

# Management's Discussion and Analysis

The Management's Discussion and Analysis contains Orion's future management plans to assist investors in understanding the Company's business outlook. However, future performance results may differ materially from projections outlined in this report due to various factors beyond the Company's control. The term "the Company" used here refers to Orion unless otherwise expressly noted.

## 1. MARKET ENVIRONMENT

Korea's economy expanded 4.0% in 2005, beating our estimate of 3.0%. A recovery in consumption contributed to GDP growth and exports also propped up the economic expansion. Domestic consumption has been the most significant economic variable since 2005, but has picked up gradually following a contraction due to heightened household credit risks, and the pace of recovery has accelerated. At the same time, in 2005, the domestic confectionery market had to withstand difficult conditions stemming from an economic slump in confectionery markets, including a high-cost structure, changes in the distribution market and changing consumption trends. In the distribution market, competition among distributors became intense with large discount chains maturing after the end of their expansion phase, and these changes had an impact on the profitability of food and beverage companies. Additionally, the spread of a "well-being" consumption trend significantly influenced the overall food and beverage industries and resulted in a drop in consumption. Accordingly, companies had to compete more fiercely than ever with aggressive marketing strategies such as In-pack, On-pack, 1+1s, and 2+1s. The overall market decreased a great deal due to these factors, and the growth of the entire confectionery market decreased for two straight years, posting negative 0.3% in 2005, following the negative 1.8% drop in 2004.

### Trend of overseas sales

	2005	2004	2003
China	92	56	45
Russia	27	17	12
Vietnam	7	5	4

(In millions of US\$)

## 2. RESULTS OF OPERATIONS

Despite a depressed market, Orion reached KRW502.9 billion in sales, a jump of 3.0% from 2004, while leading the domestic market. Notably, in the domestic market alone, Orion surpassed a milestone of KRW500 billion in sales for the first time with its market share rising 1.0%p to 27.1% from 2004, a remarkable achievement considering the Company's market share has remained steady at around 24% or 25% for the past ten years. Orion maintains a stable market position and a sound financial structure despite difficult business environments such as a weaker economy at home and abroad, more intense competition, and weakened leverage in negotiations with the rapid expansion of distribution companies. The Company achieved KRW537.5 billion in sales, a 4.7% increase from the previous year through ceaseless improvements and the activation of aggressive sales activities. Despite efforts to cut down on costs through strategic purchasing, the cost of sales ratio increased 1.0%p from the previous year. The operating profit margin decreased 0.7%p from the previous year due to the slowdown in growth of the confectionery market, weakened consumer confidence, higher promotional costs crossed with fiercer competition, and an increase in overall costs with hikes in oil prices. In spite of opaque business environments such as the sluggish domestic market and unstable

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foreign exchange rates, Orion is putting utmost efforts into raising cost efficiency and productivity through such activities as improvements in purchasing processes and the establishment of an effective sales organization. Meanwhile, the Company chalked up US\$130 million in overseas sales in 2005, having passed the milestone of US\$100 million for the first time. Orion's overseas performances continued to grow brilliantly while posting double-digit growth in China, Russia and Vietnam. Due to its accurate predictions of the future, Orion reaped the most outstanding results in overseas markets among Korean confectionery firms.

In terms of profitability, Orion's performance was impressive in 2005. Backed by robust sales, which were up 4.7%, Orion's net income increased by 83.2% to amount to KRW37.3 billion in 2005, from the KRW20.4 billion recorded in 2004. At the same time, the net profit margin rose to 6.8% from 3.9% in 2004. These improvements in sales revenue and net income mainly derived from the Company's dominant position in the markets, strong brand recognition, and profitable subsidiaries. Meanwhile, the EPS in 2005 rose 78.1% year-on-year to KRW7,198 and the price-to-earnings ratio (PER) in 2005 stood at 39.2 on the basis of the year-end share price.

### Summary of income statement

	<i>(In billions of KRW)</i>		
	2005	2004	2003
Sales	537.5	513.4	511.4
Operating income	40.6	43.3	49.4
Net income	37.3	20.4	6.3
Earnings per share	719.8	404.2	133.1

### Key financial ratios

	<i>(%)</i>		
	2005	2004	2003
Operating profit margin	7.55	8.23	9.66
Net income margin	6.76	3.87	1.22
ROA	5.19	3.11	1.07
ROE	11.26	6.52	2.31

The gross profit margin improved 1.0%p year-on-year, increasing gross profit by 7.7% from the previous year to record KRW205.6 billion. Orion increased SG&A expenses to KRW165.0 billion, or 30.7% of sales, in fiscal year 2005, up from KRW147.5 billion, or 28.7% of sales, in 2004. The increase in expenses can be attributed to direct selling expenses, such as advertisement costs, development costs for overseas markets, and exporting costs.

The net non-operating balance turned into a surplus and this was attributable to equity-method gains following buoyant results by affiliate companies and a decrease in interest payments after the repayment of debt. All of these factors contributed to the Company posting a record high pretax net income. With operations stable at subsidiaries ON\* media, Orion Snack International, and Mediaplex, Orion's future business performances will likely be determined by how quickly Sports TOTO gets on track. With Sports TOTO (ST) turning profitable on an operating basis last year, Orion's equity-method losses arising from the firm narrowed to KRW8.0 billion from KRW18.3 billion in 2004 (KRW12.8 billion in goodwill amortization expenses and KRW12.0 billion in interest expenses prevented ST from turning a net profit). In

2006, we expect Sports Toto's sales and operating profit to rise, which will allow Orion to generate equity-method gains, due to the rocketing increase in the number of betting rounds from 300 to 1,000, the start-up of fixed-odds betting, and the rapidly increasing popularity of Sports Toto's games. Betting should also increase with several global sporting events such as the World Cup scheduled for 2006. In 2006, we expect Sports Toto's sales and operating profit to rise, with resultant equity-method gains for Orion.

## FINANCIAL CONDITIONS

As of December 31, 2005, the Company's total assets amounted to KRW744.7 billion, up 7.3% from KRW693.9 billion in 2004. This increase was primarily due to a 6.4% increase in non-current assets to KRW605.7 billion from the previous year's KRW569.3 billion, of which investments made up the largest portion, recording KRW378.4 billion, a 5.1% increase from KRW360.2 billion in 2004. The Company's year-end balance of cash and cash equivalents grew by KRW5.1 billion to record KRW7.0 billion. Despite the increase in sales, receivables and inventory remained stable while payables dropped slightly. These results can be attributed to an improvement in the overall efficiency of working capital and liquidity.

### Summary of balance sheet

	(In billions of KRW)		
	2005	2004	2003
Total assets	744.7	693.9	615
Total liabilities	417.7	358	326
Total shareholders' equity	327	335.9	289

### Working capital

	(In billions of KRW)		
	2005	2004	2003
Trading receivables & Inventories	129.7	121	103.1
Trading payables	40.6	42.6	42.6
Working capital	89.1	78.4	60.5

Total liabilities increased by 16.7% as of the end of the year, from KRW358.0 billion in 2004 to KRW417.7 billion in 2005, stemming from an increase in total borrowing including the current portion of long-term debt. Meanwhile, total shareholders' equity stood at KRW327.0 billion, down 2.7% from KRW335.9 billion in 2004. Paid-in capital and the capital surplus increased by 0.4% and 1.1% to KRW29.5 billion and KRW126.7 billion, respectively, through the issuance of 5,900,647 outstanding shares at the end of 2005. Capital adjustments decreased to KRW10.8 billion in 2005, from KRW50.8 billion in 2004, while retained earnings also rose by 22.7% to KRW160.1 billion in 2005.

### Cash and marketable securities

	(In billions of KRW)		
	2005	2004	2003
Cash and cash equivalents	6.6	1.6	10.5
Marketable securities	0.4	0.2	0.01

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## CASH FLOWS: OPERATING, INVESTING, FINANCING ACTIVITIES

During 2005, cash flow from operating activities significantly increased to KRW42.4 billion compared to KRW17.0 billion in 2004. This increase can be attributed to the following: (1) the positive impact of KRW7.2 billion on operating cash flow from changes in assets and liabilities; and (2) non-cash related expenses incurred during the year, such as losses on equity-method valuations.

In addition, non-cash income items, which were deducted from net income, increased by KRW25.8 billion. This was primarily due to a KRW26.6 billion gain on equity-method valuation. As a result of this KRW27.0 billion increase in deductions, Orion's cash outflow from operating activities further increased in 2005. There was a KRW78.0 billion cash outflow from investing activities during 2005, following a KRW67.6 billion outlay during the previous year. Cash inflow from financing activities amounted to KRW40.5 billion, compared to KRW41.7 billion in 2004. As a result, Orion's cash holdings increased by KRW5.0 billion to KRW6.2 billion, compared to KRW1.2 billion in 2004.

### Summary of cash flow

	(In billions of KRW)		
	2005	2004	2003
Cashflow from operating activities	42.4	17.0	44.7
Cashflow from investing activities	-78.0	-67.6	-50.4
Cashflow from financing activities	40.5	41.7	14.7

## OUTLOOK FOR 2006

Domestic demand is expected to increase 5.1% following a lengthy period of sluggishness while exports should remain robust in 2006. Consumption and investment are expected to turn around, but at a moderate pace. This modest recovery should see some solid backing from easing of the household debt burden and expected recoveries in both domestic demand and exports. For 2006, the domestic confectionery market is expected to see growing competition with especially fierce competition arising from struggles to solidify a dominant position through take-overs. As the confectionery market is expected to remain in the doldrums amid the recent "well-being" trend and an overall drop in the underage population, competition will also be tougher, undermining the Company's sales and operating income. However, the value of Orion's equity stakes in its subsidiaries, a key factor in valuation, will rise significantly thanks to the normalization of Sports TOTO and the earnings improvement and anticipated increase in value of ON\* media and other subsidiaries following completion of the IPO. Orion aims to improve management efficiency and expand its core product markets using Optimization and Integration strategies and by following the management goal of maximizing the effectiveness of the Company's brands. Rather than being intimidated by heated-up market conditions, we are ready to overcome any difficulties with differentiated strategies. Such a mindset provides us with a firm footing for continuing our rise as a competitive company that consistently turns in impressive results.

## Five-Year Summary

	<i>(In thousands of USD)*</i>		<i>(In millions of KRW)</i>			
	2005	2005	2004	2003	2002	2001
<b>For the year</b>						
Total Sales	531,372	537,536	513,375	511,437	528,920	479,164
Gross Profit	203,228	205,585	190,827	205,799	221,220	197,939
Operating Income	40,136	40,602	43,280	49,394	53,659	39,443
Net Income	36,886	37,314	20,366	6,258	34,889	15,403
<b>At year end</b>						
Total Assets	736,179	744,719	693,916	615,000	560,270	560,858
Current Assets	137,408	139,002	124,624	115,075	107,935	121,832
Non-current Assets	598,770	605,716	569,292	499,926	452,336	439,027
Total Liabilities	412,908	417,698	357,978	325,995	306,644	342,177
Capital Stock	29,165	29,503	29,392	27,162	26,956	26,662
Capital Surplus	125,230	126,683	125,286	117,167	116,416	115,344
Retained Earnings	158,233	160,069	130,457	114,813	113,997	80,89
Total Shareholders' Equity	323,270	327,020	335,938	289,006	253,626	218,681
<b>Financial Ratio(%)</b>						
Current Ratio	67.7	67.7	76.0	76.4	65.5	48.4
Debt Ratio	127.7	127.7	106.6	112.8	120.9	156.5
ROA	5.2	5.2	3.1	4.1	6.22	2.74
ROE	11.3	11.3	6.5	2.3	14.77	7.26

\* Korean Won figures are translated, solely for the convenience of readers into U.S.dollars at KRW1,011.60 : USD1.00, the rate prevailing as of December 31, 2005

# Balance Sheets

December 31, 2004 and 2005

Assets	Korean won in thousands		U. S. dollars (Note 2)
	2004	2005	2005
<b>Current assets:</b>			
Cash and cash equivalents (Note 3)	₩ 1,224,688	₩ 6,202,571	US\$ 6,122,972
Short-term financial instruments	378,530	378,530	373,672
Held-to-maturity securities (Note 6)	238,245	322,400	318,263
Accounts and notes receivable - trade, less allowance for doubtful accounts (Notes 4 ,8 and 15)	85,358,528	92,370,624	91,185,216
Accounts receivable - other	478,743	608,649	600,838
Accrued interest income	747	931	919
Prepaid expenses	883,623	845,731	834,878
Inventories (Note 5)	35,679,566	37,329,503	36,850,447
Other current assets	381,652	189,752	187,317
Current portion of deferred income tax assets (Note 16)	-	753,707	744,035
<b>Total current assets</b>	<b>124,624,322</b>	<b>139,002,398</b>	<b>137,218,557</b>
<b>Investments and other assets:</b>			
Long-term financial instruments (Note 3)	20,500	20,500	20,237
Held-to-maturity securities (Note 6)	681,695	516,880	510,247
Available-for-sale securities (Note 6)	6,045,422	18,238,104	18,004,051
Securities accounted for by the equity method (Note 6)	335,176,406	350,494,073	345,996,123
Guarantee deposits	6,168,092	6,554,182	6,470,071
Deferred income tax assets (Note 16)	12,140,750	2,619,787	2,586,167
<b>Total investments and other assets</b>	<b>360,232,865</b>	<b>378,443,526</b>	<b>373,586,896</b>
<b>Property, plant and equipment (Note 7):</b>			
Land	103,850,919	107,077,386	105,703,244
Buildings and structures	81,841,388	83,367,767	82,297,894
Machinery and equipment	148,421,607	158,964,482	156,924,464
Vehicles	13,989,626	14,748,711	14,559,438
Tools, furniture and fixtures	27,418,299	14,819,312	14,629,133
Construction in-progress	10,940,369	21,090,224	20,819,570
	<b>386,462,208</b>	<b>400,067,882</b>	<b>394,933,743</b>
Less accumulated depreciation	(178,384,653)	(174,041,271)	(171,807,770)
<b>Property, plant and equipment, net</b>	<b>208,077,555</b>	<b>226,026,611</b>	<b>223,125,973</b>
<b>Intangibles, net of amortization (Note 7)</b>	<b>981,250</b>	<b>1,246,235</b>	<b>1,230,242</b>
<b>Total assets</b>	<b>₩ 693,915,992</b>	<b>₩ 744,718,770</b>	<b>US\$ 735,161,668</b>

See accompanying notes.

(Continued)

## Balance Sheets (Continued)

December 31, 2004 and 2005

Liabilities and Stockholders' Equity	Korean won in thousands		U. S. dollars (Note 2)
	2004	2005	2005
<b>Current liabilities:</b>			
Accounts and notes payable - trade (Notes 8 and 15)	₩ 42,572,188	₩ 40,602,683	US\$ 40,081,622
Short-term borrowings (Notes 7, 8 and 9)	17,753,695	49,858,309	49,218,469
Accounts payable - other	25,197,583	35,689,063	35,231,059
Advances from customers	485,446	511,513	504,949
Income taxes payable	1,739,108	4,973,925	4,910,094
Accrued expenses and other current liabilities	1,721,845	1,769,678	1,746,967
Current portion of long-term debt and bonds, less bond discount (Notes 7, 10 and 11)	74,509,547	71,849,548	70,927,491
<b>Total current liabilities</b>	<b>163,979,412</b>	<b>205,254,719</b>	<b>202,620,651</b>
<b>Long-term liabilities:</b>			
Long-term debt and bonds, less bond discount and current portion (Notes 7, 10 and 11)	172,249,246	190,355,983	187,913,113
Severance and retirement benefits (Notes 12 and Notes 20)	11,087,020	11,974,857	11,821,182
Tenant lease deposits and other	7,060,133	4,954,917	4,891,330
Provision for loss on sales returns	3,601,733	5,157,805	5,091,614
<b>Total long-term liabilities</b>	<b>193,998,132</b>	<b>212,443,562</b>	<b>209,717,238</b>
<b>Total liabilities</b>	<b>357,977,544</b>	<b>417,698,281</b>	<b>412,337,888</b>
<b>Commitments and contingencies (Note 13)</b>	-	-	-
<b>Stockholders' equity (Note 14):</b>			
Common stock, ₩5,000 par value			
Authorized - 12,000,000 shares			
Issued - 5,878,356 shares in 2004 and 5,900,647 shares in 2005	29,391,780	29,503,235	29,124,615
Outstanding - 5,168,419 in 2004 and 5,191,414 in 2005			
Capital surplus	125,286,115	126,683,425	125,057,675
Retained earnings (Note 14)			
Appropriated	108,700,000	120,566,666	119,019,414
Unappropriated	21,756,593	39,501,837	38,994,903
	<b>130,456,593</b>	<b>160,068,503</b>	<b>158,014,317</b>
Capital adjustment account:			
Treasury stock (709,937 shares in 2004 and 709,233 shares in 2005) (Note 14)	(16,605,222)	(16,588,756)	(16,375,870)
Gain on valuation of investments (Note 6)	66,410,628	26,105,454	25,770,438
Stock compensation expense (Note 14)	998,554	1,248,628	1,232,604
	<b>50,803,960</b>	<b>10,765,326</b>	<b>10,627,173</b>
<b>Total stockholders' equity</b>	<b>335,938,448</b>	<b>327,020,489</b>	<b>322,823,780</b>
<b>Total liabilities and stockholders' equity</b>	<b>₩ 693,915,992</b>	<b>₩ 744,718,770</b>	<b>US\$ 735,161,668</b>

See accompanying notes.

# Statements of Income

Years ended December 31, 2004 and 2005

	Korean won in thousands		U. S. dollars (Note 2)
	2004	2005	2005
<b>Net sales (Note 15)</b>	₩ 525,880,341	₩ 537,535,815	US\$ 530,637,527
<b>Costs and expenses:</b>			
Cost of sales (Note 15)	322,548,020	331,950,752	327,690,772
Selling, general and administrative expenses (Note 20)	160,051,855	164,982,971	162,865,717
	<b>482,599,875</b>	<b>496,933,723</b>	<b>490,556,489</b>
<b>Operating income</b>	<b>43,280,466</b>	<b>40,602,092</b>	<b>40,081,038</b>
<b>Other income (expenses):</b>			
Interest expense	(13,979,712)	(13,668,109)	(13,492,704)
Interest income	1,035,669	1,031,553	1,018,315
Dividend income	4,835	-	-
Unrealized foreign currency translation gain, net	288,279	173,763	171,533
Realized foreign currency exchange gain, net	866,446	105,210	103,860
Loss on disposal of property, plant and equipment, net	(121,193)	(830,826)	(820,164)
Equity income (loss) on investments in affiliated companies, net (Note 6)	(2,439,766)	17,053,250	16,834,403
Gain (loss) on disposal of investments, net (Note 6)	600,718	(73,960)	(73,011)
Donations	(253,251)	(371,295)	(366,529)
Loss on redemption of bonds	-	(100,000)	(98,717)
Miscellaneous	120,719	2,091,038	2,064,203
	<b>(13,877,256)</b>	<b>5,410,624</b>	<b>5,341,189</b>
<b>Ordinary income</b>	<b>29,403,210</b>	<b>46,012,716</b>	<b>45,422,227</b>
<b>Extraordinary gain (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income before income taxes</b>	<b>29,403,210</b>	<b>46,012,716</b>	<b>45,422,227</b>
<b>Provision for income taxes (Note 16):</b>			
Current	6,230,246	7,563,288	7,466,227
Deferred	2,806,588	1,135,824	1,121,248
	<b>9,036,834</b>	<b>8,699,112</b>	<b>8,587,475</b>
<b>Net income</b>	<b>₩ 20,366,376</b>	<b>₩ 37,313,604</b>	<b>US\$ 36,834,752</b>
<b>Basic ordinary income per share (Note 17)</b> (Korean won and U.S. dollars in units)	<b>₩ 4,042</b>	<b>₩ 7,198</b>	<b>US\$ 7.11</b>
<b>Basic earnings per share (Note 17)</b> (Korean won and U.S. dollars in units)	<b>₩ 4,042</b>	<b>₩ 7,198</b>	<b>US\$ 7.11</b>
<b>Diluted ordinary earnings per share (Note 17)</b> (Korean won and U.S. dollars in units)	<b>₩ 3,970</b>	<b>₩ 7,198</b>	<b>US\$ 7.11</b>
<b>Diluted earnings per share (Note 17)</b> (Korean won and U.S. dollars in units)	<b>₩ 3,970</b>	<b>₩ 7,198</b>	<b>US\$ 7.11</b>

See accompanying notes.

# Statements of Appropriations of Unappropriated Retained Earnings

Years ended December 31,  
2004 and 2005

	Korean won in thousands		U. S. dollars (Note 2)
	2004	2005	2005
<b>Unappropriated retained earnings at end of year before reversals and appropriations:</b>			
Unappropriated retained earnings carried over from prior year	₩ 1,390,217	₩ 2,137,298	US\$ 2,109,870
Increase in retained earnings due to equity method of accounting for investments in affiliated companies (Note 6)	-	50,935	50,281
Net income for the year	20,366,376	37,313,604	36,834,752
	<b>21,756,593</b>	<b>39,501,837</b>	<b>38,994,903</b>
<b>Reversal of reserve for research and manpower development</b>	<b>2,333,334</b>	<b>1,333,333</b>	<b>1,316,222</b>
<b>Unappropriated retained earnings available for appropriations</b>	<b>24,089,927</b>	<b>40,835,170</b>	<b>40,311,125</b>
<b>Appropriations:</b>			
Legal reserve	800,000	1,000,000	987,167
Reserve for financial position improvement	2,400,000	-	-
Reserve for business expansion	4,000,000	-	-
Reserve for research and manpower development	4,000,000	4,000,000	3,948,667
Voluntary reserve	3,000,000	24,000,000	23,692,004
Cash dividends (Note 18)	7,752,629	9,084,975	8,968,386
	<b>21,952,629</b>	<b>38,084,975</b>	<b>37,596,224</b>
<b>Unappropriated retained earnings to be carried forward to the next year</b>	<b>₩ 2,137,298</b>	<b>₩ 2,750,195</b>	<b>US\$ 2,714,901</b>

See accompanying notes.

# Statements of Cash Flows

Years ended December 31, 2004 and 2005

	Korean won in thousands		U. S. dollars (Note 2)
	2004	2005	2005
<b>Operating activities:</b>			
Net income	₩ 20,366,376	₩ 37,313,604	US\$ 36,834,752
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	12,665,380	13,967,940	13,788,687
Bad debt written off	2,598,351	3,082,529	3,042,970
Provision for severance and retirement benefits	7,867,440	8,535,401	8,425,865
Payments of severance and retirement benefits, net of transfers	(6,796,727)	(6,659,518)	(6,574,055)
Decrease in accumulated prepayments to Korean National Pension Fund	444,579	136,376	134,626
Amortization of discount on bonds	29,659	152,285	150,331
Amortization of intangible assets	286,679	356,733	352,155
Provision for loss on sales returns	238,571	1,556,071	1,536,102
Loss (gain) on disposal of investments, net	(600,717)	73,960	73,011
Gain on disposal of property, plant and equipment, net	121,192	830,826	820,164
Equity income (loss) on investments in affiliated companies, net	2,439,766	(17,053,250)	(16,834,403)
Unrealized foreign currency translation gain, net	(288,438)	(177,675)	(175,395)
Loss on redemption of bonds	-	100,000	98,717
Stock compensation expense	612,036	894,721	883,239
Miscellaneous	(25,316)	-	-
Changes in operating assets and liabilities:			
Accounts and notes receivable - trade	(9,894,086)	(9,806,019)	(9,680,177)
Accounts receivable - other	(1,405)	(429,513)	(424,001)
Accrued interest income	7,241	(184)	(182)
Prepaid expenses	(41,004)	37,892	37,406
Other current assets	(178,586)	191,900	189,437
Inventories	(10,693,798)	(1,649,937)	(1,628,763)
Deferred income tax assets	2,806,587	1,184,923	1,169,717
Accounts and notes payable - trade	59,001	(1,902,250)	(1,877,838)
Accounts payable - other	(5,100,972)	10,491,481	10,356,842
Advances from customers	(248,204)	26,066	25,731
Income taxes payable	(2,437,962)	3,234,817	3,193,304
Accrued expenses and other current liabilities	349,488	47,834	47,220
Tenant lease deposits and other	2,416,913	(2,105,215)	(2,078,198)
<b>Net cash provided by operating activities</b>	<b>₩ 17,002,043</b>	<b>₩ 42,431,798</b>	<b>US\$ 41,887,264</b>

(Continued)

See accompanying notes.

# Statements of Cash Flows (Continued)

Years ended December 31, 2004 and 2005

	Korean won in thousands		U. S. dollars (Note 2)
	2004	2005	2005
<b>Investing activities:</b>			
Acquisition of long-term held-to-maturity securities	₩ (1,884,517)	₩ (12,325,072)	US\$ (12,166,902)
Proceeds from disposal of available-for-sale securities	10,850	142,490	140,661
Decrease (increase) in guarantee deposits	380,121	(386,090)	(381,135)
Acquisition of securities accounted for by the equity method	(57,159,115)	(30,939,723)	(30,542,668)
Proceeds from disposal of long-term investment securities	725,398	-	-
Decrease in deposits for employee's group severance insurance	(642,428)	(1,124,421)	(1,109,991)
Acquisition of property, plant and equipment	(11,219,849)	(34,892,154)	(34,444,377)
Proceeds from disposal of property, plant and equipment	2,831,591	2,144,332	2,116,813
Increase in intangible assets	(645,042)	(621,718)	(613,739)
<b>Net cash used in investing activities</b>	<b>(67,602,990)</b>	<b>(78,002,356)</b>	<b>(77,001,339)</b>
<b>Financing activities:</b>			
Increase in short-term borrowings	-	32,226,034	31,812,472
Repayment of current portion of long-term debt	(53,582,451)	(74,509,547)	(73,553,353)
Repayment of long-term debt	-	(40,100,000)	(39,585,390)
Increase in long-term debt and bonds	89,679,200	130,000,000	128,331,688
Common stock issued for stock warrants	10,362,570	-	-
Common stock issued for stock options	-	880,583	869,282
Stock issuance costs	(13,711)	(196,000)	(193,485)
Payment of cash dividends	(4,722,373)	(7,752,629)	(7,653,138)
<b>Net cash provided by financing activities</b>	<b>41,723,235</b>	<b>40,548,441</b>	<b>40,028,076</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(8,877,712)</b>	<b>4,977,883</b>	<b>4,914,001</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>10,102,400</b>	<b>1,224,688</b>	<b>1,208,971</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>₩ 1,224,688</b>	<b>₩ 6,202,571</b>	<b>US\$ 6,122,972</b>
<b>Transactions not involving inflow or outflow of cash:</b>			
Transfer of construction in-progress to appropriate property, plant and equipment accounts	₩ 2,306,650	₩ 7,159,634	US\$ 7,067,753
Transfer of long-term debt to current portion	74,509,547	71,887,713	70,965,166
Depreciation offset against government grants	12,110	12,110	11,955
Transfer of long-term financial instruments to short-term financial instruments	74,509,547	-	-

See accompanying notes.

# Notes to Financial Statements

December 31, 2004 and 2005

## 1. ORGANIZATION AND BUSINESS

Orion Corporation ("the Company") was incorporated as Tong Yang Confectionery Corporation in 1956, under the laws of the Republic of Korea to engage in the business of manufacturing and selling confectioneries. On September 1, 2001, the Company, together with all its affiliates (Note 6), separated from the Tong Yang Group of companies to establish its own identity as a confectionery, food and entertainment business group. Accordingly, the Company changed its name from Tong Yang Confectionery Corporation to Orion Corporation on August 29, 2003.

As of December 31, 2004, the Company has four manufacturing plants in Korea to produce biscuits, chocolates, pies and gums. The Company also sells merchandise purchased from Orion Snack International Corp., a 100% owned company organized locally.

The Company's common stock has been listed on the Korea Stock Exchange since June 27, 1975.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of financial statement preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with 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, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

Certain supplementary information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations and cash flows, is not presented in the accompanying financial statements.

### Consolidation and investment securities in related companies

The Company's consolidated financial statements, to be prepared as a separate report and filed with the Financial Supervisory Commission by April 30, 2006, were not prepared as of February 17, 2006. Investments securities in related companies are stated using equity method.

### Korean GAAP revisions for 2005

The Korean Accounting Standards Board has issued new Statements of Korean Accounting Standards ("SKAS") with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards which are to be applied from the first fiscal year starting after December 31, 2004 include changes in equity method investments, income taxes, and provisions, contingent liabilities and contingent assets. The Company adopted these new statements in its financial statements for the year ended December 31, 2005. The adoption of these new statements did not have any material effect on the Company's financial statements for the year ended December 31, 2005.

### **Financial statements translation**

The accompanying 2005 financial statements are expressed in Korean won and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ₩1,013.00 to US\$1, the year-end exchange rate on December 31, 2005. Such translation should not be construed as a representation that the Korean won amounts can actually be converted into United States dollars at the exchange rate used for purpose of such translation.

### **Investment securities**

Available-for-sale securities are stated at fair value. The unrealized gains and losses related to changes in the fair value of available-for-sale securities are reported as a separate component of stockholders' equity until realized. Trading securities are stated at fair value, with unrealized holding gains and losses reported as part of net income. Debt securities, classified as held-to-maturity, are stated at the acquisition cost adjusted for the amortization of discount or premium using the effective interest method.

Investment securities are evaluated to determine if they have suffered a loss in value that is other than temporary. The impairment loss is charged to current operations.

### **Equity method investments**

Investments in entities over which the Company has significant influence are accounted for using the equity method, whereby the Company's initial investment is recorded at acquisition cost and subsequently the carrying value is increased or decreased to reflect the Company's share of the investee's income or loss. If the increase or decrease is derived from changes in the investee's retained earnings, such change is presented as an increase or decrease in the Company's retained earnings. If the increase or decrease is derived from the investee's changes in capital surplus or capital adjustments, then such amount is presented as a valuation gain or loss on investment securities, and is shown in capital adjustment account within stockholders' equity.

If the Company's share in the losses of the investee equals or exceeds its interest in the investee, it discontinues recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

On acquisition of the investment, any difference between the cost of the investment and the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill which is amortized over its useful life using the straight-line method. Further, the Company's share of any difference between the net fair value of the investee's identifiable assets and liabilities, and the book value of the investee's net equity is amortized based on the investee's accounting treatments on the related assets and liabilities.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated.

### **Allowance for doubtful accounts**

The Company provides an allowance for doubtful accounts to cover estimated losses that may arise from non-collection of its receivables. The estimate of losses is based on the estimated collectibility of receivables and historical bad debt experience.

# Notes to Financial Statements (Continued)

December 31, 2004 and 2005

## Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by specific identification for materials in transit, and the moving average method for all other inventories.

## Revenue recognition

Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred.

## Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, except for assets which were revalued in accordance with the Korean Assets Revaluation Law.

Depreciation is provided using the declining balance method (straight-line method for buildings and structures acquired after January 1, 1995) over the following estimated useful lives:

	Useful lives of assets acquired from January 1, 1995	Useful lives of assets acquired before January 1, 1995
Building and structures	50	2~60
Machinery and equipment	10	2~10
Vehicles	5	2~15
Tools, furniture and fixtures	5	2~54

The Company has provided for depreciation on assets acquired after January 1, 1995 without retaining a 10% residual value in its accounts. Assets acquired prior to January 1, 1995 have been and will continue to be depreciated up to 90% of their acquisition costs, recognizing a 10% residual value to be disposed at equal amounts for three years after accumulated depreciation reaches 90% of their acquisition costs.

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures that enhance the value or extend the life of an asset are capitalized as additions to property, plant and equipment. Interest expenses and financing charges on borrowings related to the construction or acquisition of property, plant and equipment are capitalized as part of the cost of the assets during construction period.

## Leases

Capital lease obligations are recorded at the present value of future minimum lease payments. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

## Intangible assets

Intangible assets are amortized using the straight-line method over 5 years.

## Foreign currency translation

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made. Assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates on the balance sheet dates. The resulting unrealized foreign currency translation gains (losses) are credited (charged) to current operations.

### **Discount (premium) on bonds**

Discount (premium) on bonds is presented as a direct deduction from (addition to) the nominal value of the bonds and is amortized using the effective-interest-rate method over the life of the bonds.

### **Severance and retirement benefits**

In accordance with the Korean Law on Guarantee of Employees' Severance and Retirement Benefits and the Company's regulations, employees and directors terminating their employment with at least one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2004 and 2005 is sufficient to state the liability under the Korean Law on Guarantee of Employees' Severance and Retirement Benefits and the Company's regulations at the estimated obligation arising from services performed to and at rates of pay in effect at these dates. Funding of this liability is not required by Korean law.

The lesser of 10% of annual payroll expense or 40% of the accumulated severance and retirement benefits provision is deductible for corporate income tax reporting purposes unless benefits are actually paid or the non tax-deducted portion is deposited with financial institutions. Accordingly, the Company had deposited a portion of its severance and retirement benefits obligation with an insurance company as deposits for severance and retirement benefits. Since the Company's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2004 and 2005, those deposits have been offset against the Company's liability for severance and retirement benefits as of such dates.

In accordance with the Korean National Pension Law prior to revision, the Company had prepaid a portion of its severance and retirement benefits obligation to the Korean National Pension Corporation ("KNPC") at the rate of 3% of payroll expense up through March 31, 1999. Such prepayments have been offset against the Company's liability for severance and retirement benefits. In accordance with a revision in the Korean National Pension Law, additions to these prepayments were no longer required effective from April 1, 1999.

### **Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made on the amount of the obligation. The provision is used only for expenditures for which the provision was originally recognized. If the effect of the time value of money is material, provisions are stated at present value.

### **Deferred income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities, respectively. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the accompanying financial statements. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse, and are classified as current or non-current, based on the classification of the related assets or liabilities in the balance sheet.

In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

# Notes to Financial Statements (Continued)

December 31, 2004 and 2005

## Per share amounts

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year while basic ordinary earnings per share is computed by reversing the effect of extraordinary items (net of effect of income taxes), if any. Diluted earnings per share measures the performance of the Company over the reporting period while giving effect to all potential common shares, such as options, warrants and convertible bonds, that were dilutive and outstanding during the year.

## Use of estimates

The preparation of financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. CASH AND CASH EQUIVALENTS, AND FINANCIAL INSTRUMENTS

Cash and cash equivalents, and financial instruments as of December 31, 2004 and 2005 consist of the following (Korean won in thousands):

	2004		
	Cash and cash equivalents	Short-term financial instruments	Long-term financial instruments
Cash on hand	₩ 809,979	₩ -	₩ -
Checking accounts	414,709	-	-
Time deposits	-	378,530	-
Restricted deposits	-	-	20,500
	<b>₩ 1,224,688</b>	<b>₩ 378,530</b>	<b>₩ 20,500</b>

  

	2005		
	Cash and cash equivalents	Short-term financial instruments	Long-term financial instruments
Cash on hand	₩ 21,857	₩ -	₩ -
Checking accounts	6,180,714	-	-
Time deposits	-	378,530	-
Restricted deposits	-	-	20,500
	<b>₩ 6,202,571</b>	<b>₩ 378,530</b>	<b>₩ 20,500</b>
U. S. dollars (Note 2)	<b>US\$ 6,122,972</b>	<b>US\$ 373,672</b>	<b>US\$ 20,237</b>

The restricted deposits of ₩20,500 thousand as of December 31, 2004 and 2005 represent amounts placed with banks as guarantee deposits for the maintenance of checking accounts.

#### 4. ACCOUNTS AND NOTES RECEIVABLE - TRADE

Accounts and notes receivable - trade at December 31, 2004 and 2005 consist of the following:

	Korean won in thousands		U. S. dollars (Note 2)
	2004	2005	2005
Accounts receivable	₩ 57,853,234	₩ 61,058,894	US\$ 60,275,315
Notes receivable	29,897,375	34,071,447	33,634,202
	87,720,609	95,130,341	93,909,517
Allowance for doubtful accounts	(2,392,081)	(2,759,716)	(2,724,300)
	<b>₩ 85,358,528</b>	<b>₩ 92,370,625</b>	<b>US\$ 91,185,217</b>

#### 5. INVENTORIES

Inventories as of December 31, 2004 and 2005 consist of the following:

	Korean won in thousands		U. S. dollars (Note 2)
	2004	2005	2005
Merchandise	₩ 11,612,087	₩ 13,493,148	US\$ 13,319,988
Finished goods	9,301,328	11,645,716	11,496,265
Work in-process	1,067,673	1,544,005	1,524,191
Raw materials	6,343,178	5,592,292	5,520,525
Supplies and parts	855,380	1,314,374	1,297,506
Raw materials in-transit	6,499,919	3,739,968	3,691,972
	<b>₩ 35,679,566</b>	<b>₩ 37,329,503</b>	<b>US\$ 36,850,447</b>

#### 6. INVESTMENTS IN SECURITIES

Investments in securities at December 31, 2004 and 2005 consist of the following (Korean won in thousands):

Description	Investee	Cost at December 31, 2005	Market or net asset value at Dec. 31, 2005	Carrying value	
				Dec. 31, 2005	Dec. 31, 2004
Held-to-maturity	Public bonds	₩ 839,280	₩ 839,280	₩ 839,280	₩ 845,980
	Fantasy CBO	-	-	-	73,960
		839,280	839,280	839,280	919,940
Current portion		(322,400)	(322,400)	(322,400)	(238,245)
Total		<b>₩ 516,880</b>	<b>₩ 516,880</b>	<b>₩ 516,880</b>	<b>₩ 681,695</b>

# Notes to Financial Statements (Continued)

December 31, 2004 and 2005

						Equity
Available- Orion Reports Corp. (*) for-sale	₩ 2,150,000	₩ 1,674,849	₩ 2,150,000	₩ 2,150,000		86.00%
Orion Beverage Corp. (*)	100,000	172,113	100,000	100,000		100.00%
Korea Investment Corp.	58,800	6,762	6,762	13,524		0.08%
Haitai Store Co., Ltd.	166,480	83	83	83		0.12%
Orion Food (Rus) Co., Ltd. (*)	9,975,329	9,653,408	9,975,329	3,716,085		100.00%
Orion Food (Vina) Co., Ltd. (*)	4,430,038	4,430,038	4,430,038	-		60.00%
Sports Toto Online Co., Ltd. (*)	1,500,000	747,149	1,500,000	-		30.00%
Others	52,170	75,892	75,892	65,730		
<b>Total</b>	<b>₩ 18,432,817</b>	<b>₩ 16,760,294</b>	<b>₩ 18,238,104</b>	<b>₩ 6,045,422</b>		

(\*) These are small-sized companies with total assets less than ₩7,000,000 thousand as of December 31, 2004 and 2005, and therefore, the equity method of accounting was not applied.

The public bonds and investment bonds as of December 31, 2005 will mature as follows (Korean won in thousands):

Year	Public bonds	Investment bonds
2006	₩ 322,400	₩ 73,960
2007 to 2011	367,760	-
2012 and after	149,120	-
	<b>₩ 839,280</b>	<b>₩ 73,960</b>

Investments in securities accounted for by the equity method at December 31, 2004 and 2005 consist of the following (Korean won in thousands):

2004	Korean won in thousands			Equity ratio (%)
	Acquisition Cost	Proportionate share in net asset value or market value	Carrying value in balance sheet	
Orion Snack International Corp. (formerly, Orion Frito-Lay Corp.)	₩ 48,409,990	₩ 57,072,886	₩ 79,221,498	100.00
Buy The Way Inc.	25,524,016	28,282,500	28,094,762	54.59
Orion Food Co., Ltd.	13,088,067	17,056,531	16,984,649	82.16
Orion Food (Shanghai) Co., Ltd.	22,890,134	16,526,162	16,440,425	100.00
On Media Corp.	110,380,527	111,634,850	81,645,909	45.39
Mediaplex Corp.	17,999,000	33,256,183	33,221,347	84.16
RiseON Inc.	33,753,002	27,414,649	24,864,457	88.83
Tiger Pools International Co., Ltd.	10,003,717	-	-	32.01
Sports Toto Co., Ltd.	38,809,580	-	54,703,359	40.98
	<b>₩ 320,858,033</b>	<b>₩ 291,243,761</b>	<b>₩ 335,176,406</b>	

2005	Korean won in thousands			Equity ratio (%)
	Acquisition Cost	Proportionate share in net asset value or market value	Carrying value in balance sheet	
Orion Snack International Corp. (formerly, Orion Frito-Lay Corp.)	₩ 48,409,990	₩ 63,470,729	₩ 83,016,886	100.00
Buy The Way Inc.	25,524,016	28,349,042	28,245,460	54.59
Orion Food Co., Ltd.	22,455,805	30,408,015	30,354,752	88.46
Orion Food (Shanghai) Co., Ltd.	22,890,134	17,421,751	17,421,751	100.00
On Media Corp.	110,380,527	121,892,193	93,718,178	42.54
Mediaplex Corp.	17,999,000	39,805,609	39,788,191	82.24
RiseON Inc.	33,753,002	25,200,100	23,325,087	88.83
Sports Toto Co., Ltd.	60,381,576	(56,301,242)	34,623,768	52.11
	<b>₩ 341,794,050</b>	<b>₩ 270,246,197</b>	<b>₩ 350,494,073</b>	

Changes in investments in securities accounted for by the equity method at December 31, 2004 and 2005 are summarized as follows:

2004	Korean won in thousands					
	Carrying value at Dec. 31, 2003	Additional acquisition costs	Equity income (loss) on investments	Gain (loss) on valuation of investments	Disposition costs	Carrying value at Dec. 31, 2004
Orion Snack International Corp. (formerly, Orion Frito-Lay Corp.)	₩ 30,866,822	₩ 45,706,644	₩ 2,648,032	₩ -	₩ -	₩ 79,221,498
Buy The Way Inc.	25,969,079	131,004	1,995,357	(678)	-	28,094,762
Orion Food Co., Ltd.	15,988,698	1,717,751	1,488,974	(2,210,774)	-	16,984,649
Orion Food (Shanghai) Co., Ltd.	18,815,168	-	60,492	(2,435,235)	-	16,440,425
On Media Corp.	72,095,795	-	6,612,238	2,937,876	-	81,645,909
Mediaplex Corp.	29,582,359	-	3,730,444	(91,456)	-	33,221,347
RiseON Inc.	25,591,120	-	(726,663)	-	-	24,864,457
Tiger Pools International Co., Ltd.	-	3,717	(3,717)	-	-	-
Sports Toto Co., Ltd.	41,322,327	9,600,000	(18,244,923)	23,253,757	(1,227,802)	54,703,359
	<b>₩ 260,231,368</b>	<b>₩ 57,159,116</b>	<b>₩ (2,439,766)</b>	<b>₩ 21,453,490</b>	<b>₩(1,227,802)</b>	<b>₩335,176,406</b>

# Notes to Financial Statements (Continued)

December 31, 2004 and 2005

2005	Korean won in thousands					
	Carrying value at Dec. 31, 2004	Additional acquisition costs	Equity income (loss) on investments	Gain (loss) on valuation of investments	Disposition costs	Carrying value at Dec. 31, 2005
Orion Frito-Lay Corp. (formerly, Orion Frito-Lay Corp.)	₩ 79,221,498	₩ -	₩ 3,919,362	₩ (123,974)	₩ -	₩ 83,016,886
Buy The Way Inc.	28,094,762	-	150,698	-	-	28,245,460
Orion Food Co., Ltd.	16,984,649	9,367,738	3,667,660	335,329	(624)	30,354,752
Orion Food (Shanghai) Co., Ltd.	16,440,425	-	1,055,561	(74,235)	-	17,421,751
On Media Corp.	81,645,909	-	10,745,946	1,255,445	70,878	93,718,178
Mediaplex Corp.	33,221,347	-	7,061,181	(494,337)	-	39,788,191
RiseON Inc.	24,864,457	-	(1,539,370)	-	-	23,325,087
Sports Toto Co., Ltd.	54,703,359	21,571,985	(8,007,789)	(33,643,787)	-	34,623,768
	<b>₩ 335,176,406</b>	<b>₩ 30,939,723</b>	<b>₩ 17,053,249</b>	<b>₩(32,745,559)</b>	<b>₩ 70,254</b>	<b>₩350,494,073</b>

Unrealized gains and losses resulting from transactions between the Company and its investees at December 31, 2004 and 2005 are summarized as follows:

2004	Korean won in thousands			
	Carrying value at Dec. 31, 2003	Increase	Decrease	Carrying value at Dec. 31, 2004
Orion Snack International Corp.	₩ (2,527,688)	₩ (178,822)	₩ 282,889	₩ (2,521,589)
Buy the way Corp.	(68,999)	(187,802)	68,999	(187,802)
On Media Corp.	(32,252,215)	-	1,991,033	(30,261,182)
RiseON Inc.	(2,632,153)	-	450,472	(2,181,681)
	<b>₩ (37,481,055)</b>	<b>₩ (366,624)</b>	<b>₩ 2,793,393</b>	<b>₩ (35,152,254)</b>

2005	Korean won in thousands			
	Carrying value at Dec. 31, 2004	Increase	Decrease	Carrying value at Dec. 31, 2005
Orion Snack International Corp.	₩ (2,521,589)	₩ (320,357)	₩ 184,921	₩ (2,657,025)
Buy the way Corp.	(187,802)	(103,646)	187,802	(103,646)
On Media Corp.	(30,261,182)	-	1,991,033	(28,270,149)
RiseON Inc.	(2,181,681)	-	490,923	(1,690,758)
	<b>₩ (35,152,254)</b>	<b>₩ (424,003)</b>	<b>₩ 2,854,679</b>	<b>₩ (32,721,578)</b>

Change in unamortized amount of the excess of cost over the underlying net equity in the investee at the date of application of the equity method during 2004 and 2005 are summarized as follows:

	Korean won in thousands			
	Carrying value at Dec. 31, 2003	Increase	Decrease	Carrying value at Dec. 31, 2004
Orion Snack International Corp.	₩ -	₩ 24,670,201	₩ -	₩ 24,670,201
Orion Food Co., Ltd.	(23,098)	(56,170)	7,386	(71,882)
Orion Food (Shanghai) Co., Ltd.	(128,606)	-	42,869	(85,737)
On Media Corp.	448,347	-	(176,106)	272,241
Mediaplex Corp.	(52,254)	-	17,418	(34,836)
RiseON Inc.	(552,767)	-	184,256	(368,511)
Sports Toto Co., Ltd.	110,804,595	7,563,863	(14,903,029)	103,465,429
Tiger Pools International Co., Ltd.	-	3,717	(3,717)	-
	<b>₩ 110,496,217</b>	<b>₩ 32,181,611</b>	<b>₩ (14,830,923)</b>	<b>₩ 127,846,905</b>

	Korean won in thousands			
	Carrying value at Dec. 31, 2004	Increase	Decrease	Carrying value at Dec. 31, 2005
Orion Snack International Corp.	₩ 24,670,201	₩ -	₩ (2,467,020)	₩ 22,203,181
Orion Food Co., Ltd.	(71,882)	-	18,620	(53,262)
Orion Food (Shanghai) Co., Ltd.	(85,737)	-	42,869	(42,868)
On Media Corp.	272,241	-	(176,106)	96,135
Mediaplex Corp.	(34,836)	-	17,418	(17,418)
RiseON Inc.	(368,511)	-	184,255	(184,256)
Sports Toto Co., Ltd.	103,465,429	-	(12,540,419)	90,925,010
	<b>₩ 127,846,905</b>	<b>₩ -</b>	<b>₩ (14,920,383)</b>	<b>₩ 112,926,522</b>

Changes of capital adjustments in investments in securities accounted for by the equity method at December 31, 2004 and 2005 are summarized as follows:

2005	Korean won in thousands		
	Opening Balance	Net increase (decrease)	Ending balance
Orion Snack International Corp.	₩ -	₩ 123,974	₩ 123,974
Buy the way Corp.	(7,244,004)	-	(7,244,004)
Orion Food Co., Ltd.	(870,106)	(335,329)	(1,205,435)
Orion Food (Shanghai) Co., Ltd.	4,011,290	74,235	4,085,525
On Media Corp.	(2,866,846)	(1,255,445)	(4,122,291)
Mediaplex Corp.	(3,449,374)	494,337	(2,955,037)
RiseON Inc.	5,150,666	-	5,150,666
Sports Toto Co., Ltd.	(61,340,366)	33,643,787	(27,696,579)
	<b>₩ (66,608,740)</b>	<b>₩ 32,745,559</b>	<b>₩ (33,863,181)</b>

# Notes to Financial Statements (Continued)

December 31, 2004 and 2005

2004	Korean won in thousands		
	Opening Balance	Net increase (decrease)	Ending balance
Orion Snack International Corp.	₩ -	₩ -	₩ -
Buy the way Corp.	(7,244,682)	678	(7,244,004)
Orion Food Co., Ltd.	(3,080,880)	2,210,774	(870,106)
Orion Food (Shanghai) Co., Ltd.	1,576,056	2,435,234	4,011,290
On Media Corp.	71,030	(2,937,876)	(2,866,846)
Mediaplex Corp.	(3,540,830)	91,456	(3,449,374)
RiseON Inc.	5,150,666	-	5,150,666
Sports Toto Co., Ltd.	(39,208,303)	(22,132,063)	(61,340,366)
	<b>₩ (46,276,943)</b>	<b>₩ (20,331,797)</b>	<b>₩ (66,608,740)</b>

Summary of equity method investees' financial position as of December 31, 2005 are as follows:

	Korean won in thousands				
	Total Assets	Total Liabilities	Sales	Net Income	Total Shareholders' Equity
Orion Snack International Corp.	₩ 99,410,699	₩ 35,939,970	₩ 100,684,906	₩ 6,521,818	₩ 63,470,729
Buy the way Corp.	180,453,752	128,522,918	397,625,185	121,894	51,930,834
Orion Food Co., Ltd.	51,370,655	16,997,334	65,919,669	4,277,689	34,373,321
Orion Food (Shanghai) Co., Ltd.	22,545,151	5,080,532	25,938,395	1,012,692	17,464,619
On Media Corp.	298,355,727	11,820,248	59,800,548	20,994,404	286,535,479
Mediaplex Corp.	124,878,572	76,474,917	92,133,487	8,369,491	48,403,655
RiseON Inc.	109,967,199	81,598,291	87,422,084	(2,493,019)	28,368,908
Sports Toto Co., Ltd.	54,596,745	162,634,258	90,021,625	11,061,530	(108,037,513)
	<b>₩ 941,578,500</b>	<b>₩ 519,068,468</b>	<b>₩ 919,545,899</b>	<b>₩ 49,866,499</b>	<b>₩ 422,510,032</b>

## 7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Changes in property, plant and equipment in 2005 and depreciation expenses for 2005 and 2004 are as follows (Korean won in thousands):

	Cost				Depreciation	
	Jan. 1, 2005	Additions	Disposals	Dec. 31, 2005	2005	2004
Land	₩ 103,850,919	₩ 3,226,467	₩ -	₩ 107,077,386	₩ -	₩ -
Buildings	77,177,033	1,495,970	-	78,673,003	(2,219,535)	(2,281,059)
Structures	4,664,356	30,408	-	4,694,764	(200,731)	(177,674)
Machinery and equipment	148,421,607	12,574,258	(2,031,383)	158,964,482	(8,000,578)	(6,619,460)
Vehicles	13,989,626	2,904,712	(2,145,626)	14,748,712	(2,408,763)	(2,476,172)
Furniture and fixture	27,418,299	2,658,040	(15,257,027)	14,819,312	(1,150,443)	(1,123,124)
Construction in-progress	10,940,369	19,161,932	(9,012,078)	21,090,223	-	-
	<b>₩ 386,462,209</b>	<b>₩ 42,051,787</b>	<b>₩ (28,446,114)</b>	<b>₩ 400,067,882</b>	<b>₩ (13,980,050)</b>	<b>₩ (12,677,489)</b>

Property, plant and equipment have been provided as collaterals to the extent of ₩52,954,400 thousand and US\$40,937,000 as of December 31, 2004 (to the extent of ₩52,954,400 thousand and US\$40,937,000 as of December 31, 2005) for short-term borrowings, long-term debt and bonds, and other current liabilities.

Property, plant and equipment are insured against fire and other casualty losses for up to ₩154,447,417 thousand as of December 31, 2005 (₩138,543,228 thousand as of December 31, 2004).

The value of the Company's land, as determined by the Government of the Republic of Korea for tax administration purposes, was ₩105,830,560 thousand as of December 31, 2005 (₩96,826,052 thousand as of December 31, 2004).

Changes in intangible assets (industrial property rights) in 2004 and 2005 are as follows:

	Korean won in thousands	
January 1, 2004	₩	662,888
Additions		645,041
Amortization		(286,679)
December 31, 2004		981,250
Additions		621,718
Amortization		(356,733)
December 31, 2005	₩	1,246,235

## 8. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Assets and liabilities (other than foreign convertible bonds, as noted in Note 11) denominated in foreign currencies as of December 31, 2004 and 2005 are summarized as follows:

	2004		2005	
	Foreign Currencies	Korean won equivalent (in thousands)	Foreign Currencies	Korean won equivalent (in thousands)
Assets:				
Cash and cash equivalents	US\$ 590,607	₩ 616,476	US\$ 1,317,053.05 EUR 29,201.00	₩ 1,334,175 35,022
Accounts receivable	US\$ 1,002,548	1,046,460	US\$ 2,490,035.97	2,522,406
		₩ 1,662,936		₩ 3,891,603
Liabilities:				
Accounts and notes payable - trade	US\$ 5,631,911	₩ 5,878,588	US\$ 4,600,333.76	₩ 4,660,138
Short-term borrowings	US\$ 3,820,416 EUR 220,625	3,987,750 313,940	US\$ 4,186,826.62 EUR 777,040.00 CHF 110,490.00	4,241,255 931,935 85,118
		₩ 10,180,278		₩ 9,918,446

## Notes to Financial Statements (Continued)

December 31, 2004 and 2005

### 9. SHORT-TERM BORROWINGS

The Company has outstanding borrowings for operating funds of ₩17,753,695 thousand and ₩49,858,308 thousand (US\$49,218,468) as of December 31, 2004 and 2005, respectively, with annual interest rates ranging from 2.48% to 7.02% in 2005 (from 2.36% to 5.13% in 2004).

### 10. LONG-TERM DEBT

Long-term debt as of December 31, 2004 and 2005 consist of the following:

Bank	Korean won in thousands		U.S. dollars (Note 2)	Annual interest rate (%) as of Dec. 31, 2005
	2004	2005	2005	
Korean won denominated:				
KDB	₩ 14,375,000	₩ 11,875,000	US\$ 11,722,606	6.3~7.50
Kookmin Bank	685,324	675,777	667,105	3
SC Korea First Bank	17,000,000	-	-	
CHB	20,000,000	-	-	
	52,060,324	12,550,777	12,389,711	
Less current portion:	(29,509,547)	(1,887,713)	(1,863,488)	
	<b>₩ 22,550,777</b>	<b>₩ 10,663,064</b>	<b>US\$ 10,526,223</b>	

Scheduled repayments of the long-term debt outstanding at December 31, 2005 are summarized as follows:

	Korean won in thousands	U.S. dollars (Note 2)
2006	₩ 1,887,713	US\$ 1,863,488
2007	15,979	15,774
2008	10,019,342	9,890,762
2009	22,805	22,512
2010 and after	604,938	597,175
	<b>₩ 12,550,777</b>	<b>US\$ 12,389,711</b>

## 11. BONDS

Bonds (non-guaranteed) as of December 31, 2004 and 2005 consisted of the following:

Series	Korean won in thousands		U.S. dollars (Note 2)	Annual interest rate	Maturity
	2004	2005	2005		
62 <sup>nd</sup>	10,000,000	-	-	7.60%	
63 <sup>rd</sup>	10,000,000	-	-	4.60%	
65 <sup>th</sup>	10,000,000	-	-	4.54%	
66 <sup>th</sup>	5,000,000	-	-	7.35%	
68 <sup>th</sup>	20,000,000	20,000,000	19,743,337	6.12%	Mar.26 2006
69 <sup>th</sup>	10,000,000	10,000,000	9,871,668	6.21%	Apr.28 2006
70 <sup>th</sup>	10,000,000	-	-	6.51%	May.2 2006
71 <sup>st</sup>	10,000,000	10,000,000	9,871,668	6.14%	May.9 2006
72 <sup>nd</sup>	10,000,000	-	-	6.20%	Jun.13 2005
73 <sup>rd</sup>	10,000,000	10,000,000	9,871,668	6.15%	Sep.30 2006
74 <sup>th</sup>	20,000,000	-	-	6.70%	Jan.15 2007
75 <sup>th</sup> -1	20,000,000	20,000,000	19,743,337	4.11%	Oct.29 2006
75 <sup>th</sup> -2	50,000,000	50,000,000	49,358,342	4.22%	Oct.29 2007
76 <sup>th</sup>	-	30,000,000	29,615,005	4.77%	Feb.21 2008
77 <sup>th</sup>	-	40,000,000	39,486,673	4.15%	Jun.14 2008
78 <sup>th</sup>	-	10,000,000	9,871,668	5.10%	Jun. 15 2007
79 <sup>th</sup>	-	10,000,000	9,871,668	4.99%	Aug. 1 2007
80 <sup>th</sup>	-	40,000,000	39,486,673	4.97%	Aug.19 2008
	195,000,000	250,000,000	246,791,707		
Current portion	(45,000,000)	(70,000,000)	(69,101,678)		
	150,000,000	180,000,000	177,690,030		
Discount	(301,531)	(307,081)	(303,141)		
	<b>₩ 149,698,469</b>	<b>₩ 179,692,919</b>	<b>US\$ 177,386,889</b>		

Scheduled repayments of the bonds outstanding at December 31, 2005 are summarized as follows:

	Korean won in thousands	U.S. dollars (Note 2)
2006	₩ 70,000,000	US\$ 69,101,678
2007	70,000,000	69,101,678
2008	110,000,000	108,588,351
	<b>₩ 250,000,000</b>	<b>US\$ 246,791,707</b>

## Notes to Financial Statements (Continued)

December 31, 2004 and 2005

### 12. SEVERANCE AND RETIREMENT BENEFITS

Changes in severance and retirement benefits for the years ended December 31, 2004 and 2005 are summarized as follows:

	Korean won in thousands		U.S. dollars (Note 2)
	2004	2005	2005
Beginning of year	₩ 26,993,075	₩ 28,063,788	US\$ 27,703,641
Provision during the year	7,867,440	8,535,401	8,425,865
Transferred from affiliated companies	90,114	548,444	541,406
Payments during the year	(6,886,841)	(7,207,962)	(7,115,461)
End of year	<b>₩ 28,063,788</b>	<b>₩ 29,939,671</b>	<b>29,555,450</b>
Deposits for severance and retirement benefits	(16,838,273)	(17,962,694)	(17,732,176)
Accumulated prepayments to the KNPC	(138,495)	(2,119)	(2,092)
Net balance	<b>₩ 11,087,020</b>	<b>₩ 11,974,858</b>	<b>US\$ 11,821,183</b>

### 13. COMMITMENTS AND CONTINGENCIES

In 2000, the KT&G Corporation (formerly, KTC) invested the amount of ₩26,000,000 thousand in Buy The Way Inc. an affiliate of the Company. In relation to this investment, the Company made a commitment under a contract with KT&G, to redeem KT&G's investment in Buy The Way Inc. any time after 2004, at KT&G's option. Also, the Company was contingently liable for payment guarantees totaling ₩14,400,000 thousand issued on behalf of Mediaplex Inc. for privately placed conversion bonds from October 15, 2003 to October 15, 2005.

The Company maintains lines of credit totaling ₩47,000,000 thousand (US\$ 46,396,841) with various financial institutions at December 31, 2005 related to bank overdraft facilities. The Company has also obtained L/C opening and usance credit lines with banks up to US\$30,000,000 and ₩4,000,000 thousand (US\$ 3,948,667). Further, as of December 31, 2005, the Company maintains lines of credit totaling ₩80,000,000 thousand (US\$78,973,346) with various financial institutions for purchasing activities.

### 14. STOCKHOLDERS' EQUITY

Capital surplus - Capital surplus at December 31, 2004 and 2005 consisted of the followings:

	Korean won in thousands		U.S. dollars (Note 2)
	2004	2005	2005
Paid-in capital in excess of par value	₩ 52,934,426	₩ 54,202,293	US\$ 53,506,706
Asset revaluation surplus	71,675,867	71,675,867	70,756,038
Other capital surplus	675,823	805,265	794,931
	<b>₩ 125,286,115</b>	<b>₩ 126,683,425</b>	<b>US\$ 125,057,675</b>

The stockholders of the Company at December 31, 2005 are as follows:

	Shares	Ownership equity (%)
Hwa Kyung Lee	865,204	14.66
Chul Kon Tam	770,626	13.06
Others	4,264,817	72.28
	<b>5,900,647</b>	<b>100.00</b>

Changes in common stock and paid-in capital in excess of par value in 2004 and 2005 are as follows:

	No. of shares	Korean won in thousands	
		Common stock	Paid-in capital in excess of par value
January 1, 2004	5,432,310	₩ 27,161,550	₩ 44,815,797
Change in 2004:			
Enrollment commission	-	-	(13,711)
Exercise of stock warrants	446,046	2,230,230	8,132,340
December 31, 2004	5,878,356	29,391,780	52,934,426
Change in 2005:			
Enrollment commission	-	-	(936)
Exercise of stock option	22,291	111,455	1,268,803
December 31, 2005	<b>5,900,647</b>	<b>₩ 29,503,235</b>	<b>₩ 54,202,293</b>

The paid-in capital in excess of par value and the asset revaluation surplus may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Appropriated retained earnings at December 31, 2004 and 2005 consisted of the following:

	Korean won in thousands		U.S. dollars (Note 2)
	2004	2005	2004
Legal reserve	₩ 5,900,000	₩ 6,700,000	US\$ 6,614,017
Reserve for business rationalization	7,700,000	7,700,000	7,601,185
Reserve for financial position improvement	20,100,000	22,500,000	22,211,254
Reserve for business expansion	35,000,000	39,000,000	38,499,506
Reserve for research and manpower development	19,000,000	20,666,666	20,401,448
Voluntary reserve	21,000,000	24,000,000	23,692,004
	<b>₩ 108,700,000</b>	<b>₩ 120,566,666</b>	<b>US\$ 119,019,414</b>

The Company purchased 144,460 and 565,577 shares of treasury stock for the purpose of stabilizing the Company's stock price in 1996 and 2001, respectively, in accordance with the Korean Securities and Exchange Act, and the Company paid 100 and 704 treasury stock to employees as special bonus in 2003 and 2005, respectively.

# Notes to Financial Statements (Continued)

December 31, 2004 and 2005

## Legal reserve

In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

## Reserve for financial position improvement

The Korean Financial Control Regulations for listed companies require that an amount equal to at least 10% of net income, and 50% of net gain, if any, on disposal of property, plant and equipment, after deduction of any applicable tax, be appropriated as a reserve for financial position improvement until the ratio of stockholders' equity to total assets equals 30%. At December 31, 2005, the Company's ratio of stockholder's equity to total assets was 43.9% (48.4% at December 31, 2004).

## Reserve for research and manpower development

Under the Korean Tax Incentives Limitation Law ("TILL"), the Company is allowed to deduct from taxable income, amounts appropriated from retained earnings as reserve for research and manpower development. The reserve is added back to taxable income over three years, after a two-year grace period.

## Voluntary reserve

The voluntary reserve, the business rationalization reserve and the business expansion reserve are unrestricted.

## Stock-option

In accordance with a resolution of the board of directors at their meetings held on January 31, 2002, January 30, 2003, January 30, 2004 and January 28, 2005, the Company adopted a stock option plan ("the Plan"), whereby 22,291, 19,318, 21,407 and 15,669 shares of common stock are reserved for issuance at ₩36,546, ₩57,130, ₩78,400 and ₩113,100 per share, respectively to certain officers of the Company. As defined in the Plan, the options are exercisable within seven years, starting from January 31, 2005, January 30, 2006, January 30, 2007 and January 28, 2008. The total compensation cost recognized in the income statement for stock-based employee compensation awards for the year ended December 31, 2005 amounted to ₩748,812 thousand (₩612,036 thousand in 2004).

The Black Scholes option-pricing model was used to value the stock options. Significant assumptions used to estimate the value of the options are as follows:

	2002	2003	2004	2005
Volatility	45.25%	47.34%	46.96%	44.24%
Risk-free interest rate	7.11%	5.19%	5.50%	4.75%
Dividend yield	1.36%	1.10%	0.88%	0.71%
Expected rate of cancellation	0.00%	1.00%	1.00%	0.00%

In 2005, all of the 22,291 shares of stock options approved on January 31, 2002 (exercise price: ₩39,546) available to qualified officers of the Company were exercised resulting in the increase in common stock and capital surplus by ₩111,455 thousand and ₩1,267,867 thousand, respectively, and decrease in stock option (capital adjustments) balance by ₩498,739 thousand.

## 15. RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended December 31, 2004 and 2005 and outstanding balances as of December 31, 2004 and 2005 arising from such transactions are summarized as follows:

2004	Korean won in thousands			
	Sales	Purchases	Accounts receivable and prepayments	Accounts payable
Orion Snack International Corp. (formerly, Orion Frito-Lay Corp.)	₩ 1,068,483	₩ 111,018,492	₩ 201,342	₩ 26,657,628
Orion Food Co., Ltd.	308,800	17,431,670	36,282	1,266,763
Buy The Way Inc.	3,240,799	450,309	471,614	92,200
Orion Food (Shanghai) Co., Ltd.	108,498	5,072,568	7,760	579,608
	<b>₩ 4,726,580</b>	<b>₩ 133,973,039</b>	<b>₩ 716,998</b>	<b>₩ 28,596,199</b>

2005	Korean won in thousands			
	Sales	Purchases	Accounts receivable and prepayments	Accounts
Orion Snack International Corp. (formerly, Orion Frito-Lay Corp.)	₩ 967,582	₩ 999,557,855	₩ 302,073	₩ 21,983,272
Buy The Way Inc.	2,596,390	399,438	529,675	147,750
Orion Food Co., Ltd.	413,853	19,489,940	-	1,744,332
Orion Food (Shanghai) Co., Ltd.	137,217	7,482,177	1,977	842,309
	<b>₩ 4,115,042</b>	<b>₩1,026,929,410</b>	<b>₩ 833,725</b>	<b>₩ 24,717,663</b>
U. S. dollars (Note 2)	<b>US\$ 4,062,233</b>	<b>US\$1,013,750,652</b>	<b>US\$ 823,026</b>	<b>US\$ 24,400,457</b>

## 16. INCOME TAXES

The Company is subject to corporate income taxes, including resident surtax, at the aggregate rates of 14.3% (16.5% in 2004) on taxable income up to ₩100,000,000 and 27.5% (29.5% in 2004) on taxable income in excess of ₩100,000,000.

Reconciliation of income before income taxes for financial reporting purposes and taxable income for corporate income tax reporting purposes are summarized as follows (2005 amounts are preliminary and 2004 amounts are final based on the Company's corporate income tax return filed in March 2005):

# Notes to Financial Statements (Continued)

December 31, 2004 and 2005

	Korean won in thousands		U.S. dollars (Note 2)
	2004	2005	2005
Income before income taxes per the accompanying statements of income	₩ 29,403,210	₩ 46,012,716	US\$ 45,422,227
Non temporary differences:			
Taxes and dues	119,275	(5,289)	(5,221)
Entertainment expenses	135,839	132,108	130,413
Stock option	612,036	748,812	739,202
Gains on sale of treasury stock	-	178,542	176,251
Other	873,443	-	-
	1,740,593	1,054,173	1,040,645
Temporary differences:			
Allowance for doubtful accounts	184,228	883,449	872,112
Provision for loss on sales returns	238,570	1,556,071	1,536,102
Reserve for technology development	(1,666,666)	(2,666,667)	(2,632,445)
Depreciation	278,883	858,842	847,820
Accrued interest income	7,242	(184)	(182)
Equity income on investments in affiliates	(8,120,549)	(26,600,409)	(26,259,041)
Equity losses on investments in affiliates	-	9,547,159	9,424,639
Other	2,226	-	-
	<b>(9,076,066)</b>	<b>(16,421,739)</b>	<b>(16,210,995)</b>
Taxable income	<b>₩ 22,067,737</b>	<b>₩ 30,645,150</b>	<b>US\$ 30,251,877</b>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax reporting purposes. Significant changes in cumulative temporary differences for the years ended December 31, 2005 and 2004 are as follows:

2005 Temporary differences	Korean won in thousands		
	Opening Balance	Net increase (decrease)	Ending balance
Allowance for doubtful accounts	₩ 1,858,238	₩ 883,448	₩ 2,741,686
Accrued interest income	(747)	(184)	(931)
Reserve for technology development	(10,666,667)	(2,666,667)	(13,333,334)
Equity income on investment in affiliates	41,263,541	(5,010,575)	36,252,966
Depreciation	6,793,526	858,842	7,652,368
Provision for loss on sales returns	3,601,733	1,556,071	5,157,804
Capital adjustments	-	(27,501,866)	(27,501,866)
Other, net	1,298,558	-	1,298,558
	44,148,182	<b>₩ (31,880,931)</b>	12,267,251
Tax rate	27.5%		27.5%
Deferred income tax assets, net	<b>₩ 12,140,750</b>		<b>₩ 3,373,494</b>
Current	₩ -		₩ 753,707
Non-current	12,140,750		2,619,787
	<b>₩ 12,140,750</b>		<b>₩ 3,373,494</b>

2004 Temporary differences	Korean won in thousands		
	Opening Balance	Net increase (decrease)	Ending balance
Allowance for doubtful accounts	₩ 1,674,010	₩ 184,228	₩ 1,858,238
Accrued interest income	(7,988)	7,242	(746)
Reserve for technology development	(9,000,000)	(1,666,667)	(10,666,667)
Equity income on investment in affiliates	49,286,122	(8,022,582)	41,263,540
Depreciation	6,514,643	278,883	6,793,526
Provision for loss on sales returns	3,363,163	238,570	3,601,733
Other, net	1,296,331	2,226	1,298,557
	53,126,281	₩ 8,978,100	44,148,181
Tax rate	28.1%		27.5%
Deferred income tax assets, net	₩ 14,947,338		₩ 12,140,750

The Company did not recognize deferred tax assets with respect to taxable temporary differences associated with securities accounted for by the equity method from RiseON Inc., Orion Food (Shanghai) Co., Ltd., Buy The Way Inc., On Media Corp. because it is not probable that the temporary differences will reverse in the foreseeable future. Besides, the Company did not recognize deferred income tax liabilities for temporary differences resulting from the revaluation of the land for business use as the land will not be disposed in the foreseeable future.

In 2000, the Company did not recognize corporate income tax effect with respect to ₩31,906,986 thousand of gains on disposal of investments, in accordance with the Korean Tax Incentives Limitation Law ("TILL"), which occurred when the Company invested the stocks of Orion Cinema Network Inc. and Korea Badoo Television Inc. to On Media Corp. as investment in kind. Also, in 2002, the Company did not recognize corporate income tax effect with respect to ₩1,586,669 thousand of gains on disposal of property, plant, and equipment, in accordance with the TILL, which occurred when the Company spun-off the RiseON Inc. The Company did not recognize deferred tax assets on the above amounts, because such amounts are not expected to reverse in the foreseeable future.

The effective income tax rates for the years ended December 31, 2004 and 2005 are as follows:

	Korean won in thousands	
	2004	2005
Provision for income taxes	₩ 9,036,834	₩ 8,699,112
Income before income taxes	29,403,210	46,012,716
Effective income tax rates	30.73%	18.91%

# Notes to Financial Statements (Continued)

December 31, 2004 and 2005

## 17. PER SHARE AMOUNTS

The Company's basic earnings per share ("EPS") for the year ended December 31, 2004 and 2005 are computed as follows (Korean won in thousands, except for per share amounts):

2004	Denominator			Numerator		Per share amounts	
	Share (A)	No. of days(B)	(A)x(B)/366	Net income	Ordinary income	Net income	Ordinary income
Net income/ ordinary income				₩ 20,366,376	₩ 20,366,376		
<b>Basic EPS</b>							
Beginning balance	5,432,310	366	5,432,310				
Exercise of stock warrants	446,046	260	316,863				
Treasury stock	(709,937)	366	(709,937)				
			<b>5,039,236</b>			<b>₩ 4,042</b>	<b>₩ 4,042</b>
<b>Effective of dilutive securities</b>							
Exercise of stock warrants	313,242	106	90,720				
			<b>90,720</b>				
<b>Diluted EPS</b>			<b>5,129,956</b>			<b>₩ 3,970</b>	<b>₩ 3,970</b>

2005	Denominator			Numerator		Per share amounts	
	Share (A)	No. of days(B)	(A)x(B)/366	Net income	Ordinary income	Net income	Ordinary income
Net income/ ordinary income				₩ 37,313,604	₩ 37,313,604		
<b>Basic EPS</b>							
Beginning balance	5,878,356	365	5,878,356				
Exercise of stock warrants	22,291	247	15,084				
Treasury stock	(709,937)	365	(709,937)				
	704	31	60				
			<b>5,183,563</b>			<b>₩ 7,198</b>	<b>₩ 7,198</b>
<b>Effective of dilutive securities</b>							
Exercise of stock warrants	-	-	-				
			<b>-</b>				
<b>Diluted EPS</b>			<b>5,183,563</b>			<b>₩ 7,198</b>	<b>₩ 7,198</b>

## 18. DIVIDENDS

Cash dividends for the years ended December 31, 2004 and 2005 are as follows:

2004	Outstanding shares	Dividend per share	Korea won in thousands	
Cash dividends approved	5,168,419	₩ 1,500	₩ 7,752,629	

  

2005	Outstanding shares	Dividend per share	Korea won in thousands	U.S. dollars (Note 2)
Cash dividends proposed	5,191,414	₩ 1,750	₩ 9,084,975	US\$ 8,968,386

## 19. ADDED VALUE INFORMATION

The accounts and amounts which are required to be disclosed in connection with the calculation of the added value of the Company's operations for the years ended December 31, 2004 and 2005 are as follows:

	Korean won in thousands		U.S. dollars (Note 2)
	2004	2005	2005
Labor costs	₩ 76,118,326	₩ 81,402,325	US\$ 80,357,675
Severance and retirement benefits	7,867,440	8,535,401	8,425,865
Employee benefits	15,566,661	16,278,675	16,069,768
Rental expense	1,380,001	1,460,200	1,441,461
Taxes and dues	2,337,769	2,437,416	2,406,136
Depreciation	12,665,379	13,967,940	13,788,687
	<b>₩ 115,935,576</b>	<b>₩ 124,081,957</b>	<b>US\$ 122,489,592</b>

## 20. SUBSEQUENT EVENTS

In accordance with a resolution of the board of directors at their meeting held on January 31, 2006, the Company adopted a stock option plan ("the Plan"), whereby 8,458 shares of common stock are reserved for issuance at ₩255,120 per share to certain officers of the Company. As defined in the Plan, the options are exercisable within seven years, starting from January 31, 2009.

## 21. APPROVAL OF 2005 FINANCIAL STATEMENTS

The Company's 2005 financial statements will be approved at the Company's board of directors' and general shareholders' meeting to be held on March 24, 2006.

# Internal Accounting Control System Review Report



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## Representative Director Orion Corporation

We have reviewed the report of management's assessment of internal accounting control system ("IACS") of Orion Corporation (the "Company") as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Joint-Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operations of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review is limited primarily to inquiries of management and employees, reading of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

This report applies to the Company's IACS in place as of December 31, 2005. We did not review the Company's IACS for the period subsequent to December 31, 2005. This report has been prepared for Korean regulatory reporting purposes pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Auditing Standards Committee of the Korean Institute of Certified Public Accountants on March 29, 2005, it applies only from that date until the date the Standard for Management's Assessment of IACS and Standard for Auditors' Review on Management.

Assessment of IACS become effective. A review performed based on the standards may have different results and accordingly, the contents of our report may be different.

February 17, 2006

### Notice to Readers

This report is annexed in relation to the audit of the financial statements for the year ended December 31, 2005 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Joint-Stock Companies of the Republic of Korea.