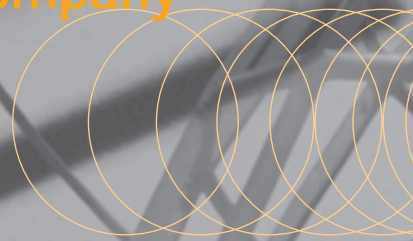






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FINANCIAL STATEMENTS

Report of Independent Accountants	Non-Consolidated Balance Sheets	Non-Consolidated Income Statements	Non-Consolidated Statements of Appropriations of Retained Earnings	Non-Consolidated Statement of Cash Flows	Notes of Non-Consolidated financial Statements
PAGE 30	PAGE 32	PAGE 34	PAGE 35	PAGE 36	PAGE 38

# Report of Independent Accountants

To the Board of Directors and Shareholders of  
Hankook Tire Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Hankook Tire Co., Ltd. (the "Company") as of December 31, 2001 and 2000, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 23 to the accompanying financial statements, in 2001 the Company entered into transactions with its subsidiaries and affiliated companies in the normal course of business, including sales of ₩328,184 million and purchases of ₩122,838 million. Related receivables and payables at December 31, 2001 are ₩26,644 million and ₩29,565 million, respectively. Also, as discussed in Note 15 to the accompanying financial statements, the Company has provided guarantees of ₩266,932 million with respect to financing by its subsidiaries and affiliated companies as of December 31, 2001.

As discussed in Note 25 to the accompanying financial statements, the Company discontinued the manufacturing operations of its Incheon plant on February 1, 2001 in accordance with the "Incheon Plant Restructuring Plan" and relocated and disposed of the related property, plant and equipment.

Without qualifying our opinion, we draw attention to Note 15 of the financial statements, which states that the operations of the Company have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined.

The amounts expressed in U.S. Dollar are provided solely for the convenience of the reader and have been translated on the basis set forth in Note 3 to the accompanying non-consolidated financial statements.

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The procedures and practices utilized to audit such financial statements may differ from those generally accepted and applied in other countries and jurisdictions. Accordingly, this report and the accompanying financial statements are not intended for use by those who are not informed about Korean accounting principles or auditing standards and their application in practice.

*Samil Accounting Corporation*

Seoul, Korea  
February 2, 2002

# Non-Consolidated Balance Sheets

December 31, 2001 and 2000	In Thousands			
	Korean Won		U.S. Dollars (Note 3)	
	2001	2000	2001	2000
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents (Notes 4 and 6)	₩ 1,020,609	₩ 6,778,015	US\$ 770	US\$ 5,111
Short-term financial instruments (Notes 4 and 6)	35,167,690	69,143,926	26,520	52,141
Trade accounts and notes receivable, net (Notes 5 and 6)	163,178,500	174,977,472	123,051	131,949
Short-term loans, net (Note 8)	574,324	1,531,403	433	1,155
Inventories (Note 7)	208,765,198	230,443,473	157,428	173,775
Other accounts receivable (Note 5)	16,504,117	16,353,176	12,446	12,332
Accrued income	18,876,397	15,971,875	14,235	12,044
Advance payments	13,973,283	19,530,937	10,537	14,728
Other current assets	9,409,895	14,259,550	7,096	10,753
<b>Total current assets</b>	<b>467,470,013</b>	<b>548,989,827</b>	<b>352,516</b>	<b>413,988</b>
Property, plant and equipment, net (Notes 10 and 13)	1,200,828,821	1,212,841,294	905,534	914,593
Long-term financial instruments (Note 4)	24,500	27,000	18	20
Investments (Note 9)	185,298,455	148,664,118	139,732	112,106
Long-term loans, net (Note 8)	1,317,764	1,996,682	994	1,506
Non-current guarantee deposits	5,641,856	4,802,316	4,254	3,621
Long-term other accounts receivable	6,961,254	8,990,839	5,249	6,780
Deferred tax assets (Note 20)	28,451,720	21,033,261	21,455	15,861
Intangible assets	13,896,963	372,588	10,480	281
	<b>₩1,909,891,346</b>	<b>₩ 1,947,717,925</b>	<b>US\$ 1,440,232</b>	<b>US\$ 1,468,756</b>

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

December 31, 2001 and 2000	In Thousands			
	Korean Won		U.S. Dollars (Note 3)	
	2001	2000	2001	2000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term borrowings (Notes 6 and 11)	₩ 190,627,201	₩ 206,718,856	US\$ 143,750	US\$ 155,885
Current maturities of long-term debt (Notes 11 and 12)	153,531,231	150,065,053	115,777	113,163
Trade accounts and notes payable (Note 6)	80,871,638	102,996,877	60,985	77,669
Other accounts payable (Note 6)	85,223,258	74,343,941	64,266	56,062
Advances received	45,921,517	42,683,304	34,629	32,187
Dividend payable (Note 18)	8,712,788	8,705,559	6,570	6,565
Accrued expenses	14,394,150	15,248,278	10,854	11,499
Income taxes payable (Note 20)	10,532,252	3,929,983	7,942	2,964
Current guarantee deposit	21,236,084	20,312,052	16,014	15,317
Other current liabilities	3,015,272	4,651,120	2,274	3,507
<b>Total current liabilities</b>	<b>614,065,391</b>	<b>629,655,023</b>	<b>463,061</b>	<b>474,818</b>
Debentures, less current maturities and discounts on debentures (Note 12)	234,198,060	224,751,042	176,607	169,483
Convertible bonds, less current maturities and discounts (Notes 6 and 12)	-	6,362,547	-	4,798
Long-term debt, less current maturities (Notes 6 and 12)	94,120,619	148,665,797	70,976	112,107
Long-term other payable (Notes 6 and 13)	4,600,319	5,821,466	3,469	4,390
Accrued severance benefits, net (Note 14)	17,644,225	10,520,525	13,305	7,933
<b>Total liabilities</b>	<b>964,628,614</b>	<b>1,025,776,400</b>	<b>727,418</b>	<b>773,529</b>
Commitments and contingencies (Note 15)				
Shareholders' equity :				
Common stock (Note 1)	74,530,449	74,530,449	56,203	56,203
Capital surplus				
Paid in capital in excess of par	90,337,906	90,337,906	68,123	68,123
Revaluation surplus (Note 16)	456,473,224	459,490,464	344,222	346,497
Other capital reserve	51,778,005	51,778,005	39,045	39,045
Retained earnings (Note 17)	239,778,309	218,200,416	180,815	164,543
Capital adjustments (Note 19)	32,364,839	27,604,285	24,406	20,816
<b>Total shareholders' equity</b>	<b>945,262,732</b>	<b>921,941,525</b>	<b>712,814</b>	<b>695,227</b>
	<b>₩ 1,909,891,346</b>	<b>₩1,947,717,925</b>	<b>US\$ 1,440,232</b>	<b>US\$ 1,468,756</b>

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



# Non-Consolidated Income Statements

for the years ended December 31, 2001 and 2000	In Thousands except for per share amount			
	Korean Won		U.S. Dollars (Note 3)	
	2001	2000	2001	2000
Sales (Notes 23 and 25)	₩ 1,404,977,821	₩ 1,312,725,252	US\$ 1,059,481	US\$ 989,914
Cost of sales	1,014,233,246	948,660,494	764,824	715,376
Gross profit	390,744,575	364,064,758	294,657	274,538
Selling and administrative expenses	271,728,188	257,739,772	204,908	194,359
Operating income	119,016,387	106,324,986	89,749	80,179
Non-operating income:				
Interest income	11,738,426	20,474,935	8,852	15,440
Foreign exchange gains	20,536,990	19,840,513	15,487	14,962
Gain on foreign currency translation	1,428,684	3,434,332	1,077	2,590
Gain on disposition of property, plant and equipment	2,406,062	4,467,960	1,814	3,369
Royalty fee income	5,846,377	9,296,541	4,409	7,010
Rental income	2,559,322	2,317,565	1,930	1,748
Reversal of allowance for doubtful accounts	-	727,838	-	549
Currency forward transaction gains	2,374,460	5,060,376	1,791	3,816
Gain on valuation of currency forward	-	2,230,969	-	1,682
Others	8,581,991	6,174,098	6,472	4,656
	55,472,312	74,025,127	41,832	55,822
Non-operating expenses:				
Interest expenses	59,399,236	57,966,945	44,792	43,712
Foreign exchange losses	4,469,786	21,170,459	3,371	15,964
Loss on foreign currency translation	21,960,921	16,109,524	16,560	12,148
Loss on disposition of marketable securities	-	53,993	-	41
Loss on disposition of investments	14,302	23,097	11	17
Loss on disposition of property, plant and equipment	2,919,977	10,430,008	2,202	7,865
Loss on sales of accounts receivable	13,418,442	14,712,871	10,119	11,095
Loss on valuation of equity method investees	6,976,000	3,015,615	5,261	2,274
Impairment loss on investment securities	137,332	-	103	-
Donations	1,108,000	189,702	836	143
Loss on redemption of debentures	11,872,663	7,476,188	8,953	5,638
Loss on valuation of inventories	2,635,010	-	1,987	-
Additional payment of income taxes	-	6,451,173	-	4,865
Currency forward transaction losses	3,312,016	5,335,072	2,498	4,023
Loss on valuation of currency forward	221,580	2,674,648	167	2,017
Others	5,270,729	1,171,987	3,975	884
	133,715,994	146,781,282	100,835	110,686
Ordinary income	40,772,705	33,568,831	30,746	25,315
Extraordinary gains	-	-	-	-
Extraordinary losses	-	-	-	-
Income before income taxes	40,772,705	33,568,831	30,746	25,315
Income tax expenses (Note 20)	10,491,158	10,246,773	7,911	7,727
Net income	30,281,547	23,322,058	22,835	17,588
Earning per share (in Won and U.S. Dollar)				
Basic (Ordinary) income per share (in Won and U.S. Dollar) (Note 21)	209	160	0.158	0.121
Diluted (Ordinary) income per share (in Won and U.S. Dollar) (Note 21)	₩ 207	₩ 158	US\$ 0.156	US\$ 0.119

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



# Non-Consolidated Statements of Appropriations of Retained Earnings

for the years ended December 31, 2001 and 2000 December 31, 2001 and 2000	In Thousands			
	Korean Won		U.S. Dollars (Note 3)	
	2001	2000	2001	2000
Retained earnings before appropriations :				
Unappropriated retained earnings				
carried forward from prior year	₩ 9,934,416	₩ 10,604,383	US\$ 7,491	US\$ 7,997
Changes in retained earnings under				
equity method accounting	-	(1,085,037)	-	(818)
Net income for the year	30,281,547	23,322,058	22,835	17,587
	<b>40,215,963</b>	<b>32,841,404</b>	<b>30,326</b>	<b>24,766</b>
Transfer from voluntary reserve :				
Reserve for technological development	210,000	610,000	158	460
Reserve for export loss	376,667	476,666	284	359
Reserve for overseas market development	1,110,000	1,210,000	837	912
	<b>1,696,667</b>	<b>2,296,666</b>	<b>1,279</b>	<b>1,731</b>
Appropriations of retained earnings :				
Legal reserve	4,000,000	3,000,000	3,016	2,261
Reserve for business rationalization	6,000,000	4,000,000	4,525	3,017
Reserve for dividend equalization	5,000,000	4,000,000	3,770	3,017
Reserves for the retirement benefits				
of directors	2,000,000	1,500,000	1,508	1,131
Voluntary reserves	5,000,000	4,000,000	3,770	3,017
Dividends (Note 18)				
Cash dividends	8,703,654	8,703,654	6,563	6,563
	<b>30,703,654</b>	<b>25,203,654</b>	<b>23,152</b>	<b>19,006</b>
Unappropriated retained earnings to be				
carried-forward to subsequent year	₩ 11,208,976	₩ 9,934,416	US\$ 8,453	US\$ 7,491

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

## Non-Consolidated Statements of Cash Flows

for the years ended December 31, 2001 and 2000	In Thousands			
	Korean Won		U.S. Dollars (Note 3)	
	2001	2000	2001	2000
<b>Cash flows from operating activities:</b>				
Net Income	₩ 30,281,547	₩ 23,322,058	US\$ 22,835	US\$ 17,587
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	145,106,886	130,159,560	109,423	98,152
Provision for severance benefits	16,023,940	22,882,210	12,083	17,255
Loss on valuation of inventories	2,635,010	-	1,987	-
Loss on disposition of property, plant and equipment, net	513,915	5,962,048	387	4,496
Loss (gain) on foreign currency translation, net	3,041,102	12,675,192	2,293	9,558
Loss on redemption of debentures	11,872,663	7,476,188	8,953	5,638
Amortization of discount on debentures, net	9,342,140	4,080,227	7,045	3,077
Loss on sales of accounts receivable	13,418,442	907,512	10,119	684
Loss on valuation of equity method investees	6,976,000	3,015,615	5,260	2,274
Decrease (increase) in trade and other accounts and notes receivable, net	(1,509,384)	42,449,697	(1,138)	32,011
Increase in inventories	19,161,611	(4,292,210)	14,450	(3,237)
Decrease (increase) in accrued income	(2,904,522)	279,552	(2,190)	211
Increase in advance payments	5,557,654	(19,530,937)	4,191	(14,728)
Decrease in other current assets	5,118,211	856,250	3,860	646
Decrease (increase) in long-term other accounts receivable	2,029,586	(5,926,942)	1,530	(4,469)
Increase in deferred income tax assets	(7,418,459)	(2,465,378)	(5,594)	(1,859)
Decrease (increase) in trade and other accounts and notes payable, net	(5,236,912)	(60,999,597)	(3,949)	(45,999)
Increase (decrease) in advances received	3,238,213	40,771,805	2,442	30,746
Increase (decrease) in income taxes payable	6,602,269	(16,578,261)	4,979	(12,502)
Increase in long-term other payable	2,401,696	-	1,811	-
Payment of severance benefits	(32,974,955)	(29,459,333)	(24,866)	(22,215)
Increase in contribution to National Pension Fund	1,955,801	1,580,595	1,475	1,192
Others, net	(5,444,545)	1,928,348	(4,105)	1,454
<b>Net cash provided by operating activities</b>	<b>₩ 229,787,909</b>	<b>₩ 159,094,199</b>	<b>US\$ 173,281</b>	<b>US\$ 119,972</b>

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

In Thousands

for the years ended December 31, 2001 and 2000	Korean Won		U.S. Dollars (Note 3)	
	2001	2000	2001	2000
Cash flows from investing activities:				
Proceeds from disposal of marketable securities	₩ -	₩ 13,301,332	US\$ -	US\$ 10,030
Decrease in short-term financial instruments	35,103,796	42,786,364	26,471	32,265
Net decrease (increase) in short-term loans	1,605,089	(10,715)	1,210	(8)
Net decrease in long-term financial instruments	2,500	106,633,407	2	80,411
Disposal of investment securities	87,972	568,772	66	429
Acquisition of investments	(33,228,435)	(17,732,841)	(25,057)	(13,372)
Dividend distribution from equity method investees	-	142,434	-	107
Decrease (increase) in currency forward	(3,706,728)	-	(2,795)	-
Decrease in long term loans, net	238,284	1,586,177	180	1,196
Decrease (increase) in non-current guarantee deposits, net	(585,449)	(772,518)	(441)	(583)
Proceeds from disposal of property, plant and equipment	14,474,767	14,360,202	10,915	10,829
Acquisition of property, plant and equipment	(162,361,911)	(246,460,200)	(122,436)	(185,853)
Increase in severance insurance deposit, net	22,118,913	(19,979,082)	16,680	(15,066)
Increase in intangible assets	(2,670,004)	(167,630)	(2,013)	(126)
Net cash used in investing activities	<b>(128,921,206)</b>	<b>(105,744,298)</b>	<b>(97,218)</b>	<b>(79,741)</b>
Cash flows from financing activities:				
Net decrease in short-term borrowings	(17,079,160)	(74,488,585)	(12,879)	(56,171)
Repayment of current maturities of long-term debt	(151,537,108)	(113,757,003)	(114,273)	(85,783)
Payment of dividends	(8,705,559)	(7,234,061)	(6,565)	(5,455)
Acquisition of treasury stock	-	(10,320,362)	-	(7,782)
Issuance of debenture	120,875,236	120,868,531	91,151	91,146
Increase in long-term debt	15,352,919	72,867,158	11,577	54,948
Early repayment of debentures, convertible bonds, and other long term debt	(65,530,437)	(64,916,190)	(49,416)	(48,953)
Stock issuance costs	-	(17,993)	-	(14)
Net cash used in financing activities	<b>(106,624,109)</b>	<b>(76,998,505)</b>	<b>(80,405)</b>	<b>(58,064)</b>
Net increase (decrease) in cash and cash equivalents	(5,757,406)	(23,648,604)	(4,342)	(17,833)
Cash and cash equivalents at beginning of year (Note 26)	6,778,015	30,426,619	5,111	22,944
Cash and cash equivalents at end of year (Note 26)	<b>₩ 1,020,609</b>	<b>₩ 6,778,015</b>	<b>US\$ 769</b>	<b>US\$ 5,111</b>

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

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## 1. The Company

Hankook Tire Co., Ltd. (the "Company") was incorporated in 1941 under the laws of the Republic of Korea to manufacture and sell tires, tubes and alloy-wheels. In 1968, the Company offered its shares for public ownership and all of the Company's shares were registered with the Korea Stock Exchange. In March 1999, the Company changed its name from Hankook Tire Manufacturing Co., Ltd. to Hankook Tire Co., Ltd. In 2000, the Company entered into the housing construction business.

The authorized number of the Company's common shares is 250,000,000, with a par value of ₩500. At December 31, 2001, issued and outstanding common shares of the Company are 149,060,897 shares.

The Company's shareholders as of December 31, 2001 and 2000 are as follows:

	2001		2000	
	Number of Shares Owned	Ownership Ratio (%)	Number of Shares Owned	Ownership Ratio (%)
Cho, Yang Rae	23,808,097	16.0	23,808,097	16.0
Cho, Hyun Beom	10,798,251	7.2	10,798,251	7.2
Cho, Hyun Sik	8,607,786	5.8	8,607,786	5.8
Cho, Hue Won	5,306,184	3.5	5,306,184	3.5
Cho, Hue Kyung	4,040,114	2.7	4,040,114	2.7
Others	96,500,465	64.8	96,500,465	64.8
	<b>149,060,897</b>	<b>100.0</b>	<b>149,060,897</b>	<b>100.0</b>

Changes in common stock for the years ended December 31, 2001 and 2000 are as follows:

			Millions of Won	
			Number of Shares issued	Paid in Capital
Jan. 1, 2000		Beginning balance	144,719,318	72,360
Jan. 1, 2000		Stock dividends	4,341,579	2,170
Dec. 31, 2000		Ending balance	149,060,897	74,530
Dec. 31, 2001		Ending balance	149,060,897	74,530

## 2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements in accordance with Financial Accounting Standards of the Republic of Korea are summarized below:

### **Basis of Financial Statement Presentation**

The official accounting records of the Company are maintained in Korean Won in accordance with the laws and regulations of the Republic of Korea. The non-consolidated financial statements are prepared in accordance with generally accepted financial accounting standards of the Republic of Korea.

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the 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 not intended for use by those who are not informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The preparation of non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

### **Revenue Recognition**

Sales of products or merchandise are recognized upon delivery to the customer. Housing construction contract revenues are recognized using the percentage of completion method.

### **Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts, notes and other accounts receivable based on historical collection experience and estimated collectibility of the receivables.

### **Inventories**

Inventories are stated at the lower of cost or market, cost being determined using the following methods:

Finished goods and work in process	: Weighted average method
Raw materials, merchandise and supplies	: Moving average method
Materials in transit	: Specific identification method

When the net realizable value of inventory is less than its cost, the carrying amount is adjusted to the net realizable value.

### **Marketable Securities, Investments in Affiliates and Other Investments**

Marketable securities held for short term cash management purposes are stated at market and valuation gains or losses are recorded in current operations.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, when are recorded as valuation losses in current operations.

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

Investments in equity securities of companies over which the Company exercises significant control or influence are recorded using the equity method. Differences between the purchase cost and net book value of the investee are amortized over five years using the straight-line method. Under the equity method, the Company records changes in its proportionate equity of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, according to the corresponding changes in book value of the investee.

Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

Investments in debt securities which the Company has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Declines in the fair value of debt securities which are anticipated to be permanent are recorded as valuation losses in current operations.

## Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for upward revaluation in accordance with the Asset Revaluation Law of Korea. Such revaluation represents property, plant and equipment at their depreciated replacement cost as of the effective date of revaluation, July 1, 2000. The revaluation increment, net of 3% tax, is first applied to offset accumulated deficit, if any, and the remainder may either be credited to capital surplus or transferred to common stock.

Depreciation is computed using the declining-balance method (straight-line method for buildings and structures) over the estimated useful lives as follows:

	Estimated useful lives	
Buildings	13 - 60	years
Structures	2 - 40	"
Machinery and equipment	2 - 18	"
Tools, furniture and fixtures	2 - 30	"
Vehicles	2 - 10	"

Routine maintenance and repairs are charged to expense in the year they are incurred. Expenditures that enhance the value or materially extend the useful life of the facilities involved are capitalized as additions to property, plant and equipment.

Costs of assets sold, retired or abandoned, and the related accumulated depreciation are eliminated from the accounts and resulting gains or losses are included in operations in the year of disposition.

Interest costs incurred in connection with the purchase or construction of property, plant and equipment are capitalized as cost of such assets. Interest cost capitalized in 2001 and 2000 are ₩4,090 million and ₩14,679 million, respectively.

### Intangible Assets

Intangible assets, comprising industrial property rights and other intangible assets, are recorded at cost and amortized using the straight-line method over following economic lives.

	Estimated useful lives	
Industrial property rights	5 - 20	years
Other intangible assets	10	"

### Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date (₩1,326.1 : US\$ 1 as of December 31, 2001 and ₩1,259.7 : US\$ 1 as of December 31, 2000), and resulting translation gains or losses are recognized currently.

### Accrued Severance Benefits

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

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

Accrued severance benefits are funded approximately 73.1% as of December 31, 2001 and 82.6% as of December 31, 2000, through a group severance insurance plan, presented as a deduction from accrued severance benefits (see Note 14).

### Discount on Debentures

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

### Derivative Financial Instruments

In accordance with the financial accounting standards in Korea, derivative financial instruments ("derivatives") are carried at fair value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are included in current operations, except for unrealized gains or losses on derivatives for cash flow hedging that are effective which are recorded as a capital adjustment and included in operations in the period when underlying transactions have effect on operations.



# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## **Income Taxes**

The Company accounts for income taxes under the Financial Accounting Standards, which requires the recognition of deferred tax assets and liabilities arising from temporary differences between the financial and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be reversed or settled.

Tax credits for investment, development of technology and manpower, and other tax credits are recognized as a reduction of income tax expense in the year they are incurred for tax purposes.

## **Sales or Discount of Accounts Receivable**

The Company sells or discounts certain accounts or notes receivable to financial institutions and accounts for the transactions as sales of the receivables if the rights and obligations relating to the receivables are substantially transferred to the buyers. The losses from the sales of the receivables are charged to operations as incurred.

## **Restructuring of Receivables**

The Company recognized losses on troubled receivables restructured under work-out plans or other similar rescheduling agreements if the total discounted future cash receipts specified by the modified terms of rescheduled receivables are less than the nominal amount of the troubled receivables.

The discount rate applied in evaluating the present value of the receivable is the appropriate discount rate prevailing at the transaction date.

## **Impairment Loss**

Assets other than marketable securities, investment securities, restructured receivables and assets with present value discounts are stated at cost. However, declines in fair value arising from obsolescence, physical damage or market value are recorded in current operations.

## **Lease Transactions**

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreement. Machinery and equipment acquired under capital lease agreements are recorded at cost as property, plant and equipment and depreciated using the straight-line method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. Rather, the related lease rentals are charged to expense when incurred.

### Present Value Discount Account

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loan (borrowing) transactions are stated at present value if the difference between nominal value and present value is material. Such differences are presented as present value discounts and directly deducted from the nominal value of the related receivables or payables.

The present value discount account is amortized using the effective interest rate method as interest expense or interest income.

### 3. United States Dollar Amounts

The Company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the readers.

Won amounts are expressed in U.S. Dollars at the rate of ₩1,326.1:US\$1, the rate in effect on December 31, 2001. This presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 2000 U.S. dollar amounts, which were previously expressed at ₩1,259.7:US\$1, the rate prevailing on December 31, 2000, have been restated to reflect the exchange rate in effect on December 31, 2001.

### 4. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2001 and 2000 comprise the following:

	Annual Interest Rates (%)		Millions of Won	
	2001.12.31	2001	2000	
<u>Cash and cash equivalents:</u>				
Cash on hands	-	₩ -	₩	4
Passbook accounts and other	1.0 - 4.0	1,021		6,774
		1,021		6,778
<u>Short-term financial instruments:</u>				
Time deposits	5.6	4,800		15,300
Time deposits denominated in F.C.	1.4 - 3.1	30,368		31,744
Other	-	-		22,100
		35,168		69,144
<u>Long-term financial instruments:</u>				
Key money deposit for checking accounts	-	24		27
		24		27
		<b>₩ 36,213</b>	<b>₩</b>	<b>75,949</b>

At December 31, 2001, short-term financial instruments amounting ₩35,168 million and long-term financial instruments amounting ₩24 million are pledged as collateral for borrowings or opening checking accounts (see Notes 11, 12 and 15). Withdrawal of these deposits is restricted.

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## 5. Trade Accounts and Notes Receivable

Trade accounts and notes receivable at December 31, 2001 and 2000 comprise the following:

	Millions of Won					
	2001 Allowance for doubtful			2000 Allowance for doubtful		
	Receivable	accounts	Net balance	Receivable	accounts	Net balance
Trade Receivable						
Accounts receivable	₩ 130,955	₩ 2,071	₩ 128,884	₩ 127,312	₩ 2,574	₩ 124,738
Notes receivable	34,467	172	34,295	51,018	779	50,239
	165,422	2,243	163,179	178,330	3,353	174,977
Dishonored notes	12,902	5,941	6,961	11,104	2,113	8,991
Other accounts receivable	16,713	209	16,504	16,358	5	16,353
	<b>₩ 195,037</b>	<b>₩ 8,393</b>	<b>₩ 186,644</b>	<b>₩ 205,792</b>	<b>₩ 5,471</b>	<b>₩ 200,321</b>

As of December 31, 2001, the Company's accounts receivable and notes receivable from Daewoo Motor Company, a customer which filed for corporate reorganization in November 2000 under the Company Reorganization Act in Korea, are ₩14,027 million which comprise ₩11,685 million of troubled receivables restructured under the court's ruling and ₩2,342 million of non-troubled receivables. The Company accrued ₩5,843 million and ₩70 million of allowance for doubtful accounts for the troubled receivables restructured under the court's ruling and the non-troubled receivables, respectively, relating to Daewoo Motor Company as of December 31, 2001. Also, there are no outstanding balances of notes receivable, which had been issued by Daewoo Motor Company and were discounted or sold by the Company with recourse as of December 31, 2001. The collectibility of the Company's accounts receivable is subject to the court's ruling on the corporate reorganization of the customer and other factors.

## 6. Monetary Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies at December 31, 2001 and 2000 are as follows:

	In thousands of F.C.				In millions of Won	
	2001		2000		2001	2000
<b>Assets</b>						
Cash and Cash equivalents	USD	-	USD	-	₩	-
Short-term financial instruments	USD	22,900	USD	25,200	30,368	31,745
Trade accounts receivable	USD	32,771	USD	36,614	43,457	46,123
				<b>₩ 73,825</b>	<b>₩ 77,868</b>	
<b>Liabilities</b>						
Trade accounts payable	USD	36,435	USD	67,751	₩ 48,317	₩ 82,827
	JPY	-	JPY	5,340	-	59
	DEM	-	DEM	80	-	49
	GBP	14	GBP	13	26	24
	AUD	209	AUD	39	142	28
	NZD	99	NZD	-	55	-
				48,540	82,987	
Short term borrowings	USD	38,615	USD	49,250	51,207	62,040
	JPY	78,672	JPY	199,809	794	2,201
	DEM	659	DEM	3,162	395	1,919
	EUR	800	EUR	-	938	-
				53,334	66,160	
Convertible bonds(*)	USD	-	USD	11,000	-	8,556
Long-term borrowings(**)	USD	39,797	USD	52,191	52,774	65,745
Long-term payables(**)	USD	4,621	USD	7,397	6,128	9,318
				<b>₩ 160,776</b>	<b>₩ 232,766</b>	

(\*) In accordance with generally accepted financial accounting standards in the Republic of Korea, foreign currency denominated convertible bonds are translated into Korean Won using the historical exchange rates.

(\*\*) Current maturities of long-term debt are included.

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## 7. Inventories

Inventories at December 31, 2001 and 2000 comprise the following:

	Millions of Won			
	2001		2000	
Merchandise	₩	11,389	₩	12,548
Finished goods		72,663		74,681
Work in process		5,113		7,466
Raw materials		9,661		8,881
Supplies		3,453		2,086
Materials in transit		43,003		36,566
Lands for construction contracts(*)		63,483		88,215
	₩	<b>208,765</b>	₩	<b>230,443</b>

(\*) Lands for construction contracts represents the cost of lands not transferred to cumulative construction contract costs recognized using the percentage of completion method.

At December 31, 2001, inventories are insured against fire and other casualty losses up to ₩133,400 million.

## 8. Short-Term and Long-Term Loans

Short-term and long-term loans at December 31, 2001 and 2000 comprise the following:

	Annual Interest Rates (%)	Millions of Won		
		2001.12.31	2001	2000
<b>Short-term loans</b>				
Housing loans to employees	0.0 - 3.0		₩ 604	₩ 1,605
Less : Discount for present value			(30)	(74)
			<b>₩ 574</b>	<b>₩ 1,531</b>
<b>Long-term loans</b>				
Housing loans to employees	0.0 - 3.0		₩ 1,547	₩ 2,390
Less : Discount for present value			(229)	(393)
			<b>₩ 1,318</b>	<b>₩ 1,997</b>

Housing loans have been restated at present value calculated using the interest rate of 9.34%.

## 9. Marketable Securities and Investment Securities

Investment securities at December 31, 2001 and 2000 are as follows:

	Millions of Won									
	Shares owned by the Company (in thousand)		Ownership Ratio(%)		Acquisition Cost		Market or Net asset value		Carrying Book Value	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
<b>Investment in non-marketable equity securities:</b>										
The Korea Economic Daily	55	55	0.51	0.51	₩ 297	₩ 297	₩ 291	₩ 361	₩ 297	₩ 297
Shinsegi Telecom	175	175	0.17	0.17	876	876	806	569	877	877
Wireless Data Communication	50	50	0.60	0.60	800	800	86	171	137	137
Jasperauto Corp.	106	106	3.43	3.43	200	200	53	72	63	200
K-Zone International co., Ltd.	6	6	2.44	2.44	200	200	16	21	200	200
Power Comm	100	100	0.07	0.07	3,500	3,500	535	535	3,500	3,500
Wasol Co., Ltd (*2)	10	10	4.17	4.17	200	200	200	200	200	200
Cash Office	-	-	-	-	18	18	18	18	18	18
Stock Market Stabilization Fund	-	-	-	-	813	1,666	868	543	867	543
MK2000-2 Tube Information and Telecommunication Partners I, L.P	0.01	-	6.67	-	1,000	-	1,505	-	1,000	-
RUBBERNETWORK.COM Korea Digital	-	-	5.57	-	2,404	-	2,404	-	2,404	-
Satellite Broadcasting	300	-	0.50	-	1,650	-	162	-	1,650	-
KT ICOM Co., Ltd.	122	-	0.12	-	2,201	-	2,186	-	2,201	-
EmFrontier Inc.	(*3)	2,000	(*3)	50.00	(*3)	1,000	(*3)	1,148	(*3)	1,000
Others (*2)	-	-	-	-	551	490	551	490	551	490
					14,710	9,247	9,681	4,128	13,965	7,462
<b>Investments in marketable equity securities:</b>										
KT Freetel & M.com	232	232	0.17	0.17	1,792	1,792	9,919	7,613	9,919	7,613
					1,792	1,792	9,919	7,613	9,919	7,613
<b>Investments in subsidiaries Carried at equity (*1) :</b>										
Korea Storage Battery, Ltd.	2,849	2,849	31.13	31.13	12,230	12,230	17,825	18,730	17,825	18,730
Daehwa Eng' & Machinery Co., Ltd.	380	380	95.00	95.00	1,900	1,900	-	-	-	-
ASA Co., Ltd.	2,200	2,200	73.33	73.33	11,000	11,000	7,398	7,751	7,398	7,750
EmFrontier Inc	2,000	(*3)	50.00	(*3)	1,000	(*3)	1,609	(*3)	1,609	(*3)
Hankook Tire America Corp.	1	1	100.00	100.00	8,738	2,340	12,010	5,819	12,010	5,819
Hankook Tyre U.K. Ltd.	25	25	100.00	100.00	31	31	-	-	-	-
Jiansu Hankook Tire Co., Ltd.	-	-	98.49	82.98	58,858	48,158	47,745	37,720	47,745	37,721
Hankook Tire Jiaying Co., Ltd.	-	-	90.02	97.03	66,762	60,756	73,315	63,552	73,315	63,552
Hankook Tire Netherlands B.V.(*4)	-	-	100.00	100.00	1,104	1,104	-	-	-	-
Hankook Tire Canada Corp.	50	50	100.00	100.00	31	31	-	-	-	-
Hankook Tire Japan Corp.	0.4	0.4	100.00	100.00	165	165	-	-	-	-
Hankook Reifen Deutschland GmbH	-	-	100.00	100.00	127	127	-	-	-	-
Hankook Tire France SARL(*4)	-	-	100.00	100.00	259	259	-	-	-	-
					162,205	138,101	159,902	133,572	159,902	133,572
<b>Investment in debt Securities Held-to-maturity</b>										
Subordinated bank debenture	-	-	-	-	1,497	-	1,497	-	1,497	-
Government & public bond	-	-	-	-	15	17	15	17	15	17
					1,512	17	1,512	17	1,512	17
					₩180,219	₩149,157	₩181,014	₩145,330	₩185,298	₩148,664

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

- (\*1) The equity method of accounting is applied based on the affiliates' recent financial information available, some of which have not been audited or reviewed.
- (\*2) Certain investments in non-marketable equity securities in which the Company holds 20% or more interests in the investees have been recorded at cost if total assets of each investee is less than ₩7 billion and differences between investments using the equity and cost accounting method are not significant, or if the Company's ability or intention to exercise influence is determined to be temporary.
- (\*3) As of December 31, 2000, the Company's investment in equity securities of EmFrontier Inc. was classified as investments in non-marketable equity securities. Since the total assets of EmFrontier Inc. is more than ₩7 billion as of December 31, 2001, the equity method was first applied for EmFrontier Inc. this year, and the investment was classified as investments in subsidiaries carried at equity.
- (\*4) Due to the accumulated deficit, net book value of the investments in the securities of these investees were fully written off, and additional estimated losses of ₩1,407 million were accrued with respect to the guarantees provided by the Company for the investees.

Details of changes in investments in equity-method investees in 2001 and 2000 are as follows:

	Millions of Won			
	2001		2000	
Acquisition costs	₩	133,572	₩	126,317
Adjustment				
New equity method investee				
EmFrontier Inc.		1,000		–
Increase in capital stock of investees		23,105		–
Dividend income		(143)		(143)
	₩	157,534	₩	126,174
Changes in capital adjustment		7,937		11,498
Net Loss		(2,422)		(3,652)
Elimination of unrealized gains or losses		(3,136)		814
Adjustment for differences between the investment account and corresponding capital accounts		(11)		(177)
Others		–		(1,085)
	₩	159,902	₩	133,572

9,000 shares of Korea Digital Satellite Broadcasting and 13,000 shares of KT ICOM Co., Ltd. were provided to Korea Digital Satellite Broadcasting and KT ICOM Co., Ltd., respectively, as collateral related to the Company's agency contracts



## 10. Property, Plant and Equipment

Property, plant and equipment at December 31, 2001 and 2000 comprise the following:

	Millions of Won					
	2001			2000		
	Acquisition Cost	Accumulated Depreciation	Book Value	Acquisition Cost	Accumulated Depreciation	Book Value
Land	₩ 317,033	₩ -	₩ 317,033	₩ 320,266	₩ -	₩ 320,266
Buildings	403,993	26,535	377,458	394,565	11,084	383,481
Structures	15,200	3,020	12,180	14,706	1,542	13,164
Machinery and equipment	453,578	221,285	232,293	379,058	124,166	254,892
Vehicles	8,959	6,499	2,460	8,695	5,689	3,006
Tools	194,099	146,125	47,974	201,858	155,159	46,699
Machinery in transit	18,967	-	18,967	50,607	-	50,607
Construction in progress	192,464	-	192,464	140,726	-	140,726
	<b>₩ 1,604,293</b>	<b>₩ 403,464</b>	<b>₩ 1,200,829</b>	<b>₩ 1,510,481</b>	<b>₩ 297,640</b>	<b>₩ 1,212,841</b>

At December 31, 2001, a substantial portion of the Company's land, buildings and machinery are pledged as collateral for long-term and short-term debt obligations up to approximately ₩696,957 million (See Notes 11 and 12).

At December 31, 2001 and 2000, the appraised tax basis of lands, as determined by the local governments of Korea for property tax assessment purposes, are approximately ₩284,882 million and ₩285,921 million, respectively.

At December 31, 2001, property, plant and equipment are insured against fire and other casualty losses up to approximately ₩1,884,580 million.

## 11. Short-term Borrowings

Short-term borrowings at December 31, 2001 and 2000 comprise the following:

	Lender	Annual Interest Rate (%)		Millions of Won	
		2001.12.31		2001	2000
Export financing	Hanvit Bank	5.9		₩ 19,113	₩ 11,859
General loan	Koram Bank, etc	5.3 - 5.9		87,180	35,000
”	Citi Bank, etc	5.2 - 6.0		31,000	25,000
”	Samsung Life Insurance	-		-	24,500
”	Kyo-bo Life Insurance	-		-	23,200
”	Korea Life Insurance, etc	-		-	21,000
USANCE	Hanvit Bank, etc	2.9		53,334	66,160
				<b>₩ 190,627</b>	<b>₩ 206,719</b>

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

Current maturities of long-term debt at December 31, 2001 and 2000 comprise the following :

	Millions of Won			
	2001		2000	
Debentures	₩	116,200	₩	90,000
Convertible bond		1,890		-
Long-term debt		32,289		58,040
Long-term other accounts payable		3,929		3,497
		154,308		151,537
Less : Premiums (discounts) on debentures		(758)		(1,472)
Conversion right adjustment		(19)		-
	₩	<b>153,531</b>	₩	<b>150,065</b>

Repayment of above short-term borrowings is guaranteed by several banks (see Note 15). In addition, a substantial portion of Company's short-term financial instruments and certain property, plant and equipment are pledged as collateral for repayment of the above short-term borrowings (see Notes 4 and 10).

## 12. Long-Term Debt

Long-term debt at December 31, 2001 and 2000 comprises the following:

### Debentures

	Annual Interest Rates (%)	Millions of Won		Guarantor	
		2001.12.31	2000		
Non-guaranteed debentures payable through 2004	'98.10.13 - '04.10.25	5.0 - 9.0	₩ 361,200	₩ 331,200	Non-guaranteed
			361,200	331,200	
Less : Treasury bonds			(4,890)	(10,000)	
Current maturities			(116,200)	(90,000)	
Discounts on debentures			(5,953)	(6,449)	
Plus : Debentures Premium			41	-	
			₩ <b>234,198</b>	₩ <b>224,751</b>	

## Convertible Bonds

		Annual Interest Rates (%)		Millions of Won		Guarantor
		2001.12.31	2001	2000		
The 41 <sup>st</sup> CB in foreign currencies	'95.9.28 - '10.12.31	-	₩ -	₩ 8,556		Non-guaranteed
The 52 <sup>nd</sup> CB in Won	'97.4.19 - '02.12.31	0.0	1,890	1,890		"
The 54 <sup>th</sup> CB in Won	'97.12.5 - '02.12.31	0.0	20,000	20,000		"
			21,890	30,446		
	Less : Treasury CB		(20,000)	(20,000)		
	Current maturities		(1,890)	-		
	Conversion right adjustments		-	(4,059)		
	Discounts on bonds		-	(24)		
			₩ -	₩ 6,363		

A summary of the terms of convertible bonds is as follows:

### The 52<sup>nd</sup> Convertible Bonds

- Issuing date: April 19, 1997
- Interest rate: 0% per annum
- Conversion period: On or after April 19, 1998 through November 30, 2002.
- Conversion price: Subject to adjustment based on certain events (₩1,674 per common share as of December 31, 2000)
- Redemption: On December 31, 2002, the bond will be redeemed at 105.83% of the principal amount.

### The 54<sup>th</sup> Convertible Bonds

- Issuing date: December 5, 1997
- Interest rate: 0% per annum
- Conversion period: On or after March 6, 1998 through November 30, 2002.
- Conversion Price: Subject to adjustment based on certain events (₩966 per common share as of December 31, 2000)
- Redemption: On December 31, 2002, the bond will be redeemed at 128.08% of the principal amount. However, all of the 54th convertible bonds are held by the Company as of December 31, 2001 and recorded as treasury convertible bonds.

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## Long-term Borrowings

Lender	Purpose	Annual Interest Rates (%)	Millions of Won	
		2001.12.31	2001	2000
<b>Won currency loans</b>				
Hanvit Bank	Facility loans	6.00	₩ 1,700	₩ 2,200
Korea Development Bank	Foreign facility loans	5.97 - 10.20	77,732	138,363
KDB Capital	Information improvement loans	6.50	332	398
			79,764	140,961
	Less: current maturities		(13,719)	(33,257)
			66,045	107,704
<b>Foreign currency loans</b>				
Korea Development Bank	Foreign facility loans	6.84	2,787	18,820
KEXIM Bank	Foreign direct investment	4.18 - 5.10	19,868	27,044
Hanvit Bank	Foreign facility loans	6.31	1,862	5,596
Korea International Merchant Bank	Facility loans	-	-	1,800
Koram Bank and others	Facility loans and other	3.74 - 5.69	22,129	12,485
			46,646	65,745
	Less: current maturities		(18,570)	(24,783)
			28,076	40,962
			<b>₩ 94,121</b>	<b>₩ 148,666</b>

The annual maturities in aggregate of long-term debt outstanding at December 31, 2001 are as follows:

For the year ending December 31,	Millions of Won			
	Debentures	Won Currency Loans	Foreign Currency Loans	Total
2003	₩ 120,110	₩ 28,205	₩ 20,435	₩ 168,786
2004	120,000	23,894	7,641	151,535
2005	-	13,946	-	13,946
2006 and thereafter	-	-	-	-
	<b>₩ 240,110</b>	<b>₩ 66,045</b>	<b>₩ 28,076</b>	<b>₩ 334,267</b>

At December 31, 2001, a substantial portion of the Company's short-term financial instruments, and property, plant and equipment are pledged as collateral for above long-term debt (see Notes 4 and 10). Repayments of the above long-term borrowings are guaranteed by several banks (see Note 15).

### 13. Leases

At December 31, 2001 and 2000 the Company has entered into lease agreements with several leasing companies which are recognized as capital leases. These lease agreements are summarized as follows:

Accounts	Millions of Won			
	Acquisition Cost		Depreciation Expense	
	2001	2000	2001	2000
Machinery and equipment	₩ 10,075	₩ 10,075	₩ 554	₩ 807

Scheduled future lease payments in aggregate under these capital lease arrangements at December 31, 2001 are as follows:

For the year ending December 31,	Lease payment		Interest		Net lease liability	
	2001	2000	2001	2000	2001	2000
2001	₩ -	₩ 4,020	₩ -	₩ 523	₩ -	₩ 3,496
2002	4,253	4,022	323	290	3,930	3,733
2003	2,271	2,202	72	114	2,198	2,089
	<b>₩ 6,524</b>	<b>₩ 10,244</b>	<b>₩ 395</b>	<b>₩ 927</b>	₩ 6,128	₩ 9,318
			Less : Current maturities		(3,929)	(3,497)
					<b>₩ 2,199</b>	<b>₩ 5,821</b>

Lease liabilities (including current maturities) include foreign currency denominated payables of US\$ 4,621 thousand and US\$ 7,397 thousand as of December 31, 2001 and 2000, respectively.

### 14. Accrued Severance Benefits

Accrued severance benefits at December 31, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Balance at beginning of year	₩ 102,244	₩ 108,821
Actual payments	(32,975)	(29,459)
Provision for severance benefits	16,024	22,882
	85,293	102,244
Less : Cumulative deposits to		
National Pension Fund	(5,307)	(7,262)
Severance insurance deposits	(62,342)	(84,461)
Balance at end of year	<b>₩ 17,644</b>	<b>₩ 10,521</b>

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## 15. Commitments and Contingencies

The Company has entered into bank overdraft agreements with several banks amounting to ₩37,100 million as of December 31, 2001. The Company has also entered into agreements with various financial institutions to discount

notes an aggregate maximum of ₩43,900 million and to discount foreign currency denominated accounts receivable an aggregate maximum of US\$ 393 million and ₩50,000 million. Outstanding balances of such discounted notes receivable are ₩35,143 million at December 31, 2001 (see Note 5). The Company also has sold certain foreign currency denominated accounts receivable with recourse to several banks. The outstanding balances of such receivables are ₩262,695 million (US\$ 198 million) at December 31, 2001.

The Company has obtained guarantees for its short-term and long-term borrowings from several banks. At December 31, 2001, the aggregate amount of guarantees outstanding amounts to US\$ 16 million and the Company has provided several blank checks and promissory notes as collateral for repayment of loans and guarantees (Notes 11 and 12).

At December 31, 2001, the Company has entered into purchase card agreements with two banks including Hanvit Bank an aggregate maximum of ₩120,000 million, which have become effective since July 16, 2001.

At December 31, 2001, the Company has provided guarantees of ₩266,932 million (US\$ 201 million) with respect to financing by its overseas subsidiaries. Such guarantees are as follows:

Subsidiaries	Millions of Won
Jiangsu Hankook Tire Co., Ltd.	₩ 120,789
Hankook Tire Jiaying Co., Ltd.	78,780
Hankook Tire America Corp.	18,234
Hankook Tire Netherlands B.V.	21,776
Hankook Reifen Deutschland GmbH	12,891
Others	14,462
	<b>₩ 266,932</b>

The Company has entered into agreements to purchase raw rubber materials with several suppliers, which are usually renewed annually.

The Company has entered into forward contracts to exchange different currencies on specified dates at specified price.

A summary of forward contracts outstanding at December 31, 2001 is as follows:

Counterparty	In Thousands			Thousands of Won		
	Bought	Sold	Settlement Rate	Settlement date	Unrealized Valuation Loss	Capital Adjustment
Citi Bank	-	US\$ 2,500	1,276 <sup>02</sup>	2002. 1. 7	₩ -	₩ (103,802)
"	-	US\$ 1,500	1,309 <sup>10</sup>	2002. 1. 7	-	(12,709)
"	-	US\$ 2,500	1,319 <sup>50</sup>	2002. 1. 7	-	4,778
"	-	US\$ 2,500	1,317 <sup>80</sup>	2002. 3. 21	-	(5,095)
"	-	US\$ 2,500	1,297 <sup>30</sup>	2002. 1. 7	-	(37,307)
"	-	US\$ 1,500	1,305 <sup>50</sup>	2002. 1. 4	(27,682)	-
"	-	US\$ 11,400	1,312 <sup>10</sup>	2002. 1. 4	(135,214)	-
"	-	US\$ 10,000	1,307 <sup>80</sup>	2002. 1. 21	(58,684)	-
"	-	JPY 100,000	129 <sup>25</sup>	2002. 2. 25	-	13,678
"	-	JPY 100,000	129 <sup>10</sup>	2002. 3. 25	-	13,633
"	-	JPY 100,000	129 <sup>45</sup>	2002. 1. 24	-	13,880
"	EUR 1,902	-	0.8484	2002. 6. 14	-	75,099
"	EUR 211	-	0.8484	2002. 7. 12	-	8,120
Koram Bank	-	US\$ 2,500	1,328 <sup>60</sup>	2002. 3. 26	-	20,063
"	-	US\$ 5,000	1,279 <sup>30</sup>	2002. 2. 14	-	(182,065)
"	-	US\$ 5,000	1,276 <sup>30</sup>	2002. 1. 10	-	(174,112)
"	-	EUR 1,500	0.9000	2002. 1. 8	-	31,672
Hanvit Bank	-	US\$ 2,500	1,317 <sup>80</sup>	2002. 1. 4	-	(15,165)
"	-	EUR 2,500	0.9119	2002. 1. 4	-	91,725
					<b>₩ (221,580)</b>	<b>₩ (257,607)</b>

In 2001, the Company recorded realized gain and losses amounting to ₩2,374 million and ₩3,312 million, respectively, and also recorded ₩273 million of unrealized gains and ₩530 million losses on derivatives for cash flow hedging that is effective as capital adjustments at December 31, 2001.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Company may be either directly or indirectly affected by the situation described above.



# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## 16. Revaluation Reserve

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment on July 1, 2000. Changes in asset revaluation surplus are as follows:

	Millions of Won		
	Revalued Amount	Book Value	Increment
Land	₩ 425,981	₩ 356,491	₩ 69,490
Buildings	385,208	370,960	14,248
Structures	15,578	14,598	980
Machinery and equipment	268,294	166,914	101,380
Vehicles	4,029	2,707	1,322
	<b>₩ 1,099,090</b>	<b>₩ 911,670</b>	₩ 187,420
Less : Asset revaluation tax			(3,008)
Transfer to other capital surplus			(40,820)
Net increase of revaluation surplus			143,592
Balance as of Jan. 1, 1999 (*)			315,898
Balance as of Dec. 31, 2000			459,490
Revaluation surplus decreased in 2001 (**)			(3,017)
Balance as of Dec. 31, 2001			<b>₩ 456,473</b>

(\*) The balance as of January 1, 1999 represents the revalued amount of ₩387,169 million as of January 1, 1981 and 1998, net of asset revaluation tax, transfer to capital stock from capital surplus and foreign translation adjustment.

(\*\*) During 2001 the Company has disposed a portion of the revaluated assets, which are regarded as cancelled revaluation under the Asset Revaluation Law of Korea.

## 17. RETAINED EARNINGS

Retained earnings as of December 31, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Legal reserve	₩ 19,260	₩ 15,260
Reserve for improvement of financial structure	19,320	19,320
Reserve for business rationalization	46,585	40,585
Voluntary reserve	143,404	133,101
Unappropriated retained earnings	11,209	9,934
	<b>₩ 239,778</b>	<b>₩ 218,200</b>

### **Legal Reserve**

The Commercial Code of the Republic of Korea requires the Company to appropriate a portion of retained earnings as a legal reserve in an amount equal to a minimum of 10% of its cash dividends until such reserve equals 50% of its capital stock. The reserve is not available for dividends but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

### **Reserve for Improvement of Financial Structure**

In accordance with the provisions of the Financial Control Regulations for the companies listed on the Korea Stock Exchange, the Company is required to appropriate as a reserve for improvement of financial structure an amount equal to a minimum of 10% of its net income, plus at least 50% of the net gain from disposal of fixed assets after deducting related taxes, until equity is equal to 30% of total assets. This reserve is not available for dividends but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders. However, the Company is not required to appropriate the reserve since the equity of the Company is more than 30% of total assets as of December 31, 2001.

### **Reserve for Business Rationalization**

Pursuant to the Regulation of Tax Reduction and Exemption Act ("RTREA"), the Company is required to appropriate, as a reserve for business rationalization, amounts equal to the tax reduction arising under the RTREA. This reserve is not available for dividends, but may be transferred to common stock through an appropriate resolution by the Company's board of directors or may be used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

### **Voluntary Reserve**

The Company appropriates a certain portion of retained earnings pursuant to shareholder resolution as a voluntary reserve. This reserve may be reversed and transferred to unappropriated retained earnings by the resolution of shareholders and may be distributed as dividends after reversal.

## **18. Divident Information**

Dividends for 2001 and 2000 are calculated as follows:

### **Number of common shares entitled to receive dividends**

- 2001 : 145,060,897 common shares
- 2000 : 145,060,897 common shares

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## Dividend Amounts

			Formula	In Won
2001	Cash Dividend	Common stock	$145,060,897 \times \text{₩}500 \times 12\% \times 365/365$	₩ 8,703,653,820
2000	Cash Dividend	Common stock	$145,060,897 \times \text{₩}500 \times 12\% \times 366/366$	₩ 8,703,653,820

## Dividends Payout Ratio

	In Won	
	2001	2000
Dividends	₩ 8,703,653,820	₩ 8,703,653,820
Net Income	30,281,547,185	23,322,057,705
Dividends Payout Ratio	<b>28.74%</b>	<b>37.32%</b>

## Dividends Yield Ratio

	In Won	
	2001	2000
Dividends per share	₩ 60	₩ 60
Market price as of December 31, 2001 and 2000	2,470	1,695
Dividends Yield Ratio	<b>2.43%</b>	<b>3.54%</b>

## 19. Capital Adjustments

Capital adjustments as of December 31, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Treasury stock	₩ (10,320)	₩ (10,320)
Conversion right	104	5,423
Unrealized gain on investment securities	42,838	32,596
Unrealized gain on derivatives	273	-
Unrealized loss on derivatives	(530)	(95)
	<b>₩ 32,365</b>	<b>₩ 27,604</b>

## 20. Income Taxes

The statutory income tax rate applicable to the Company, including resident tax surcharges, is approximately 30.8%.

Income tax expenses for the years ending December 31, 2001 and 2000 comprise the following:

	Millions of Won	
	2001	2000
Current income taxes	₩ 17,910	₩ 10,693
Deferred income taxes	(7,419)	(446)
	<b>₩ 10,491</b>	<b>₩ 10,247</b>

The Company's effective income tax rates for the years ending December 31, 2001 and 2000 are 25.7% and 30.5%, respectively.

The components of differences between taxable income and net income before income taxes for the years ended December 31, 2001 and 2000 are as follows:

	Millions of Won	
	Temporary differences	Permanent differences
Foreign exchange gain or loss	₩ (4,473)	₩ -
Provision for reserve for taxation purpose	1,754	-
Provision for bad debt	4,109	-
Depreciation	15,551	-
Loss on equity method accounting	6,976	-
Capitalized interest costs	7,736	-
Gains on trading of forward contract	(444)	-
Loss on trading of forward contract	222	-
Tax and dues	-	2,137
Entertainment expenses	-	2,672
Gain on valuation of investment securities	(10,243)	10,243
Loss on valuation of investment securities	137	-
Gain on valuation of marketable securities	(207)	-
Accrued severance benefits	(6,865)	-
Others	482	1,727
<b>2001</b>	<b>₩ 14,735</b>	<b>₩ 16,779</b>
<b>2000</b>	<b>₩ (352)</b>	<b>₩ 10,942</b>

During 2001, the Company recognized ₩6,202 million of equipment investment tax credits.

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

Components of deferred taxes as of December 31, 2001 and 2000 are as follows:

	Millions of Won					
	2001			2002		
	Beginning Balance	Increase(*) (Decrease)	Ending Balance	Beginning Balance	Increase (*) (Decrease)	Ending Balance
Loss on equity method investees	₩ 30,068	₩ 6,976	₩ 37,044	₩ 27,052	₩ 3,016	₩ 30,068
Provision for bad debt	4,887	2,526	7,414	3,814	1,073	4,887
Depreciation	20,311	13,479	33,791	9,948	10,363	20,311
Provision for severance benefits	6,369	(4,236)	2,133	6,369	-	6,369
Provision for reserve for taxation purpose	(3,173)	1,697	(1,476)	(5,470)	2,296	(3,173)
Loss on valuation of investment securities	4,983	137	5,120	3,586	1,397	4,983
Loss on valuation of inventories	-	2,635	2,635	-	-	-
Foreign exchange gain or loss	11,291	(7,092)	4,198	17,503	(6,213)	11,291
Others	(6,446)	11,385	4,938	(2,517)	(3,928)	(6,446)
<b>Total</b>	<b>₩ 68,290</b>	<b>₩ 27,507</b>	<b>₩ 95,797</b>	<b>₩ 60,285</b>	<b>₩ 8,004</b>	<b>₩ 68,290</b>
<b>Deferred income tax assets</b>	<b>₩ 21,033</b>	<b>₩ 7,419</b>	<b>₩ 28,452</b>	<b>₩ 18,568</b>	<b>₩ 2,465</b>	<b>₩ 21,033</b>

The Company periodically assesses its ability to recover deferred tax assets. In the event of significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the asset to its estimated net realizable value.

(\*) The changes in temporary differences during 2001 and 2000 include ₩12,772 and ₩8,356 respectively, related to adjustments in prior year tax return and investment valuation gain not affecting deferred tax assets or liabilities.

## 21. Earnings Per Share

Earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year. Ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stocks as adjusted by extraordinary gain or losses, net of related income taxes, by the weighted average number of common shares outstanding during the year.

Earnings and ordinary income per share for the years ended December 31, 2001 and 2000, are calculated as follows:

	In Won			
	2001		2000	
Net income	₩	30,281,547,185	₩	23,322,057,705
Interests for converted convertible bonds		-		-
Net income for common shares		30,281,547,185		23,322,057,705
Weighted average number of common shares outstanding		145,060,897		145,939,243
<b>Earnings per share</b>	<b>₩</b>	<b>209</b>	<b>₩</b>	<b>160</b>
Net income for common shares	₩	30,281,547,185	₩	23,322,057,705
Extraordinary gain (loss)		-		-
Ordinary income allocated to common stock		30,281,547,185		23,322,057,705
Weighted average number of common shares outstanding		145,060,897		145,939,243
<b>Ordinary income per share</b>	<b>₩</b>	<b>209</b>	<b>₩</b>	<b>160</b>

Diluted earnings per share and diluted ordinary income per share for the years ended December 31, 2001 and 2000 are calculated as follows:

	In Won			
	2001		2000	
Net income and ordinary income	₩	30,281,547,185	₩	23,322,057,705
Add : interest expenses of convertible bond		12,816,274		275,543,080
	₩	30,294,363,459	₩	23,597,600,785
Weighted average number of common shares outstanding		145,060,897		145,939,243
Weighted average number of diluted shares		1,129,032		3,652,867
		146,189,929		149,592,110
<b>Diluted earnings and ordinary income per share</b>	<b>₩</b>	<b>207</b>	<b>₩</b>	<b>158</b>

At December 31, 2001, 52<sup>nd</sup> convertible bonds of the Company are potentially convertible to common shares of the Company in the future.

## 22. Research and Development Costs

Research and development costs incurred in 2001 and 2000 are ₩41,005 million and ₩42,086 million, respectively, all of which are charged to current operations.

# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## 23. Related Party Transactions

Significant transactions with affiliated companies for the years ended December 31, 2001 and 2000 and related account balances as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Won			
	Sales	Purchases	Account Receivables	Account payables
Korea Storage Battery Ltd.	₩ -	₩ 28,802	₩ -	₩ 16,248
Daehwa Eng' & Machinery Co., Ltd.	-	15,631	-	6,306
ASA Co., Ltd.	-	2,206	-	1,008
Hanta M&B Co., Ltd.	-	7,240	-	562
Emfrontier Inc.	-	20,175	-	3,817
Hankook Tire America Corp.	130,705	-	5,731	-
Hankook Tire Canada Corp.	21,071	-	497	-
Hankook Tyre U.K. Ltd.	34,729	-	1,695	-
Hankook Tire Japan Corp.	18,505	-	446	-
Hankook Reifen Deutschland GmbH	52,558	-	2,583	-
Hankook Tire Netherland B.V.	38,502	-	1,615	-
Hankook Tire France SARL	26,267	-	669	-
Hankook Tire Jiaying Co., Ltd.	3,165	11,078	5,556	134
Jiangsu Hankook Tire Co., Ltd.	2,682	34,683	7,852	1,240
Hankook Tire Italia S.R.L.	-	714	-	83
Hankook Espana S.A.	-	1,185	-	62
Hankook Tyre Australia PTY., Ltd.	-	1,124	-	105
<b>2001</b>	<b>₩ 328,184</b>	<b>₩ 122,838</b>	<b>₩ 26,644</b>	<b>₩ 29,565</b>
<b>2000</b>	<b>₩ 445,360</b>	<b>₩ 80,160</b>	<b>₩ 30,044</b>	<b>₩ 18,241</b>

## 24. Changes in Business

In 2000, the Company launched its housing construction business, which is summarized as follows:

	Millions of Won
Contract revenue recognized in 2001	₩ 60,138
Contract cost recognized in 2001	57,395
<b>Gross Profit</b>	<b>₩ 2,743</b>

The Company discontinued the operations of its Youngdeungpo Plant on April 30, 2000 and the production equipment held at the plant was relocated to other plants or disposed of to its affiliated companies overseas and the third parties.

In addition, the Company discontinued its manufacturing operations of Incheon Plant on February 1, 2001 in accordance with the "Incheon Plant Restructuring Plan" and relocated and disposed of the related property, plant and equipment. All losses arising from the above restructuring have been included in loss on disposition of property, plant and equipment and loss on valuation of inventories.

## 25. Segment Information

### Industry Segment Information

Financial information on industry segments for the year ended December 31, 2000 is as follows:

	Millions of Won			
	Tire	Housing	Other(**)	Total
Sales	₩ 1,226,389	₩ 60,138	₩ 118,451	₩ 1,404,978
Operating income (loss)	348,857	2,743	(232,584)	119,016
Fixed asset Tangible and intangible assets(*)	811,730	63,483	402,996	1,278,209
Depreciation and amortization	₩ 124,660	₩ -	₩ 20,447	₩ 145,107

(\*) All of fixed assets of housing segment are the cost of lands which is accounted for as inventories.

(\*\*) Other segments include administration segment. There has been no intersegment transactions or allocation of administration costs among these three segments during 2001.

### Geographical Segment Information

Sales	Millions of Won	
	2001	2000
North America	₩ 177,667	₩ 196,300
South America	101,228	93,532
Asia	191,926	126,163
Europe	250,774	240,776
Other	30,972	36,890
Local export	72,928	67,882
Domestic	579,483	551,182
<b>Total</b>	<b>₩ 1,404,978</b>	<b>₩ 1,312,725</b>



# Notes to Non-Consolidated Financial Statements

December 31, 2001 and 2000

## Discontinued Segment Information

The Company discontinued its tube manufacturing operations on July 1, 2000 and the production equipment held at the plant was relocated to other plants or disposed of. Condensed financial results of the discontinued tube manufacturing operations in 2000 are as follows:

	Millions of Won	
I. Sales	₩	9,617
II. Operating Income	₩	1,712
III. Depreciation Expenses and etc.	₩	1,424

## 26. Supplemental Cash Flow Information

### Definition of Cash and Cash Equivalents

The Company considers cash on hands, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

### Transactions Not Affecting Cash Flows

Significant transactions not affecting cash flows for the year ended December 31, 2001 and 2000 are as follows:

	Millions of Won			
		2001		2000
Current maturities of long-term debts	₩	154,309	₩	151,537
Current maturities of long-term loans		604		1,271
Decrease in revaluation surplus		3,017		-
Unrealized valuation gain on investment securities		10,242		-
Intangible assets transferred from work-in construction		11,624		-