

SSANGYONG MOTOR COMPANY

FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2007 AND 2006
AND INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Independent Accountants' Review Report

English Translation of a Report Originally Issued in Korean

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

We have reviewed the accompanying balance sheet of Ssangyong Motor Company (the "Company") as of March 31, 2007 and the related statements of operations and cash flows for the three months ended March 31, 2007 and 2006 and statement of changes in shareholders' equity for the three months ended March 31, 2007, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with the standards for review of interim financial statements in the Republic of Korea. Those standards require that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that cause us to believe that the financial statements referred to above are not presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea (See Note 2).

We have previously audited, in accordance with auditing standards generally accepted in the Republic of Korea, the balance sheet of the Company as of December 31, 2006 and the related statements of income, disposition of accumulated deficit and cash flows for the year then ended (not presented herein); and in our report dated January 26, 2007, we expressed an unqualified opinion on those financial statements. The accompanying balance sheet as of December 31, 2006, which is comparatively presented, does not differ in material respects from such audited balance sheet.

Our reviews also comprehended the translation of Korean Won amounts into U.S. dollar amounts and nothing has come to our attention that cause us to believe that such translation has not been made in conformity with the basis in Note 2. Such U.S. dollar amounts are presented solely for the convenience of the reader outside of Korea.

Accounting principles and review standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and review standards and their application in practice.

April 17, 2007

Notice to Readers

This report is effective as of April 17, 2007, the accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the accountants' review report.

SSANGYONG MOTOR COMPANY

BALANCE SHEETS

AS OF MARCH 31, 2007 AND DECEMBER 31, 2006

ASSETS	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
CURRENT ASSETS:				
Cash and cash equivalents (Note 15)	₩ 107,907,974	₩ 133,741,387	\$ 114,759	\$ 142,233
Short-term financial instruments (Notes 3 and 15)	3,743,959	4,577,074	3,982	4,868
Available-for-sale securities (Note 5)	1,037,576	1,048,505	1,103	1,115
Trade receivables, net of allowance for doubtful accounts of ₩2,836,847 thousand in 2007 and ₩2,569,481 thousand in 2006, and present value discount of ₩ 134,453 thousand in 2007 and ₩ 213,716 thousand in 2006 (Notes 12, 15 and 21)	205,910,940	176,181,101	218,984	187,367
Short-term loans, net of allowance for doubtful accounts of ₩39,352 thousand in 2007 and ₩22,983 thousand in 2006 (Note 6)	3,424,489	1,797,041	3,642	1,911
Other receivables, net of allowance for doubtful accounts of ₩3,425,039 thousand in 2007 and ₩3,173,866 thousand in 2006 (Notes 15 and 21)	13,126,023	25,298,111	13,959	26,904
Advanced payments, net of allowance for doubtful accounts of ₩ 82,773 thousand in 2007 and ₩22,526 thousand in 2006	11,965,584	9,003,444	12,725	9,575
Prepaid expenses	11,241,419	2,661,899	11,955	2,831
Inventories, net of allowance for valuation of ₩11,279,258 thousand in 2007 and ₩11,817,992 thousand in 2006 (Notes 2, 4 and 7)	303,143,067	334,715,482	322,390	355,967
Derivative assets (Note 23)	1,221,140	2,540,053	1,299	2,701
Other current assets, net of allowance for doubtful accounts of ₩144 thousand in 2007 and ₩81 thousand in 2006	144,261	3,486,934	153	3,707
	<u>662,866,432</u>	<u>695,051,031</u>	<u>704,951</u>	<u>739,179</u>
NON-CURRENT ASSETS:				
Long-term financial instruments (Note 3)	9,000	9,000	10	10
Available-for-sale securities (Note 5)	565,768	1,404,167	602	1,493
Equity securities using the equity method (Note 5)	2,353,709	2,241,605	2,503	2,384
Long-term loans, net of allowance for doubtful accounts of ₩281,466 thousand in 2007 and ₩292,784 thousand in 2006 (Note 6)	25,963,736	27,084,146	27,612	28,804
Long-term trade receivables, net of allowance for doubtful accounts of ₩3,599 thousand in 2007 and ₩5,853 thousand in 2006, and present value discount of ₩48,043 thousand in 2007 and ₩96,423 thousand in 2006 (Note 12)	308,231	483,018	328	514
Guarantee deposits, net of allowance for doubtful accounts of ₩ 298,741 thousand in 2007 and ₩333,492 thousand in 2006	33,121,188	36,561,563	35,224	38,883
Advances for employee contribution	10,372,630	10,086,200	11,031	10,727
Other investments in properties (Note 9)	8,089,761	2,737,552	8,603	2,911
Property, plant and equipment, net (Notes 2, 7, 8 and 9)	1,474,724,822	1,507,794,423	1,568,356	1,603,525
Intangible assets (Notes 10 and 16)	72,107,526	67,842,110	76,686	72,149
	<u>1,627,616,371</u>	<u>1,656,243,784</u>	<u>1,730,955</u>	<u>1,761,400</u>
Total Assets	<u>₩ 2,290,482,803</u>	<u>₩ 2,351,294,815</u>	<u>\$ 2,435,906</u>	<u>\$ 2,500,579</u>

(Continued)

SSANGYONG MOTOR COMPANY

BALANCE SHEETS (CONTINUED)

AS OF MARCH 31, 2007 AND DECEMBER 31, 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>				
CURRENT LIABILITIES:				
Trade payables (Notes 15 and 21)	₩ 499,771,752	₩ 523,523,282	\$ 531,502	\$ 556,762
Short-term borrowings (Notes 11 and 15)	54,635,507	70,924,116	58,104	75,427
Other payables (Notes 15, 21 and 24)	162,740,890	197,411,866	173,073	209,946
Advances from customers (Note 21)	11,731,507	7,800,240	12,476	8,295
Withholdings	14,733,334	18,328,153	15,669	19,492
Accrued expenses (Note 15)	16,406,777	25,188,676	17,448	26,788
Accrued warranties and product liabilities (Notes 12 and 13)	48,847,624	47,071,684	51,949	50,060
Derivative liabilities (Note 23)	5,873,347	6,250,007	6,246	6,647
Other current liabilities	11,291,962	3,820,827	12,011	4,063
	<u>826,032,700</u>	<u>900,318,851</u>	<u>878,478</u>	<u>957,480</u>
LONG-TERM LIABILITIES:				
Bond, net of present value discount of ₩ 580,948 thousand in 2007 and ₩ 651,688 thousand in 2006 (Notes 11 and 12)	299,419,052	299,348,312	318,429	318,354
Accrued severance indemnities, net of National Pension Fund of ₩1,569,887 thousand in 2007 and ₩1,790,672 thousand in 2006, and severance insurance deposits of ₩ 5,375,846 thousand in 2007 and ₩5,635,518 thousand in 2006 (Note 2)	167,184,912	165,377,040	177,800	175,877
Accrued warranties and product liabilities (Notes 12 and 13)	60,025,322	55,495,518	63,836	59,019
Other long-term liabilities	3,097,264	5,413,856	3,294	5,758
	<u>529,726,550</u>	<u>525,634,726</u>	<u>563,359</u>	<u>559,008</u>
Total Liabilities	<u>1,355,759,250</u>	<u>1,425,953,577</u>	<u>1,441,837</u>	<u>1,516,488</u>
SHAREHOLDERS' EQUITY:				
Capital stock (Note 14)	604,023,100	604,023,100	642,373	642,373
Capital surplus (Note 14)	15,440,281	15,440,281	16,421	16,421
Accumulated other comprehensive income:				
Gain on valuation of available-for-sale securities (Notes 5, 18 and 20)	96,036	90,434	102	96
Exchange differences on translation (credit) of financial statements of operations outside Korea (Notes 5 and 20)	33,662	-	36	-
Exchange differences on translation (debit) of financial statements of operations outside Korea (Notes 5 and 20)	(249,584)	(339,884)	(267)	(362)
Retained earnings (Note 14) (Net income of ₩9,252,751 thousand for the three months ended March 31, 2007 and net loss of ₩195,961,754 thousand for the year ended December 31, 2006)	315,380,058	306,127,307	335,404	325,563
Total Shareholders' Equity	<u>934,723,553</u>	<u>925,341,238</u>	<u>994,069</u>	<u>984,091</u>
Total Liabilities and Shareholders' Equity	<u>₩ 2,290,482,803</u>	<u>₩ 2,351,294,815</u>	<u>\$ 2,435,906</u>	<u>\$ 2,500,579</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
SALES (Notes 2, 21 and 28)	₩ 833,865,462	₩ 725,653,242	\$ 886,808	\$ 771,725
COST OF SALES (Notes 2 and 21)	<u>665,147,026</u>	<u>615,332,053</u>	<u>707,378</u>	<u>654,399</u>
GROSS PROFIT	168,718,436	110,321,189	179,430	117,326
SELLING AND ADMINISTRATIVE EXPENSES (Notes 2, 16 and 17)	<u>140,771,577</u>	<u>135,578,631</u>	<u>149,709</u>	<u>144,187</u>
OPERATING INCOME (LOSS)	<u>27,946,859</u>	<u>(25,257,442)</u>	<u>29,721</u>	<u>(26,861)</u>
OTHER INCOME (EXPENSES):				
Interest income	1,037,079	2,276,676	1,103	2,421
Interest expense	(5,647,677)	(9,248,298)	(6,006)	(9,835)
Reversal (provision) of allowance for doubtful accounts, net	(289,346)	709,538	(308)	755
Gain on disposal of available-for-sale securities, net	4,386	315	5	0.34
Loss on using the equity method, net (Note 5)	(422,646)	(43,575)	(449)	(46)
Gain (loss) on disposal of investments, net (Note 9)	5,477,629	(197,572)	5,825	(210)
Loss on disposal of property, plant and equipment, net	(434,368)	(1,467,484)	(462)	(1,561)
Reversal of loss on impairment (impairment loss) of property, plant and equipment, net (Notes 2 and 9)	1,406,452	(38,126)	1,496	(41)
Gain on foreign currency transactions, net	704,823	4,338,425	750	4,614
Loss on foreign currency translation, net (Note 15)	(1,426,781)	(762,009)	(1,517)	(810)
Reparation for product warranty expenses	1,812,027	2,032,156	1,927	2,161
Depreciation expense on assets not in use	(50,963)	(52,001)	(54)	(55)
Fees earned	33,930	166,733	36	177
Donations	(26,297)	(512,095)	(28)	(545)
Loss on derivative valuation, net (Note 23)	(1,992,933)	(1,206,287)	(2,119)	(1,283)
Loss on derivative transaction, net (Note 23)	(267,699)	-	(285)	-
Loss on disposal of trade receivables (Note 2)	(13,721,584)	(3,998,144)	(14,593)	(4,252)
Others, net	<u>(4,892,264)</u>	<u>3,042,786</u>	<u>(5,204)</u>	<u>3,236</u>
	<u>(18,696,232)</u>	<u>(4,958,962)</u>	<u>(19,883)</u>	<u>(5,274)</u>
INCOME (LOSS) BEFORE INCOME TAX	9,250,627	(30,216,404)	9,838	(32,135)
INCOME TAX BENEFITS (Note 18)	<u>(2,124)</u>	<u>(6,876,532)</u>	<u>(2)</u>	<u>(7,313)</u>
NET INCOME (LOSS)	<u>₩ 9,252,751</u>	<u>₩ (23,339,872)</u>	<u>\$ 9,840</u>	<u>\$ (24,822)</u>
NET INCOME (LOSS) PER SHARE (Note 19)	<u>₩ 77</u>	<u>₩ (193)</u>	<u>\$ 0.08</u>	<u>\$ (0.21)</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	₩ 9,252,751	₩ (23,339,872)	\$ 9,840	\$ (24,822)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Provision for severance indemnities	8,236,807	7,147,542	8,760	7,601
Depreciation	42,182,663	46,386,574	44,861	49,332
Warranty expense	187,179	415,389	199	442
Provision (reversal) of allowance for doubtful accounts, net	289,346	(709,538)	308	(755)
Amortization of intangible assets	7,882,027	9,526,610	8,382	10,131
Amortization of present value discount	70,740	690,286	75	734
Gain on disposal of available-for-sale securities, net	(4,386)	(315)	(5)	(0.34)
Loss on using the equity method, net	422,646	43,575	449	46
Reversal of loss on valuation of inventories	(426,389)	(3,024,006)	(453)	(3,216)
Loss on foreign currency translation, net	1,426,781	762,009	1,517	810
Loss (gain) on disposal of investments, net	(5,477,629)	197,572	(5,825)	210
Loss on disposal of property, plant and equipment, net	434,368	1,467,484	462	1,561
Depreciation expense on assets not in use	50,963	52,001	54	55
Impairment loss (reversal of loss on impairment) of property, plant and equipment, net	(1,406,452)	38,126	(1,496)	41
Loss on derivative valuation, net	1,992,933	1,206,287	2,119	1,283
Loss on derivative transaction, net	267,699	-	285	-
Loss on disposal of trade receivables	13,721,584	3,998,144	14,593	4,252
Others, net	2,496,021	3,531,144	2,655	3,756
	<u>72,346,901</u>	<u>71,728,883</u>	<u>76,940</u>	<u>76,283</u>
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in trade receivables	(43,301,724)	41,455,083	(46,051)	44,087
Decrease (increase) in other receivables	12,338,570	(3,633,109)	13,122	(3,864)
Increase in advanced payments	(3,022,387)	(18,712,361)	(3,214)	(19,900)
Increase in prepaid expenses	(8,579,520)	(8,204,129)	(9,124)	(8,725)
Decrease in inventories	31,093,342	10,022,834	33,067	10,659
Decrease (increase) in long-term trade receivables	177,041	(43,333)	188	(46)
Increase in deferred tax assets	-	(6,876,532)	-	(7,313)
Decrease in trade payables	(24,313,089)	(60,489,443)	(25,857)	(64,330)
Increase (decrease) in other payables	(34,829,908)	3,755,391	(37,041)	3,994
Increase in advances received	3,931,267	221,345	4,181	235
Decrease in withholdings	(3,594,819)	(7,312,811)	(3,823)	(7,777)
Decrease in accrued expenses	(8,778,950)	(8,769,233)	(9,336)	(9,326)

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SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
Increase (decrease) in warranties and product liabilities	₩ 1,775,940	₩ (9,511,640)	\$ 1,889	\$ (10,116)
Payments of severance indemnities	(8,715,175)	(12,289,381)	(9,269)	(13,070)
Decrease in National Pension Fund	220,785	337,551	235	359
Others, net	13,298,276	7,024,977	14,143	7,472
	<u>(72,300,351)</u>	<u>(73,024,791)</u>	<u>(76,890)</u>	<u>(77,661)</u>
Net cash provided by (used in) operating activities	<u>9,299,301</u>	<u>(24,635,780)</u>	<u>9,890</u>	<u>(26,200)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Withdrawal (acquisition) of short-term financial instruments, net	833,115	(15,508,738)	886	(16,493)
Collection (extension) of short-term loans, net	(1,264,702)	408,611	(1,345)	435
Disposal of available-for-sale securities, net	25,982	1,245	28	1
Collection (extension) of long-term loans	752,611	(787,273)	800	(837)
Collection (payment) of guarantee deposits	3,476,126	(164,817)	3,697	(175)
Acquisition of property, plant and equipment	(17,158,180)	(18,413,752)	(18,248)	(19,583)
Acquisition of intangible assets	(11,062,078)	(6,479,496)	(11,764)	(6,891)
Acquisition of derivative, net	(1,318,380)	-	(1,402)	-
Others, net	7,605,009	(259,737)	8,088	(277)
Net cash used in investing activities	<u>(18,110,497)</u>	<u>(41,203,957)</u>	<u>(19,260)</u>	<u>(43,820)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term borrowings	67,327,026	85,724,454	71,602	91,167
Repayment of short-term borrowings	<u>(84,349,243)</u>	<u>(108,668,328)</u>	<u>(89,705)</u>	<u>(115,568)</u>
Net cash used in by financing activities	<u>(17,022,217)</u>	<u>(22,943,874)</u>	<u>(18,103)</u>	<u>(24,401)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,833,413)	(88,783,611)	(27,473)	(94,421)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE PERIOD (Note 25)	<u>133,741,387</u>	<u>260,546,428</u>	<u>142,232</u>	<u>277,089</u>
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD (Note 25)	<u>₩ 107,907,974</u>	<u>₩ 171,762,817</u>	<u>\$ 114,759</u>	<u>\$ 182,668</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2007

	Korean Won (In thousands)				
	Accumulated other comprehensive				
	Capital stock	Capital surplus	income	Retained earnings	Total
Balance at January 1, 2007	₩ 604,023,100	₩ 15,440,281	₩ (249,449)	₩ 306,127,307	₩ 925,341,239
Net income	-	-	-	9,252,751	9,252,751
Gain on valuation of available - for-sale securities (Notes 5, 18 and 20)	-	-	5,601	-	5,601
Exchange differences on translation (debit) of financial statements of operations outside Korea (Notes 5 and 20)	-	-	33,662	-	33,662
Exchange differences on translation (credit) of financial statements of operations outside Korea (Notes 5 and 20)	-	-	90,300	-	90,300
Balance at March 31, 2007	<u>₩ 604,023,100</u>	<u>₩ 15,440,281</u>	<u>₩ (119,886)</u>	<u>₩ 315,380,058</u>	<u>₩ 934,723,553</u>

	Translations into U.S. Dollars (Note 2) (In thousands)				
	Accumulated other comprehensive				
	Capital stock	Capital surplus	income	Retained earnings	Total
Balance at January 1, 2007	\$ 642,373	\$ 16,421	\$ (265)	\$ 325,563	\$ 984,092
Net income	-	-	-	9,840	9,840
Gain on valuation of available - for-sale securities (Notes 5, 18 and 20)	-	-	6	-	6
Exchange differences on translation (debit) of financial statements of operations outside Korea (Notes 5 and 20)	-	-	36	-	36
Exchange differences on translation (credit) of financial statements of operations outside Korea (Notes 5 and 20)	-	-	96	-	96
Balance at March 31, 2007	<u>\$ 642,373</u>	<u>\$ 16,421</u>	<u>\$ (127)</u>	<u>\$ 335,403</u>	<u>\$ 994,070</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

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 March 31, 2007, 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>
Shanghai Automotive Co., Ltd.	59,094,098	48.92
Oppenheimer Developing Markets Funds	11,885,529	9.84
SAIC Motor Co., Ltd.	2,910,582	2.41
Other shareholders	46,914,411	38.83
	<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.

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 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 ₩ 940.30 to US\$ 1.00 at March 31, 2007, 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 Korean Accounting Standards Board ("KASB") has published a series of Statements of Korea Accounting Standards ("SKAS"), which replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. The Company prepared its financial statements for the three months ended March 31, 2007 in accordance with the Korea Financial Accounting Standards and SKAS No. 1 through No.24, except for No.11, No.14 and No.24. The significant accounting policies followed by the Company in the preparation of its financial statements for the three months ended March 31, 2007 are identical to those for the year ended December 31, 2006, except for the adoption of additional SKAS No.21 through No.23, which were effective from January 1, 2007.

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

The Company newly adopted SKAS No. 21 –“Presentation of Financial Statements I”, No. 22 –“Share-based Payment” and No. 23 –“Earning per share” in 2007.

The balance sheet as of December 31, 2006 and the related statements of operations and cash flows for the three months ended March 31, 2006 presented for comparative purposes are restated in accordance with SKAS No. 21 and 23. The newly adopted SKAS does not affect the net assets and net income of the current period of the Company. Also, the Company only prepared the statement of changes in shareholders’ equity for the three months ended March 31, 2007 in accordance with the interim measures of SKAS No. 21.

Cash and Cash Equivalents

Highly liquid bank deposits and securities, with original maturities of three months or less and with no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

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 collectability 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 as the net realizable values, whereas for the raw materials and supplies held for use in production of inventories are referred to as 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 ₩ 422,998 thousand and ₩ 25,665 thousand for the three months ended March 31, 2007 and 2006, respectively, which is included in cost of sales. The Company maintains perpetual inventory records, which are adjusted through physical count at year end.

The Company reversed loss on valuation of inventories amounting ₩ 849,387 thousand and ₩ 3,049,671 thousand for the three months ended March 31, 2007 and 2006, which is deducted from cost of sales.

Investments in Securities Other Than Those Accounted for Using the Equity Method

Classification of Securities

At acquisition, the Company classifies securities into one of the three categories; trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified as either held-to-maturity or trading securities. Trading securities are classified as current assets, whereas available-for-sale and held-to-maturity securities are classified as non-current assets, except for those whose maturity dates or whose likelihood of being disposed of are within one year from balance sheet date, which are classified as current assets.

Valuation of Securities

Securities are recognized initially at cost, which includes the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration is not reliably determinable, the market prices of the securities purchased are used as the basis for measurement. If neither the market prices of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized gains or losses included in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are included in current operations.

However, available-for-sales securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition costs. For those securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value of non-marketable securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of the held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount. The recoverable amount of held-to maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate. For available-for-sale debt or equity security, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or the amount of the acquisition cost in excess of the fair value for equity security.

If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while for the security stated at amortized cost or acquisition cost, the increase in value is recorded in current operation, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

When transfers of securities between categories are needed because of changes in an entity's intention and ability to hold those securities, such transfer is accounted for as follows: trading securities cannot be reclassified into available-for-sale and held-to-maturity securities, and vice versa, except when certain trading securities lose their marketability. Available-for-sale securities and held-to-maturity securities can be reclassified into each other after fair value recognition. When held-to-maturity security is reclassified into available-for-sale security, the difference between the book value and fair value is reported in capital adjustments. Whereas, in case available-for-sale security is reclassified into held-to-maturity securities, the difference is reported in capital adjustments and amortized over the remaining term of the securities using the effective interest method.

Equity Securities Accounted for Using the Equity Method

Investments in equity securities in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company's net income (loss), retained earnings and capital adjustments, in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus and capital adjustments. Unrealized gain (loss) arising from the transactions of assets between the Company and equity method investees is eliminated according to the ownership percentage.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are recorded at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to property, plant and equipment.

When the book value of an asset exceeds the recoverable value of the asset due to obsolescence, physical damage or a sharp decline in market value, and the amount is material, the impairment of assets is recognized and the asset is recognized at reduced value and the resulting impairment loss is charged to current operations.

The Company recognized impairment loss on property, plant and equipment amounting to ₩ 2,440,995 thousand and ₩38,126 thousand for the three months ended March 31, 2007 and 2006, respectively. In addition, the Company recognized recovery of impairment loss on property, plant and equipment amounting to ₩ 3,847,448 thousand for the three months ended March 31, 2007.

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

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

The Company recorded as other current liabilities the government grants, which were received from the Ministry of Labor, regarding vocational training of small and medium-sized companies, and deducted from the acquisition cost of acquired assets at the time of acquisition. Also, if the grants were received to make up for special expenses, the Company offset the expenses.

Intangible Assets

Intangible assets are stated at cost, net of amortization computed using the straight-line method over the estimated economic useful lives of related assets. Development costs are amortized over the estimated economic useful life from the usable date of the related productions. Ordinary development and research expenses are charged to current operations. If the recoverable amount of an intangible asset becomes less than its carrying amount as a result of obsolescence, sharp decline in market value or other causes of impairment, the carrying amount of an intangible asset is adjusted to its recoverable amount and the reduced amount is recognized as impairment loss. If the recoverable amount of a previously impaired intangible asset exceeds its carrying amount in subsequent periods, an amount equal to the excess is recorded as reversal of impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years. Amortization is computed using the straight-line method based on the estimated useful lives of the assets as follows:

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

Accrued Severance Indemnities

Under Korean labor regulations, all employees with more than one year service are entitled to receive severance indemnities, based on the length of service and the rate of pay, upon termination of their employment. The accrued severance liabilities that would be payable assuming all eligible employees were to resign are ₩174,130,645 thousand and ₩ 172,803,230 thousand as of March 31, 2007 and December 31, 2006, respectively. Actual severance payments were ₩8,715,175 thousand and ₩12,289,381 thousand for the three months ended March 31, 2007 and 2006, respectively.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by netting the receivables against the payment of the retirement and severance benefits. Such receivables with a balance of ₩ 1,569,887 thousand and ₩ 1,790,672 thousand as of March 31, 2007 and December 31, 2006, respectively, are presented as a deduction from accrued severance indemnities. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund.

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 directors, and meets the funding requirement for additional tax deduction purposes. The amount funded under this severance insurance plan of ₩5,375,846 thousand and ₩5,635,518 thousand as of March 31, 2007 and December 31, 2006, respectively, is presented as a deduction from accrued severance indemnities.

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.

Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet date. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services, Ltd., which was ₩940.30 and ₩ 929.60 to US\$1.00 at March 31, 2007 and December 31, 2006, respectively. Foreign currency assets and liabilities of overseas business branches or offices are translated at the exchange rate at the balance sheet date and income and expenses at the weighted average rate of the reporting period. Translation gains and losses arising from the translation procedures are offset against each other and the net amounts are recognized as an overseas operations translation debit and credit in capital adjustments. Overseas operations translation debit and credit are treated as extraordinary gain and loss upon closing the foreign branch or office.

Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loans (borrowings) transactions are stated at present value, if the difference between nominal value and present value is material. The difference between nominal value and present value is presented as present value discount. The present value discount is amortized using the effective interest method, and the amortization is included in interest expense or interest income.

If principal, interest rate of repayment period of receivables and payables is changed unfavorably for the creditor by the court imposition, such as commencement of reorganization or by mutual agreements, and the difference between nominal value and present value is material, such difference is presented as a bad debt expense or gain on exemption of debt. The difference between nominal value and present value is presented as present value discount. The present value discount is amortized using the effective interest method and the amortization is included in interest expense or interest income.

Derivatives

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Income Tax Expense

The Company recognizes income tax expenses determined by adding or deducting changes in deferred income tax assets (liabilities) to or from total income tax and surtaxes to be paid by tax law for the current period. The deferred income tax assets or liabilities will be charged or credited to income tax expense in the period each temporary difference reverses in the future. The Company recognizes deferred tax liabilities basically for all taxable temporary differences, but recognizes deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Also, the Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period. Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting.

Reclassification of Prior Year Financial Statements

The income statement for the three months ended March 31, 2006, which are presented for comparative purposes, is reclassified to enhance the comparativeness of financial statements. The reclassification of prior year financial statements does not affect net assets and net income.

The reclassifications of its financial statements are as follows (Won in thousands):

<u>Account</u>	<u>Before</u>	<u>After</u>	<u>Amounts</u>
Sales commissions	S&A expense	Deduction of sales	₩ 4,192,443
Non-operating expense	Others	Loss on disposal of trade receivables	3,998,144

3. RESTRICTED DEPOSITS:

Deposits with withdrawal restrictions as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>	<u>Description</u>
Short-term financial instruments	₩ 3,743,959	₩ 4,577,074	Government grants and other
Long-term financial instruments	9,000	9,000	Guarantee deposits for checking accounts
	<u>₩ 3,752,959</u>	<u>₩ 4,586,074</u>	

4. INVENTORIES:

Inventories as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Merchandise	₩ 56,685,431	₩ 53,684,793
Finished goods	69,405,196	86,886,635
Work in process	26,414,118	35,653,702
Raw materials	78,685,735	78,038,978
Other materials	7,556,311	7,193,520
Supplies	4,345,050	4,353,710
Materials in transit	71,330,484	80,722,135
Allowance for valuation	(11,279,258)	(11,817,991)
	<u>₩ 303,143,067</u>	<u>₩ 334,715,482</u>

5. INVESTMENTS IN SECURITIES:

- (1) Available-for-sale securities as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Current assets:		
Government bonds	₩ 1,037,576	₩ 1,048,505
Non-current assets:		
Non-listed equity securities	560,000	1,395,695
Government bonds	<u>5,768</u>	<u>8,472</u>
	<u>565,768</u>	<u>1,404,167</u>
	<u>₩ 1,603,344</u>	<u>₩2,452,672</u>

- (2) Investments in non-listed equity securities as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Company</u>	<u>Ownership percentage</u>	<u>2007</u>		<u>2006</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	₩ 635,678	₩ 500,000	₩ 622,152
Korea Management Consultants Association	1.50 %	60,000	162,050	60,000	132,558
Ssangyong European Parts Center B.V.(*)	100.00%	-	-	<u>835,695</u>	<u>835,695</u>
		<u>₩ 560,000</u>	<u>₩ 797,728</u>	<u>₩1,395,695</u>	<u>₩ 1,590,405</u>

(*) Ssangyong European Parts Center B.V was incorporated on November 15, 2006. Ssangyong European Parts Center B.V. was not accounted for using the equity method because the changes in investees' net asset value were not significant as of December 31, 2006. However, as the changes in investees' net asset value are significant in this period, Ssangyong European Parts Center B.V. is accounted for using the equity method.

- (3) Investment in government bonds as of March 31, 2007 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	₩ 905,610	₩ 1,037,576	₩ 131,966
1 year ~ 5 years	<u>5,270</u>	<u>5,768</u>	<u>497</u>
	<u>₩ 910,880</u>	<u>₩ 1,043,344</u>	<u>₩ 132,463</u>

Government bonds are stated at fair value and the difference between acquisition cost and fair value is reflected in capital adjustments. The Company recorded gain on valuation of available-for-sale securities in accumulated other comprehensive income account of ₩ 96,036 thousand (net of tax effect of ₩ 36,427 thousand) as of March 31, 2007.

- (4) Equity securities accounted for using the equity method as of March 31, 2007 is 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	₩ 1,661,278	₩ 1,631,279
Ssangyong Motor (Shanghai) Co., Ltd.	100.0	235,700	294,159	293,122
Ssangyong European Parts Center B.V.	100.0	<u>835,695</u>	<u>429,308</u>	<u>429,308</u>
		<u>₩ 2,690,199</u>	<u>₩ 2,384,745</u>	<u>₩ 2,353,709</u>

Equity securities accounted for using the equity method as of December 31, 2006 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	₩ 1,628,516	₩ 1,597,495
Ssangyong Motor (Shanghai) Co., Ltd.	100.0	235,700	645,707	644,110
		<u>₩ 1,854,504</u>	<u>₩ 2,274,223</u>	<u>₩ 2,241,605</u>

- (5) The gain or loss on valuation using the equity method for the three months ended March 31, 2007 is 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.	₩ 1,597,495	₩ 32,986	₩ 798	₩1,631,279
Ssangyong Motor (Shanghai) Co., Ltd.	644,110	(15,583)	(335,405)	293,112
Ssangyong European Parts Center B.V.	-	(440,049)	869,357	429,308
	<u>₩ 2,241,605</u>	<u>₩ (422,646)</u>	<u>₩ 534,750</u>	<u>₩2,353,709</u>

The gain on valuation using the equity method for the year ended December 31, 2006 is 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.	₩ 1,464,788	₩ 209,118	₩ (76,411)	₩1,597,495
Ssangyong Motor (Shanghai) Co., Ltd.	665,921	2,559	(24,370)	644,110
	<u>₩ 2,130,709</u>	<u>₩ 211,677</u>	<u>₩ (100,781)</u>	<u>₩2,241,605</u>

(*) The others were composed of exchange differences on translation of financial statements of operations outside Korea and other increase or decrease on equity securities accounted for using the equity method.

Investments were recorded using the equity method of accounting based on unaudited and unreviewed financial statements as of March 31, 2007 and December 31, 2006. 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.
- iii) performed an analytical review on the unaudited and unreviewed financial statements.

- (6) The summary of financial information of affiliated companies as of March 31, 2007 is as follows (Won in thousands):

<u>Affiliated company</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 2,282,331	₩ 621,053	₩ 580,748	₩ 35,282
Ssangyong Motor (Shanghai) Co., Ltd.	4,920,225	4,626,066	3,698,910	19,314
Ssangyong European Parts Center B.V.	4,335,021	3,905,713	-	(440,049)

6. LOANS TO EMPLOYEES:

Loans to employees as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Account</u>	<u>Description</u>	<u>2007</u>	<u>2006</u>
Short-term loans	Housing loans	₩ 1,708,037	₩ 76,068
Long-term loans	Housing loans	15,067,961	15,307,262
"	Debt-to-equity swap loans and other	<u>8,311,711</u>	<u>8,760,697</u>
		<u>₩ 25,087,709</u>	<u>₩ 24,144,027</u>

For the three months ended March 31, 2007, the Company loaned ₩2,025,000 thousand and redeemed ₩632,331 thousand for housing loans and ₩448,986 thousand for debt-to-equity swap loans and other.

7. INSURED ASSETS:

The Company carries insurance coverage for property, plant and equipment, and inventories as of March 31, 2007 as follows (Won in thousands):

<u>Insured assets</u>	<u>Company</u>	<u>Coverage</u>
Products	Green Fire & Marine Insurance	₩ 2,666,099,791 (US\$2,806,420,833)
PP&E and inventories	LIG Fire & Marin Insurance	<u>2,085,512,102</u>
		<u>₩ 4,751,611,893</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.

8. ASSETS PLEDGED AS COLLATERAL:

The assets pledged as collateral for the Company's borrowings of ₩150,000 million (Guarantees: The Korea Development Bank, collateralized amount of ₩351,000 million) as of March 31, 2007 are as follows (Won in thousands):

<u>Pledged assets</u>	<u>Net book value</u>
Land	₩ 141,687,617
Buildings	180,703,544
Structures	45,195,380
Machinery	<u>104,809,214</u>
Total	<u>₩ 472,395,755</u>

9. PROPERTY, PLANT AND EQUIPMENT:

(1) As of March 31, 2007, the published price of the Company's land as announced by the Office of National Tax Administration is ₩ 435,663,423 thousand.

(2) Property, plant and equipment as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Land	₩ 286,046,752	₩ 285,777,252
Buildings	572,156,787	572,054,932
Structures	114,668,051	114,673,851

	<u>2007</u>	<u>2006</u>
Machinery	1,184,908,090	1,240,297,385
Vehicles	13,901,777	14,322,429
Tools and equipment	474,208,155	638,332,180
Office equipment	59,357,823	59,750,205
Construction in progress	89,698,479	76,896,750
Machinery in transit	27,511	-
Government grants	<u>(2,366,279)</u>	<u>(2,441,098)</u>
	2,792,607,146	2,999,663,886
Less: Accumulated impairment losses	(6,458,921)	(46,547,832)
Accumulated depreciation	<u>(1,311,423,403)</u>	<u>(1,445,321,631)</u>
	<u>₩ 1,474,724,822</u>	<u>₩ 1,507,794,423</u>

- (3) The changes in acquisition costs of property, plant and equipment for the three months ended March 31, 2007 are as follows (Won in thousands):

Account	Beginning of period	Increase		Decrease		End of period
		Acquisition	Other	Disposal	Other	
Land	₩ 285,777,252	₩ 269,500	₩ -	₩ -	₩ -	₩ 286,046,752
Buildings	572,054,932	124,916	-	23,061	-	572,156,787
Government grants	(685,848)	-	-	(3,491)	-	(682,357)
Structures	114,673,851	21,200	-	27,000	-	114,668,051
Government grants	(63,944)	-	-	(757)	-	(63,187)
Machinery	1,240,297,385	933,818	594,902	376,133	56,541,882	1,184,908,090
Government grants	(607,082)	(4,000)	-	(18,024)	-	(593,058)
Vehicles	14,322,429	254,347	-	674,268	731	13,901,777
Government grants	(61,954)	-	-	(3,954)	-	(58,000)
Tools and equipment	638,332,180	1,300,779	1,587,420	437,705	166,574,519	474,208,155
Government grants	(10,195)	-	-	(449)	-	(9,746)
Office equipment	59,750,205	317,632	-	333,162	376,852	59,357,823
Government grants	(1,012,075)	(7,647)	-	(59,791)	-	(959,931)
Construction in progress	76,896,750	14,085,963	898,086	-	2,182,320	89,698,479
Machinery in transit	-	27,513	-	-	2	27,511
	<u>₩ 2,999,663,886</u>	<u>₩ 17,324,021</u>	<u>₩ 3,080,408</u>	<u>₩ 1,784,863</u>	<u>₩ 225,676,306</u>	<u>₩ 2,792,607,146</u>

- (4) The changes in accumulated depreciation of property, plant and equipment for the three months ended March 31, 2007 are as follows (Won in thousands):

Account	Beginning of period	Increase		Decrease		End of period
		Depreciation	Other	Disposal	Other	
Buildings	₩ 137,871,974	₩ 3,740,377	₩ -	₩ 3,075	₩ -	₩ 141,609,276
Structures	49,470,696	1,270,579	-	26,998	-	50,714,277
Machinery	914,844,787	21,482,483	-	222,811	48,286,838	887,817,621
Vehicles	7,125,836	538,262	-	292,368	563	7,371,167
Tools and equipment	301,268,105	14,826,356	-	436,424	128,383,055	187,274,982
Office equipment	34,740,233	2,548,697	-	277,797	375,053	36,636,080
	<u>₩ 1,445,321,631</u>	<u>₩ 44,406,754</u>	<u>₩ -</u>	<u>₩ 1,259,473</u>	<u>₩ 177,045,509</u>	<u>₩ 1,311,423,403</u>

- (5) The changes in accumulated impairment losses of property, plant and equipment for the three months ended March 31, 2007 are as follows (Won in thousands):

Account	Beginning of period	Increase	Decrease	End of period
Buildings	₩ -	₩ 2,352,689	₩ -	₩ 2,352,689
Structures	-	86,497	-	86,497
Machinery	8,956,196	515	7,979,603	977,108
Vehicles	83,287	-	155	83,132
Tools and equipment	37,508,349	-	34,548,854	2,959,495
Office equipment	-	1,293	1,293	-
	<u>₩ 46,547,832</u>	<u>₩ 2,440,994</u>	<u>₩ 42,529,905</u>	<u>₩ 6,458,921</u>

- (6) In 2007 and 2006, the Company recognized impairment loss on obsolete machinery and equipment of which recoverable amounts were less than carrying amount as a result of discontinuance on the development project for new product. The impaired assets, adjusted carrying amount by recoverable amount, were reclassified from tangible assets to other investments in properties.

The impairment loss, which the Company recognized for the three months ended March 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	-	86,525	28	86,497
Machinery	321,969	321,360	-	609	94	515
Tools & equipment	2,650	2,649	-	1	1	-
Office equipment	376,852	375,053	-	1,799	506	1,293
	<u>₩ 5,940,425</u>	<u>₩ 3,392,426</u>	<u>₩ -</u>	<u>₩ 2,547,999</u>	<u>₩ 107,005</u>	<u>₩ 2,440,994</u>

The impairment loss, which the Company recognized for the three months ended March 31, 2006, is as follows (Won in thousands):

Account	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value	Recoverable amounts	Impairment loss
Machinery	₩ 67,550	₩ 57,490	₩ 55	₩ 10,005	₩ 1,151	₩ 8,854
Vehicles	15,862	8,877	5,050	1,935	216	1,719
Tools & equipment	103,868	37,729	39,168	26,971	2,878	24,093
Office equipment	37,164	32,967	-	4,197	737	3,460
	<u>₩ 224,444</u>	<u>₩ 137,063</u>	<u>₩ 44,273</u>	<u>₩ 43,108</u>	<u>₩ 4,982</u>	<u>₩ 38,126</u>

- (7) In 2005, the Company recognized impairment loss of ₩ 42,528 million on plant for discontinued manufacturing Musso and Korando vehicles. However, in 2007, since the Company signed a contract to dispose of the plant, the Company reversed the previously recognized impairment loss on machinery, vehicles and equipments, which were within the limit of the difference between the carrying value and the amount that would have been the current carrying value had the earlier impairment not been recognized, as the recoverable amount exceeds the carrying value (Won in thousands):

Account	Carrying amount after depreciation before impairment	Book value after impairment	Recoverable amounts	Reversal of impairment loss
Machinery	₩ 8,253,023	₩ 273,934	₩ 710,369	₩ 436,435
Tools & equipment	166	12	30	18
Office equipment	36,681,785	2,132,931	5,543,926	3,410,995
	<u>₩ 44,934,974</u>	<u>₩ 2,406,877</u>	<u>₩ 6,254,325</u>	<u>₩ 3,847,448</u>

As a result of disposal of other investment assets for the three months ended March 31, 2007 and 2006, the Company incurred loss on disposal of investments of ₩ 50 thousand and ₩ 197,572 thousand, respectively. The Company incurred gain on disposal of investments of ₩ 5,477,679 thousand for the three months ended March 31, 2007.

10. INTANGIBLE ASSETS:

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

	<u>Beginning of period</u>	<u>Increase</u>	<u>Amortization</u>	<u>Accumulated impairment</u>	<u>End of period</u>
Industrial right	₩ 1,044,062	₩ 125,576	₩ 90,065	₩ -	₩ 1,079,573
Electricity and gas available right	70,313	-	57,983	-	12,330
Development costs	63,545,546	11,120,607	7,172,206	-	67,493,947
Other intangible assets	3,604,994	901,260	613,655	-	3,892,599
Government grants	(422,805)	-	(51,882)	-	(370,923)
	<u>₩ 67,842,110</u>	<u>₩ 12,147,443</u>	<u>₩ 7,882,027</u>	<u>₩ -</u>	<u>₩ 72,107,526</u>

Intangible assets as of December 31, 2006 are as follows (Won in thousands):

	<u>Beginning of year</u>	<u>Increase</u>	<u>Amortization</u>	<u>Accumulated impairment</u>	<u>End of year</u>
Industrial right	₩ 1,048,502	₩ 377,334	₩ 381,774	₩ -	₩ 1,044,062
Electricity and gas available right	112,043	-	41,730	-	70,313
Prepaid royalty expenses	1,989,688	-	1,989,688	-	-
Development costs	69,998,768	28,271,941	34,725,163	-	63,545,546
Other intangible assets	3,548,307	2,369,107	2,312,420	-	3,604,994
Government grants	(281,796)	-	(139,705)	-	(422,805)
	<u>₩ 76,415,512</u>	<u>₩ 30,737,668</u>	<u>₩ 39,311,070</u>	<u>₩ -</u>	<u>₩ 67,842,110</u>

11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT:

(1) Short-term borrowings as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Financial institution</u>	<u>Annual interest rate (%)</u>	<u>2007</u>	<u>2006</u>
Shinhan Bank and others	3.2~4.5	₩ 54,635,507	₩ 42,394,116
Industrial & Commercial Bank of China	5.89	-	28,530,000
Total		₩ 54,635,507	₩ 70,924,116

(2) Debentures as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Description</u>	<u>Issue date</u>	<u>Maturity</u>	<u>Annual interest rate (%)</u>	<u>2007</u>	<u>2006</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	6.16	150,000,000	150,000,000
				₩ 300,000,000	₩ 300,000,000

The debentures are to be repaid in lump sum at the maturity date, and interests are paid for three months in arrear.

(3) The annual maturities of short-term borrowings and debentures as of March 31, 2007 are as follows (Won in thousands):

	<u>Amount of repayment</u>			
	<u>2007.3.31</u>	<u>2007.4.1~2008.3.31</u>	<u>2008.4.1~2009.3.31</u>	<u>2009.4.1~2010.3.31</u>
Short-term borrowings	₩ 54,635,507	₩ 54,635,507	₩ -	₩ -
Debentures	300,000,000	-	150,000,000	150,000,000
	₩ 354,635,507	₩ 54,635,507	₩ 150,000,000	₩ 150,000,000

12. VALUATION OF ASSETS AND LIABILITIES AT PRESENT VALUE:

Valuation of assets and liabilities at present value as of March 31, 2007 are as follows (Won in thousands):

	<u>Nominal value</u>	<u>Present value</u>	<u>Present value discounts</u>	<u>Effective Interest rate</u>	<u>Maturity</u>
Assets:					
Trade receivables	₩ 3,378,712	₩ 3,244,259	₩ 134,453	8.90	2008.3.31
Long-term trade receivables	359,873	311,830	48,043	8.90	2010.3.31
	₩ 3,738,585	₩ 3,556,089	₩ 182,496		
Liabilities:					
115 th Debentures	₩ 150,000,000	₩ 149,467,006	₩ 532,994	6.94	2009.4.25
116 th Debentures	150,000,000	149,952,046	47,954	6.19	2008.7.26
Accrued warranties and product liabilities	50,299,969	48,847,624	1,452,345	6.46	2008.3.31
Long-term accrued warranties and product liabilities	68,631,484	60,025,322	8,606,162	6.46	2018.3.31
	₩ 418,931,453	₩ 408,291,998	₩ 10,639,455		

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

13. ACCRUED WARRANTIES AND PRODUCT LIABILITIES:

The Company provides warranties for products up to 100,000 kilometers of operation within two to three years and per End of Life Vehicles (ELV) regulations, environmental liabilities to be occurred related with scrapping vehicles exported to the European Union (EU).

The changes of accrued warranties and product liabilities for the three months ended March 31, 2007 and for the year ended December 31, 2006 are as follows (Won in thousands):

<u>Accounts</u>	<u>December 31, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2007</u>
Accrued warranties and product liabilities	₩ 102,567,202	₩ 22,535,520	₩16,229,776	₩ 108,872,946

<u>Accounts</u>	<u>December 31, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>December 31, 2006</u>
Accrued warranties and product liabilities	₩ 108,728,420	₩ 9,276,310	₩15,437,528	₩ 102,567,202

14. 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 March 31, 2007.
- (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.
- (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. In case of conversion, 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 years after grant date, may exercise stock options within two years after three years' grace period. As of March 31, 2007, no stock option has been granted.
- (5) The Company transferred technological development reserves of ₩195,961,754 thousand to deficit recovery based on the resolution at the shareholders' meeting on March 23, 2007.

15. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

Foreign currency denominated assets and liabilities as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

Account		2007		2006	
		Foreign currencies	Won equivalent	Foreign currencies	Won equivalent
Assets:					
Cash and cash equivalents	EUR	9,137,048	₩ 11,457,310	11,680,391	₩ 14,276,241
"	GBP	44	81	-	-
"	JPY	357,892,419	2,852,402	404,377,021	3,161,541
"	USD	31,164,603	29,304,076	207,083	192,505
Short-term financial instruments	USD	-	-	160,000	148,736
Trade receivables	EUR	41,328,261	51,823,159	41,387,305	50,585,220
"	GBP	56,419	104,123	-	-
"	USD	34,854,316	32,773,513	10,345,496	9,617,173
"	JPY	6,655,729	53,046	2,678,700	20,943
Other receivables	EUR	2,436	3,054	3,308	4,043
"	JPY	30,487	243	30,487	238
"	USD	546,112	513,509	600,409	558,140
			₩ 128,884,516		₩ 78,564,780
Liabilities:					
Trade payables	EUR	28,028,786	₩ 35,146,415	20,899,976	₩ 25,544,787
"	AUD	6,507,330	4,936,981	3,665,836	2,692,483
"	JPY	323,953,514	2,581,909	318,266,140	2,488,300
"	USD	6,496,604	6,108,757	5,040,971	4,686,087
Other payables	AUD	36,652	27,807	36,652	26,920
"	CHF	-	-	7,000	5,327
"	DEM	1,139,020	730,260	1,760,496	1,100,169
"	EUR	6,127,495	7,683,511	9,267,969	11,327,682
"	FRF	5,693	1,088	5,693	1,061
"	GBP	207,313	382,602	205,497	374,849
"	JPY	45,821,776	365,200	107,165,578	837,853
"	SEK	724	97	724	97
"	USD	7,028,868	6,609,244	8,301,908	7,717,453
Accrued expenses	AUD	30,529	23,161	-	-
"	EUR	158,549	198,811	177,702	217,195
"	JPY	906,707	7,226	1,442,874	11,281
"	USD	43,815	41,199	-	-
Short-term borrowings	AUD	4,235,255	3,213,203	-	-
"	EUR	30,512,935	38,261,390	27,618,312	33,756,205
"	JPY	750,747,124	5,983,455	1,104,832,417	8,637,911
"	USD	7,633,159	7,177,460	-	-
			₩ 119,479,776		₩ 99,425,660

For the three months ended March 31, 2007 and 2006, gain on foreign currency translation of ₩146,243 thousand and ₩648,487 thousand, respectively, and loss on foreign currency translation of ₩1,573,024 thousand and ₩1,410,496 thousand, respectively, were recognized.

16. RESEARCH AND DEVELOPMENT:

Research and development costs occurred for the three months ended March 31, 2007 and 2006 are as follows (Won in thousands):

<u>Description</u>	<u>2007</u>	<u>2006</u>
Development expenses	₩ 24,425,237	₩ 29,385,416
Development costs	<u>11,120,607</u>	<u>7,112,424</u>
	<u>₩ 35,545,844</u>	<u>₩ 36,497,840</u>

17. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the three months ended March 31, 2007 and 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Salaries	₩ 13,080,534	₩ 14,642,466
Provision for severance indemnities	1,652,329	1,885,986
Other employee benefits	1,852,893	2,173,023
Travel	229,867	197,091
Communications	198,385	215,501
Taxes and dues	631,792	852,961
Rent expenses	2,059,831	1,954,450
Depreciation	4,084,156	6,864,555
Repairs	161,679	257,165
Advertisement	5,571,101	6,588,827
Sales warranties	23,060,825	10,915,863
Sales commissions	24,195,132	21,537,798
Sales promotion	3,681,927	4,239,089
Freight	1,544,998	1,561,462
Packing expenses	366,473	418,419
Export related expenses	19,377,541	15,760,121
Commissions	2,118,970	2,195,115
Electronic data processing expenses	1,279,810	1,099,645
Development expenses	24,425,237	29,385,416
Amortization	7,882,027	9,526,610
Others	<u>3,316,070</u>	<u>3,307,068</u>
	<u>₩ 140,771,577</u>	<u>₩ 135,578,631</u>

18. INCOME TAX EXPENSE AND DEFERRED ASSETS:

(1) Income tax benefits for the three months ended March 31, 2007 and 2006 consist of the following (Won in thousands):

	<u>2007</u>	<u>2006</u>
Income tax currently payable	₩ -	₩ -
Changes in deferred income taxes due to temporary differences	-	18,378,439
Changes in deferred income taxes due to tax loss to be carried forward	-	(25,250,600)
Changes in deferred income taxes assets, net	-	(6,872,161)
Tax expense allocated to capital adjustments	(2,124)	(4,371)
Income tax benefits	<u>₩ (2,124)</u>	<u>₩ (6,876,532)</u>

- (2) For the three months ended March 31, 2007 and 2006, the differences between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Income (Loss) before income tax	₩ 9,252,751	₩ (30,216,404)
Adjustments:		
Permanent differences	1,014,975	9,109,739
Temporary differences	<u>12,048,650</u>	<u>(16,224,424)</u>
Taxable income(loss)	<u>22,316,376</u>	<u>(37,331,089)</u>
Tax loss to be carried forward (*)	<u>₩ (206,038,106)</u>	<u>₩ (383,673,693)</u>

(*) The amount of tax loss to be carried forward are adjusted by the result of tax authorities (National Tax Service of Korea) investigation in 2006 and the amount and expiration date of available net losses carried-over from prior years as of March 31, 2007 are as follows (Won in thousands):

<u>Year of occurrence</u>	<u>Amount</u>	<u>Year of expiration</u>
2004	₩ 25,023,266	2009
2005	92,634,569	2010
2006	<u>88,380,271</u>	2011
	<u>₩ 206,038,106</u>	

- (3) The changes in accumulated temporary differences for the three months ended March 31, 2007 and for the year ended December 31, 2006 are as follows (Won in thousands):

<u>Description</u>	<u>2007</u>	<u>2006</u>
Beginning of the period, net (*)	₩ 391,237,258	₩ 458,630,413
Decrease in the current period	(180,881,217)	(235,084,833)
Increase in the current period	<u>185,386,095</u>	<u>167,691,678</u>
End of the period, net	395,742,136	391,237,258
Tax loss to be carried forward	206,038,106	215,150,729
Exclusion from temporary differences due to uncertainty of realization	<u>(601,780,242)</u>	<u>(606,387,987)</u>
Statutory tax rate	<u>27.5%</u>	<u>27.5%</u>
Deferred income tax assets	<u>₩ -</u>	<u>₩ -</u>

(*) Temporary differences above reflected adjustments from revised tax return and reassessment, which the Company filed with the tax authorities in 2007.

- (4) Temporary differences, excluded due to the uncertainty of its realization as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Descriptions</u>	<u>2007</u>	<u>2006</u>	<u>Maturity</u>
(Deductible temporary differences):			
Allowance for doubtful accounts	₩ 43,253,298	₩ 35,590,686	
Impairment loss on property, plant and equipment	60,982,463	8,385,759	
Others	<u>291,506,375</u>	<u>347,260,813</u>	
Sub-total	<u>395,742,136</u>	<u>391,237,258</u>	
(Tax loss to be carried forward):			
Occurrence in 2004	25,023,266	37,509,314	2009
Occurrence in 2005	92,634,569	111,246,200	2010
Occurrence in 2006	<u>88,380,271</u>	<u>66,395,215</u>	2011
Sub-total	<u>206,038,106</u>	<u>215,150,729</u>	
Total	<u>₩ 601,780,242</u>	<u>₩ 606,387,987</u>	

The Company does not recognize deferred income tax assets of March 31, 2007 and December 31, 2006 because

of uncertainty of its realization which were a change in circumstances that causes a change in judgment on the realizability of the related deferred tax asset in future years.

- (5) Details of deferred tax assets deducted from capital adjustments as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Descriptions</u>	<u>2007</u>			<u>2006</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	98,161	2,125	96,036	124,737	34,303	90,434

19. EARNINGS (LOSS) PER SHARE:

Ordinary income (loss) per share and net income (loss) per share for the three months ended March 31, 2007 and 2006 are computed by dividing ordinary income (loss) (after deducting the income tax effect) and net income (loss), respectively, with the weighted average number of common shares outstanding during the period (Won in thousands except for per share amounts):

	<u>2007</u>	<u>2006</u>
Income(loss) after deducting the income tax effect	₩ 9,252,751	₩ (23,339,872)
Weighted average number of common shares outstanding	<u>120,804,620</u>	<u>120,804,620</u>
Loss per share	<u>₩ 77</u>	<u>₩ (193)</u>

20. OTHER COMPREHENSIVE INCOME:

Other comprehensive income (loss), excluded from net income as of March 31, 2007 and 2006 is as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Net income (loss)	₩ 9,252,751	₩ (23,339,872)
Other comprehensive income:	(119,886)	(224,639)
Unrealized gain on valuation of available for sale securities net of tax effect of ₩ 2,125 in 2007, and ₩ 25,981 in 2006.	96,036	68,496
Exchange differences on translation(credit) of financial statements of operations outside Korea	33,662	-
Exchange differences on translation(debit) of financial statements of operations outside Korea	<u>(249,584)</u>	<u>(293,135)</u>
	<u>(119,886)</u>	<u>(224,639)</u>
Comprehensive income	<u>₩ 9,132,865</u>	<u>₩ (23,564,511)</u>

21. RELATED PARTY TRANSACTIONS:

- (1) The name of related party as of March 31, 2007 is as follows:

- The name of group: Shanghai Automotive Co., Ltd. (total 141 companies)
- The name of holding company: Shanghai Automotive Co., Ltd.
- The name of top parent company: Shanghai Automotive Industry Corporation (Group)

(2) Related party transactions of the Company for the three months ended March 31, 2007 and 2006 are as follows (Won in thousands):

Company	Sales		Purchases		Others	
	2007	2006	2007	2006	2007	2006
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ 184,764	₩ 110,174	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	-	-	-	-	-	104,738
Shanghai Automobile Import & Export Co.	39,466,208	535,338	-	-	-	-
Shanghai Automotive Industry Sales Co.	366,672	5,169,750	-	-	77,814	-
SAIC Motor Manufacturing Co., Ltd	21,995	-	-	-	5,665,200	-
Ssangyong European Parts Center B.V	3,465,530	-	-	-	-	-
Total	₩ 43,320,405	₩ 5,705,088	₩ 184,764	₩ 110,174	₩ 5,743,014	₩ 104,738

(3) Inter-company accounts receivable and payable as of March 31, 2007 and December 31, 2006 are as follows (Won in thousands):

	Trade receivables		Other receivables		Trade payables		Advanced receipts		Other payables	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 29,239	₩ -	₩ -	₩ -	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.)	-	-	372,464	368,345	-	-	-	-	-	-
Shanghai Automobile Import & Export Co	8,422,729	-	-	-	-	-	-	-	-	-
Shanghai Automotive Industry Sales Co.	-	5,633	-	-	-	-	7,329	-	54,076	257,404
SAIC Motor Manufacturing Co., Ltd	-	-	-	-	-	-	5,665,200	-	-	-
Ssangyong European Parts Center B.V	3,465,530	-	-	-	-	-	-	-	-	-
Total	₩ 11,888,259	₩ 5,633	₩ 372,464	₩ 368,345	₩ 29,239	₩ -	₩ 5,672,529	₩ -	₩ 54,076	₩ 257,404

(1) For the three months ended March 31, 2007, the compensation to the Company's management mainly consists of salaries of ₩220,360 thousand and provision for severance indemnities of ₩ 38,150 thousand.

22. COMMITMENTS AND CONTINGENCIES:

(1) Long-term supply contract

As of 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):

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

(2) Technology transfer agreement

As of March 31, 2007 and 2006, the Company has a technology transfer agreements with Daimler Chrysler AG and incurred royalties of ₩321,239 thousand and ₩454,728 thousand for the three months ended March 31, 2007 and 2006, 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 March 31, 2007, the Company has import usance agreements with 7 banks (including Shinhan Bank) with the credit limit of ₩194,642,100 thousand (US\$207,000,000).
- (5) As of March 31, 2007, the Company has been provided a maximum credit limit amounting to ₩216,000 million and US\$ 100,000 thousand by KDB and 2 other banks
- (6) As of March 31, 2007, the Company has ₩ 6,878,429 thousand acceptances and guarantees related to subcontract transaction under guarantee of Seoul Guarantee Insurance.

23. DERIVATIVES:

(1) The Company has entered into derivatives contracts regarding the foreign exchange forward and currency option with Woori Bank and 4 others banks for the purpose of trading. For the three months ended March, 31 2007, the gain on valuation of derivatives is ₩ 515,835 thousand and the loss on valuation of derivatives is ₩ 2,508,768 thousand. In addition, the gain on transaction of derivatives is ₩ 1,086,019 thousand and the loss on transaction of derivatives is ₩ 1,353,718 thousand. Outstanding foreign exchange forward and currency option contracts as of March 31, 2007 are as follows (Won in thousands):

<Foreign exchange forward>

<u>Bank</u>	<u>Description</u>	<u>Contract date</u>	<u>Maturity date</u>	<u>Purchase currency</u>	<u>Purchase amount</u>	<u>Contract rate</u>	<u>Sold currency</u>	<u>Sold amount</u>
Woori								
Bank	Forward	2007.03.05	2007.12.03	KRW	6,612,130	944.59	USD	7,000,000
"	"	2007.02.26	2007.12.31	KRW	8,675,450	1,239.35	EUR	7,000,000
"	"	2007.03.22	2007.12.14	KRW	17,578,120	1,255.58	EUR	14,000,000
Barclays								
Bank	Forward	2007.03.05	2007.12.03	KRW	6,633,200	947.60	USD	7,000,000
"	"	2007.03.08	2007.12.17	KRW	6,604,500	943.55	USD	7,000,000
"	"	2007.02.28	2007.12.31	KRW	17,479,560	1,248.54	EUR	14,000,000
"	"	2007.03.08	2007.12.17	KRW	8,759,450	1,251.35	EUR	7,000,000
KDB	Forward	2007.01.12	2007.12.28	KRW	6,548,500	935.50	USD	7,000,000
"	"	2007.03.16	2007.12.17	KRW	17,587,080	1,256.22	EUR	14,000,000
SC First								
Bank	Forward	2007.03.05	2007.12.03	KRW	8,783,040	1,254.72	EUR	7,000,000

<Currency option contracts>

<u>Bank</u>	<u>Description</u>	<u>Contract date</u>	<u>Maturity date</u>	<u>Contract currency</u>	<u>Contract amount</u>	<u>Contract rate</u>
Woori						
Bank	Option	2006.03.31	2007.04.02	EUR	EUR 2,000,000	1,211.10
"	"	2006.04.20	2007.04.13	EUR	EUR 1,000,000	1,189.50
"	"	2006.04.26	2007.04.26	EUR	EUR 1,000,000	1,197.00
"	"	2006.04.28	2007.04.26	EUR	EUR 1,000,000	1,204.00
"	"	2006.05.02	2007.05.02	EUR	EUR 2,000,000	1,206.70
"	"	2006.05.24	2007.05.29	USD	USD 2,000,000	960.00
SC First						
Bank	Option	2006.04.20	2007.04.13	EUR	EUR 1,000,000	1,190.00
"	"	2006.04.26	2007.04.26	EUR	EUR 1,000,000	1,198.00
"	"	2006.04.28	2007.05.03	EUR	EUR 4,000,000	1,203.10
"	"	2006.04.28	2007.05.03	EUR	EUR 2,000,000	1,206.00
"	"	2006.05.02	2007.05.03	EUR	EUR 2,000,000	1,207.50
"	"	2006.05.11	2007.05.11	EUR	EUR 4,000,000	1,214.00
"	"	2006.05.24	2007.05.25	USD	USD 2,000,000	JPY 112.70
"	"	2006.06.08	2007.06.08	USD	USD 3,000,000	960.00
"	"	2006.06.13	2007.06.13	USD	USD 3,000,000	967.60
KDB	Option	2006.05.15	2007.05.15	EUR	EUR 4,000,000	1,238.00
"	"	2006.05.18	2007.05.22	USD	USD 2,000,000	955.70
"	"	2006.05.22	2007.05.22	USD	USD 2,000,000	959.00
"	"	2006.05.24	2007.05.25	USD	USD 2,000,000	960.00
"	"	2006.05.29	2007.05.29	USD	USD 2,000,000	JPY 112.55
"	"	2006.06.08	2007.06.08	USD	USD 3,000,000	960.00
"	"	2006.06.13	2007.06.13	USD	USD 3,000,000	968.20
Barclays						
Bank	Option	2006.11.02	2007.04.30	EUR	EUR 4,000,000	1,203.10
Merrill						
lynch	Option	2007.01.23	2007.12.31	USD	USD 7,000,000	943.20
"	"	2007.2.16	2007.12.31	EUR	EUR 7,000,000	1,239.60

(2) The Company has entered into derivatives contracts regarding CMS Spread interest rate swap with KDB. For the three months ended March 31, 2007, the loss on valuation of derivatives is ₩ 698,811 thousand. Outstanding derivatives contracts as of March 31, 2007 are as follows (Won in thousands):

<u>Bank</u>	<u>Description</u>	<u>Contract date</u>	<u>Maturity date</u>	<u>Contract amount</u>
KDB	CMS Spread	2006.07.25	2009.04.25	₩ 50,000,000

24. PENDING LITIGATIONS:

As of March 31, 2007, the Company is a plaintiff in 6 domestic litigations involving claims of ₩3,798,103 thousand and is a defendant in 13 domestic litigations involving claims of ₩ 3,351,039 thousand. Also, the Company is under 2 overseas litigations.

The main pending litigations as of March 31, 2007 are as follows (Won in thousands):

Description	Plaintiff	Defendant	Claimed amount	Probable outcome
(1) Domestic litigations:				
Claim for damages	Individuals	The Company	₩ 692,650	Unpredictable
"	Director (retired)	The Company	1,015,700	Unpredictable
"	Deawoo-suwon service Inc.	The Company	398,116	Unpredictable
"	Individuals	The Company	710,000	Unpredictable
"	The Company	Individuals	579,680	Unpredictable
"	The Company	Korea Engine Tech and 2 other	1,292,533	Unpredictable
"	The Company	Technology Credit Guarantee Fund	309,051	Unpredictable
(2) Overseas litigations:				
Claim for damages	Scaldia Volga and other	The Company	US\$ 6,000,000	Unpredictable (*)
Provisional seizure of vehicle	The Company	Yasar Bank and others	US\$ 550,000	Decision in favor of the plaintiff

(*) 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 ₩ 833,737 thousand.

25. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the three months ended March 31, 2007 and 2006 are as follows (Won in thousands):

Name of account	2007	2006
Transfer to property, plant and equipment from inventories	₩ 898,086	₩ 653,952
Transfer to development costs from inventories	7,376	138,275
Transfer to other investments from machinery	56,541,882	10,005
Transfer to other investments from vehicles	731	-
Transfer to other investments from tools & equipment	166,574,519	26,972
Transfer to other investments from office equipment	376,852	-
Transfer to property, plant and equipment from machinery in transit	2	441,838
Transfer to property, plant and equipment from construction in progress	2,182,320	-
Transfer to equity securities using the equity method from available-for-sale securities	835,695	-
Transfer to current portion of deferred tax assets	-	6,002,137

26. TRAINING:

Training expenses incurred for the three months ended March 31, 2007 and 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Training outsourced	₩ 83,026	₩ 111,042
Other	548,467	488,392
	<u>₩ 631,493</u>	<u>₩ 599,434</u>

27. EMPLOYEE WELFARE:

The Company operates and provides cafeteria, medical room, scholarship, health insurance, paid vacation and other benefits for the welfare of its employees. The Company incurred ₩10,828,242 thousand and ₩12,953,197 thousand for employee welfare for the three months ended March 31, 2007 and 2006, respectively.

28. SEGEMENT INFORMATIONS:

Sales by region for the three months ended March 31, 2007 and 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Domestic sales	₩ 439,631,409	₩ 393,949,612
Export sales:		
Europe	269,353,097	238,824,085
Asia	52,732,994	37,363,244
Others	35,637,744	41,609,437
Sub total	<u>357,723,835</u>	<u>317,796,766</u>
Other export sales:	36,510,218	13,906,864
Total sales	<u>₩ 833,865,462</u>	<u>₩ 725,653,242</u>