008 and 2007, respectively.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	24~50
Structures	13~30
Machinery	10
Vehicles	6~10
Tools and equipment	6~10
Office equipment	6~10

An asset whose use is discontinued and held for disposal or retirement is no longer depreciated. The carrying amount of the asset upon discontinuance of its use is reclassified to an investment asset and tested for impairment at each fiscal year-end. The property, plant and equipment reclassified to other investment assets amounted to ₩38,049,400 thousand and ₩226,703 thousand for the years ended December 31, 2008 and 2007, respectively.

Intangible Assets

Intangible assets are initially recognized at acquisition cost (purchase cost plus expenditures directly related to preparing the asset ready for use) and subsequently presented at amortized cost. Development cost is amortized using the straight-line method over 3 years when it can be used or sold and intangible assets other than development cost are amortized using the straight-line method over the estimated economic useful lives of related assets.

When the recoverable amount (the higher of net sales price or value in use) of intangible assets is significantly lower than the carrying amount due to obsolescence and other, the difference is recognized as an impairment loss. When the recoverable amount subsequently exceeds the carrying amount of the impaired asset, the excess is recorded as a reversal of impairment loss to the extent that the reversed asset does not exceed the carrying amount before previous impairment as adjusted by amortization. Loss on impairment of intangible assets amounted to ₩458,875 thousand for the year ended December 31, 2008.

Amortization is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Industrial rights	5~10
Utility facility usage rights	10~15
Prepaid royalty expenses	For the duration of agreements
Development costs	3
Others	3

Government contributions

Government subsidy and contribution for construction granted for the purpose of acquisition of certain assets are recorded as a deduction from the assets granted or other assets acquired for the temporary use of the assets granted. When the related assets are acquired, they are recorded as a deduction from the acquired assets and are offset against the depreciation of the acquired assets over their useful lives. In addition, government subsidy and contribution for construction without any repayment obligation is offset against the related expenses which they are intended to be disbursed, however, if there is no matching expense, they are recorded as operating revenue or non-operating revenue depending on whether they are directly related to the Company's principal operating activities. Government subsidy and contribution for construction with a repayment obligation is recorded as a liability.

Present Value Discount for Assets and Liabilities

Receivables or payables from long-term installment transactions, long-term loans/borrowings or the other similar transactions are stated at present value which is determined by discounting total amounts receivable or payable in the future using the effective interest rate, if the nominal value is significantly different from the present value. The discount or premium resulting from the determination of present value is reported in the balance sheet as a direct deduction from or addition to the nominal value of the related receivables or payables and the amortization by the effective interest rate method is included in the period income (loss).

Translation of Assets and Liabilities Denominated in Foreign Currency

Transactions denominated in foreign currencies are recorded in Korean won translated at the exchange rate prevailing on the transaction date and the resulting gain (loss) from foreign currency transactions is included in non-operating income (expense). Monetary assets and liabilities denominated in foreign currency are translated into Korean won at the Base Rates announced by Seoul Money Brokerage Services, Ltd. on the balance sheet dates, which were, ₩1,257.50 and ₩938.20 to USD 1.00 at December 31, 2008 and 2007, respectively, and the resulting gain (loss) from foreign currency translation is included in non-operating income (expense). When it is probable that the conversion right will not be exercised, such convertible bonds are regarded as monetary liabilities denominated in foreign currency.

Accrued Severance Indemnities

In accordance with the Company's policy, all employees with more than one year of service are entitled to receive lump-sum severance payments upon termination of their employment, based on their current rates of salary and length of service. The accrual for severance indemnities is computed as if all employees were to terminate at the balance sheet dates and amounted to ₩185,008,771 thousand and ₩175,587,889 thousand for the years ended December 31, 2008 and 2007, respectively. In accordance with the National Pension Law of Korea, a portion of its severance indemnities which had been transferred in cash to the National Pension Fund through March 1999 were presented as a deduction accrued severance indemnities. Such receivables, amounting to ₩557,046 thousand and ₩1,057,662 thousand for the years ended December 31, 2008 and 2007, respectively, are presented as a deduction from accrued severance indemnities.

Also, the Company entered into a severance insurance plan in accordance with the Labor Standard Law, which restricts severance payment directly to the eligible employees and the amount funded under this severance insurance plan of ₩4,384,745 thousand and ₩4,959,174 thousand for the years ended December 31, 2008 and 2007, respectively, is presented as a deduction from accrued severance indemnities.

Actual payments for severance indemnities amounted to ₩28,461,736 thousand and ₩32,774,745 thousand for the years ended December 31, 2008 and 2007, respectively.

Derivatives Instruments

The Company records rights and obligations arising from derivative instruments in assets and liabilities, which are stated at fair value. Gains and losses that result from the changes in the fair value of derivative instruments are recognized in current earnings. However, for derivative instruments that cash flow hedge accounting applies to, the effective portion of the gain or loss on the derivatives instruments are recorded as gain (loss) on valuation of derivatives included in accumulated other comprehensive income (loss).

Convertible Bonds

When issuing convertible bonds, the proceeds from issuance are allocated between the liability feature, representing the straight bonds, and the equity feature, representing the conversion right. The amount allocated to the equity feature is recognized as consideration for the conversion right and classified as other paid-in capital. When additional stocks are issued as a result of the exercise of the conversion right, it is reclassified as paid-in capital in excess of par value. Interest expense on a convertible bond is measured by applying the effective interest rate of the straight bond to the book value of the bond. The book value of the bond refers to the amount measured by adjusting ① bond discount or premium, ② conversion right adjustment and ③ premium on bond redemption (when there are specific payment terms) to the face value of the bond:

Accrued Warranties and Product Liabilities

The Company generally provides a warranty to the ultimate consumer with each product and accrues warranty expense and potential expenses, which may occur due to product liabilities suits and voluntary recall campaigns at the time of sale based on actual claims history. Actual costs incurred are charged against the accrual when paid. In accordance with the End of Life Vehicle (ELV) provision of the European Union (EU), the Company also accrues liabilities for the defrayment portion of scrap expense on the vehicles exported to Europe. The Company recognized the accrued warranties at present value, where the difference between nominal value and present value of accrued warranties and product liabilities is material.

Income Tax Expense

When the Company recognizes deferred income tax assets or liabilities for the temporary differences between the carrying amount of an asset and liability and tax base, a deferred income tax liability for taxable temporary difference is fully recognized except to the extent in accordance with related SKAS while a deferred tax asset for deductible temporary difference is recognized to the extent that it is almost certain that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred income tax asset (liability) is classified as current or non-current asset (liability) depending on the classification of related asset (liability) in the balance sheet. Deferred income tax asset (liability), which does not relate to specific asset (liability) account in the balance sheet such as deferred income tax asset recognized for tax loss carryforwards, is classified as current or non-current asset (liability) depending on the expected reversal period. Deferred income tax assets and liabilities in the same tax jurisdiction and in the same current or non-current classification are presented on a net basis. Current and deferred income tax expense are included in income tax expense in the statement of income and additional income tax or tax refunds for the prior periods are included in income tax expense for the current period when recognized. However, income tax resulting from transactions or events, which was directly recognized in stockholder(s) or shareholder(s) equity in current or prior periods, or business combinations, is directly adjusted to equity account or goodwill (or negative goodwill).

3. RESTRICTED DEPOSITS:

Deposits with withdrawal restrictions as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>	<u>Description</u>
Short-term financial instruments	₩ 5,428,999	₩ 4,248,613	Government subsidies and others
Long-term financial instruments	9,000	9,000	Guarantee deposits for checking accounts
	<u>₩ 5,437,999</u>	<u>₩ 4,257,613</u>	

4. INVESTMENTS IN SECURITIES:

(1) Available-for-sale securities as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>
Current assets:		
Government bonds	₩ 956	₩ 7,991
Non-current assets:		
Non-listed equity securities	560,000	560,000
Government bonds	-	901
	<u>560,000</u>	<u>560,901</u>
	<u>₩ 560,956</u>	<u>₩ 568,892</u>

(2) Investments in non-listed equity securities as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

<u>Company</u>	<u>Ownership percentage</u>	<u>2008</u>		<u>2007</u>	
		<u>Acquisition Cost</u>	<u>Net asset value</u>	<u>Acquisition cost</u>	<u>Net asset value</u>
Kihyup Technology Banking Corporation	1.72 %	₩ 500,000	₩ 651,253	₩ 500,000	₩ 635,678
Korea Management Consultants Association	1.50 %	60,000	194,623	60,000	162,050
		<u>₩ 560,000</u>	<u>₩ 845,876</u>	<u>₩ 560,000</u>	<u>₩ 797,728</u>

(3) Investment in government bonds as of December 31, 2008 are as follows (Won in thousands):

<u>Maturities</u>	<u>Acquisition cost</u>	<u>Fair value</u>	<u>Gain on valuation</u>
Within 1 year	₩ 830	₩ 956	₩ 126

The Company recorded gain on valuation of available-for-sale securities in accumulated other comprehensive income account of ₩91 thousand (deducting tax effect of ₩35 thousand) as of December 31, 2008.

(4) Equity securities accounted for using the equity method as of December 31, 2008 are as follows (Won in thousands):

<u>Affiliated company</u>	<u>Ownership Percentage</u>	<u>Acquisition cost</u>	<u>Net assets value</u>	<u>Book value</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	100.0 %	₩ 1,618,804	₩ 3,098,616	₩ 3,075,776
Ssangyong Motor (Shanghai) Co., Ltd.	100.0 %	235,700	661,903	656,556
Ssangyong European Parts Center B.V.	100.0 %	835,695	(2,075,458)	-
		<u>₩ 2,690,199</u>	<u>₩ 1,685,061</u>	<u>₩ 3,732,332</u>

Equity securities accounted for using the equity method as of December 31, 2007 are as follows (Won in thousands):

<u>Affiliated company</u>	<u>Ownership Percentage</u>	<u>Acquisition cost</u>	<u>Net assets value</u>	<u>Book value</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	100.0 %	₩ 1,618,804	₩ 1,830,249	₩ 1,803,319
Ssangyong Motor (Shanghai) Co., Ltd.	100.0 %	235,700	416,513	412,458
Ssangyong European Parts Center B.V.	100.0 %	835,695	(1,510,250)	-
		<u>₩ 2,690,199</u>	<u>₩ 736,512</u>	<u>₩ 2,215,777</u>

(5) The gain or loss on valuation using the equity method for the year ended December 31, 2008 are as follows (Won in thousands):

<u>Affiliated company</u>	<u>Beginning balance</u>	<u>Gain (loss) from valuation with equity method</u>	<u>Others</u>	<u>Ending balance</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 1,803,319	₩ 414,971	₩ 857,486	₩3,075,776
Ssangyong Motor (Shanghai) Co., Ltd.	412,458	54,842	189,256	656,956
Ssangyong European Parts Center B.V.(*)	-	(63,467)	63,467	-
	<u>₩ 2,215,777</u>	<u>₩ 406,346</u>	<u>₩ 1,110,209</u>	<u>₩3,732,332</u>

(*) Use of equity method was discontinued since the value of investments less than zero due to accumulated deficit. In addition, unrecognized capital changes due to investment securities using the equity method amount to ₩5,693,826 thousand for the year ended December 31, 2008.

Equity securities accounted for using the equity method as of December 31, 2008 are valued based on the financial statements of investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. In order to verify the reliability of such unaudited and unreviewed financial statements, the Company has performed the following procedures and found no significant errors:

- i. obtained the signature from the chief executive officer of the equity method investee asserting that the unaudited and unreviewed financial statements are accurate,
- ii. checked whether the major transactions identified by the Company, including public disclosures, were appropriately reflected in the unaudited and unreviewed financial statements, and
- iii. performed an analytical review on the unaudited and unreviewed financial statements.

The gain or loss on valuation using the equity method for the year ended December 31, 2007 are as follows (Won in thousands):

Affiliated company	Beginning balance	Gain (loss) from valuation with equity method	Others	Ending balance
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 1,597,495	₩ 108,880	₩ 96,944	₩1,803,319
Ssangyong Motor (Shanghai) Co., Ltd.	644,110	79,340	(310,992)	412,458
Ssangyong European Parts Center B.V.(*)	-	(772,228)	772,228	-
	<u>₩ 2,241,605</u>	<u>₩ (584,008)</u>	<u>₩ 558,180</u>	<u>₩2,215,777</u>

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

Affiliated company	Inventories	Property, plant and equipment or intangible assets	Total
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ -	₩ 4,090	₩ 4,090
Ssangyong Motor (Shanghai) Co., Ltd.	1,292	-	1,292
Ssangyong European Parts Center B.V.(*)	(1,820,748)	-	(1,820,748)
	<u>₩ 1,819,456</u>	<u>₩ 4,090</u>	<u>₩ (1,815,366)</u>

(7) The summary of financial information of affiliated companies as of December 31, 2008 are as follows (Won in thousands):

Affiliated company	Total assets	Total liabilities	Sales	Net income(loss)
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 6,014,949	₩ 2,916,333	₩ 2,802,596	₩ 410,881
Ssangyong Motor (Shanghai) Co., Ltd.	2,632,816	1,970,913	14,461,281	56,134
Ssangyong European Parts Center B.V.	13,700,068	15,775,526	25,165,046	(120,641)

5. LOANS TO EMPLOYEES:

Loans to employees as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

Account	Description	2008	2007
Short-term loans	Housing loans	₩ 2,317,215	₩ 1,622,383
Long-term loans	Housing loans	21,165,936	18,648,297
"	Debt-to-equity swap loans and other	5,494,196	6,836,360
		<u>₩ 28,977,347</u>	<u>₩ 27,107,040</u>

For the year ended December 31, 2008, the Company loaned ₩6,750,000 thousand and redeemed ₩3,537,529 thousand for housing loans and ₩1,342,164 thousand for debt-to-equity swap loans and other.

6. INSURED ASSETS:

The Company carries insurance coverage for property, plant and equipment, and inventories as of December 31, 2008 as follows (Won in thousands):

<u>Insured assets</u>	<u>Company</u>	<u>Coverage</u>
Products	Meritz Fire & Marine Insurance Co., Ltd	₩ 2,995,175,539 (US\$2,381,849,335)
PP&E and inventories	Meritz Fire & Marine Insurance Co., Ltd	2,266,974,464
		<u>₩ 5,262,150,003</u>

In addition, the Company has purchased insurance for its vehicles, comprehensive general liability insurance, industrial accident insurance and medical insurance for employees. Also, the Company has purchased executive compensation insurance covering losses up to ₩10,000 million, gas compensation insurance and cargo insurance.

7. ASSETS PLEDGED AS COLLATERAL:

The assets pledged as collateral for the Company's borrowings of ₩238,181 million (guarantees: The Korea Development Bank, collateralized amount of ₩351,000 million) as of December 31, 2008 are as follows (Won in thousands):

<u>Pledged assets</u>	<u>Net book value(*)</u>
Land	₩ 143,058,727
Buildings	175,577,301
Structures	39,313,813
Machinery	45,671,889
	<u>₩ 404,621,730</u>

The assets pledged as collateral for the Company's payment extension of special consumption tax of ₩8,172 million (guarantees: Pyeongtaek Tax Office, collateralized amount of ₩10,000 million) as of December 31, 2008 are as follows (Won in thousands):

<u>Pledged assets</u>	<u>Net book value(*)</u>
Land	₩ 6,883,769

The assets pledged as collateral for the Company's purchase iron and steel, extending mature of bill as of December 31, 2008 are as follows (Won in thousands):

<u>Pledged assets</u>	<u>Net book value(*)</u>
Land	₩ 18,304,394
Buildings	8,981,943
	<u>₩ 27,286,237</u>

(*) Prior to allocating impairment loss in 2008.

8. PROPERTY, PLANT AND EQUIPMENT:

(1) STANDARD VALUE OF LAND

The book value and standard value of land declared by the government for the purpose of taxes and land policy as of December 31 are as follows (Won in thousands):

	<u>Area(m²)</u>	<u>Book value</u>	<u>Standard value</u>
Land	₩ 1,445,180	₩ 270,376,841	₩ 541,828,044
"	121,652	20,324,325	45,213,855
Other Investment			
Assets	<u>147,861</u>	<u>14,570,941</u>	<u>19,390,432</u>
	<u>₩ 1,714,693</u>	<u>₩ 305,272,107</u>	<u>₩ 606,432,331</u>

(2) Property, plant and equipment as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>
Land	₩ 290,701,166	₩ 278,763,002
Buildings	579,016,976	578,885,537
Structures	117,002,865	117,640,247
Machinery	1,162,912,557	1,189,377,830
Vehicles	14,160,178	13,755,014
Tools and equipment	584,783,070	484,652,999
Office equipment	58,702,877	57,150,382
Construction in progress	77,683,793	132,844,719
Machinery in transit	2,163,343	1,063,638
Government subsidies	<u>(4,243,311)</u>	<u>(2,568,782)</u>
	2,882,883,514	2,851,564,586
Less: Accumulated impairment losses	(513,241,499)	(9,890,288)
Accumulated depreciation	<u>(1,501,885,789)</u>	<u>(1,425,542,934)</u>
	<u>₩ 867,756,226</u>	<u>₩ 1,416,131,364</u>

(3) The changes in acquisition costs of property, plant and equipment for the year ended December 31, 2008 are as follows (Won in thousands):

Account	Beginning of year	Increase		Decrease		End of year
		Acquisition	Other	Disposal	Other	
Land	₩ 278,763,002	₩ 896,693	₩ 32,446,208	₩ 6,833,796	₩ 14,570,941	₩ 290,701,166
Buildings	578,885,537	4,563,425	4,543,116	-	8,975,102	579,016,976
Government subsidies	(770,575)	(1,322,716)	-	-	(34,803)	(2,058,488)
Structures	117,640,247	1,223,838	1,047,580	23,400	2,885,400	117,002,865
Government subsidies	(189,705)	-	-	-	(16,487)	(173,218)
Machinery	1,189,377,830	6,347,354	36,079,893	68,845,010	47,510	1,162,912,557
Government subsidies	(675,232)	(732,347)	-	-	(128,394)	(1,279,185)
Vehicles	13,755,014	1,255,735	100,199	950,770	-	14,160,178
Government subsidies	(46,138)	-	-	-	(15,817)	(30,321)
Tools & equipment	484,652,999	25,680,968	88,210,220	2,208,317	11,552,800	584,783,070
Government subsidies	(44,497)	(70,237)	-	-	(11,804)	(102,930)
Office equipment	57,150,382	2,603,811	25,105	1,058,775	17,646	58,702,877
Government subsidies	(842,635)	(6,790)	-	-	(250,256)	(599,169)
Construction in progress	132,844,719	87,469,925	5,771,703	-	148,402,554	77,683,793
Machinery in transit	1,063,638	17,484,498	-	-	16,384,793	2,163,343
	<u>₩ 2,851,564,586</u>	<u>₩ 145,394,157</u>	<u>₩ 168,224,024</u>	<u>₩ 79,920,068</u>	<u>₩ 202,379,185</u>	<u>₩ 2,882,883,514</u>

The changes in acquisition costs of property, plant and equipment for the year ended December 31, 2007 are as follows (Won in thousands):

Account	Beginning of year	Increase		Decrease		End of year
		Acquisition	Other	Disposal	Other	
Land	₩ 285,777,252	₩ 785,690	₩ 1,167,150	₩ 8,967,090	₩ -	₩ 278,763,002
Buildings	572,054,932	1,822,787	9,166,661	3,463,201	695,642	578,885,537
Government subsidies	(685,848)	(99,280)	-	-	(14,553)	(770,575)
Structures	114,673,851	1,117,891	2,204,406	355,901	-	117,640,247
Government subsidies	(63,944)	(129,619)	-	-	(3,858)	(189,705)
Machinery	1,240,297,385	4,698,329	6,371,823	4,839,790	57,149,917	1,189,377,830
Government subsidies	(607,082)	(147,723)	-	-	(79,573)	(675,232)
Hicles	14,322,429	571,187	-	1,089,586	49,016	13,755,014
Government subsidies	(61,954)	-	-	-	(15,816)	(46,138)
Tools & equipment	638,332,180	7,232,025	7,594,419	1,915,162	166,590,463	484,652,999
Government subsidies	(10,195)	(37,710)	-	-	(3,408)	(44,497)
Office equipment	59,750,205	2,069,214	1,053	1,756,245	2,913,845	57,150,382
Government subsidies	(1,012,075)	(71,084)	-	-	(240,524)	(842,635)
Construction in progress	76,896,750	76,131,446	2,267,630	-	22,451,107	132,844,719
Machinery in transit	-	5,118,043	-	-	4,054,405	1,063,638
	<u>₩ 2,999,663,886</u>	<u>₩ 99,061,196</u>	<u>₩ 28,773,142</u>	<u>₩ 22,386,975</u>	<u>₩ 253,546,663</u>	<u>₩ 2,851,564,586</u>

(4) The changes in acquisition costs of property, plant and equipment for the year ended December 31, 2008 are as follows (Won in thousands):

Account	Beginning of year	Increase		Decrease		End of year
		Depreciation	Other	Disposal	Other	
Buildings	₩ 151,804,337	₩ 15,094,864	₩ -	₩ 722,322	₩ 270,739	₩ 151,804,337
Structures	54,318,405	5,212,979	-	259,874	-	54,318,405
Machinery	942,006,313	55,187,647	-	3,719,707	48,893,759	942,006,313
Vehicles	8,473,001	1,799,672	-	627,048	18,080	8,473,001
Tools & equipment	229,227,704	71,397,197	-	1,391,478	128,270,981	229,227,704
Office equipment	39,713,174	6,870,335	-	1,485,588	2,854,822	39,713,174
	<u>₩ 1,425,542,934</u>	<u>₩ 155,562,694</u>	<u>₩ -</u>	<u>₩ 820,6017</u>	<u>₩ 180,308,381</u>	<u>₩ 1,425,542,934</u>

The changes in accumulated depreciation of property, plant and equipment for the year ended December 31, 2007 are as follows (Won in thousands):

Account	Beginning of year	Increase		Decrease		End of year
		Depreciation	Other	Disposal	Other	
Buildings	₩ 137,871,974	₩ 14,925,424	₩ -	₩ 722,322	₩ 270,739	₩ 151,804,337
Structures	49,470,696	5,107,583	-	259,874	-	54,318,405
Machinery	914,844,787	79,774,992	-	3,719,707	48,893,759	942,006,313
Vehicles	7,125,836	1,992,293	-	627,048	18,080	8,473,001
Tools & equipment	301,268,105	57,622,058	-	1,391,478	128,270,981	229,227,704
Office equipment	34,740,233	9,313,351	-	1,485,588	2,854,822	39,713,174
	<u>₩ 1,445,321,631</u>	<u>₩ 168,735,701</u>	<u>₩ -</u>	<u>₩ 820,6017</u>	<u>₩ 180,308,381</u>	<u>₩ 1,425,542,934</u>

- (5) The changes in accumulated impairment losses of property, plant and equipment for the year ended December 31, 2008 are as follows (Won in thousands):

Account	Beginning of year	Increase	Decrease	End of year
Buildings	₩ 2,352,689	₩ 202,826,739	₩ 7,430,934	₩ 197,748,494
Structures	86,497	37,543,795	2,269,516	35,360,776
Machinery	1,793,569	104,679,995	1,053,364	105,420,200
Vehicles	83,132	2,356,869	453	2,439,548
Tools & equipment	5,560,409	161,968,219	2,560,460	164,968,168
Office equipment	13,992	7,303,772	13,451	7,304,313
	<u>₩ 9,890,288</u>	<u>₩ 516,679,389</u>	<u>₩ 13,328,178</u>	<u>₩ 513,241,499</u>

- (6) The Company recognized impairment loss on property, plant and equipment of which recoverable amounts were less than carrying amount using and disposal it, as a result of material change in business environment being under legal management. The impairment of assets is recognized and the asset is recognized at reduced value and the resulting impairment loss is charged to other expenses.

The impairment loss, which the Company recognized for the year ended December 31, 2008, is as follows (Won in thousands):

Account	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value	Recoverable amounts	Impairment loss
Buildings	₩ 423,501,869	₩ 126,254,909	₩ 387,880	₩ 196,859,080	₩ 94,032,340	₩ 202,826,740
Structures	103,124,760	51,204,165	-	51,920,595	14,376,800	37,543,795
Machinery	864,406,493	705,558,368	736,938	158,111,187	53,419,313	104,691,874
Vehicles	11,323,595	7,438,688	82,679	3,802,228	1,445,359	2,356,869
Tools & equipment	542,737,295	260,344,554	5,0129,514	277,363,227	114,447,357	162,915,873
Office equipment	49,653,256	38,625,583	493	11,027,180	3,719,017	7,308,163
Construction in Progress	44,180	-	-	44,180	-	44,180
	<u>₩ 1,994,791,448</u>	<u>₩ 1,189,426,267</u>	<u>₩ 6,237,504</u>	<u>₩ 10,963,727</u>	<u>₩ 281,440,183</u>	<u>₩ 517,687,494</u>

The impairment loss, which the Company recognized for the year ended December 31, 2007, is as follows (Won in thousands):

Account	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value	Recoverable amounts	Impairment loss
Buildings	₩ 4,520,926	₩ 2,061,861	₩ -	₩ 2,459,065	₩ 106,376	₩ 2,352,689
Structures	718,028	631,503	-	86,526	27	86,498
Machinery	324,721	1,634,343	2,099	2,067,683	1,233,628	834,055
Vehicles	48,285	17,518	-	30,767	3,077	27,690
Tools & equipment	2,650	10,040,389	137,542	5,598,092	2,640,547	2,957,545
Office equipment	618,838	592,015	-	71,594	6,765	64,829
Construction in Progress	650,000	-	-	650,000	-	650,000
	<u>₩ 26,080,996</u>	<u>₩ 14,977,629</u>	<u>₩ 139,641</u>	<u>₩ 10,963,726</u>	<u>₩ 3,990,420</u>	<u>₩ 6,973,306</u>

- (7) In 2005, the Company recognized impairment loss of ₩42,528 million on plant related to discontinuing manufacturing Musso and Korando vehicles. However, in 2007, since the Company disposed of the plant, the Company reversed the previously recognized impairment loss on machinery, vehicles and equipments, which were within the limit of what the carrying amount would be as of the recovery date if there had been no impairment loss:

Account	Carrying amount after depreciation without impairment	Book value after impairment	Recoverable amounts	Reversal of impairment loss
Machinery	₩ 8,253,023	₩ 273,934	₩ 710,369	₩ 436,435
Vehicles	166	12	30	18
Tools and equipment	36,681,785	2,132,931	5,543,926	3,410,995
	₩ 44,934,974	₩ 2,406,877	₩ 6,254,325	₩ 3,847,448

As a result of disposal of other investment assets for the years ended December 31, 2008 and 2007, the Company incurred loss on disposal of investments of ₩8,262 thousand and ₩23,781 thousand, respectively. The Company also incurred gain on disposal of investments of ₩157 thousand and ₩7,924,181 thousand for the years ended December 31, 2008 and 2007.

9. INTANGIBLE ASSETS:

- (1) Intangible assets as of December 31, 2008 are as follows (Won in thousands):

	AcquisitionCost	Amortization	Accumulated impairment	Book value
Industrial right	₩ 2,290,420	₩ 1,313,322	-	₩ 977,098
Electricity and gas available right	80,380	80,236	-	144
Development costs	221,288,563	90,952,405	458,875	129,877,283
Other intangible assets	11,279,753	6,563,441	-	4,716,312
Government grants	(1,086,050)	(609,745)	-	(476,305)
	₩ 233,853,066	₩ 98,299,659	458,875	₩ 135,094,532

Intangible assets as of December 31, 2007 are as follows (Won in thousands):

	AcquisitionCost	Amortization	Accumulated impairment	Book value
Industrial right	₩ 2,308,632	₩ 1,185,722	-	₩ 1,122,910
Electricity and gas available right	550,375	543,749	-	6,626
Development costs	173,517,089	83,156,659	-	90,360,430
Government grants	(85,000)	(85,000)	-	-
Other intangible assets	9,365,801	5,782,920	-	3,582,881
Government grants	(824,274)	(338,176)	-	(486,098)
	₩ 184,832,623	₩ 90,245,874	-	₩ 94,586,749

- (2) The changes in book value of intangible assets for the year ended December 31, 2008 are as follows (Won in thousands):

	Beginning of period	Increase	Transfer(*)	Amortization	Accumulated impairment	End of period
Industrial right	₩ 1,122,910	₩ 228,613	₩ -	₩ 374,425	₩ -	₩ 977,098
Electricity and gas available right	6,626	-	-	6,842	-	144
Development costs	90,360,430	72,196,420	4,008,964	36,309,656	458,875	129,877,283
Other intangible assets	3,582,881	4,040,990	-	2,907,559	-	4,716,312
Government grants	(486,098)	(273,776)	-	(283,569)	-	(476,305)
	₩ 94,586,749	₩ 76,192,247	₩ 4,008,964	₩ 39,314,553	₩ 458,875	₩ 135,094,532

(*) The Company transfer to intangible asset from depreciation amounting to ₩2,164,161 thousand, retirement allowance amounting to ₩1,385,695 thousand and inventory amounting to ₩539,108 thousand for the year ended December 31, 2008.

The changes in book value of intangible assets for the year ended December 31, 2007 are as follows (Won in thousands):

	<u>Beginning of period</u>	<u>Increase</u>	<u>Transfer</u>	<u>Amortization</u>	<u>Accumulated impairment</u>	<u>End of period</u>
Industrial right	₩ 1,044,062	₩ 452,347	₩ -	₩ 373,499	₩ -	₩ 1,222,910
Electricity and gas available right	70,313	-	-	63,687	-	6,626
Development costs	63,545,546	46,078,912	4,556,777	23,820,805	-	90,360,430
Government grants	(14,167)	-	-	(14,167)	-	-
Other intangible assets	3,604,994	2,338,123	-	2,360,236	-	3,582,881
Government grants	(408,638)	(286,695)	-	(209,235)	-	(486,098)
	<u>₩64,842,110</u>	<u>₩ 48,582,687</u>	<u>₩ 4,556,777</u>	<u>₩ 26,394,825</u>	<u>₩ -</u>	<u>₩ 94,586,749</u>

(3) Research and development costs occurred for the years ended December 31, 2008 and 2007 are as follows (Won in thousands):

<u>Description</u>	<u>2008</u>	<u>2007</u>
Development expenses	₩ 90,152,169	₩ 77,227,858
Development costs	<u>76,285,384</u>	<u>50,635,689</u>
	<u>₩ 166,437,553</u>	<u>₩ 127,863,547</u>

10. BORROWINGS AND BONDS:

(1) Borrowings as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

<u>Description</u>	<u>Bank</u>	<u>Type</u>	<u>Annual interest rate</u>	<u>2008</u>	<u>2007</u>
Short-term borrowings	Shinhan Bank and others	Usance	3.2~4.5 %	₩ 45,616,787	₩ 81,866,665
	Korea Development Bank	Bank overdrafts	Rate(*) + 1.4%	120,000,000	-
Long-term borrowings	Korea Development Bank	Long-term credit	Rate(*) + 1.2%	118,000,000	-
				<u>₩ 283,678,861</u>	<u>₩ 81,866,665</u>

(*) The Average Rate of Industrial Financial Debentures

(2) Debentures as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

<u>Description</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>	<u>2008</u>	<u>2007</u>
115 th debentures	2006-04-25	2009-04-25	6.75 %	₩ 150,000,000	₩ 150,000,000
116 th debentures	2006-07-26	2008-07-26	-	-	150,000,000
Discount on debentures				<u>(70,728)</u>	<u>(361,340)</u>
				149,929,272	299,638,660
Transfer to current portion of debentures				<u>(149,929,272)</u>	<u>(149,980,374)</u>
Current portion of debentures				150,000,000	150,000,000
Current portion of discount on debentures				<u>(70,728)</u>	<u>(19,626)</u>
Book value of debentures				<u>₩ -</u>	<u>₩ 149,658,286</u>

The 115th debentures were lost benefit to maturity by starting an enterprise revival procedure. And the 116th debentures had been redeemed in lump sum at the maturity date.

(3) Convertible bonds as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

Description	Issue date	Maturity date	Annual interest rate	2008		2007	
				₩		₩	
Convertible bonds	2007-07-03	2012-07-03	-	₩	251,352,000	₩	251,352,000
Conversion right adjustment					(66,739,957)		(82,917,732)
Discount on bonds					(2,852,160)		(3,543,524)
Premium on bond redemption					61,106,185		61,106,185
Book value of convertible bonds				₩	242,866,068	₩	225,996,929

Terms and conditions of the convertible bonds are as follows:

Description	Summary
Issue date	July 3, 2007
Issue amounts	EUR 200,000,000
Coupon rate	0% (Zero-coupon rate)
Redemption method	Redemption in a lump sum at maturity including redemption premium of 124.311% of the face value
Maturity date	July 3, 2012
Conversion Period	July 4, 2008 ~ June 26, 2012
The number of shares to be issued on conversion	27,567,415 shares of common stock with a par value of ₩5,000
Conversion price	₩9,035 per share (The exercise currency exchange rate is ₩1,245.358 to € 1.00 and exercise price is fixed as ₩9,035. However, the exercise price could be adjusted with increase of capital stock without consideration, capital dividend and consideration of stock or others)
Put Option	All or some of the bonds may be redeemed the relevant holder's by exercising the put option on 3 January, 2010 at 111.495% of the face value
Call Option	The bonds may be redeemed by the Company's exercising the call option and at any time after 3 January, 2010 but not less than seven business days

11. VALUATION OF ASSETS AND LIABILITIES AT PRESENT VALUE:

Valuation of assets and liabilities at present value as of December 31, 2008 are as follows (Won in thousands):

	Nominal value	Present value	Present value discounts	Effective Interest rate	Maturity
Assets:					
Trade receivables	₩ 1,937,476	₩ 1,833,495	₩ 103,981	8.90 %	2009.12.31
Long-term trade receivables	179,936	163,922	16,014	8.90 %	2010.10.31
	<u>₩ 2,117,412</u>	<u>₩ 1,997,417</u>	<u>₩ 119,995</u>		
Liabilities:					
Accrued warranties and product liabilities	₩ 50,313,746	₩ 48,955,974	₩ 1,357,772	7.09 %	2009.12.31
Long-term accrued warranties and product liabilities	43,268,087	39,912,925	3,355,162	7.09 %	2019.12.31
	<u>₩ 93,581,833</u>	<u>₩ 88,868,899</u>	<u>₩ 4,712,934</u>		

Discounts (premiums) on present value are amortized using the effective interest rate method. And amortization of discount (premiums) is recognized as interest expense (income).

12. ACCRUED WARRANTIES AND PRODUCT LIABILITIES:

The Company provides warranties for products up to 100,000 kilometers of operation within two to three months and environmental liabilities to be occurred related with scrapping vehicles exported to the European Union (EU) per End of Life Vehicles (ELV) regulations. In addition to, the Company changed contract in 2008 that local marketing subsidiary shares environmental cost of cars retired from service, and the Company recorded the reversal of ₩28,278,608 thousand exceeded of expected charge expenses as non-operating income.

The changes of accrued warranties and product liabilities for the year ended December 31, 2008 are as follows (Won in thousands):

<u>Accounts</u>	<u>Beginning of period</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of period</u>
Accrued warranties and product liabilities	₩ 118,274,744	₩ 48,603,053	₩ 78,008,898	₩ 88,868,899

The changes of accrued warranties and product liabilities for the year ended December 31, 2007 are as follows (Won in thousands):

<u>Accounts</u>	<u>Beginning of year</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of year</u>
Accrued warranties and product liabilities	₩ 102,567,202	₩ 87,860,088	₩ 72,152,546	₩ 118,274,744

13. SHAREHOLDERS' EQUITY:

- (1) The Company has 1,600,000,000 authorized shares of ₩5,000 par value common stock, of which 120,804,620 shares have been issued as of December 31, 2008.
- (2) The Company reduced its capital at a ratio of 10 to 1 on June 4, 2002 and recorded the gain on capital reduction of ₩5,149,844,305 thousand. On March 27, 2003, the Company used ₩5,134,404,024 thousand for deficit recovery and the residual amount of ₩15,440,281 thousand was recorded as other capital surplus. In addition, conversion rights amounting to ₩29,474,043 of the convertible bonds which issued on July 3, 2007 was recognized as other capital surplus.
- (3) The articles of incorporation of the Company states that non-cumulative participating preferred stock can be issued as registered non-voting stock up to 50,000,000 shares, and convertible bonds and bonds with subscription warranty, which can be converted into common or preferred stocks, can be issued to non-shareholders up to par value of ₩1,500,000 million and ₩100,000 million, respectively. Accordingly, convertible bonds can be converted to ₩1,400,000 million of common stock and ₩100,000 million of preferred stock and bonds with subscription warranty can be converted to ₩50,000 million of common stock and ₩50,000 million of preferred stock.
- (4) According to the special resolution at the shareholders' meeting, the Company is allowed to grant stock options to executives and employees who significantly contribute to managerial and technological innovation within 15 percent of the total number of stock issued. Minimum exercise price is average closing price during the preceding three months when stock option was granted through special resolution at the shareholders' meeting. Executives and employees, who are provided with stock options and have worked for the Company for two three months after grant date, may exercise stock options within two three months after three three months' grace period. As of December 31, 2008, no stock option has been granted.
- (5) As of December 31, 2008 and December 31, 2007, appropriated retained earnings consist of the following (Won in thousands):

<u>Description</u>	<u>Korean Won</u>	
	<u>2008</u>	<u>2007</u>
Reserve for financial structure improvement	₩ 60,108,456	₩ 60,108,456
Reserve for technology development	257,590,181	246,018,851
	<u>₩ 317,698,637</u>	<u>₩ 306,127,307</u>

14. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

Foreign currency denominated assets and liabilities as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

Account	2008		2007				
	Foreign currencies	Won equivalent	Foreign currencies	Won equivalent			
Assets:							
Cash and cash equivalents	AUD	3,116,954	₩	2,711,750	-	₩	-
"	EUR	272,702		488,379	2,050,775		2,832,653
"	JPY	5,8072,850		809,472	6,200,000		51,667
"	USD	37,208,931		44,193,047	4,006,595		3,758,988
Trade receivables	EUR	9,359,702		16,624,890	39,532,140		54,604,163
"	AUD	-		-	486,664		400,451
"	USD	21,578,857		27,135,413	95,851,063		89,927,467
"	GBP	-		-	4,033,639		7,558,937
"	JPY	20,090,250		280,036	18,750,900		156,257
Other receivables	EUR	158,442		281,428	4,752		6,315
"	JPY	455,362		6,347	-		-
"	USD	8,783,414		11,045,143	18,452,171		17,311,827
"	AUD	-		-	2,500,000		2,057,125
			₩	112,332,092		₩	178,665,850
Liabilities:							
Trade payables	EUR	7,119,615	₩	12,646,003	8,974,559	₩	12,595,469
"	AUD	3,045,645		2,649,711	5,015,239		4,129,418
"	JPY	200,649,083		2,796,828	257,323,193		2,130,543
"	USD	3,051,511		3,837,275	4,888,116		4,586,477
Other payables	AUD	2,334,994		2,031,444	116,652		95,987
"	CNY	-		-	13,800		1,773
"	DEM	822,038		746,550	1,529,802		1,080,392
"	EUR	10,037,384		17,828,602	6,560,727		9,062,069
"	FRF	5,693		1,541	5,693		1,199
"	GBP	210,572		382,746	256,351		480,428
"	JPY	47,213,750		658,108	71,579,240		596,491
"	SEK	724		118	724		106
"	USD	7,502,029		9,433,802	8,435,883		7,914,545
Accrued expenses	EUR	184,235		327,242	94,184		374,527
"	JPY	1,176,921		16,405	876,198		15,391
"	USD	119,145		149,825	2,073		2,080
"	AUD	3,525		3,067	1,132		2,845
Short-term borrowings	AUD	185,936		161,764	490,479		400,962
"	EUR	15,469,611		27,477,433	52,800,989		72,732,625
"	JPY	319,061,164		4,447,362	1,032,275,114		8,616,066
"	USD	10,196,267		12,821,806	125,196		117,012
			₩	115,786,275		₩	124,936,405

For the years ended December 31, 2008 and 2007, gain on foreign currency translation of ₩ 6,195,069 thousand and ₩1,832,036 thousand, respectively, and loss on foreign currency translation of ₩4,867,580 thousand and ₩3,899,826 thousand, respectively, were recognized.

15. INCOME TAX EXPENSE AND DEFERRED TAX ASSETS AND LIABILITIES:

- (1) Income tax expense for the years ended December 31, 2008 and 2007 consist of the following (Won in thousands):

	<u>2008</u>	<u>2007</u>
Income tax currently payable	₩ -	₩ -
Tax expense allocated to capital adjustments	<u>262</u>	<u>34,006</u>
Income tax expense	<u>₩ 262</u>	<u>₩ 34,006</u>

- (2) The changes in accumulated temporary differences for the years ended December 31, 2008 and 2007 are as follows (Won in thousands):

<u>Description</u>	<u>2008</u>	<u>2007</u>
Beginning of the period, net	₩ 385,088,693	₩ 391,237,258
Decrease in the current year	(291,792,931)	(208,231,307)
Increase in the current year	<u>697,113,350</u>	<u>202,082,742</u>
End of the year, net	790,409,112	385,088,693
Tax loss to be carried forward	395,868,266	158,579,982
Exclusion from temporary differences due to uncertainty of realization	<u>(1,186,277,378)</u>	<u>(543,668,675)</u>
Statutory tax rate	<u>24.2, 22.0%</u>	<u>27.5%</u>
Deferred income tax assets from temporary differences and tax loss	<u>-</u>	<u>-</u>
Tax credit to be carried forward	28,192,907	36,037,622
Exclusion due to uncertainty of realization	<u>(28,192,907)</u>	<u>(36,037,622)</u>
Deferred income tax assets from tax credit	<u>₩ -</u>	<u>₩ -</u>

(Note 1) These changes include adjustments for prior year tax return.

(Note 2) Tax rate is the enacted marginal tax rate which is expected to be applied to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized.

- (3) Temporary differences, which were excluded due to uncertainty of its realization as of December 31, 2008 and December 31, 2007, are as follows (Won in thousands):

<u>Descriptions</u>	<u>2008</u>	<u>2007</u>
(Deductible temporary differences):	₩ 790,409,112	₩ 385,088,693
(Tax loss to be carried forward):	395,868,266	158,579,982
(Tax credit to be carried forward)	28,192,907	36,037,622

The Company does not recognize deferred income tax assets as of December 31, 2008 and 2007 because of uncertainty of its realization which was a change in circumstances that causes a change in judgment on the realization of the related deferred tax asset in future years.

- (4) Details of deferred tax assets deducted from capital adjustments as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

<u>Descriptions</u>	<u>2008</u>			<u>2007</u>		
	<u>Before tax</u>	<u>Tax effect</u>	<u>After tax</u>	<u>Before tax</u>	<u>Tax effect</u>	<u>After tax</u>
Gain on valuation of available-for-sale securities	₩ 126	₩ 35	₩ 91	₩ 1,077	₩ 296	₩ 781

- (5) The statutory income tax rate applicable to the Company, including resident tax surcharges, are approximately 24.2 percent, 27.5 percent in 2008 and 2007, respectively. However, the effective tax rate of the Company was 0.29 percent for the year ended December 31, 2007 due to tax reconciling items.

16. EARNINGS (LOSS) PER SHARE:

(1) Basic earnings (loss) per share

Net income (loss) per share for the years ended December 31, 2008 and 2007 are computed by dividing net income (loss) with the weighted average number of common shares outstanding during the period (Won in thousands except for per share amounts):

	<u>2008</u>	<u>2007</u>
Net Income(loss)	₩ (709,683,875)	₩ 11,571,330
Income (loss) after deducting the income tax effect	(709,683,875)	11,571,330
Weighted average number of common shares outstanding	<u>120,804,620</u>	<u>120,804,620</u>
Net income (loss) per share	<u>₩ (5,875)</u>	<u>₩ 96</u>

(2) Diluted earnings (loss) per share

The company hold dilutive potential ordinary shares by issuing overseas convertible bond in July,3, 2007. The company dosen't compute diluted earnings per shares because of anti-dilution effect.

17. OTHER COMPREHENSIVE INCOME (LOSS):

Other comprehensive income (loss), which is excluded from net income as of December 31, 2008 and 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>
Net income (loss)	₩(709,683,875)	₩ 11,571,330
Other comprehensive income:		
Unrealized gain on valuation of available for sale securities	(952)	(123,659)
Tax effect	262	34,006
Capital changes due to investment securities using the equity method	917,717	-
Negative capital changes due to investment securities using the equity method	<u>192,492</u>	<u>147,391</u>
Comprehensive income	<u>₩(708,574,356)</u>	<u>₩ 11,629,068</u>

18. RELATED PARTY TRANSACTIONS:

(1) The name of related party as of December 31, 2008 is as follows:

- a. The name of group: SAIC Motor Corporation Limited (total 161 companies)
- b. The name of holding company: SAIC Motor Corporation Limited
- c. The name of ultimate parent company: Shanghai Automotive Industry Corporation (Group)

(2) Related party transactions of the Company for the years ended December 31, 2008 and 2007 are as follows (Won in thousands):

Company	Sales		Purchases		Others	
	2008	2007	2008	2007	2008	2007
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ 1,030,708	₩ 880,345	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	11,254,757	18,649,917	-	-	-	-
Shanghai Automotive Industry Sales Co.	94,452,625	106,401,515	-	-	(1,326,762)	(399,948)
SAIC Motor Passenger Vehicles Technology Center	3,742,570	-	-	-	19,889,360	-
Ssangyoung European Parts Center B.V	17,151,017	16,151,252	-	-	-	-
SAIC Motor Corporation Limited.(*)	1,965,171	23,965	-	-	52,434,413	29,936,248
SAIC Motor Korea	-	-	-	10,075	-	(9,159)
	<u>₩ 128,566,140</u>	<u>₩ 141,226,649</u>	<u>₩ 1,030,708</u>	<u>₩ 890,420</u>	<u>₩ 70,997,011</u>	<u>₩ 29,527,141</u>

(*) 'Shanghai Automotive Corporation' changed the company name into 'SAIC Motor Corporation Limited' as of July 27, 2007.

(3) Inter-company accounts receivable and payable as of December 31, 2008 and December 31, 2007 are as follows (Won in thousands):

	Trade receivables		Other receivables		Trade payables		Advances from customers		Other payables	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 106,271	₩ 37,648	₩ -	₩ -	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	-	-	498,111	368,226	-	-	-	-	-	-
Shanghai Automotive Industry Sales Co.	254	696,189	-	-	-	-	4,078	10,185	529,920	631,867
Ssangyoung European Parts Center B.V.	14,470,223	12,035,722	-	-	-	-	-	870,206	-	-
SAIC Motor Corporation Limited	756,974	-	6,259,635	13,789,967	-	-	17,845	-	-	-
SAIC Motor Passenger Vehicles Technology Center	193,469	-	3,889,666	-	-	-	2,029,882	-	-	-
	<u>₩15,420,920</u>	<u>₩12,731,911</u>	<u>₩10,647,412</u>	<u>₩ 14,158,193</u>	<u>₩106,271</u>	<u>₩ 37,648</u>	<u>₩ 880,392</u>	<u>₩ -</u>	<u>₩529,920</u>	<u>₩ 631,867</u>

(4) For the year ended December 31, 2008, the compensation to the Company's key management mainly consists of salaries of ₩1,144,081 thousand and provision for severance indemnities of ₩714,776 thousand.

19. COMMITMENTS AND CONTINGENCIES:

(1) Long-term supply contract

On October 4, 2006, the Company concluded a long-term supply contract with Public Joint Stock Company Severstal-auto (“SSA”) for the supply of Kyron and Actyon vehicles assembly kit. The details of long-term supply contract are as follows (Won in millions):

<u>Company</u>	<u>Period</u>	<u>Contracted Quantities</u>	<u>Amounts</u>
Public Joint Stock	2006.10 ~ 2011.12	Maximum: 79,000	₩ 1,320,667
Company Severstal-auto		Minimum: 63,200	1,056,533

(2) Technology transfer agreement

As of December 31, 2008, the Company has a technology transfer agreements with Daimler Chrysler AG and incurred royalties of ₩506,956 thousand and ₩1,277,464 thousand for the years ended December 31, 2008 and 2007, respectively. According to the agreements, the Company must cease to manufacture all products related to the technology transfer agreements upon entering into a manufacturing related partnership with a third party.

(3) The Company is insured on domestic sales of all products against indemnity liabilities.

(4) As of December 31, 2008, the Company has import usance agreements with 7 banks (including Shinhan Bank) with the credit limit of ₩198,685,000 thousand (US\$158,000,000), and been provided a maximum credit limit amounting to ₩120,000,000 thousand by the Korea Development Bank and 900,000 thousand by Kyongnam Bank. But the Company lost benefit to maturity by starting an enterprise revival procedure on February 6, 2009.

(5) As of December 31, 2008, the Company has ₩1,471,123 thousand acceptances and guarantees related to subcontract transaction under guarantee of Seoul Guarantee Insurance.

(6) The Company recognized loss on disposal of trade receivables amounting to ₩27,308,289 thousand and ₩46,308,461 thousand for the years ended December 31, 2008 and 2007.

20. DERIVATIVES:

The Company has not outstanding balances of derivatives as of December 31, 2008, the gain on settlement of derivatives is ₩25,474,126 thousand and the loss on settlement of derivatives is ₩63,462,341 thousand for the years ended December 31, 2008 and 2007.

21. PENDING LITIGATIONS:

As of December 31, 2008, the Company is a plaintiff in 5 domestic litigations involving claims of ₩1,590,114 thousand and is a defendant in 16 domestic litigations involving claims of ₩5,578,226 thousand.

The main pending litigations as of December 31, 2008 are as follows (Won in thousands):

<u>Description</u>	<u>Plaintiff</u>	<u>Defendant</u>	<u>Claimed amount</u>	<u>Probable outcome</u>
Domestic litigations:				
Claim for damages	Daewoo-Suwon Service Inc.	The Company	398,116	Winning a lawsuit partially at the first trial
"	Individuals	The Company	710,000	Unpredictable at the first trial
"	The Company	FTC National	985,000	Winning a lawsuit at the first trial
"	The Company	Tax Services	1,036,000	Unpredictable at the second trial
				Winning a lawsuit at the first trial

(*) Since a decrease of net asset is certain and loss can be reasonably estimated in connection with the above litigations, the Company recorded other payables of ₩295,456 thousand.

22. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the years ended December 31, 2008 and 2007 are as follows (Won in thousands):

<u>Name of account</u>	<u>2008</u>	<u>2007</u>
Transfer to property, plant and equipment from inventories	3,544,241	2,492,729
Transfer to development costs from inventories	539,108	778,002
Transfer to current portion of long-term loans	5,188,455	6,803,803
Transfer to other investments from lands	14,570,941	-
Transfer to other investments from buildings	8,975,102	-
Transfer to other investments from structures	2,885,400	-
Transfer to other investments from machinery	47,510	57,149,917
Transfer to other investments from vehicles	-	49,016
Transfer to other investments from tools and equipment	11,552,800	166,590,463
Transfer to other investments from office equipment	17,646	2,913,845
Transfer to property, plant and equipment from machinery in transit	16,356,808	4,054,405
Transfer to real accounts from construction in progress	148,322,975	22,451,107
Transfer to equity securities using the equity method from AFS securities	-	835,695
Transfer to current portion of long-term debt	149,658,286	149,964,474

23. ENSED FINANCIAL INFORMATION FOR THE FOURTH QUARTER YEAR:

Condensed financial information for the fourth quarters of 2008 and 2007 is as follows (Won in thousands except for the net income per share):

	<u>2008</u>	<u>2007</u>
Sales	482,100,918	740,724,986
Gross Profit	5,800,218	123,508,766
Net income(loss)	(119,135,889)	(13,326,267)
Net loss(4 quarter)	(611,616,422)	(5,150,287)
Net loss per share(4 quarter)	<u>₩ (5,063)</u>	<u>₩ (43)</u>

24. TRAINING:

Training expenses incurred for the years ended December 31, 2008, 2007 and 2006 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Training outsourced	₩ 292,634	₩ 272,040	₩ 352,177
Other	<u>2,038,346</u>	<u>2,629,597</u>	<u>1,856,848</u>
	<u>₩ 2,330,980</u>	<u>₩ 2,901,637</u>	<u>₩ 2,209,025</u>

25. EMPLOYEE WELFARE:

The Company operates and provides cafeteria, medical room, scholarship, medical insurance, paid vacation and other benefits for the welfare of its employees. The Company incurred ₩47,610,223 thousand and ₩42,366,461 thousand for employee welfare for the years ended December 31, 2008 and 2007, respectively.

26. SUPPLIMENTARY INFORMATIONS FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for the calculation of value added for the years ended December 31, 2008 and 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>
Labor cost and salaries	₩ 363,365,145	₩ 362,242,925
Provision for severance indemnities	37,882,617	35,559,404
Employee welfare	56,059,107	42,366,461
Rent	8,848,317	9,415,930
Depreciation	153,486,350	168,432,181
Taxes and dues	<u>21,812,266</u>	<u>20,362,834</u>
	<u>₩ 641,453,802</u>	<u>₩ 638,379,735</u>

27. SEGMENT INFORMATION:

Sales by region for the years ended December 31, 2008 and 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>
Domestic sales	₩ 1,353,499,079	₩ 1,708,000,258
Export sales:		
Europe	354,436,046	818,596,325
Asia	189,100,403	161,449,084
Others	<u>277,855,439</u>	<u>228,286,357</u>
Sub total	<u>821,391,888</u>	<u>1,208,331,766</u>
Other export sales:	<u>320,325,799</u>	<u>203,003,260</u>
Total sales	<u>₩ 2,495,216,766</u>	<u>₩ 3,119,335,284</u>

28. DECISION OF STARTING AN ENTERPRISE REVIVAL PROCEDURE:

The Company applied for starting an enterprise revival procedure on January 9, 2009, according to an obligator's revival and bankruptcy law 34th article to Seoul Central District Court, for business normalization. Also, the Court decides orders comprehensive prohibition to all obligee or mortgagee and preservative measures of the Company's fortune on January 12, 2009. And the Court makes a decision of starting an enterprise procedure on February 6, 2009.

29. SUBSTANTIAL DOUBT ABOUT THE COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN:

The accompanying financial statements have been prepared assuming that the company will continued as a going concern. The Company has suffered sharply decrease of sales from global financial crisis and economic slump, has operating loss of ₩227,389 million and net loss of ₩709,684 million for the year ended December 31, 2008. Also The Company has encroached on the capital stock because of net loss for the year, the Company's current liability exceeds current assets as of 245,062 million. These factors raise substantial doubt about the Company's ability to continue as a going concern, as explained in Note 28 to the financial statements, the decision of starting an enterprise revival procedure would be changed from findings on investigation or conclusions of party interested assembly. If the company fails to successfully execute the plans, the Company cannot continue as a going concern. These factors affect the Company's realization of its assets or payment of the liabilities at book value. Accordingly, the Company's ability to continue as a going concern has substantial doubt. The accompanying financial statements do not include adjustments to asset, liabilities, profit and loss with regards to above uncertainties.

30. THE MANAGER'S PLAN OF BUSINESS NORMALIZATION:

The Company has suffered sharply decrease of sales from global financial crisis and economic slump, and faced a serious crisis of liquidity at the time of the year ended 2008. Accordingly the Company applied for starting an enterprise revival procedure on January 9, 2009, to Seoul Central District Court and the Court makes a decision of starting an enterprise revival procedure on February 6, 2009. After decision of starting, the Company does its best for rapid revival with restructuring powerfully, strengthening competitiveness, innovating structure of cost, working out its own salvation, and undertakes sincerely a investigation of the committee of inquiry on and after March 20, 2009, with professional advice for successful revival plan.