

# **MACQUARIE KOREA INFRASTRUCTURE FUND**

**Non-Consolidated Financial Statements  
December 31, 2006 and 2007**

## Report of Independent Auditors

To the Shareholders and Board of Directors of  
MACQUARIE KOREA INFRASTRUCTURE FUND

We have audited the accompanying balance sheet of MACQUARIE KOREA INFRASTRUCTURE FUND (the Company) as of December 31, 2007, and the related statements of income, changes in shareholders' equity and cash flows for the year 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 audit. The financial statements of the Company as of and for the year ended December 31, 2006, presented herein for comparative purposes, were audited by KPMG Samjong Accounting Corp. whose report dated January 19, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements as of and for the year ended December 31, 2007 referred to above present fairly, in all material respects, the financial position of MACQUARIE KOREA INFRASTRUCTURE FUND as of December 31, 2007, and the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The amounts expressed in U.S. dollars are provided solely for the convenience of the reader and have been translated on the basis set forth in Note 2(b) to the accompanying financial statements.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit 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 who are informed about Korean accounting principles or auditing standards and their application in practice.

A handwritten signature in black ink that reads "Samil PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

Seoul, Korea  
January 29, 2008

This report is effective as of January 29, 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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**MACQUARIE KOREA INFRASTRUCTURE FUND**

Non-Consolidated Financial Statements

December 31, 2006 and 2007

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MACQUARIE KOREA INFRASTRUCTURE FUND

**Non-consolidated Balance Sheets**

December 31, 2006 and 2007

(In thousands of Korean Won and U.S. dollars, except per share data)

<u>Assets</u>	<u>Won (thousands)</u>		<u>U.S. dollars</u>
	<u>2006</u>	<u>2007</u>	<u>(note 2(b))</u>
			<u>2007</u>
<b>Invested assets:</b>			
Cash and deposits (notes 3 and 8)	₩ 281,670,068	₩ 83,529,392	\$ 89,031,541
Loans receivable (notes 4 and 7)	923,653,801	1,070,291,315	1,140,792,278
Equity securities (notes 6 and 9)	421,074,231	473,504,141	504,694,245
Debt securities (note 6)	44,954,208	41,167,966	43,879,734
<b>Total invested assets</b>	<b>1,671,352,308</b>	<b>1,668,492,814</b>	<b>1,778,397,798</b>
<b>Other assets:</b>			
Interest receivable (notes 4, 6 and 7)	92,085,723	148,289,652	158,057,613
Other receivables	927,233	54,808	58,418
Deferred costs, net (note 5)	7,462,467	8,153,344	8,690,411
<b>Total other assets</b>	<b>100,475,423</b>	<b>156,497,804</b>	<b>166,806,442</b>
<b>Total assets</b>	<b>₩ 1,771,827,731</b>	<b>₩ 1,824,990,618</b>	<b>\$ 1,945,204,240</b>
<b><u>Liabilities and Shareholders' Equity</u></b>			
<b>Liabilities:</b>			
Accounts payable	₩ 826,245	₩ 121,258	\$ 129,243
Management fee payable (note 8)	7,331,842	8,138,823	8,674,934
Other liabilities (notes 8 and 10)	399,948	1,023,517	1,090,937
Long-term debts (notes 8 and 11)	-	113,008,618	120,452,590
<b>Total liabilities</b>	<b>8,558,035</b>	<b>122,292,216</b>	<b>130,347,704</b>
Commitments (note 20)			
<b>Shareholders' equity:</b>			
Share capital - no par value	1,757,635,947	1,652,985,097	1,761,868,575
Authorized - 4,000,000,000 shares; Issued and outstanding: 323,490,204 shares in 2006 and 2007 (note 8)			
Retained earnings	5,633,749	49,713,305	52,987,961
Net asset value per share in Korean Won and U.S. dollars: ₩ 5,451 (\$5.86) in 2006 and ₩ 5,264 (\$5.61) in 2007 (note 17)			
<b>Total shareholders' equity</b>	<b>1,763,269,696</b>	<b>1,702,698,402</b>	<b>1,814,856,536</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 1,771,827,731</b>	<b>₩ 1,824,990,618</b>	<b>\$ 1,945,204,240</b>

See accompanying notes to the non-consolidated financial statements.

MACQUARIE KOREA INFRASTRUCTURE FUND

**Non-consolidated Statements of Income**

For the years ended December 31, 2006 and 2007

(In thousands of Korean Won and U.S. dollars, except earnings per share)

	Won (thousands)		U.S. dollars (note 2(b))
	2006	2007	2007
Revenue:			
Interest income (notes 6, 7 and 8)	₩ 125,029,668	₩ 140,363,418	\$ 149,609,271
Arrangement fees	961,950	875,000	932,637
Dividend income (note 6)	6,958,152	9,842,462	10,490,793
Gain (loss) on valuation of debt securities (note 6)	6,724,090	(3,786,242)	(4,035,645)
Other income (note 13)	1,491,820	3,185,704	3,395,549
	141,165,680	150,480,342	160,392,605
Expenses:			
Management fees (note 8)	26,436,493	32,139,364	34,256,410
Custodian fees (note 8)	533,496	513,351	547,166
Administrator fees (note 8)	291,281	299,455	319,180
Performance fees (note 8)	103,165,697	27,341,394	29,142,394
Interest expense (notes 8 and 11)	-	1,721,716	1,835,127
Other expenses (notes 7, 8 and 14)	5,104,964	6,433,764	6,857,561
	135,531,931	68,449,044	72,957,838
Net income	₩ <u>5,633,749</u>	₩ <u>82,031,298</u>	\$ <u>87,434,767</u>
Earnings per share in Korean Won and U.S. dollars (note 18)	₩ <u>18</u>	₩ <u>254</u>	\$ <u>0.27</u>

*See accompanying notes to the non-consolidated financial statements.*

**MACQUARIE KOREA INFRASTRUCTURE FUND**  
**Non-consolidated Statements of Changes in Shareholders' Equity**

For the years ended December 31, 2006 and 2007

(In thousands of Korean Won and U.S. dollars, except per share data)

	Number of shares	Won (thousands)			U.S. dollars (note 2(b))
		Share capital	Retained earnings	Total	Total
Balance at January 1, 2006	240,076,919	₩ 1,258,699,893	₩ 53,549,955	₩ 1,312,249,848	\$ 1,398,688,817
Issuance of shares, net (note 8)	83,413,285	563,634,095	-	563,634,095	600,761,133
Net income	-	-	5,633,749	5,633,749	6,004,849
Cash distribution (note 12) (net asset value per share in Korean Won and US dollars: ₩ 5,451 (\$5.86) (note 17))	-	(64,698,041)	(53,549,955)	(118,247,996)	(126,037,088)
Balance at December 31, 2006	323,490,204	1,757,635,947	5,633,749	1,763,269,696	1,879,417,711
Share issuance cost(note 8)	-	(266,903)	-	(266,903)	(284,484)
Net income	-	-	82,031,298	82,031,298	87,434,767
Cash distribution (note 12) (net asset value per share in Korean Won and US dollars: ₩ 5,264 (\$5.61) (note 17))	-	(104,383,947)	(37,951,742)	(142,335,689)	(151,711,458)
Balance at December 31, 2007	<u>323,490,204</u>	<u>₩ 1,652,985,097</u>	<u>₩ 49,713,305</u>	<u>₩ 1,702,698,402</u>	<u>\$ 1,814,856,536</u>

*See accompanying notes to the non-consolidated financial statements.*

MACQUARIE KOREA INFRASTRUCTURE FUND

**Non-consolidated Statements of Cash Flows**

For the years ended December 31, 2006 and 2007  
(In thousands of Korean Won and U.S. dollars)

	Won (thousands)		U.S. dollars (note 2(b))
	2006	2007	2007
<b>Cash flows from operating activities:</b>			
Cash inflows from operating activities:			
Interest income	₩ 83,394,344	₩ 80,325,211	\$ 85,616,298
Dividend income	6,958,152	9,842,462	10,490,793
Arrangement fees	961,950	1,686,404	1,797,489
Collection of loans receivable	-	1,798,750	1,917,235
Return of deferred costs	1,546,000	-	-
Other income	1,016,403	3,449,406	3,676,621
	<u>93,876,849</u>	<u>97,102,233</u>	<u>103,498,436</u>
Cash outflows from operating activities:			
Purchases of equity securities	(159,931,312)	(51,818,145)	(55,231,449)
Issuances of loans receivable	(206,538,146)	(144,613,485)	(154,139,293)
Payment of deferred costs	(4,392,291)	(3,554,312)	(3,788,437)
Management fees	(23,278,654)	(31,332,383)	(33,396,273)
Performance fees	(104,430,746)	(27,341,394)	(29,142,394)
Custodian fees	(520,161)	(517,185)	(551,252)
Sales agent fees	(10,533)	-	-
Administrator fees	(305,016)	(301,691)	(321,564)
Other expenses	(1,247,824)	(5,161,722)	(5,501,729)
	<u>(500,654,683)</u>	<u>(264,640,317)</u>	<u>(282,072,391)</u>
Net cash used in operating activities	<u>(406,777,834)</u>	<u>(167,538,084)</u>	<u>(178,573,955)</u>
Cash flows from financing activities:			
Proceeds from issuance of shares	582,489,855	-	-
Payment of stock issuance costs	(18,813,960)	(266,903)	(284,484)
Proceeds from long-term debt	-	112,000,000	119,377,531
Distribution	(118,247,996)	(142,335,689)	(151,711,457)
Net cash provided by (used in) financing activities	<u>445,427,899</u>	<u>(30,602,592)</u>	<u>(32,618,410)</u>
Net increase (decrease) in cash and deposits	38,650,065	(198,140,676)	(211,192,365)
Cash and deposits at beginning of the year	<u>243,020,003</u>	<u>281,670,068</u>	<u>300,223,906</u>
Cash and deposits at end of the year	₩ <u>281,670,068</u>	₩ <u>83,529,392</u>	\$ <u>89,031,541</u>

See accompanying notes to the non-consolidated financial statements.

## MACQUARIE KOREA INFRASTRUCTURE FUND

### Notes to Non-consolidated Financial Statements

December 31, 2006 and 2007

#### (1) Organization and Description of Business

MACQUARIE KOREA INFRASTRUCTURE FUND (the "Company") was incorporated on December 12, 2002 under the Securities Investment Company Act ("SICA") and the Private Participation in Infrastructure Act (the "PPIA"). The Company is an investment company that operates by investing in entities that have entered into long-term concession agreements with central, provincial and city governments in Korea implemented under the framework of the PPIA. The Company was classified as an investment company for SICA purposes. During 2004 the Korean Government enacted (and have subsequently amended) the Indirect Investment Asset Management Business Act ("IIAMBA"), replacing the SICA. Under IIAMBA, an investment company is defined as an indirect investment vehicle established in the form of a corporation under the Korean Commercial Code to distribute to its' shareholders the profits made by managing assets through investments. An infrastructure entity established under the PPIA may be registered as an investment company under IIAMBA if it changes its Articles of Incorporation to conform to IIAMBA requirements. Accordingly, the Company amended its Articles of Incorporation on November 11, 2005 and was registered as an investment company under IIAMBA on February 8, 2006.

Under the IIAMBA, the Company shall not have any employees. Instead, the Company is required under SICA (prior to registration under IIAMBA) and IIAMBA to appoint a manager, custodian, administrator and sales agents. As described in note 8, Macquarie Shinhan Infrastructure Asset Management Co., Ltd. (the "Manager") is the Company's asset manager. The Manager is a joint venture between entities in the Macquarie Group and Shinhan Financial Group. On November 11, 2005, the Manager was licensed as an infrastructure fund asset management company under IIAMBA.

The Company listed its Depository Receipts (DR) on the London Stock Exchange on March 14, 2006 and its stock on the Korea Exchange on March 15, 2006. Through the initial public offering ("IPO"), the Company issued 71,428,572 shares and received proceeds of ₩500,199 million. In addition, the Company issued 11,984,713 shares and raised new capital of ₩82,291 million from international investors through the exercise of the over-allotment option in 2006. The Company deducted the share issuance costs related to the IPO, of ₩18,856 million and ₩267 million, from share capital in 2006 and 2007, respectively.

**Notes to Non-consolidated Financial Statements, Continued**

| (2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

(a) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares financial statements in conformity with IIFMBA, the Statements of Korea Accounting Standards ("SKAS") No. 103, "Indirect Investment Vehicle" and accounting principles generally accepted in the Republic of Korea ("Korean GAAP").

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, non-consolidated financial statements are intended for use only by those who are informed about Korean accounting principles and practices.

The accompanying non-consolidated financial statements include only the accounts of the Company, and do not consolidate the accounts of any of the Company's subsidiaries. Instead, these subsidiaries are accounted for under the cost method.

(b) Basis of Translating Financial Statements

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US\$1:₩938.2, the exchange rate in effect on December 31, 2007. Such presentation is not in accordance with accounting principles generally accepted in the Republic of Korea, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

(c) Revenue Recognition

Revenue is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company. Interest income on loans and investments are recognized on an accrual basis. In cases where loans have fixed interest rates that change over the term of the loan, the Company recognizes interest income using the effective interest rate method over the term of the loan. Arrangement fees are a form of commission that the Company receives from invested companies (note 7) and includes fees for arranging loans on behalf of such companies. Arrangement fee income is recognized when the transaction is completed.

(d) Cash and Deposits

The Company considers cash and deposits to include funds deposited in money market deposit accounts, negotiable certificates of deposit and time deposits.

**Notes to Non-consolidated Financial Statements, Continued**

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

(e) Loans receivables

The Company provides loans to concession companies (note 4) with maturity dates in excess of one year. These loans are recorded at cost and bear interest as stated under the relevant loan agreements. The rate of interest is determined taking into account factors such as the entity's credit quality. Interest is recognized over the life of the loan using the effective interest rate method.

In accordance with IIMBA, if there is any indication of impairment at each reporting date, the Company assesses the fair value of each loan by engaging two independent valuation agencies. If the average value of the two valuations provided by the valuation agencies is lower than the carrying value of the loan, the Company recognizes the difference between the carrying amount and the average valuation as allowance for doubtful loans with a corresponding charge to the non-consolidated statement of income.

(f) Transaction Costs related to Loan and Equity Investments

The costs related to loan acquisitions (included in deferred costs) are deferred and amortized over the term of the respective loan. Transaction costs related to acquisitions of securities are capitalized as a component of the purchase price (note 5).

(g) Investment Securities

Equity securities which are listed are recorded at fair value with unrealized gains and losses reflected in the non-consolidated statement of income. Equity securities which are not listed or traded in an active market are accounted for at their acquisition costs plus any related transaction costs.

Under the cost method, the Company's share of the earnings or losses of the investments is not included in the non-consolidated statement of income. When the amount estimated to be recoverable is less than the acquisition cost of an equity security, recognition of impairment loss shall be recorded. Such impairment, if any, is charged to current earnings.

Debt securities, including convertible bonds, are recorded at fair value with unrealized gains and losses reflected in the non-consolidated statement of income. The fair value of unlisted debt securities is determined based on valuations performed by independent valuation agencies.

**Notes to Non-consolidated Financial Statements, Continued**

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

(h) Share Issuance Costs

The Company's shares have no par value, and share issuance costs are recorded as a reduction to shareholders' equity.

(i) Distributions Payable

Distributions are declared and recorded when approved by the Company's board of directors as defined under the Company's Articles of Incorporation.

(j) Contingent Liabilities

Contingent losses are recognized as a liability when probable and reasonably measurable.

(k) Net Asset Value Per Share

Net asset value per share is calculated as the carrying value of net assets of the Company divided by the outstanding number of shares.

(l) Earnings Per Share

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

(m) Income Taxes

As described in note 1, the Company is an investment company under IIAMBA, which is defined as an indirect investment vehicle established in the form of a corporation under the Korean Commercial Code to distribute to its shareholders the profits made by managing investments. Accordingly, under applicable Korean tax laws, as an investment company under IIAMBA, the Company is entitled to deduct from taxable income (up to an amount equal to its taxable income) for any fiscal year, for Korean corporate income tax purposes, the amount of distributions the Company declares in respect of such year as long as such amount is equal to 90% or more of the Company's distributable income for such year. Distributable income is defined as non-consolidated net income after deduction of income taxes as set forth in the Company's non-consolidated financial statements prepared under Korean GAAP, further adjusted to include retained earnings or deficit and any reserves pursuant to applicable laws and regulations. If the Company does not declare distributions equal to 90% or more of the Company's distributable income in a particular fiscal year, the Company will be liable for Korean corporate income tax for the entire amount of the Company's taxable income.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

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

(n) Use of Estimates

The preparation of non-consolidated financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes. Therefore, actual results could differ from those estimates.

(o) Comparative Figures

Where necessary, comparative figures have been reclassified to conform with changes in the presentation of the current year.

(3) Cash and Deposits

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

	Won (thousands)		U.S. dollars
	2006	2007	(note 2(b)) 2007
Money Market Deposit Accounts ("MMDA") (*1):			
SC Korea First Bank	₩ 11,744,049	23,529,857	\$ 25,079,788
Time Deposits:			
Woori Bank	120,000,000	-	-
Negotiable Certificate of Deposits ("NCD") (*2)	149,926,019	59,999,535	63,951,753
	₩ <u>281,670,068</u>	<u>83,529,392</u>	\$ <u>89,031,541</u>

(\*1) As of December 31, 2007, the interest rate of MMDA is 4.9%.

(\*2) As of December 31, 2007, the interest rate of NCD is 5.67%, and the maturity of NCDs is February 14, 2008.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(4) Loans receivables

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

	Repayment Period	Annual interest rate (%)	Won (thousands)		U.S. dollars (note 2(b))
			2006	2007	2007
Senior loans receivables:					
Kwangju Beltway Investment Co., Ltd. (*1)	2018~2024	10	₩ 142,000,000	142,000,000	\$ 151,353,656
Kwangju Ring Road Co., Ltd.	2010~2019	7.85	73,354,846	73,354,846	78,186,790
Soojungsan Investment Co., Ltd. (*2)	2009~2018	8.5	71,950,000	70,151,250	74,772,170
Baekyang Tunnel Ltd. Incheon Bridge Co., Ltd. (formerly, Koda Development Co., Ltd)	2024 2010~2024	13~15 (*3) 8	124,408,000 69,635,000	124,408,000 88,015,000	132,602,857 93,812,620
Subordinated loans receivables:					
Kwangju Beltway Investment Co., Ltd. (*1)	2024~2026	20	31,950,000	31,950,000	34,054,573
MCB Co., Ltd. (*4)	2024~2029	20	32,151,081	46,714,860	49,792,006
New Airport Hiway Co., Ltd.	2015~2017	13.9	51,670,400	51,670,400	55,073,971
Soojungsan Investment Co., Ltd. Cheonan Nonsan Expressway Co., Ltd.	2017 2024~2029	20 6~20 (*5)	19,260,587 182,250,000	19,260,587 182,250,000	20,529,298 194,254,955
Daegu East Circulation Road Co., Ltd. (*6)	2022~2024	17	32,045,000	32,045,000	34,155,830
Incheon Bridge Co., Ltd.	2020~2026	12	30,718,146	45,505,631	48,503,124
Seoul Chuncheon Highway Co., Ltd	2026~2031	11~ 11.59 (*7)	59,000,000	87,450,000	93,210,403
Gyungso Highway Co., Ltd	2029~2034	13 ~ 15(*8)	-	41,300,000	44,020,465
Kyunggi Highway Co., Ltd	2025~2029	9 ~ 11(*9)	-	30,955,000	32,994,031
Working capital loans receivable:					
Kwangju Beltway Investment Co., Ltd. (*1)	2027	15	₩ 3,260,741	3,260,741	\$ 3,475,529
			₩ 923,653,801	1,070,291,315	\$ 1,140,792,278

(\*1) As of December 31, 2007, interest receivable on these loans amounted to ₩38,766 million. On January 11, 2008, ₩10,000 million of the outstanding interest receivable balance was received. On December 27, 2007, the repayment schedules for the loans changed from 2008~2018 to 2018~2024 for the senior loan, from 2018 to 2024~2026 for the subordinated loan, and from 2018 to 2027 for the working capital loan.

(\*2) In February 2007, Soojungsan Investment Co.,Ltd.("SICL") repaid ₩1,799 million, its first installment payment against the loan principal. In May 2007 after then, the loan agreement with SICL was amended to extend the maturity from 2007~2017 to 2009~2018.

(\*3) The interest rate on this loan is 13.0% per annum until March 9, 2008, and thereafter increases to 15.0% per annum. The Company has accrued interest using an effective interest rate of 14.85%. As of December 31, 2007, interest receivable on this loan amounted to ₩23,138 million. On January 4, 2008, the Company sold this loan and the related interest receivable to BYT Securitization Specialty Co., Ltd.(Note 21).

(\*4) In accordance with the loan agreement, 50% of the accrued interest during the construction period is added to the principal and can be repaid on any date following the completion date when certain conditions are met in accordance with the related loan agreement. As of December 31, 2007, a total of ₩7,018 million of accrued interest has been added to the principal.

**Notes to Non-consolidated Financial Statements, Continued**

(4) Loans receivables, Continued

- (\*5) Interest rates per annum are as follows: 6% from 2005 to 2007, 8% in 2008, 16% from 2009 to 2012 and 20% from 2013 to maturity in 2029. Due to financial covenants restricting payment of interest on subordinated loans, Cheonan Nonsan Expressway (“CNEC”) is not able to pay interest on the subordinated loan. As of December 31, 2007, the accumulated interest receivable on the subordinated loan amounted to ₩60,595 million with an effective interest rate of 11.58%. This project has a 20 year revenue guarantee from the government and it is estimated that the loan and interest accrued are to be fully paid once the senior loan covenants are no longer applicable.
- (\*6) In March 2007, the Company revised the subordinated loan agreement with Daegu East Circulation Road Co., Ltd. Under the revised agreement, the repayment schedule of the subordinated loan has been changed from 2018~2019 to 2022~2024, and the interest rate has been changed from 15% to 17%.
- (\*7) The interest rate during the construction period is 11.0% per annum and thereafter increases to 11.59% per annum. The Company has accrued interest using an effective interest rate of 11.9%.
- (\*8) The interest rate during the construction period and for three years following commencement of operations is 13.0% per annum and thereafter increases to 15.0% per annum.
- (\*9) The interest rate during the construction period is 9.0% per annum and thereafter increases to 11.0% per annum.

(5) Deferred Costs

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

	Won (thousands)		U.S. dollars (note 2(b))
	2006	2007	2007
Costs deferred on investments prior to acquisition	₩ 2,431,772	1,721,813	\$ 1,835,230
Loans receivable costs, net	4,800,681	6,409,733	6,831,947
Others	230,014	21,798	23,234
	₩ <u>7,462,467</u>	<u>8,153,344</u>	<u>\$ 8,690,411</u>

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(6) Investments

(a) Equity securities (recorded at cost) as of December 31, 2006 and 2007 are summarized as follows:

	Owner-ship (%)	Won (thousands)		U.S. dollars (note 2(b))
		2006	2007	2007
Kwangju Beltway Investment Co., Ltd. (*1)	100.0	₩ 13,050,000	13,050,000	\$ 13,909,614
Kwangju Ring Road Co., Ltd. (*2)	75.0	29,494,766	29,494,766	31,437,611
MCB Co., Ltd. (*3)	45.0	16,301,093	21,941,093	23,386,371
New Airport Hiway Co., Ltd. (*4)	24.1	59,880,248	59,880,248	63,824,609
Baekyang Tunnel Ltd. (*5)	99.2	992,000	992,000	1,057,344
Soojungsan Investment Co., Ltd. (*6)	100.0	47,247,830	47,247,830	50,360,083
Cheonan-Nonsan Expressway Co., Ltd. (*7)	60.0	93,815,061	93,815,061	99,994,735
Woomyunsan Infraway Co., Ltd. (formerly, Woomyunsan Development Co., Ltd.) (*8)	36.0	21,875,725	21,875,725	23,316,697
Private Infrastructure Investment Korea (formerly, Incheon Bridge Investment Company) (*9)	100.0	31,406,809	42,806,809	45,626,528
Korea Road Infrastructure Investment Co., Ltd. (formerly, Macquarie East Daegu Investment Co., Ltd.) (*10)	85.0	57,552,156	57,552,156	61,343,164
Seoul-Chuncheon Highway Co., Ltd. (*11)	15.0	49,439,043	49,439,043	52,695,633
Busan New Container Terminal Co., Ltd. (*12)	39.0	19,500	19,500	20,784
Gyungso Highway Co., Ltd. (*13)	28.6	-	35,389,860	37,721,019
BYT Securitization Specialty Co., Ltd. (*14)	0.5	-	50	53
		₩ <u>421,074,231</u>	<u>473,504,141</u>	\$ <u>504,694,245</u>

(\*1) In January 2003, the Company made an initial investment of ₩50 million into Kwangju Beltway Investment Co., Ltd. ("KBICL") by acquiring 100% of the shares of KBICL. Subsequently, KBICL acquired the concession right to operate the Gwangju Second Beltway, Section 1. In 2005, the Company invested an additional amount of ₩13,000 million into KBICL. KBICL operates the Gwangju Second Beltway, Section 1 and collects toll revenues generated by the beltway under the concession agreement with the Gwangju City government.

(\*2) In December 2004, the Company acquired 75% of the shares of Kwangju Ring Road Company Limited ("KRRCL") for a total purchase price of ₩28,875 million. As of December 31, 2007, total capitalized transaction costs amounted to ₩620 million. KRRCL operates the Gwangju Second Beltway, Section 3-1 and collects toll revenues generated by the beltway under the concession agreement with the Gwangju City government.

(\*3) During the year ended December 31, 2007, the Company increased its stake in MCB Co., Ltd. ("MCB") from 40.3% to 45.0%, representing a total investment of ₩21,789 million. As of December 31, 2007, total capitalized transaction costs amounted to ₩152 million. The Company's equity stake will increase to 49% during the construction period and to 100% subsequent to the completion of construction (see note 20). MCB holds the concession right to construct and operate Machang Bridge under a concession agreement with the Gyeongsangnamdo provincial government.

**Notes to Non-consolidated Financial Statements, Continued****(6) Investments, Continued**

- (\*4) In December 2003, the Company acquired a 24.1% ownership interest in New Airport Hiway Co., Ltd. ("NAHC") for a cash consideration of ₩109,874 million. Following the Company's acquisition, NAHC undertook a capital restructuring such that equity was converted into subordinated loans through a share repurchase scheme. As a result, the Company became a holder of a subordinated loan of ₩51,670 million to NAHC (see note 4). Following the restructuring, the Company remains a 24.1% equity holder in NAHC with equity value totaling ₩58,204 million. As of December 31, 2007, total capitalized transaction costs amounted to ₩1,676 million. For the year ended December 31, 2007, the Company recognized dividend income of ₩9,842 million from NAHC. NAHC paid dividends amounting to ₩40,840 million for the year ended December 31, 2007.
- (\*5) In March 2004, the Company acquired a 99.2% equity interest in Baekyang Tunnel Ltd. ("BYTL") for a cash consideration of ₩992 million. On January 7, 2008, the Company acquired the 0.8% equity interest and the loans receivable of BYTL from J Management Co., Ltd. for a total purchase price of ₩2,100 million (Note 21). BYTL operates and manages Baekyang Tunnel under its concession agreement with the Busan City government.
- (\*6) In February 2005, the Company acquired a 100% equity interest in Soojungsan Investment Co., Ltd. ("SICL") for a cash consideration of ₩47,149 million. As of December 31, 2007, the capitalized transaction costs amounted to ₩99 million. SICL operates Soojungsan Tunnel under a concession agreement with the Busan City government.
- (\*7) In February 2005, the Company acquired legal title to 81,450,000 shares or 90.5% of Cheonan-Nonsan Expressway Co., Ltd. ("CNEC") for a consideration of ₩407,250 million. Subsequently, in May 2005, the Company sold 27,450,000 shares or 30.5% of CNEC, leaving the Company with a 60% equity interest in CNEC. Following the Company's partial divestment, CNEC undertook a capital restructuring to convert shareholders' equity into subordinated loans. The capital restructuring involved a share repurchase scheme followed by an issue of subordinated loans to replace the repurchased shares. Subsequent to the capital restructuring, the Company held ₩182,250 million of subordinated loans (see note 4) and ₩87,750 million of equity securities. As of December 31, 2007, total capitalized transaction costs amounted to ₩6,065 million. CNEC operates Cheonan-Nonsan Expressway under a concession agreement with the Ministry of Construction and Transportation ("MOCT").
- (\*8) In November 2005, the Company acquired 36% of the shares in Woomyunsan Infraway Co., Ltd. ("WIC") for ₩20,301 million. As of December 31, 2007, total capitalized transaction costs amounted to ₩1,575 million.
- (\*9) In February 2006, the Company acquired 100% of the shares of Private Infrastructure Investment Korea ("PIIK") for ₩15,703 million. As of December 31, 2007, the investment had increased to ₩42,774 million through periodic capital contributions. Total capitalized transaction costs amounted to ₩33 million. PIIK is a special purpose company established to provide funding to Incheon Bridge Co., Ltd. ("IBC"), the concession company with the right to construct and operate Incheon Grand Bridge, under a concession agreement with the MOCT. As of December 31, 2007, PIIK holds 35.27% of the equity in IBC. PIIK's equity stake will increase to 41% during the construction period.
- (\*10) In March 2006, the Company acquired 85% of the shares of Korea Road Infrastructure Investment Co., Ltd. ("KRIIC") for ₩57,460 million. As of December 31, 2007, total capitalized transaction costs amounted to ₩92 million. KRIIC is a special purpose company established to provide funding to Daegu East Circulation Road Co., Ltd. ("DECRC"), the concession company with the right to design, construct, operate and maintain the Daegu 4th Beltway East. As of December 31, 2007, KRIIC holds 100% of the shares of DECRC.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(6) Investments, Continued

- (\*11) In March 2006, the Company acquired 15% of the shares of Seoul-Chuncheon Highway Co., Ltd. ("SCE") for ₩48,570 million. As of December 31, 2007, total capitalized transaction costs amounted to ₩869 million. SCE has the right to develop, construct, operate and manage Seoul-Chuncheon Expressway under its concession agreement with MOCT.
- (\*12) In October 2006, the Company acquired 39% of shares in Busan New Container Terminal Co., Ltd. ("BNCT") for ₩20 million. BNCT has been granted a concession from the Ministry of Maritime Affairs and Fisheries to operate and manage Busan New Port Phase 2-3. On December 31, 2007, the Company entered into a revised shareholders' agreement in which the Company will invest an additional ₩66,400 million into BNCT, resulting in its equity stake decreased to 30% (Note 20).
- (\*13) In February 2007, the Company acquired 28.6% of the shares of Gyungso Highway Co., Ltd. ("YSE") for ₩34,778 million. As of December 31, 2007, total capitalized transaction costs amounted to ₩612 million. The Company's equity stake will increase to 35% during the construction period and the Company has the option to increase its stake further to 67% depending on the operating revenues of the Yongin-Seoul Expressway over the first 2 years of operation (see note 20). YSE has the right to develop, construct, operate and manage Yongin-Seoul Expressway under its concession agreement with MOCT.
- (\*14) In December 2007, the Company acquired 0.5% of the shares of BYT Securitization Specialty Co., Ltd. ("SPC") for the purchase price of ₩50 thousand. On January 4, 2008, the Company sold the loan and the interest receivable from Baekyang Tunnel Ltd. to SPC (Note 21).

(b) Debt securities as of December 31, 2006 and 2007 are summarized as follows:

	Fair Value		U.S. dollars (note 2(b)) 2007
	Won (thousands)		
	2006	2007	
New Daegu-Busan Expressway Co., Ltd.			
(*)	₩ 44,954,208	41,167,966	\$ 43,879,734

- (\*) In September 2003, the Company purchased a convertible bond with a face value of ₩32,000 million issued by New Daegu-Busan Expressway Co., Ltd. ("DBEC"). The details are as follows:

Interest rate:	9.0% per annum
Conversion date:	September 30, 2008
Conversion price:	₩5,000 per share
Conversion period:	5 years after date of issue
Number of shares available for conversion:	9,847,168

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(6) Investments, Continued

The principal of ₩32,000 million and the related interest of ₩17,236 million (total accrued interest expected on the conversion date) will be converted into equity securities of DBEC on September 30, 2008. Upon conversion, the Company will own 6.5% of DBEC. DBEC has the right to construct and operate New Daegu-Busan Expressway under a concession agreement with the MOCT. New Daegu-Busan Expressway opened to traffic for trial tolling in January 2006 with full operations commencing in February 2006.

As required under SKAS No. 103, the convertible bond investment is reported at fair value with any gains or losses reflected in current earnings. For the years ended December 31, 2006 and 2007, the Company recognized a gain on valuation of debt security of ₩6,724 million and a loss on valuation of debt security ₩3,786 million, respectively.

In relation to the Company's convertible bond investment, the Company recognized interest income of ₩3,498 million and ₩3,810 million for the years ended December 31, 2006 and 2007, respectively, and accrued interest receivable of ₩10,361 million and ₩14,171 million as of December 31, 2006 and 2007, respectively.

(7) Transactions with Significantly Invested Companies and Supervisory Directors

(a) Details of significantly invested companies as of December 31, 2007 are as follows:

<u>Significantly Invested Companies(*1)</u>	<u>Ownership (%)</u>	<u>Principal Business</u>
Kwangju Beltway Investment Co., Ltd.	100.0	Collection of toll fees
Kwangju Ring Road Co., Ltd.	75.0	Collection of toll fees
Baekyang Tunnel Ltd.	99.2	Collection of toll fees
Cheonan Nonsan Expressway Co., Ltd.	60.0	Collection of toll fees
Soojungsan Investment Co., Ltd.	100.0	Collection of toll fees
Private Infrastructure Investment Korea	100.0	Investment
Korea Road Infrastructure Investment Co., Ltd.	85.0	Investment
Daegu East Circulation Road Co., Ltd. (*2)	-	Collection of toll fees

(\*1) SKAS 103 does not require disclosure of transactions and balances with related parties. However, in order to provide relevant information to shareholders the Company classifies the subsidiaries where greater than 50% equity shares are held as significantly invested companies, and discloses the transaction and balances with such entities.

(\*2) Subsidiary of Korea Road Infrastructure Investment Co., Ltd.

(b) Significant transactions which occurred in the normal course of business with the significantly invested companies as of and for the years ended December 31, 2006 and 2007 are summarized as follows:

	<u>Won (thousands)</u>		<u>U.S. dollars</u>
	<u>2006</u>	<u>2007</u>	<u>(note 2(b))</u>
			<u>2007</u>
Statements of income:			
Interest income	₩ 86,249,993	91,268,966	\$ 97,280,927
Balance sheets:			
Loans receivables	680,479,174	678,680,424	723,385,658
Interest receivable	73,387,755	128,311,946	136,763,959

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(7) Transactions with the Significantly Invested Companies and Supervisory Directors, Continued

(c) Compensation for the supervisory directors for the years ended December 31, 2006 and 2007 are summarized as follows:

	Won (thousands)		U.S. dollars (note 2(b))	
	2006	2007	2007	
Salaries	₩ 151,871	128,000	\$	136,431

(8) Related Party Transactions and Balances with the Manager and its Affiliates

(a) On December 13, 2002, the Company appointed Macquarie Shinhan Infrastructure Asset Management Co., Ltd. (formerly, Macquarie Shinhan Infrastructure Management Co., Ltd.) (the "Manager") as the Company's manager, with the terms of the appointment stipulated in a management agreement executed between the Company and the Manager. The management agreement was subsequently amended and restated on December 24, 2002, February 12, 2003, November 10, 2005 and February 16, 2006 (the "Management Agreement"). Pursuant to the Management Agreement, while the Company was not listed, the Company paid management fees and performance fees to the Manager on the following basis:

- (i) Pre-listing Management Fees: The Manager received 1.30% per annum of invested capital (comprising funds invested in assets or firmly committed to be invested in assets in relation to infrastructure businesses other than cash or short-term interest-bearing investments with a maturity of 180 days or less, and adjusted for inflation from the date of acquisition or commitment of each asset) less service provider fees. These fees are paid quarterly in arrears.
- (ii) Pre-listing Performance Fees: Pre-listing Performance Fees were payable to the Manager in respect of each investment and were calculated on June 30 and December 31 each year and at such time the Company receives any proceeds of realization in whole or in part for each investment. Pre-listing Performance Fees were paid in two installments as follows:
  - 50% of the performance fee calculated is payable immediately to the extent that the return was greater than zero; and
  - The remaining 50% of the performance fee calculated is payable to the extent that the return was greater than zero, and shareholders received an annualized rate of return of at least 12.5%.

Until March 14, 2006, the management and performance fees of the Company were incurred on the basis as described above. However, upon the listing of the Company, revised fee arrangements came into place and the Company began to pay management fees and performance fees to the Manager on the following basis:

**Notes to Non-consolidated Financial Statements, Continued**

(8) Related Party Transactions and Balances with the Manager and its Affiliates, Continued

(iii) Post-listing Management Fees: The Manager receives a fee, paid quarterly in arrears, calculated as a proportion of the net investment value and the commitments of the Company. The net investment value of the Company is the aggregate of the market value of the Company plus debt incurred by the Company less cash and cash equivalents (\*) ("Net Investment Value"). Commitments represent the aggregate of amounts which the Company has firmly committed for future investments (other than cash and cash equivalents (\*)). Each of the Net Investment Value and Commitments are calculated as at the end of each calendar quarter.

- In relation to the Net Investment Value portion of the Post-listing Management Fees, the amount is calculated at the rate of 1.25% per annum of the Net Investment Value where Net Investment Value plus Commitments is less than or equal to ₩1.5 trillion, and 1.10% per annum for that part of the Net Investment Value where Net Investment Value plus Commitments exceeds ₩1.5 trillion.
- In relation to the Commitments portion of the Post-Listing Management Fee, the amount is calculated at the rate of 1.15% per annum of Commitments where Commitments plus Net Investment Value is less than or equal to ₩1.5 trillion, and 1.05% per annum for that part of Commitments where Commitments plus Net Investment Value exceeds ₩1.5 trillion.

(\*) Cash and cash equivalents includes all cash and deposits held at the banks.

(iv) Post-listing Performance Fees: Post-listing Performance Fees are payable to the Manager in respect of each quarter, calculated as 20% of the out-performance (as measured by an accumulation index for shares over the last 15 trading days of each quarter) over an 8% per annum benchmark rate of return, after taking into account any deficit and surplus from previous periods.

(v) Listing Performance Fee: The Management Agreement also provides for an additional performance fee payable to the Manager in the event that the Company achieved a listing (defined as the listing of the Company and the quotation of the shares on a nationally recognized stock exchange). This fee was calculated separately from the Management Fees and the Post-listing Performance fees. This additional performance fee was calculated on an asset-by-asset basis, taking into account the distributions and value created for each asset against certain threshold benchmark rates of return. The measure of value created for each asset was derived from the apportionment of the listing value to each investment. The listing value was calculated as the market capitalization of the Company, excluding any additional shares issued on listing, based on the lowest of:

- the volume weighted average trading price per share of the Company over the first 15 trading days of listing;
- the issue price per share of the shares issued on listing; or
- a price per share to be agreed between the Manager and the Company ("Performance Fee Deemed Asset Value").

The listing value was calculated based on the listing issue price per share of ₩7,000 according to the above criteria.

**Notes to Non-consolidated Financial Statements, Continued****(8) Related Party Transactions and Balances with the Manager and Affiliates, Continued**

As disclosed in note 1, the Company completed its listing in March 2006. The additional performance fee payable to the Manager upon listing was determined on the 16th trading day after listing. For the year ended December 31, 2006, the Company recorded a related listing performance fee of ₩85,679 million and other performance fees of ₩17,486 million comprising:

- a) part payment of a pre-listing performance fee that became payable following the sale of part of MKIF's investment in CNEC (₩2,854 million) ; and
- b) a post-listing performance fee relating to the period from listing to March 31, 2006 (₩14,632 million).

The listing performance fee and CNEC performance fee, totaling ₩88,408 million, were paid into an escrow account in the name of the Manager. The listing performance fee including interest (excluding the interest for the first six months) was released from the escrow account from September 15, 2006 through June 15, 2007 according to the terms and the methodology defined in the Management Agreement. On September 15, 2006, the interest for the first six months was paid to the Company. In 2007, the Company also recorded a post-listing performance fee of ₩27,341 million relating to the period from April 1, 2007 to June 30, 2007.

(vi) Termination of Management Agreement: Under the terms of the Management Agreement, the Company may only terminate the agreement upon 90 days' written notice to the Manager and approval by the holders of at least two thirds of the Company's shares. However, if the Company terminates the Management Agreement for reasons other than willful misconduct, gross negligence by the Manager or underperformance, the Company is required to pay to the Manager an amount equal to:

- three times the management fees paid to the Manager over the four quarters immediately preceding termination; and
- if the Company was not listed, a listing performance fee assuming the Company had listed as at the time of termination; or
- if the Company is listed, performance fees for the 12 quarters after termination as though the Manager was still engaged as the Manager and the Management Agreement was still operating.

Underperformance is deemed to have occurred where the share price performance and distributions of the Company, as measured by an accumulation index, underperforms an adjusted benchmark rate of return, being the lower of 3% per annum or the annualized rate of inflation, for 14 out of 16 consecutive quarters.

- (b) As of December 31, 2007, the Company has the Korean Securities Finance Corporation and KEB Investor Services Co., Ltd. as its Custodian and Administrator. The Company also has Good Morning Shinhan Securities Co., Ltd., Macquarie Securities Korea, Ltd., Hanwha Securities Co., Ltd., Samsung Securities Co., Ltd., Tongyang Investment Bank Co., Ltd. and Kyobo Securities Co., Ltd. as its Sales Agents. Pursuant to the relevant service provider agreements, the Company pays administrator fees, custodian fees and sales agent fees. The details are as follows:

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(8) Related Party Transactions and Balances with the Manager and Affiliates, Continued

(i) Custodian fees: 0.03% per annum of the average balance of the net asset value of the Company. This fee is paid in arrears on a quarterly basis.

(ii) Administrator fees: 0.0175% per annum of the average balance of the net asset value of the Company. This fee is paid quarterly in arrears.

(iii) Sales agent fees: According to sales agent agreements, no fee is payable.

(c) Significant transactions and account balances which occurred with the Manager and its related parties as of and for the years ended December 31, 2006 and 2007 are summarized as follows:

		Won (thousands)		U.S. dollars (note 2(b))
		2006	2007	2007
<b><u>Significant transactions:</u></b>				
Macquarie Shinhan Infrastructure Asset Management Co., Ltd.	Management fee	₩ 26,436,493	32,139,364	\$ 34,256,410
	Performance fee (Pre-listing) (*1)	2,854,024	-	-
	Performance fee (Listing)	85,679,415	-	-
	Performance fee (Post-listing)	14,632,258	27,341,394	29,142,394
Shinhan Bank	Cash and deposits (*2)	88,000,000	-	-
	Long-term debt (*3)	-	31,360,000	33,425,709
	Interest income (*2)	4,703,533	511,595	545,294
	Custodian fee	136,630	-	-
	Interest expense (*3)	-	482,080	513,836
	Upfront fee and other fees regarding the credit facility (*3)	-	3,173,509	3,382,551
Shinhan Macquarie Financial Advisory Co., Ltd. ("SMFA")	Advisory fee regarding acquisition and credit facility (*4)	2,323,673	3,265,295	3,480,383
Macquarie International Holdings Ltd.	Acquisition of equity securities (*5)	73,163,366	-	-
Macquarie International Investment PTY Ltd.	Acquisition of subordinated loan (*6)	24,505,000	-	-
Macquarie Securities Limited	Payment of underwriting fee (*7)	2,807,174	-	-
Macquarie Bank Limited	Payment of underwriting fee (*7)	5,946,441	266,903	284,484
<b><u>Account balances:</u></b>				
Macquarie Shinhan Infrastructure Asset Management Co., Ltd.	Management fee payable	₩ 7,331,842	8,138,823	\$ 8,674,934
Shinhan Bank	Cash and deposits (*2)	70,000,000	-	-
	Long-term debt (note 11) (*3)	-	31,642,413	33,726,725
	Other liabilities(*3)	-	219,648	234,116

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(8) Related Party Transactions and Balances with the Manager and Affiliates, Continued

- (\*1) Performance fee (Pre-listing) of 2006 was ₩2,854 million, representing the second installment of the performance fee payable to the Manager following the sale of part of the Company's original equity commitment to CNEC.
- (\*2) In 2006, the Company purchased a Negotiable Certificate of Deposit ("NCD") amounting to ₩88,000 million from Shinhan Bank and held an NCD of ₩70,000 million as of December 31, 2006. The Company also recognized interest income regarding this NCD transaction.
- (\*3) In 2007, the Company entered into a corporate credit facility agreement with Shinhan Bank, and withdrew ₩31,360 million from that facility. The Company has paid interest expense, an upfront fee, an agent banking fee and a commitment fee regarding this credit facility. As of December 31, 2007, the long-term debt amounted to ₩31,642 million including the capitalized interest payable to Shinhan Bank. Other liabilities comprise the interest expense and the commitment fee accrued for the long-term debt and the remaining credit facility from Shinhan Bank.
- (\*4) The advisory fees to SMFA were incurred in connection with the equity acquisition, loan investment and arrangement of the corporate credit facility. The fee in 2007 includes the advisory fee of ₩1,100 million regarding the corporate credit facility (note 11).
- (\*5) For the year ended December 31, 2006, the Company acquired from Macquarie International Holdings Limited 100% of the equity in PIK for ₩15,703 million and 65% of the equity in KRIC for ₩57,460 million.
- (\*6) For the year ended December 31, 2006, the Company acquired from Macquarie International Investment PTY Ltd. 65% of the subordinated loan of DECRC for ₩24,505 million.
- (\*7) For the year ended December 31, 2006, the Company paid ₩2,807 million and ₩5,946 million in underwriting fees to Macquarie Securities Limited and Macquarie Bank Limited, respectively related to the Company's IPO. These fees were deducted from share capital. In 2007, the Company has paid the IPO related fee to Macquarie Bank Limited, and the fee was deducted from the share capital.

(9) Pledged Assets and Guarantees Provided by Others

The following assets were pledged as collateral for subsidiaries' long-term debts as of December 31, 2007:

Pledged Assets	Lender	Borrower	Won (thousands)	
			Book value	Collateralized amount
Equity securities:				
MCB Co., Ltd.	Kookmin Bank and others	MCB Co., Ltd.	₩ 21,941,093	296,400,000
Cheonan-Nonsan Expressway Co., Ltd.	Korea Development Bank, CNE Securitization Specialty LLC and Shinhan Bank	Cheonan-Nonsan Expressway Co., Ltd.	93,815,061	1,144,000,000
Woomyunsan Infraway Co., Ltd.	Shinhan Bank and others	Woomyunsan Infraway Co., Ltd.	21,875,725	138,000,000
Seoul-Chuncheon Highway Co., Ltd.	Kookmin Bank and others	Seoul-Chuncheon Highway Co., Ltd.	49,439,043	1,300,000,000
			₩ 187,070,922	2,878,400,000

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(10) Other Liabilities

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

	Won (thousands)		U.S. dollars (note 2(b))
	2006	2007	2007
Administrator fee payable	₩ 76,886	74,649	\$ 79,566
Custodian fee payable	131,804	127,970	136,399
Interest payable	-	713,097	760,070
Accrued expenses	191,258	107,801	114,902
	₩ <u>399,948</u>	<u>1,023,517</u>	\$ <u>1,090,937</u>

(11) Long-term debts

- a) On May 11, 2007, the Company entered into a corporate credit facility agreement ("Facility") with Shinhan Bank, Woori Bank, National Agricultural Cooperative Federation and Samsung Life Insurance Company ("Lenders") with a limit of ₩500 billion. The Facility matures on May 17, 2012, 5 years after the first drawdown date. Outstanding principal under the Facility is to be repaid in whole on the final day of the Facility, although the Company has the ability to make early repayment of principal without penalty if the payment is made on an interest payment date. The Company is able to re-draw any early repaid amount.

Related to the Facility, the Company paid an upfront fee and an agent banking fee. The upfront fee and the agent banking fee paid to Shinhan Bank were 0.6% (₩3 billion) and 0.01% (₩0.05 billion) of the facility limit, respectively. The Company also pays the Lenders the commitment fee calculated as 0.15% times the remaining amount of the Facility every three months starting from the first drawdown dated on May 17, 2007.

- b) Long-term debts as of December 31, 2006 and 2007 are summarized as follows:

	Won (thousands)	Annual Interest Rate(*)	Won (thousands)		U.S. dollars (note 2(b))
	Limit of the Facility		2006	2007	2007
Shinhan Bank	₩ 140,000,000	Base rate + 0.9%	₩ -	31,642,413	\$ 33,726,725
National Agricultural Cooperative Federation (NACF)	140,000,000	Base rate + 0.9%	-	31,642,413	33,726,725
Woori Bank	110,000,000	Base rate + 0.9%	-	24,861,896	26,499,570
Samsung Life Insurance Co., Ltd.	110,000,000	Base rate + 0.9%	-	24,861,896	26,499,570
	₩ <u>500,000,000</u>		₩ -	<u>113,008,618</u>	\$ <u>120,452,590</u>

(\*) The base rate is the arithmetic average of the 91-day Negotiable Certificate of Deposit rates quoted on each of the three consecutive banking days immediately prior to the first day of each interest period. The average of the annual interest rate applied to the long-term debt during the year 2007 was approximately 6.3%. Interest accruing during each interest period may be paid or capitalised, at the election of MKIF, on each interest payment date. The interest payment date is the three month anniversary of the first drawdown date, May 17, 2007.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(12) Distributions

The Company paid distributions amounting to ₩118,248 million and ₩142,336 million in 2006 and 2007, respectively. The distributions of 2006 and 2007 include the return of the share capital of ₩64,698 and ₩104,384 million, respectively, which were treated as distributions in excess of profits under IIAMBA.

(13) Other Income

In 2007, the Company received a VAT amount of ₩2,665 million returned by the Manager in accordance to the National Tax Tribunal's decision that the asset management services were VAT exempt regardless of the registration. This has been recorded within other income.

(14) Other Expenses

	Won (thousands)		U.S. dollars (note 2(b))
	2006	2007	2007
Amortization of deferred costs	₩ 839,638	998,733	\$ 1,064,520
Service fees related to the corporate credit facility (*1)	-	3,441,103	3,667,771
Service fees	671,991	762,830	813,078
Listing expense	519,185	-	-
Others (*2)	3,074,150	1,231,098	1,312,192
	₩ <u>5,104,964</u>	<u>6,433,764</u>	\$ <u>6,857,561</u>

(\*1) In 2007, fees include the up-front fee and the commitment fee of ₩3,155 million paid to Shinhan Bank.

(\*2) In 2006, the Company recorded a finance charge of ₩2,571 million which reflects the financial impact of correcting the effective interest rate as at inception of the subordinated loan provided by the Company to CNEC. And in 2007 the advisory fee of ₩1,100 million paid to Shinhan Macquarie Financial Advisory Co., Ltd. was included.

(15) Income Taxes

As described in note 2(n), the Company is considered as an indirect investment company. As a result, the Company does not have to pay income taxes to the extent that the Company distributes 90% or more of its distributable income in the form of a distribution to its shareholders.

(16) Insurance

As of December 31, 2007, the Company carries directors & officers compensation liability insurance amounting to ₩20,000 million with Hyundai Marine and Fire Insurance Company Korea Ltd.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(17) Net Asset Value Per Share

Net asset value per share as of December 31, 2006 and 2007 is summarized as follows:

	Won (thousands, except share and per share data)		U.S. dollars (note 2(b))
	2006	2007	2007
Total assets	₩ 1,771,827,731	1,824,990,618	\$ 1,945,204,240
Total liabilities	8,558,035	122,292,216	130,347,704
Net assets	1,763,269,696	1,702,698,402	1,814,856,536
Number of outstanding shares	323,490,204	323,490,204	323,490,204
Net asset value per share in Won and U.S. dollar	₩ 5,451	5,264	\$ 5.61

(18) Earnings Per Share

Earnings per share for the years ended December 31, 2006 and 2007 are calculated by dividing net income by the weighted-average number of shares outstanding as follows:

	Won (thousands, except share and per share data)		U.S. dollars (note 2(b))
	2006	2007	2007
Net income per accompanying statements of income	₩ 5,633,749	82,031,298	\$ 87,434,767
Weighted-average number of shares outstanding	306,116,701	323,490,204	323,490,204
Earnings per share in Won and U.S. dollars	₩ 18	254	\$ 0.27

During 2007, the Company's number of shares outstanding has not changed. The calculation of the weighted-average number of shares outstanding during 2006 is shown below:

	Periods	Number of shares outstanding	Days	Accumulated number of Number
Shares carried forward	2006.1. 1~2006.12.31	240,076,919	365	87,628,075,435
New shares	2006.3.14~2006.12.31	71,428,572	293	20,928,571,596
New shares	2006.4.11~2006.12.31	11,984,713	265	3,175,948,945
				<u>111,732,595,976</u>

The weighted average number of shares during 2006 is calculated as follows:  $111,732,595,976 \div 365 = 306,116,701$

(19) Non-cash Transactions

No significant non-cash transactions occurred for the years ended December 31, 2006 and 2007.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Non-consolidated Financial Statements, Continued

(20) Commitments

Commitments as of December 31, 2007 are summarized as follows:

	Won (thousands)			U.S. dollars
	Total	Investments	Balance	(note 2(b))
MCB Co., Ltd.-Equity (*1)	₩ 49,581,000	21,789,000	27,792,000	\$ 29,622,682
MCB Co., Ltd.				
- Subordinated loan (*1)	51,254,880	39,697,000	11,557,880	12,319,207
Seoul Metro Line 9 Co., Ltd.				
-Equity (*2)	40,986,545	-	40,986,545	43,686,362
Seoul Merto Line 9 Co., Ltd.				
-Subordinated loan (*2)	33,460,000	-	33,460,000	35,664,038
Gyungsu Highway Co., Ltd.				
-Equity (*3)	57,750,000	34,778,095	22,971,905	24,485,083
Gyungsu Highway Co., Ltd.				
-Subordinated loan (*3)	77,000,000	41,300,000	35,700,000	38,051,588
Private Infrastructure Investment Korea				
-Equity (*4)	74,488,502	41,909,147	32,579,355	34,725,384
Incheon Bridge Co., Ltd.				
-Senior loan (*4)	188,000,000	88,015,000	99,985,000	106,571,094
Incheon Bridge Co., Ltd.				
-Subordinated loan (*4)	89,378,000	45,505,631	43,872,369	46,762,278
Kyunggi Highway Co., Ltd.				
-Subordinated loan (*5)	80,000,000	30,955,000	49,045,000	52,275,634
Busan New Container Terminal Co., Ltd.				
-Equity (*6)	66,420,000	19,500	66,400,500	70,774,355
Busan New Container Terminal Co., Ltd.				
-Subordinated loan (*6)	193,000,000	-	193,000,000	205,713,068
	₩ <u>1,001,318,927</u>	<u>343,968,373</u>	<u>657,350,554</u>	\$ <u>700,650,773</u>

(\*1) Based on the agreement dated March 12, 2004, the Company has agreed to acquire 49% of the equity interest of MCB Co., Ltd. ("MCB") for ₩27,845 million in cash. The Company's equity stake will increase to 49% during the construction period. In addition, pursuant to a take-out agreement with other shareholders in MCB, the Company has agreed to acquire the remaining shares in MCB from these shareholders subsequent to the completion of construction. Upon the acquisition of the remaining shares, the Company's equity stake in MCB will increase to 100% for a total amount of ₩49,581 million. The construction is expected to complete around August 2008. As of December 31, 2007, the Company has purchased shares amounting to ₩21,941 million (including capitalized transaction costs of ₩152 million) under these agreements (see note 6(a)).

On March 12, 2004, the Company entered into a ₩51,255 million loan agreement with MCB at an interest rate of 20% per annum. As of December 31, 2007, the Company has loaned ₩39,697 million, excluding capitalized interest of ₩7,018 million, under this facility.

**Notes to Non-consolidated Financial Statements, Continued****(20) Commitments, Continued**

- (\*2) Based on the share sale and purchase agreement dated May 17, 2005, the Company has agreed to purchase 8,197,309 shares in Seoul Metro Line 9 Co., Ltd. ("SML") for an amount of ₩40,987 million. Once the shares are purchased, the Company will own a 24.53% equity interest in SML. As of December 31, 2007, no shares had been purchased. The Company is scheduled to purchase these shares in 2008.

On May 17, 2005, the Company entered into a subordinated loan agreement with SML to lend ₩33,460 million at an interest rate of 15% per annum. As of December 31, 2007, no amounts have been loaned under this facility.

- (\*3) On December 15, 2005, the Company committed to invest an aggregate of ₩134,750 million in Gyungso Highway Co., Ltd., a concession company with the right to construct and operate Yongin-Seoul Expressway, representing ₩57,750 million for a 35% equity interest and ₩77,000 million in the form of a subordinated loan. In addition, the Company has committed to acquire an additional stake of 32% in the concession company if its revenues for the first two years of operations are greater than 90% of the concession agreement forecasts. As of December 31, 2007, the Company has purchased shares amounting to ₩35,390 million including the capitalized acquisition cost of ₩612 million. As of December 31, 2007, the Company has loaned ₩41,300 million at an interest rate of 13% under the subordinated loan facility.

- (\*4) On February 17, 2006, the Company acquired a 100% equity interest in PIK from Macquarie International Holdings Ltd. ("MIHL"). PIK is a special purpose company established to provide funding to IBC, a concession company with the right to construct and operate Incheon Grand Bridge, under a concession agreement with the MOCT. PIK has a commitment to invest ₩67,527 million of equity into IBC, for a 41% equity stake. The Company's total equity investment in PIK, upon completion of the acquisition, is expected to be ₩74,488 million. In addition, on April 12, 2006, the Company entered into two loan agreements with IBC. Under the agreements, the Company has committed to provide a subordinated loan of up to ₩89,378 million and a senior loan of up to ₩188,000 million. As of December 31, 2007, the Company has loaned ₩88,015 million under the senior loan facility and ₩45,506 million under the subordinated loan facility.

- (\*5) On September 30, 2006, the Company committed to invest ₩80,000 million in Kyunggi Highway Co., Ltd., a concession company with the right to develop, operate and maintain Seosuwon-Osan-Pyungtaek Expressway, in the form of a subordinated loan at an interest rate of 9% per annum during the construction period, increasing to 11% per annum from the commencement of operations. The loan matures in 20 years after the commencement of operations. As of December 31, 2007, the Company has loaned ₩30,955 million under the subordinated loan facility.

- (\*6) As of December 31, 2007, the Company has purchased 39% of the equity shares in Busan New Container Terminal Co., Ltd ("BNCT") for consideration of ₩20 million. On December 31, 2007, the Company entered into a revised shareholders' agreement in which the Company will invest an additional ₩66,400 million BNCT, resulting in its equity stake decreased to 30%. The Company's investment will take place over the construction period of 4 years, ending in early 2012. On December 31, 2007, the Company entered into a subordinated loan agreement with BNCT to lend ₩193,000 million over the construction period. The interest rate of the loan is 10% per annum during the construction period and thereafter increases to 12% per annum. As of December 31, 2007, no amounts have been loaned under this facility.

**Notes to Non-consolidated Financial Statements, Continued**

(21) Events after the balance sheet date

On January 4, 2008, the Company sold its loan of ₩124.4 billion and the interest receivable of ₩23.1 billion in relation to Baekyang Tunnel Ltd. ("BYTL") to BYT Securitization Specialty Co., Ltd.(the "SPC") for a total sales price of ₩172 billion. The Company realized a profit of ₩24.5 billion in January 2008 from this sale. The Company also provided its equity shares in the SPC as a pledge in relation to any potential loss which may arise due to BYTL's default on the loan.

On 7 January 2008, the Company acquired 0.8% equity interest and 0.8% of the total senior loan (₩992 million) in BYTL from J Management Co., Ltd. for a total purchase price of ₩2,100 million. The terms and conditions for the senior loan acquired is the same as that of the Company's current senior loan to BYTL as of December 31, 2007.