



KUMHO TIRES

ANNUAL REPORT 2005



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KUMHO TIRES : Limitless Drive

Since its inception in 1960, KUMHO TIRES CO., INC. has strived to achieve its goal of producing good-quality tires for nearly 50 years. Our management has constantly focused on improving the quality of our products for more customer satisfaction and for better lives of humankind. As a result, we now have become a global tire brand that is recognized in world-class motor sports competitions, while exporting our tires to more than 160 nations worldwide. Also, our effort to establish a corporate culture based on trust has received positive feedbacks from our customers, shareholders and the society.

But our drive for better corporate management does not end here. KUMHO TIRES recently announced a new vision to become one of the world's top-5 tire companies. In 2006, KUMHO TIRES plans to establish global production network and to expand its production lineup through more investment and researches to develop future products. Also, we plan to enhance international marketing activities and to raise our brand awareness, in an effort to explore overseas markets more actively.

Our drive towards the world's top tire company never stops. KUMHO TIRES' ceaseless effort to make top-quality products for past half a century will continue in 2006.







“KUMHO TIRES: Beautiful company”

In 2006, KUMHO TIRES aspires to become the “beautiful company.”

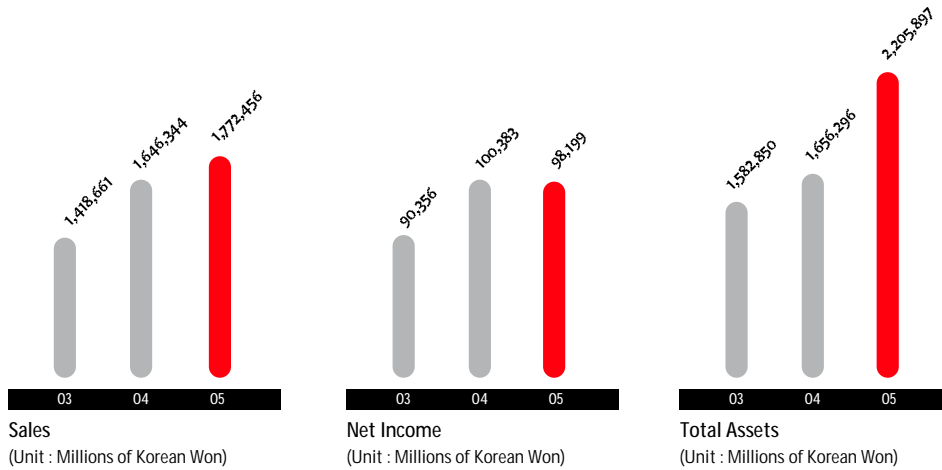
A “beautiful company” is a trustworthy company that keeps its promises and does nothing to warrant criticism. Because “beautiful company” is also socially responsible, it understands and fulfills its role in society. It is our goal to forge a hopeful future with our customers, through ethical business practice to give our profits back to a society, active involvement in community commitment, and dedicated efforts to provide advanced technologies and services. Now you are about to see our promises come to reality. KUMHO TIRES, the beautiful company, will introduce you to the future.

KUMHO

Financial Highlights

| | (Unit : Millions of Korean Won) | | |
|----------------------------|---------------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Sales | 1,772,456 | 1,646,344 | 1,418,661 |
| Operating Income | 169,255 | 169,326 | 160,273 |
| Ordinary income | 124,097 | 124,891 | 116,089 |
| Net Income | 98,199 | 100,383 | 90,356 |
| Total Assets | 2,205,897 | 1,656,296 | 1,582,850 |
| Total Liabilities | 1,238,960 | 1,038,718 | 1,032,383 |
| Total Stockholders' Equity | 966,936 | 617,578 | 550,467 |
| operating margin (%) | 9.5% | 10.2% | 11.3% |
| Debt ratio (%) | 128.1% | 168.1% | 187.5% |
| EPS (unit : KRW) | 1,457 | 2,008 | 1,967 |
| ROA (%) | 5.0% | 6.2% | 6.5% |
| ROE (%) | 12.4% | 17.1% | 19.2% |

* The figures for 2003 are based on Proforma



Shareholder Information

Korea's benchmark KOSPI rose 53.96 percent in 2005, closing at 1379.37 points at the end of the year. Despite such boom of local stock markets, shares of local tire companies did not strengthen as much, because of rising price of raw materials and concerns over falling won-dollar exchange rate.

KUMHO TIRES, whose shares were listed on London and Seoul stock markets simultaneously in February 2005, wrapped up the year of 2005 with its closing price at 15,850 won on the last trading day. Share price of KUMHO TIRES, which hit the bottom of 12,700 won on May 20, steadily climbed up since then, hitting 19,750 won on September 23. But since then, the price fluctuated between 15,000 and 17,000 won, struck by heavy selling by institutional and foreign investors. The company's earnings per share (EPS) and price earning ratio (PER) were 1,457 won and 10.9, respectively, at the end of 2005. EPS in 2005 slumped 27.4 percent compared to 2004, but our book value per share (BPS) showed a steady increase to hit 13,813, up 12.3 percent from a year earlier. The company's total share volume was 70 million shares as of late 2005, including 20 million shares issued for the initial public offering. Shares

owned by foreign investors, which accounted for 26.6 percent of the company's total shares when it went public, once tumbled to 18.4 percent in July. But it showed gradual increase since then, as the foreign investors held 27.7 percent of the company's total shares as of late 2005.

(Perspective for 2006)

The tire industry experienced many challenges in 2005 because of surging price of raw materials. But our operating margin did not decrease as much considering a steep rise in raw material prices. And finally ROE hit 12.39 percent despite the initial public offering of 40 percent. We expect such positive factors would help us achieve higher BPS and EPS, and lower PER compared to other industry peers.

| | 2005 | 2004 | 2003 |
|-----------------|--------|--------|--------|
| EPS (unit: won) | 1,457 | 2,008 | 1,967 |
| BPS (unit: won) | 13,813 | 12,353 | 11,009 |
| ROE (unit: %) | 12.4 | 17.1 | 19.2 |

1) Figures based in weighted average ordinary shares in issue

2) The figures for 2003 are based on Proforma



“The world’s Top-5 tire maker, and...”

KUMHO TIRES aspires to become the world’s Top-5 tire company. In order to achieve the goal, we set a mission to maintain the company’s operating profit margin above 12 percent and to become the world’s Top-8 tire manufacturer by 2009. In an effort to accomplish these, we have addressed five major management principles-ethical management, rational management, strategic management, technological management and management through effective human resource skills-based on our general commitment to trustworthy management.





In 2005, KUMHO TIRES made full efforts to develop new products and increase its market shares here and abroad, which resulted in improvement in corporate profitability and expansion of the company. We also significantly raised the company's brand awareness by building trusts with customers.

Now we will take a step closer to our new vision to become the world's Top-5 tire producer, by implementing more aggressive management practices. Once we achieve this objective, there will be only one single goal left for us to accomplish.



You are the best partner of KUMHO TIRES

The new year of 2006 has come. We hope the new year may bring everyone good luck and fortune. As an old say goes, new liquor should be put in a new bottle. Accordingly, KUMHO TIRES, in an effort to meet customers' demand through a more effective and innovative way, announced a resolution to begin a new jumpstart in February 2006. As a part of such efforts, we changed our corporate identity (CI), and addressed a pledge for better corporate performance and more commitment for our customers. KUMHO TIRES will reinvent itself as a solid and trustworthy enterprise that fulfills its social obligation.

The year of 2005, a new jumpstart

The tire industry has been through tough times over the past year. The increasingly fierce competition among tire companies to raise their own brand awareness and rising prices of raw materials have threatened tire manufacturers' profitability. Nevertheless, the good performance of Korean car-makers, and the industry-wide shift towards ultra-high performance tire (UHP) have opened another new door for the tire manufacturers. In particular, KUMHO TIRES, with its new advanced technologies and good-quality products, had increasingly positive feedbacks here and abroad, and also raised a possibility for the company's sustainable corporate growth by expanding its market share in China.

Dual listing on Korean and London stock markets

One of the greatest milestones that marked KUMHO TIRES' performance last year is its dual-listing on London and Seoul stock markets.

The move was the company's first step towards the world's Top-5 tire company and the foundation to jump into the global tire firm.

KUMHO TIRES, based on its prominence in local tire industry, established a business roadmap to take a foothold in global markets and has increased its global sales accordingly. Now more than 60 percent of the company's revenues come from overseas, while more than 40 percent of the overseas revenues come from such advanced nations as the United States and European countries, which suggests that the future of KUMHO TIRES lies on how the company establishes its brand awareness in global markets. Having said that, the stock listing on the international capital market is a symbolic accomplishment that would help KUMHO TIRES to grow to become the world-class tire brand.

Market expansion in Chinese market, with a population of 1.3 billion.

Also in 2005, KUMHO TIRES expanded its production capacity in China to secure an engine for further growth, a move that would cement its leading position as the first Korean tire firm to take a foothold in China and help it to develop into the world-class tire company.



We completed the 2nd phase of expansion to an annual production capability of 12 million units in Nanjing as of April 2005, and launched a construction for another plant with an annual capability of 5.25 million units in Tianjin. We also signed a memorandum of understanding (MOU) in last September for the construction of another plant in Changchun, which will allow KUMHO TIRES to produce a total of 30 million units of tires a year in China by 2009. Such a rapid growth demonstrates KUMHO TIRES' increasing presence in Chinese market, where we compete with the world's major tire manufacturers such as Michelin Group, Bridgestone Corp., and Goodyear Tire & Rubber Co. And such accomplishment was a result of KUMHO TIRES' assiduous efforts to win customers' trust by establishing solid distribution networks and maintaining good quality, since KUMHO TIRES set foot on the Chinese market in 1994 for the first time as a Korean tire firm.

The year of 2006. A new milestone year

2006 will provide an important opportunity for KUMHO TIRES to establish a business platform to become the world's 8th-largest tire company by 2009.

International credit rating companies and investment groups have expressed positive opinions on the perspective of Korean economy, while local economic institutions are also predicting the nation's economy would grow by 4.8 percent this year, up from 4 percent in 2005. Amid a growing signs of economic recovery, steady growth of Korean car producers' overseas sales and reviving domestic consumption, the nation's tire industry is also expected to enjoy more favorable market conditions this year. To improve our corporate performance in line with such positive changes, KUMHO TIRES will make efforts for successful achievement of the business goals for 2006.

Raising brand awareness by strategic management

Amid the dramatic expansion of global market and consumers' growing preference on world-class brands, the competition among tire companies to raise their brand awareness is getting ever fiercer. As brands are more defined by consumers' instinct recognition rather than by the products' functional characters, we will further intensify efforts to boost brand awareness of KUMHO TIRES.

As part of such efforts, KUMHO TIRES plans to further enhance its overseas marketing by sponsoring motor sports events. Exposing our brands to the audience of renowned international motor competitions will make consumers have more favorable attitudes towards our brand, and raise the brand awareness on KUMHO TIRES.

Development of future-generation products by technology management

Boosting corporate profitability by developing future products and technologies and selling more value-added products is the goal of KUMHO TIRES' technology management principle in 2006.

Our latest products such as smoke tires and aroma tires will help us create more demands, increase our market shares, and take a leading position in the tire industry.

Also, we plan to nurture exceptional employees, continue increasing investments on research and development and develop new production equipment in an effort to transform the company into the world-class global enterprise.

Reinforcement of corporate competitiveness by trust management

Also, we will raise the corporate brand awareness by building trust. KUMHO TIRES has a solid root of trust management. Moreover, KUMHO TIRES' dual listing on Korean and London and stock markets prompted more investors here and abroad to begin closely watching the moves of KUMHO TIRES.

KUMHO TIRES will establish itself as an enterprising company that moves towards future, builds transparent and solid businesses and makes active philanthropic contribution to the society. Through such measures we will win our customers' trust and will also establish cooperative management-labor relations based on trust and respects.

Successful trust management eventually leads to improvement in profitability. We believe our commitment to improve product quality and build trustful relations with the society will reinforce our competitiveness.

To our partners

We want to deeply thank our customers and investors here and abroad for their support and love.

KUMHO TIRES exists for you and we are always doing our best to increase the corporate values for you and to ensure your trust remains justified in the future.

Investors apply different standards to make assessment on the company's past, present and future. And we wonder what made you decide to invest in our company. As a chief officer of the company, I'd like to find the value of KUMHO TIRES on the company's strong corporate spirits and future visions, and I'd like you to know such innovative development is still under way, at this moment.

The year of 2006 will be the year when KUMHO TIRES' corporate ability will be tested. The bright future of KUMHO TIRES can be only made based on your support and encouragement. I hope you will watch us with great affection, and I promise KUMHO TIRES will do the best to demonstrate our corporate excellence and progress. Again, we want to thank our investors and customers for the support, as we look forward to continued success in the years ahead.

President & CEO,

Oh, Sae-chul



2005 At a Glance

2005 Launching of "aggressive management."

KUMHO TIRES achieved a remarkable progress in 2005, under the catch phrase of "aggressive management."

We will review the accomplishments our employees have made with their dedicated efforts and passion.



February. 17. 2005.
Dual stock listing on Korean and London stock markets, the first among Korean companies

KUMHO TIRES listed its shares on both Korea Exchange (February. 16) and London Stock Exchange (February. 17) simultaneously, for the first time in Korea. 25.49 million shares were listed, with the price of 14,650 KRW (USD\$14.26) apiece, and the total market capitalization amounted to 373.4 billion won.

Through the dual listing, KUMHO TIRES is expected to reinvent itself as a global enterprise by enhancing its overseas marketing and expanding its presence in the markets here and abroad.



March 23. 2005.
ECSTA S700 won the American Le Mans Series for the first time.

Kumho Miracle team, armored with KUMHO TIRES' ECSTA S700 model, won the American Le Mans Series in its first year to take part in the competition. The competition, whose maximum speed is about 320 kilometers per hour, is known as one of the world's best touring car racing competitions, in which cars without excellent durability in components can hardly finish the race. The winning of the race gave a precious opportunity for KUMHO TIRES to boast the excellence of the company's tires, especially in cornering ability, tire grip and braking power.



March 24. 2005.
KUMHO TIRES was selected as a frontier of airplane parts export.

South Korea's Ministry of Construction and Transportation and Ministry of Commerce, Industry and Energy designated KUMHO TIRES as a model company to implement test project for Bilateral Aviation Safety Agreement (BASA) between South Korea and the United States, which is expected to be reached in December 2007. BASA is an international agreement to facilitate the imports and exports of aeronautical products between two signatory countries. The agreement, once reached, will allow Korean companies to export their aeronautical products that are only certified within the nation to the United States without further certifications from the United States. The BASA committee in the government, through an extensive assessment on technologies and business plans, designated KUMHO TIRES' aircraft tires, as models to implement the test project. KUMHO TIRES developed the tires for civil aviation crafts for the first time in Korea, and completed the architecture approval testing in 1992, before successfully completing all the tests in 1997 to supply products to Boeing Company. We expect the designation for BASA test project will help us to claim the leading position in the aircraft tire market, estimated to be worth more than 2 trillion won.



April 14, 2005.
Introduced ECSTA SPT,
a new high-quality tire line

KUMHO TIRES introduced a new line called ECSTA SPT, with increased braking power and improved driving ability on snow. The products not only have the function of ultra high performance (UHP) tires but also used high dispersible silica to reduce hydroplaning, the major factor of car accidents on a rainy day. The tires, even when they are 50 percent worn, still maintain stable driving ability on slippery roads on a rainy day.



April 20, 2005.
Completed second KUMHO TIRES
production plant in Nanjing, China

In April, KUMHO TIRES celebrated the opening of its second production plant in Nanjing, which has an annual capability of 7 million units. As the construction for the second factory was completed, KUMHO TIRES increased its production capability in Nanjing from 5 million to 12 million units, quadrupling its production capability in 10 years since the first plant in Nanjing was built in 1996. Also in April 22, the company began building another factory in Tianjin. After the completion of construction in 2006, Tianjin plant will produce 5.25 million units of tires a year. This will push KUMHO TIRES' total production capability in China to 18 million a year.



June 23, 2005.
Supplied tires to the 24 Hours of
Le Mans, the world's most famous
sports car endurance race.

ECSTA S700, KUMHO TIRES' flagship racing tire, was introduced at the 24 Hours of Le Mans, for the first time as a Korean company. In this race, in which the car that has covered greatest distance in 24 hours of continuous racing on a 13.48-kilometers track, KUMHO TIRES was recognized along with such prominent tire producers as Michelin, Goodyear, Pirelli, Dunlop and Yokohama.

2005 At a Glance



September 2, 2005

Signed a memorandum of understanding for construction of the third KUMHO TIRES factory in Changchun, China.

KUMHO TIRES signed a letter of understanding for a \$150-million construction project to build in Changchun a factory with an annual capability of 3.15 million units, which will be the third KUMHO TIRES production plant in China. The third factory, which will be completed in late 2007, will adopt the most advanced production technologies. Most tires produced in the plant will be supplied to the China First Automobile Works Group Corporation, the car-makers under China's biggest auto group, to be used as original equipment (OE), and the rest will be sold to other Northeast Asia regions. Now KUMHO TIRES, as the first Korean company to take a foothold in China, cemented its presence in the Chinese market and established a solid business platform to become a world-class tire producer.



September 8, 2005

Introduced two premium truck and bus radial (TBR) models

KUMHO TIRES held an event on last September to introduce two premium TBR tire models to local TBR market, which is divided into a dump truck, cargo truck and bus. The new model, named KRS05, has an excellent ability to prevent heat build-up and conform to the road surface by stabilizing the contact patch, which will help increase car mileage. It also has a superior ability to prevent gravels from getting stuck on the tire threads on unpaved roads. Also, a model called KRD05, which is armed with improved fuel efficiency, causes less abrasion of tires and ensures more comfort.



October 20, 2005

Won silver in New Tech Korea award.

KUMHO TIRES, with its environment-friendly low-cost and low-weight tire for passenger car, won silver in 2005 New Tech Korea award, hosted by Ministry of Commerce, Industry and Energy. New Tech Korea award is the nation's only comprehensive industrial technology competition that encompasses all industrial sectors from machinery, metal, telecommunication, textile, chemical and electrics products. KUMHO TIRES won the award 5 times since 2000, proving the company's strong technological platform.



December 5, 2005

Recognized by the Korea International Trade Association for achieving annual exports of worth more than \$1 billion on the 42nd Annual Trade Day, a year after the company was recognized as the first Korean tire company that exported products worth more than \$8 billion a year. The award symbolizes the company's significant accomplishment since the company was established in 1960 and the company began its first overseas sale in October 1965, by selling tires worth \$7,700 to Southeast Asia.



December, 15, 2005

Established Kumho China Technical Center in Tianjin, China.

KUMHO TIRES held a groundbreaking ceremony for its first technology researcher center in China, with Sae-chul, Oh KUMHO TIRES' chief executive officer, and the principal guests attended the event. KCTC is located in Tianjin, which is considered as a new emerging market for the world's tire industry. The center, built on the 23,140-square meter land and with total floor space of 10,578 square meter, will be completed in September 2006. KCTC will be in charge of overall technical services, including investigating tire products in China, analyzing market trend, developing new products, supporting KUMHO TIRES' production plants in China and conducting product tests. KCTC is KUMHO TIRES' third overseas research center following one in the United States and another in Britain.

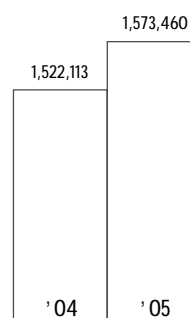


REVIEW OF OPERATIONS



01 KUMHO TIRES, THE BEST NAME IN INDUSTRY

KUMHO TIRES dominates more than 70 percent of the global F3 racing tire market, and its UHP tires take the second-biggest market share in North American region. Our company's growth engine is our future-oriented management that focuses on developing innovative products and on solidifying our position as a market leader.



Sales trend in the Finished Goods
(Unit : Millions of Korean Won)

Growth Engine

Leading the tire industry through technology innovation

Early 1990s, KUMHO TIRES declared that it would develop its own technologies, putting an end to the dependence on foreign technologies. The move came as the management realized that a company cannot grow if it depends on others technology and the it is essential to develop the company's own technologies in order to take a leading position in tire industry. Since then, the company has set up a long-term roadmap for technological independence and developed value-added products, eventually changing itself from a technology importer to a technology exporter. Now we produce racing tire, aircraft tire and premium-quality UHP tire based on our own technologies and supply our products to the world's renowned car-makers.

Drive for excellence through quality control

KUMHO TIRES has a full-scale quality control system that controls all processes from design, production, and inspection to distribution. In order to maintain such quality management, we design our products based on the rule of perfection, production based on strict standards and inspection based on the principle to detect all flawed products. Thanks to such determination and efforts to produce top-quality tires, we were selected as a company with the top customer satisfaction, in the market survey by Korea Management Association. And our plants in Gokseong and Gwangju, South Korea, were selected as excellent facilities with the best quality production for five and four straight years, respectively.

Pursuit of the world's top brand

KUMHO TIRES' brand value is more recognized in the global market than in the local market.

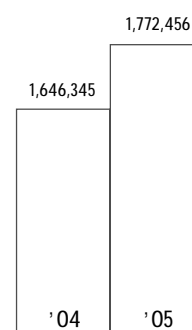
In February 2005, KUMHO TIRES products were ranked the top in sports racing tire sector, followed by Michelin, in the survey by prominent German auto magazine Auto Bild. Also, we provide our racing tires to the three major motor sports sectors-Formula, Rally and Touring. Our quality and technologies gained international recognition in the world's motor sports industry, reflecting our potential to become the world's top brand. KUMHO TIRES will continue raising our brand awareness by enhancing the tire operation in motor sports industry.





02 PUTTING DOWN SOLID ROOTS IN TIRE MARKETS AROUND THE GLOBE

KUMHO TIRES has overseas sales units in seven countries, including the United States, Canada, Germany, Britain, Japan, Australia, and most recently, China. Based on our global network, we are exporting tires to more than 160 countries worldwide, and continue to making yet another milestone in the world's tire industry.



Total Sales Trend
(Unit : Millions of Korean Won)

Global Management

Active exploration of Chinese market

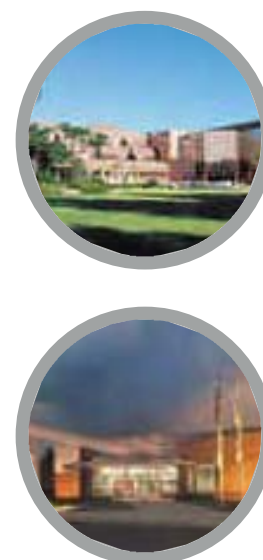
Our vision for the Chinese market is to become the biggest tire manufacturer in China. As our company, which already has plants in Nanjing and Tianjin, signed the memo of understanding in September 2005 to build a plant in Changchun, 30 million KUMHO TIRES will be produced within the nation, and will be provided to all around the world units of beginning 2009. In order to achieve the goal, we plan to increase premium-level products, with main focus on ECSTA, increase supplies to big major companies by normalizing the operation in Tianjin as early as possible and develop products at Kumho China Technical Center. Our target is to claim more than a 20-percent stake in Chinese market.

Commitment on overseas original equipment business

KUMHO TIRES plans to aggressively expand our overseas original equipment businesses. Such move, aimed at raising our global awareness, is expected to significantly raise our brand awareness and reinforce our overseas production capability and distribution network, as a growing number of major carmakers worldwide are increasing their global sourcing. In particular, we will mainly focus on developing well-recognized products, and increase our investments on the tires produced on our distinctive technologies, such as low RR, low-weight, low-noise, and enhanced safety measures. Also we will make full-scale efforts to strengthen overseas sales operation, by taking full advantage of our research centers abroad and opening new business division in charge of original equipment operation.

Aggressive expansion of distribution and sales networks

KUMHO TIRES, based on its worldwide distribution and sales networks, is cementing its position as a solid global enterprise. KUMHO TIRES is currently operating four warehouses in European nations, including Germany, Austria and Britain and five warehouses in the United States, including Los Angeles and Atlanta. The company also operates five warehouses in Beijing and other areas in China, pushing its international warehouse capability to 2.7 million units in total. Such increase in storage capability is a pivotal factor that significantly improved the company's sales performance and services for our customers. In 2006, KUMHO TIRES will further strengthen its sales operation in emerging markets such as Russia and Turkey, while further enhancing and expanding its retail distribution networks in North American and European markets.



03 SHOWING THE WAY FOR FUTURE TECHNOLOGY

The research and development center of KUMHO TIRES used a super computer, for the first time in local tire industry, to establish its own tire design theory and develop new products. Such efforts eventually led Ministry of Commerce to designate the center as an "Advanced technology research center 2004" for the first time in Korean tire industry. Behind the impressive corporate achievements of KUMHO TIRES was the company's ceaseless support for research and development. And our passion to develop and produce more advanced products will continue in the future.

Research & Development

KUMHO TIRES' major mission: developing value-added products

ECSTA STX products, the 26-inch and 28-inch tires with remarkable tire grips, durability and braking power, passed the durability test for Death Valley race, the most demanding and extreme running race offered anywhere on the planet. The run-flat tires, developed by KUMHO TIRES for the first time in Korea, is a true next-generation product that can run up to 80 kilometers with the speed of 80 kilometers an hour in case of tire blowout. The color smoke tire, also developed by KUMHO TIRES for the first time in the world, have met strong demands from authorities of several car competitions, and the products will soon be sold locally and internationally, including North America, Europe, Australia and Japan.

Our service and product development are always geared towards our customers' satisfaction, and now we focus on developing world-class products, beyond merely creating new products for the first time in the world.

New Goal : F1 Tire

KUMHO TIRES' next goal is to develop tires for the Formula 1, the highest class of single-seat open-wheel formula auto racing that requires the best tire technologies to win. In order to break into the F1 tire market, currently divided by Bridgestone and Michelin, KUMHO TIRES plans to complete the technology development and tests by 2007, by investing more than 3.5 percent of its total sales on research and development activities. Also, we will explore more yet-to-be-discovered niche markets as part of our effort to satisfy more of our customers' needs. Producing aircraft tires and max-speed tires, and developing wet sensor tires made in new raw materials to significantly improve a tire's wet performance will be a few examples that demonstrate our dedication to nurture future core technologies.

Establishing global research and development network

Kumho American Technical Center (KATC), Kumho European Technical Center (KETC) and Kumho China Technical Center (KCTC), in order to reign in global market and win the competition against the world's major tire companies, are all developing and producing that best fit local customers' needs in each region.

Although each of the research centers has different roles and responsibilities, we are planning to further enhance its capabilities in the future. KATC and KETC will be in charge of collecting latest information on new products and technologies in the market and developing different products for local customers in each region. And KCTC will be in charge of product development and technical support for tire production plants. Other major projects scheduled in this year include expansion of KCTC to further internationalize our research activities, establishment of KETC's German office to enhance the global research and development network and formation of a strategic joint research and development project with Cooper Tire.



Together _ Sharing



Driving with our customers ; A promise for safety

To ensure safety and convenience for our customers, we offered tire inspection services to customers who drive long distances during summer vacation season every year. During this service campaign on highway, we not only checked tire pressure and wheel balance but also provided other car inspection services to ensure safe and comfortable trip for our customers, drawing good feedbacks from many customers.



Trustworthy management- the most effective management

The keyword of our management is "trust." KUMHO TIRES earns our customers' trust by providing products with quality and price that best fits the customers' needs. Also, we established diverse channels to reflect customers' opinions to our products and service policies, regarding the customers as our business partners. Also, we create a friendly working environment by offering equal compensation for each employee's contribution to the company, by making active investment on employee education and training, by establishing an effective internal communication system and by forging a cooperative management-labor relationship. We build shareholder trusts by offering proper amount of dividends, and by establishing solid and trustworthy management practice and transparent accounting. As the trust of customers and shareholders is our biggest asset, we will continue making best efforts to establish our brand name on solid, trustworthy management.



Voice of customers : our milestone

KUMHO TIRES, upon introducing its new ECSTA SPT line in June 2005, formed a "driving quality consumer council," in which our customers can try and assess new products by themselves. The select 100 customers, who examined design, handling, noise, cornering and stability of the new tires, helped KUMHO TIRES enhance the quality of the new products. Also, we hold ECSTA College Ad Competition, to help find more talents in advertising field and gather more creative ideas to promote and advertise KUMHO TIRES. Winners of the competition will be given a chance for an internship at the advertising agency of KUMHO TIRES and various merits when applying for the entry-level position at the agency. We know listening to our customers' voice will lead us to our business goals.



Share a passion for others

Since 2000, most employees of KUMHO TIRES have donated a small portion of their salary every month to contribute to a charity fund. The charity group of more than 2,000 KUMHO TIRES employees, called Hansarang (Big Heart), support medical expenses for poor hospitalized patients and support essentials to the elders living alone. Another charity group, called Nanoom (Sharing), also regularly visit local nursing homes to help maintenance works and help the elders to take a bath. Its members also support school lunch costs for needy children. Other group members are also actively participating in community services at local disabled community, offering financial aids to the needy and getting involved in other environmental activities. Also lots of employees of KUMHO TIRES donates their belongings to "Beautiful Store," in which profits made by selling the collected items are donated to local charity. Giving back to the society and sharing our value is another strength of KUMHO TIRES.

Eco_Environment

Collaboration for environmental causes

In January 2001, one deer came into the park next to our plant in Goksong, South Jeolla province. We made a temporary shelter for the deer to stay until it goes back to the nearby mountain. But the deer never left the shelter, and six more deer walked into the park later, forming the deer family that now live in the park. This is an anecdote that epitomizes KUMHO TIRES' principle of environmental management.



Green environmental management system: Promising a greener world

KUMHO TIRES established the current principle of environmental management in 1995, constantly trying to take environmental impacts into account on all aspects of our production. Our "green environmental management system," which promises to produce environment-friendly products, establishes manufacturing process to cause less pollution and active involvement in environmental causes, is a pivotal part of our environment-friendly management principle, which prioritize environment, safety and public health in all corporate activities. Also we publish Green Environmental Management Report regularly in order to let our investors and customers know about our activities to promote such environmental causes and reflect their opinions. Also we systematically analyze environmental impacts of our tire production and suggest guidelines to minimize negative impacts. As a result, we are constantly developing next-generation environmental-friendly products such as low-weight, low-energy-consuming, low-noise and long-lasting tires.



KUMHO TIRES: Model production process

We are confident KUMHO TIRES is a model company that shows exemplary operation on environmental-conscious production process. Our plant in Gokseong, located at upper Seomjin River, incinerates industrial wastes by using Korea's first high-technology wet electrostatic precipitator and more than 100 dust collectors aimed at reducing emissions. The plant also minimizes water pollution on Seomjin River by using facilities to recycle wastewater. Also we tightly control stench, dirt and noise level around our production plants, while each factory forms an energy subcommittee to reduce energy consumption by 2 percent every year. As a result of such activities for environmental protection, the air pollution around KUMHO TIRES' production plants amounts to half of the regulatory standards, while the water pollution level only reaches less than 10 percent of the standard. And we will make our best efforts to develop more environmental-conscious policies, including developing new type of raw materials that cause less pollution and tires with great fuel efficiency.



Recognition and respect for environmental causes

KUMHO TIRES' systematic environmental management practices have been widely recognized here and abroad. Such activities range from revealing our pollution-prevention facilities to the public, participating in environmental-friendly exhibitions, protecting environments around our factories by planting trees in nearby areas and cleaning up rivers in vicinity. On September 1, 1996, KUMHO TIRES acquired ISO 14001 certification for the first time in local tire industry, meeting the international standard for environmental protection. We also earned the certifications from Nordic Ecolabel and other local environmental certifications, solidifying our position as the biggest environmental-friendly tire company in Korea. Also, we received Seoul Environment Award from Seoul city government in 2002 and Environmental Management Award from the Ministry of Environment in 2001 for our efforts to reduce industry waste, air pollution and noise.

For PASSENGER VEHICLES/ RV LINE-UP

for PASSENGER CARS



Tires for winter season



Studless



High-performance studless tires

Stud



Strong spike tires



V-spike tire

for SUV / 4×4



VENTURE SUV

For upscale common rail SUVs



VENTURE SUV

Best inch-up tire for SUVs



VENTURE SUV

Wide tires, with the comfort of sedans



VENTURE SUV

Tires usable for both paved and unpaved roads



VENTURE SUV

Extreme MT tires

ON ROAD

OFF ROAD

Minivan/Passenger wagons



ES70 minivan

Tires for high-performance minivans



ES70 minivan

Total Balance for RVs

Management



Oh, Sae-Chul
President & CEO



Kim, Bong-Koo
Senior Executive Vice President
Head of Administration Division
Head of Domestic Sales Division



Choe, Young-Kyoon
Senior Executive Vice President
Head of Overseas sales

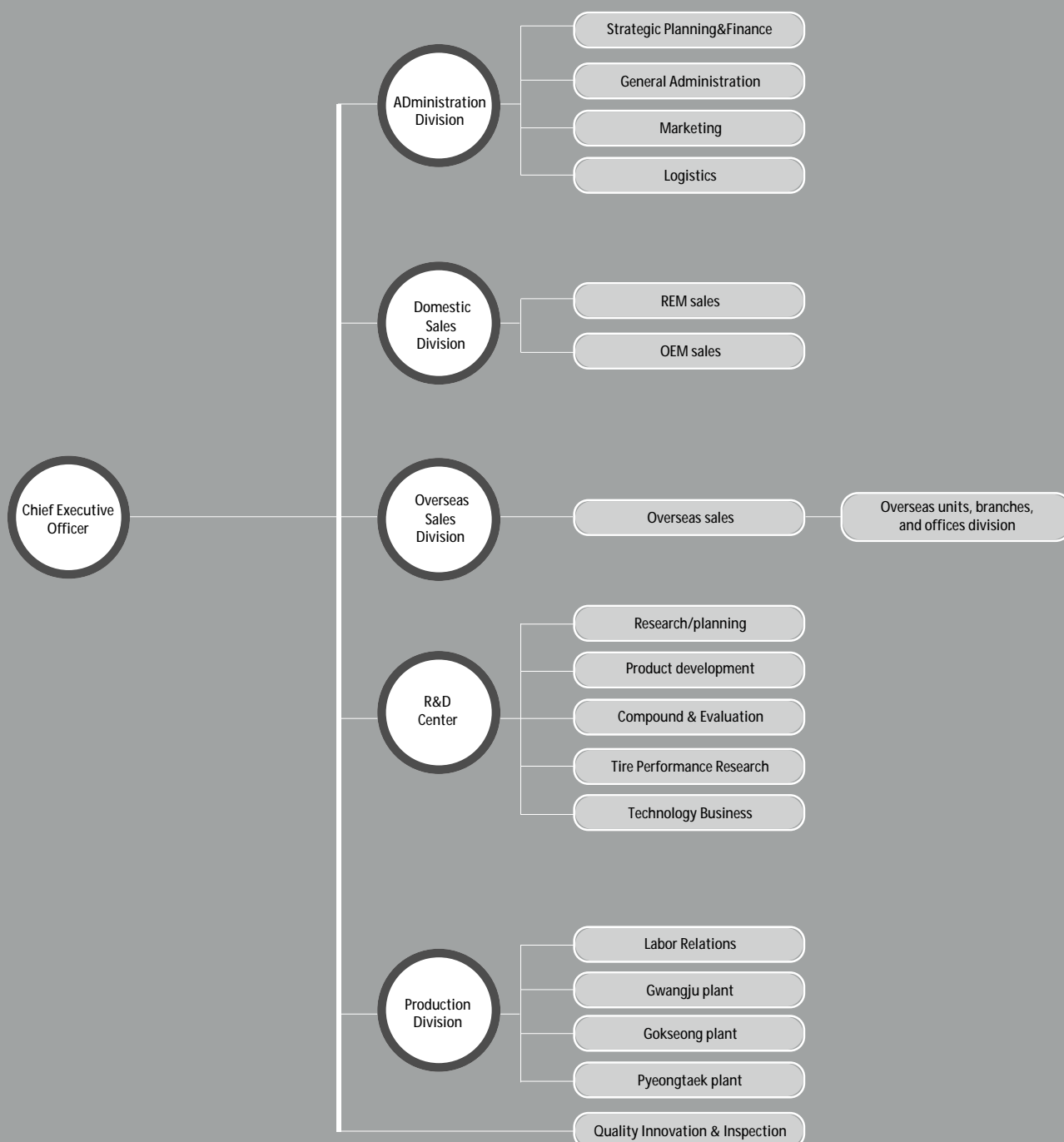


Kim, Bong-Hwa
Senior Vice President
Head of General Management for manufacture



Han, Min-Hyeon
Senior Vice President
Head of R&D Center

Organization



Global Network



Overseas Network

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FAX : 82-62-941-3161

GOKSEONG PLANT

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GOKSEONG-GUN, CHOLLA NAM-DO, KOREA
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FAX : 82-61-362-8000

PYEONGTAEK PLANT (APU)

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FAX : 82-31-680-5789

Milestones

A journey to the top

KUMHO TIRES' accomplishment mirrors our customers' encouragement that helped us to provide better products and more reliable services for nearly 50 years. For the better future for ourselves and our customers, KUMHO TIRES is again taking a step towards another challenge, because we believe today's challenge will bring us a better future tomorrow.



2000s

| | |
|----------------|---|
| December 2005 | Established Kumho China Technical Center in Tianjin, China Recognized by the Korea International Trade Association for achieving annual exports of worth more than \$1 billion |
| June 2005 | ECSTA S700 won the American Le Mans Series for the first time. |
| April 2005 | Launched the plant construction in Tianjin. |
| April 2005 | Completed the construction for the second production plant in Nanjing, China. |
| February 2005 | Korea's first simultaneous dual stock listing on both Korea and London stock exchanges. |
| November 2004 | Acquired ISO/TS16949 certification |
| August 2004 | Selected as an Advanced Technology Research Center(ATC) |
| April 2004 | Became a supplier of Japan Touring Car Championship (JGTC) |
| December 2003 | KUMHO TIRES' UHP tires selected as the world's best products. |
| December 2003 | Completed a construction for an automated production unit plant in Pyeongtaek |
| September 2003 | Ranked 9th in the world's tire industry |
| August 2003 | Exported run flat tires to the United States |
| July 2003 | Spun off from Kumho Industrial Co., Ltd and established KUMHO TIRES Co., Inc. |
| November 2002 | Developed the world's first 26-inch UHP tire |
| March 2002 | Selected as the official supplier of Marlboro Masters Formula |
| March 2002 | Ranked the 2nd in the Customers Satisfaction Survey by J.D. Power and Association |
| October 2001 | Acquired Verband der Automobilindustrie e.V (VDA) certification |
| April 2001 | Completed construction for expanding Kumho American Technical Center |
| November 2000 | Designated as the official supplier of the International Formula 3 Korea Super Prix |
| February 2000 | Developed building machines for Ultra High Performance (UHP) |

1990s

| | |
|----------------|--|
| September 1999 | Developed Automated Production Unit (APU) |
| March 1999 | Developed run-flat, for the 4th time in the world's tire industry |
| February 1999 | Acquired Kumho Construction and changed its name to Kumho Industrial |
| July 1998 | Acquired OS 9000 certification |
| September 1996 | Acquired ISO 14001 certification |
| February 1996 | Changed the official corporate name to KUMHO TIRES Co., Inc. February 1994 |
| | Acquired ISO-9001 certification |

1980s

| | |
|----------------|---|
| October 1989 | Completed the construction of Gokseong plant |
| October 1984 | Won Grand Prize for Productivity Improvement |
| August 1984 | Merged with Kumho Industrial and changed the official corporate name to KUMHO TIRES Co. |
| September 1981 | Established Gwangju research & development center |

1970s

| | |
|----------------|---|
| November 1976 | Annual tire production exceeded 1 million units for the first time in Korea |
| August 1975 | Developed radial tire |
| September 1974 | Completed a Gwangju plant |

1960s

| | |
|----------------|--|
| March 1966 | Acquired U.S. DOT (Department of Transportation) Mark |
| August 1965 | Made first overseas sales by exporting tires worth \$7,700 to Thailand |
| September 1960 | Established KUMHO TIRES. (then called Samyang Tire Co.) |



FINANCIAL STATEMENTS

Report of Independent Auditors

Non-Consolidated Financial Statements

Balance Sheet

Statement of Income

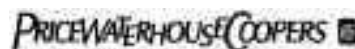
Statement of Appropriations of Retained Earnings

Statement of Cash Flows

Notes to Non-Consolidated Financial Statements

Report on the Review of Internal Accounting Control System

| Report of Independent Auditors |



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To the Shareholders and Board of Directors of KUMHO TIRE CO., INC.

We have audited the accompanying non-consolidated balance sheets of KUMHO TIRE CO., INC. (the "Company") as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of KUMHO TIRE CO., INC. as of December 31, 2005 and 2004, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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.

Seoul, Korea
January 26, 2006

This report is effective as of January 26, 2006, 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 non-consolidated 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.

| Non-Consolidated Financial Statements |

Balance Sheets

(December 31, 2005 and 2004)

| | (In millions of Korean won) | |
|---|-----------------------------|-------------------|
| | 2005 | 2004 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | ₩283,817 | ₩9,012 |
| Short-term financial instruments | 90,749 | 594 |
| Short-term investment securities | 9 | 30 |
| Trade accounts and notes receivable, net | 263,304 | 199,196 |
| Other accounts receivable | 18,968 | 10,589 |
| Short-term loans receivable | 298 | 291 |
| Accrued income | 768 | 33 |
| Advance payments | 2,417 | 2,248 |
| Prepaid expenses | 6,510 | 6,890 |
| Foreign currency forward | 2,094 | - |
| Other current assets | 143 | 7 |
| Inventories | 160,553 | 116,854 |
| Deferred income tax assets | 2,653 | - |
| Total current assets | 832,283 | 345,744 |
| Long-term financial instruments | 52 | 107 |
| Equity method investments | 203,749 | 106,327 |
| Guarantee deposits | 24,365 | 25,598 |
| Long-term prepaid expenses | 2,225 | 1,113 |
| Long-term trade accounts receivable | - | 7,126 |
| Long-term loans receivable | 41 | 96 |
| Deferred income tax assets | 5,283 | 3,641 |
| Property, plant and equipment, net | 1,019,366 | 1,041,004 |
| Intangible assets, net | 118,533 | 125,540 |
| Total assets | ₩2,205,897 | ₩1,656,296 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Trade accounts payable | ₩148,662 | ₩132,589 |
| Short-term borrowings | 270,193 | 137,136 |
| Current maturities of long-term debts, net | 283 | 120,609 |
| Other accounts payable | 71,554 | 94,281 |
| Accrued expenses | 29,022 | 48,356 |
| Income taxes payable | 21,530 | 15,181 |
| Advances received | 4,358 | 3,175 |

| Non-Consolidated Financial Statements |

Balance Sheets

(December 31, 2005 adn 2004)

| | (In millions of Korean won) | |
|---|-----------------------------|-------------------|
| | 2005 | 2004 |
| Withholdings | 9,882 | 5,992 |
| Foreign currency forward | 6 | - |
| Foreign currency swap | - | 2,339 |
| Total current liabilities | 555,490 | 559,658 |
| Debentures, net | 308,958 | - |
| Long-term borrowings, net | 235,228 | 317,709 |
| Accrued severance benefits, net | 115,214 | 138,609 |
| Provision for warranty expense | 24,071 | 22,742 |
| Total liabilities | 1,238,961 | 1,038,718 |
| Commitments and contingencies | | |
| Shareholders' equity | | |
| Common stock | 350,000 | 250,000 |
| Additional paid-in capital | 427,707 | 250,000 |
| Retained earnings | | |
| Legal reserve | 5,250 | 2,500 |
| Retained earnings before appropriations | 190,689 | 122,740 |
| Capital adjustments | | |
| Gain on valuation of equity method investments | 1,060 | 11 |
| Loss on valuation of equity method investments | (7,770) | (7,673) |
| Total shareholders' equity | 966,936 | 617,578 |
| Total liabilities and shareholders' equity | ₩2,205,897 | ₩1,656,296 |

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

| Non-Consolidated Financial Statements |

Non-Consolidated Statements of Income

(Years Ended December 31, 2005 and 2004)

| (In millions of Korean won, except per share amounts) | | |
|---|------------|------------|
| | 2005 | 2004 |
| Sales | ₩1,772,456 | ₩1,646,344 |
| Cost of sales | 1,326,464 | 1,218,596 |
| Gross profit | 445,992 | 427,748 |
| Selling and administrative expenses | 276,737 | 258,422 |
| Operating income | 169,255 | 169,326 |
| Non-operating income | | |
| Interest income | 3,841 | 4,349 |
| Gain on valuation of equity method investments | 4,894 | 1,365 |
| Gain on foreign currency transactions | 12,727 | 11,018 |
| Gain on foreign currency translation | 5,381 | 13,532 |
| Gain on disposal of property, plant and equipment | 3,206 | 4,194 |
| Income tax refunds | - | 202 |
| Gain on foreign currency swap transactions | 2,603 | 541 |
| Gain on foreign currency forward transactions | 820 | 723 |
| Gain on valuation of foreign currency forward | 2,094 | - |
| Others | 358 | 540 |
| | 35,924 | 36,464 |
| Non-operating expenses | | |
| Interest expense | 40,198 | 46,189 |
| Loss on valuation of equity method investments | 4,776 | 2,364 |
| Loss on foreign currency transactions | 14,373 | 7,407 |
| Loss on foreign currency translation | 1,022 | 2,429 |
| Loss on disposal of short-term investment securities | 88 | - |
| Loss on disposal of property, plant and equipment | 3,800 | 2,466 |
| Loss on disposal of account receivables | 13,454 | 13,890 |
| Donations | 2,424 | 1,077 |
| Loss on disposal of inventories | 332 | 120 |
| Other bad debt expenses | - | 350 |
| Loss on foreign currency swap transactions | 1 | - |
| Loss on valuation of foreign currency forward | 6 | - |
| Loss on valuation of foreign currency swap | - | 2,339 |
| Others | 608 | 2,267 |
| | 81,082 | 80,898 |
| Ordinary income before income tax expenses | 124,097 | 124,891 |
| Income tax expenses | 25,898 | 24,509 |
| Net income | ₩98,199 | ₩100,382 |
| Per share data(In Korean won) | | |
| Ordinary income per share | ₩1,457 | ₩ 2,008 |
| Earnings per share | 1,457 | 2,008 |

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

| Non-Consolidated Financial Statements |

Non-Consolidated Statements of Appropriations of Retained Earnings

(Years Ended December 31, 2005 and 2004)

(Date of Appropriations : March 17, 2006 and March 10, 2005 for the years ended December 31, 2005 and 2004, respectively)

(In millions of Korean won)

| | 2005 | 2004 |
|---|---------|---------|
| Retained earnings before appropriations | | |
| Unappropriated retained earnings carried over | | |
| from the prior years | ₩92,490 | ₩22,358 |
| Net income | 98,199 | 100,382 |
| | 190,689 | 122,740 |
| Appropriations of retained earnings | | |
| Legal reserve | 4,200 | 2,750 |
| Cash dividends | | |
| (Dividend per share(in Korean won) : | | |
| 2005 : ₩ 600 | | |
| 2004 : Largest shareholder-₩ 300 | | |
| Other shareholder-₩ 800) | 42,000 | 27,500 |
| Other reserves | 120,000 | - |
| | 166,200 | 30,250 |
| Unappropriated retained earnings carried forward to the subsequent year | ₩24,489 | ₩92,490 |

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

| Non-Consolidated Financial Statements |

Non-Consolidated Statement of Cash Flows

(Years Ended December 31, 2005 and 2004)

| | (In millions of Korean won) | |
|--|-----------------------------|----------|
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Net income | ₩98,199 | ₩100,383 |
| Adjustments to reconcile net income | | |
| to net cash provided by operating activities : | | |
| Bad debt expense | 1,809 | 778 |
| Depreciation | 118,166 | 106,354 |
| Accrual of severance benefits | 56,590 | 70,049 |
| Amortization of intangible assets | 7,146 | 7,129 |
| Loss on disposal of property, plant and equipment | 3,800 | 2,466 |
| Loss on foreign currency translation | 1,022 | 2,429 |
| Loss on disposal of inventories | 332 | 120 |
| Other bad debt expenses | - | 350 |
| Interest expense (discounted present value) | 13,568 | 5,686 |
| Loss on valuation of foreign currency swap | - | 2,339 |
| Loss on valuation of foreign currency forward | 6 | - |
| Loss on disposal of short-term investment securities | 88 | - |
| Loss on valuation of equity method investments. | 4,776 | 2,364 |
| Gain on foreign currency translation | (5,381) | (13,532) |
| Gain on valuation of equity method investments. | (4,894) | (1,365) |
| Gain on disposal of property, plant and equipment | (3,206) | (4,194) |
| Gain on valuation of foreign currency forward | (2,094) | - |
| Others | (9) | 93 |
| | 191,719 | 181,066 |
| Changes in operating assets and liabilities : | | |
| Increase in trade accounts and notes receivable | (66,521) | (22,568) |
| Increase in other accounts receivable | (8,178) | (18,171) |
| Increase in accrued income | (735) | - |
| Increase in advance payments | (169) | (822) |
| Decrease in prepaid expenses | 243 | 111 |
| Increase in inventories | (44,030) | (8,840) |
| Decrease(Increase) in deferred income tax assets | (4,295) | 935 |
| Decrease in long-term other accounts receivable | 6,506 | - |
| Increase in trade accounts payable | 18,486 | 22,640 |
| Increase in advanced received | 1,183 | 1,157 |
| Increase in withholdings | 3,889 | 636 |
| Decrease in other accounts payable | (22,348) | (11,565) |
| Increase(Decrease) in accrued expenses | (19,334) | 12,325 |
| Increase in income taxes payable | 6,349 | 3,463 |
| Decrease in foreign currency swap | (2,339) | - |
| Payment of severance benefits | (50,183) | (35,472) |

| Non-Consolidated Financial Statements |

Non-Consolidated Statement of Cash Flows

(Years Ended December 31, 2005 and 2004)

| | (In millions of Korean won) | |
|---|-----------------------------|-----------|
| | 2005 | 2004 |
| Succession of accrual of severance benefits | 109 | 98 |
| Deposits for severance benefit insurance | (29,911) | (34,173) |
| Increase in provision for warranty expense | 1,329 | 1,479 |
| | (209,949) | (88,767) |
| Net cash provided by operating activities | ₩79,969 | ₩192,681 |
| Cash flows from investing activities | | |
| Disposal of long-term loans | ₩64 | ₩57 |
| Proceeds from short-term financial instruments | 187,099 | 10,938 |
| Proceeds from long-term financial instruments | 55 | - |
| Proceeds from short-term investment securities | 1,058 | - |
| Proceeds from short-term loans | 370 | 375 |
| Dividends received from equity method investments | 1,926 | - |
| Decrease in guarantee deposits | 7,587 | - |
| Decrease in long-term prepaid expenses | 883 | - |
| Disposal of property, plants and equipment | 14,753 | 18,284 |
| Acquisition of short-term financial instruments | (277,254) | (10,188) |
| Acquisition of investment securities | (1,124) | (19) |
| Acquisition of long-term financial instruments | - | (73) |
| Payment of guarantee deposits | (6,352) | (3,933) |
| Increase in long-term prepaid expenses | (1,995) | (1,205) |
| Acquisition of property, plant and equipment | (111,876) | (119,189) |
| Acquisition of intangible assets | (140) | (325) |
| Payment of short-term loans | (377) | (331) |
| Acquisition of equity method investments | (98,279) | (45,775) |
| Net cash used in investing activities | (283,602) | (151,384) |
| Cash flows from financing activities | | |
| Proceeds from short-term borrowings | 186,589 | 13,185 |
| Proceeds from long-term borrowings | 260,626 | - |
| Issuance of debentures | 308,874 | - |
| Issuance of common stock | 277,707 | - |
| Repayment of current maturities of long-term borrowings | (125,657) | - |
| Repayment of long-term borrowings | (402,201) | (31,992) |
| Payment of dividends | (27,500) | (25,000) |
| Net cash provided by (used in) financing activities | 478,438 | (43,807) |
| Net increase(decrease) in cash and cash equivalents | 274,805 | (2,510) |
| Cash and cash equivalents | | |
| Beginning of year | 9,012 | 11,522 |
| End of year | ₩283,817 | ₩9,012 |

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

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

1. The Company

KUMHO TIRE CO., INC. (the "Company" was incorporated on June 30, 2003, under the law of the Republic of Korea to engage in manufacturing and selling tires, tubes and alloy-wheels. Kumho Industrial Co, Ltd. contributed and transferred its tire business to the Company on June 30, 2003.

The Company has its headquarter at Kwang-Ju, operates manufacturing plants in various locations including Kwang-Ju and Kok-Sung and has several overseas affiliates and research centers.

The Company issued and listed 6.8 million shares of common stock (issue amount: ₩99,620 million) on February 17, 2005, on the stock market division of Korea Exchange. The Company also issued and listed 22.4 million shares of Global Depository Shares, representing 11.2 million shares of common stock (issue amount: US\$160 million), on the London Stock Exchange on February 16, 2005. Furthermore, the Company issued additional four million shares of Global Depository Shares, representing two million shares of common stock, (issue amount: US\$29 million) on March 2, 2005, by the execution of stock purchase option granted to J.P. Morgan Securities Ltd.

The changes in capital during the year ended December 31, 2005, are as follows:

(in millions of Korean won)

| | Number of shares issued | Face Amount | Additional Paid-in capital |
|-------------------|-------------------------|-------------|----------------------------|
| January 1, 2005 | 50,000,000 | ₩250,000 | ₩250,000 |
| New issuances | 20,000,000 | 100,000 | 177,707 |
| December 31, 2005 | 70,000,000 | ₩350,000 | ₩427,707 |

The Company is authorized to issue 200 million shares with a par value of ₩5,000. As of December 31, 2005, the Company has an outstanding capital stock amounting to ₩350,000 million.

The Company's major shareholders and their respective percentage of ownership as of December 31, 2005, are as follows:

(in millions of Korean won)

| | Number of Shares Owned | Percentage of Ownership (%) |
|------------------------------|------------------------|-----------------------------|
| Kumho Industrial Co., Ltd. | 22,500,000 | 32.1 |
| Cooper Tire & Rubber Company | 7,500,000 | 10.7 |
| Others | 40,000,000 | 57.2 |
| Total | 70,000,000 | 100.0 |

Kumho Petrochemical Co.,Ltd, become the new majority shareholder when it purchased all of kumho Industrial Co., Ltd's share on February 10, 2006.

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

2.Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below:

Basis of Financial Statement Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated 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 from the Korean language non-consolidated financial statements.

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

Accounting Estimates

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2004.

And as SKFAS Nos. 15 through 17 became effective for the Company on January 1, 2005, the Company adopted these Standards in its financial statements for the year ended December 31, 2005.

Revenue Recognition

Revenues from the sales of finished goods and merchandise are recognized upon delivery when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Allowance for Doubtful Accounts

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

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

Investments in Securities

The Company accounts for equity and debt securities under the provisions of SKFAS No. 8, Investments in Securities. This statement requires investments in equity and debt securities to be classified into three categories: trading, available-for-sale and held-to-maturity.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities whose fair value may not be determined, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by independent credit rating agencies. Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are charged to capital adjustments, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities after the amortization of discounts or premiums.

Equity Method Investments

Investments in equity securities of companies, over which the Company exercises a control or significant influence, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

The Company discontinues the equity method of accounting for investments when the Company's share in the accumulated losses of the investees equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended. Differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are amortized over 20 years using the straight-line method, and the amortization is charged to current operations.

In addition, proportionate share in the difference between fair value of the investee's identifiable assets (liabilities) and book value is amortized according to the investee's accounting for the assets and liabilities.

Unrealized profit included in inventories and property, plant and equipment from transaction between the Company and equity method investees is calculated based on gross margin by product and eliminated considering the percentage of ownership. However, unrealized profit arising from sales by the Company to equity method investees which are its consolidated subsidiaries is fully eliminated. Unrealized profit arising from sales between equity method investees is also eliminated considering the percentage of ownership.

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

In accordance with SKFAS No. 15, Equity Method, equity in earnings and losses of the investees are shown in the statement of income as gross amounts. Likewise, positive and negative capital adjustments are shown in the balance sheet in gross amounts.

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

Inventories

The quantity of inventory on hand is verified using the perpetual inventory system, which continuously updates the quantity of the inventory during the period, and by physical count as of the balance sheet date.

Inventories are stated at the lower of cost or market, with cost being determined using the weighted-average method for merchandises, finished goods, the moving-average method for raw materials and supplies, and the specific identification method for material-in-transit and merchandise-in-transit.

If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | Estimated Useful Lives |
|-------------------------|------------------------|
| Buildings | 30-40 years |
| Structures | 15-20 years |
| Machinery and equipment | 8 years |
| Vehicles | 4 years |
| Tools | 4 years |
| Furniture and fixtures | 4 years |

Routine maintenance and repairs are charged to expense as incurred. Expenditures, which enhance the value or materially extend the useful life of the related assets, are capitalized as additions to property, plant and equipment.

The Company recognizes an impairment loss when the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognized in the income statement and is deducted from the acquisition cost of the impaired asset. If there is a subsequent recovery from the impairment, a reversal of the previous write-down is made up to the amount of the original cost. The reversal amount of the previously recognized loss is credited to current operations as a gain.

Intangible Assets

Intangible assets, comprising industrial property rights and goodwill, are recorded at cost and amortized using the straight-line method over the following estimated useful lives.

| | Estimated Useful Lives |
|----------------------------|------------------------|
| Goodwill | 20 years |
| Industrial property rights | 5 years |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

Research costs are charged to operations as incurred. Costs incurred for new products or technologies, which can be clearly defined and measured and which have probable future economic benefits, are accounted for as development costs and are capitalized. Other development costs are recognized in the period incurred as normal development expenses.

Capitalized development costs are amortized over their economic lives not to exceed 20 years using the straight-line method. If collectible development costs are valued at less than the book value and such difference is material, then the difference should be subtracted directly from the book value and reclassified as collectable development costs. The difference between the book value and the collectible development costs are accounted for as loss on valuation of development costs and expensed in the year of incurrence.

As of the date of spin-off, the Company has recognized goodwill for the purchase amount exceeding the shares of the purchasing company whose fair values of assets and liabilities are identifiable. Such goodwill is amortized over its economic lives not to exceed 20 years using the straight line method. Goodwill recognized at the date of the acquisition will be valued every year based on its collectability. If collectable amounts are less than its book value and if such difference is material, then the difference is accounted for as loss on valuation of goodwill and expensed in the year of incurrence.

Present Value Discount Account

The Company records incidental expenses arising from syndicated loans as present value discount account. Such present value discount account is amortized using the effective interest rate method over the due period as interest expenses.

Premiums and Discounts on Debentures

The Company accounts for the difference between the face amount and issued amount of debentures as premiums or discounts on debentures.

Premiums or discounts on debentures are amortized using the effective interest rate method over the term of the debentures and the resulting amortization is recorded as interest expense.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date (₩1,013.0: US\$1 the exchange rate in effect at December 31, 2005 and ₩1,043.8: US\$1 as of December 31, 2004), and resulting translation gains or losses are recognized in current operations.

Accrued Severance Benefits

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

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

Accrued severance benefits are funded approximately 52.0% (2004: 40.7%) as of December 31, 2005, through a group severance insurance plan and are presented as deduction from accrued severance benefits.

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

Impairment Loss

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

Warranty Reserve

The Company accrued warranty reserves for the estimated costs of future repairs and recalls, based on the experience and the expectation of future repairs. Estimated costs of product warranties amounting to ₩24,071 million (2004: ₩22,742 million) are charged to operations for the year ended December 31, 2005. Warranty reserve is recorded as long-term liabilities since the warranty expense is to be incurred over several years and the incurrence period of which cannot be readily and reasonably determined.

Income Taxes

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred income tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to be reversed. Deferred income tax assets are recognized to the extent that it is almost certain that such deferred income tax assets will be realized. The total income tax provision includes current tax expenses under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities.

In accordance with SKFAS No. 16, Deferred Income Tax, which became effective on January 1, 2005, the Company classified deferred tax assets and liabilities into current and non-current, and within each classification, amounts for deferred tax assets and liabilities are offset against each other and presented as net amount. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity account.

Derivative financial instruments

All derivative instruments are accounted for at fair value with the resulting valuation gain or loss recorded as an asset or liability. If the derivative instrument is not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. Fair value hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk.

The gain or loss, both on the hedging derivative instrument and on the hedged item attributable to the hedged risk, is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of the gain or loss recorded as a capital adjustment is reclassified to current operations in the same period during which the hedged forecasted transaction affects earnings.

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

3.Restricted Bank Deposits

Restricted bank deposits as of December 31, 2005 and 2004, consist of the following:

| (in millions of Korean won) | | |
|----------------------------------|------|------|
| | 2005 | 2004 |
| Short-term financial instruments | ₩525 | ₩594 |
| Long-term financial instruments | 25 | 34 |
| | ₩550 | ₩628 |

4.Short-term investment securities

All short-term investment securities as of December 31, 2005 and 2004, are in the form of government and public bonds.

5.Trade Accounts and Notes Receivable

Receivables as of December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | | |
|--|----------|----------|
| | 2005 | 2004 |
| Trade accounts receivable and notes receivable | ₩277,921 | ₩212,004 |
| Less : Allowance for doubtful accounts | (14,617) | (12,808) |
| | ₩263,304 | ₩199,196 |

6.Inventories

Inventories as of December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | | |
|-----------------------------|----------|----------|
| | 2005 | 2004 |
| Finished goods | ₩89,773 | ₩67,676 |
| Merchandises | 259 | 639 |
| Work in process | 12,737 | 8,731 |
| Raw materials | 8,844 | 8,085 |
| Supplies | 1,602 | 1,168 |
| Materials-in-transit | 44,956 | 30,435 |
| Merchandise-in-transit | 2,382 | 120 |
| | ₩160,553 | ₩116,854 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

7.Equity Method Investments

Details of the equity method investments as of December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | Percentage of Ownership (%) | Acquisition Cost | | Book Value | | Net Asset Value ¹ | |
|-----------------------------|-----------------------------|------------------|----------|------------|----------|------------------------------|----------|
| | 2005.12.31 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Nanjing Kumho Tire | 67.0 | ₩110,621 | ₩110,621 | ₩106,022 | ₩103,919 | ₩ 69,275 | ₩ 64,391 |
| Kumho Tire U.S.A. | 100.0 | - | - | - | - | 1,717 | 1,533 |
| Kumho Tyre U.K. | 100.0 | - | - | 133 | 101 | 380 | 428 |
| Kumho Tire Europe | 100.0 | - | - | 556 | 87 | (3,437) | (7,493) |
| Kumho Tire Japan | 100.0 | 1,293 | 1,293 | 854 | 1,055 | 496 | 396 |
| Kumho Tire Canada | 100.0 | - | - | 422 | 511 | 733 | 595 |
| Kumho Tyre Australia | 100.0 | - | - | 501 | 100 | 1,189 | 903 |
| Kumho Tire HongKong | 100.0 | 83,633 | 554 | 81,396 | 554 | 84,046 | 554 |
| Kumho PFV1 INC. | 80.0 | 15,200 | - | 13,865 | - | 13,865 | - |
| Total | | ₩210,747 | ₩112,468 | ₩203,749 | ₩106,327 | ₩168,264 | ₩61,307 |

¹ The equity method of accounting is applied based on the affiliates' most recent available financial statements.

Details of equity method investments for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | Beginning Balance | Acquisition (Disposition) | Valuation Gain or Loss | Increase (Decrease) in Capital Adjustments | Dividend | Ending Balance |
|-----------------------------|-------------------|---------------------------|------------------------|--|-----------|----------------|
| Nanjing Kumho Tire | ₩ 103,919 | ₩ - | ₩ 4,311 | ₩ (281) | ₩ (1,927) | ₩ 106,022 |
| Kumho Tire U.S.A. | - | - | - | - | - | - |
| Kumho Tyre U.K. | 101 | - | 86 | (54) | - | 133 |
| Kumho Tire Europe | 87 | - | (572) | 1,041 | - | 556 |
| Kumho Tire Japan | 1,055 | - | (124) | (77) | - | 854 |
| Kumho Tire Canada | 511 | - | (95) | 6 | - | 422 |
| Kumho Tyre Australia | 100 | - | 497 | (96) | - | 501 |
| Kumho Tire HongKong | 554 | 83,079 | (2,650) | 413 | - | 81,396 |
| Kumho PFV1 INC. | - | 15,200 | (1,335) | - | - | 13,865 |
| 2005 | ₩106,327 | ₩ 98,279 | ₩ 118 | ₩ 952 | ₩ (1,927) | ₩ 203,749 |
| 2004 | ₩ 69,822 | ₩ 45,775 | ₩ (999) | ₩ (8,271) | ₩ - | ₩ 106,327 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments are amortized over their economic lives not to exceed 20 years using the straight-line method, along with changes in such amounts for the years ended December 31, 2005 and 2004, as follows:

| (in millions of Korean won) | Beginning Balance | Increase | Amortization | Ending Balance |
|-----------------------------|-------------------|----------|--------------|----------------|
| Nanjing Kumho Tire | ₩ 47,463 | ₩ - | ₩ (2,579) | ₩ 44,884 |
| Kumho Tire U.S.A. | 23,458 | - | (1,268) | 22,190 |
| Kumho Tyre U.K. | 305 | - | (17) | 288 |
| Kumho Tire Europe | 13,582 | - | (734) | 12,848 |
| Kumho Tire Japan | 967 | - | (52) | 915 |
| Kumho Tire Canada | 1,624 | - | (88) | 1,536 |
| Kumho Tyre Australia | (15) | - | 1 | (14) |
| Kumho Tire HongKong | - | - | - | - |
| Kumho PFV1 INC. | - | - | - | - |
| 2005 | ₩ 87,384 | ₩ - | ₩ (4,737) | ₩ 82,647 |
| 2004 | ₩ 36,797 | ₩ 55,854 | ₩ (5,267) | ₩ 87,384 |

For the year ended December 31, 2005, unrealized profit amounting to ₩46,719 million (2004: ₩ 44,173 million) was eliminated as a result of the valuation of investments using the equity method.

The Company suspended the equity method of accounting when the Company's share of losses exceeded the carrying value of its investment. The Company's unrecorded share of loss of the equity method investee is as follows:

| (in millions of Korean won) | January 1, 2005 | Increase | December 31, 2005 |
|-----------------------------|-----------------|----------|-------------------|
| Kumho Tire U.S.A. | ₩ 3,428 | ₩ 3,544 | ₩ 6,972 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

Capital adjustments in shareholders' equity resulting from equity method investments as of and for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | 2005 | | | |
|---------------------------------------|-------------------|-----------------------|---------------------|----------------|
| | Beginning Balance | Increased (Decreased) | Disposal (Realized) | Ending Balance |
| Nanjing Kumho Tire | ₩ (7,174) | ₩ (281) | ₩ - | ₩ 7,445 |
| Kumho Tire U.S.A. | - | - | - | - |
| Kumho Tyre U.K. | 6 | (54) | - | (48) |
| Kumho Tire Europe | (394) | 1,041 | - | 647 |
| Kumho Tire Japan | (99) | (77) | - | (176) |
| Kumho Tire Canada | (6) | 6 | - | - |
| Kumho Tyre Australia | 5 | (96) | - | (91) |
| Kumho Tire Hongkong | - | 413 | - | 413 |
| Kumho PFV1 INC. | - | - | - | - |
| Increase resulting from equity method | ₩ 11 | ₩ 1,049 | ₩ - | ₩ 1,060 |
| Decrease resulting from equity method | ₩ (7,673) | ₩ (97) | ₩ - | ₩ (7,770) |

| (in millions of Korean won) | 2004 | | | |
|---------------------------------------|-------------------|-----------------------|---------------------|----------------|
| | Beginning Balance | Increased (Decreased) | Disposal (Realized) | Ending Balance |
| Nanjing Kumho Tire | ₩ 468 | ₩ (7,642) | ₩ - | ₩ (7,174) |
| Kumho Tire U.S.A. | - | - | - | - |
| Kumho Tyre U.K. | 75 | (69) | - | 6 |
| Kumho Tire Europe | - | (394) | - | (394) |
| Kumho Tire Japan | (23) | (76) | - | (99) |
| Kumho Tire Canada | (6) | - | - | (6) |
| Kumho Tyre Australia | 95 | (90) | - | 5 |
| Increase resulting from equity method | ₩ 638 | ₩ (627) | ₩ - | ₩ 11 |
| Decrease resulting from equity method | ₩ (29) | ₩ (7,644) | ₩ - | ₩ (7,673) |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

As of and for the years ended December 31, 2005 and 2004, summaries of financial information of equity-method investees follow:

| (in millions of Korean won) | 2005 | | | |
|-----------------------------|-----------|-------------|-------------|------------------|
| | Assets | Liabilities | Sales | Net Income(Loss) |
| Nanjing Kumho Tire | ₩ 293,037 | ₩ 189,641 | ₩ 252,725 | ₩ 10,858 |
| Kumho Tire U.S.A. | 222,239 | 220,522 | 393,627 | 232 |
| Kumho Tyre U.K. | 40,648 | 40,268 | 72,199 | 34 |
| Kumho Tire Europe | 131,854 | 135,291 | 228,839 | 3,430 |
| Kumho Tire Japan | 10,471 | 9,975 | 26,351 | 162 |
| Kumho Tire Canada | 15,079 | 14,346 | 50,504 | 134 |
| Kumho Tyre Australia | 10,960 | 9,771 | 35,363 | 383 |
| Kumho Tire Hongkong | 84,046 | - | - | - |
| Kumho PFV1 INC. | ₩ 71,895 | 54,564 | - | (1,669) |
| Total | ₩ 880,229 | ₩ 674,378 | ₩ 1,059,608 | ₩ 13,564 |

| (in millions of Korean won) | 2004 | | | |
|-----------------------------|-----------|-------------|-----------|------------|
| | Assets | Liabilities | Sales | Net Income |
| Nanjing Kumho Tire | ₩ 246,135 | ₩ 150,029 | ₩ 171,009 | ₩ 14,428 |
| Kumho Tire U.S.A. | 186,849 | 185,316 | 379,542 | 3,927 |
| Kumho Tyre U.K. | 32,578 | 32,150 | 64,689 | 57 |
| Kumho Tire Europe | 105,097 | 112,590 | 221,561 | 2,355 |
| Kumho Tire Japan | 5,649 | 5,253 | 23,267 | 65 |
| Kumho Tire Canada | 14,392 | 13,797 | 56,229 | 203 |
| Kumho Tyre Australia | 10,607 | 9,704 | 43,874 | 224 |
| Kumho Tire Hongkong | 554 | - | - | - |
| Total | ₩ 601,861 | ₩ 508,839 | ₩ 960,171 | ₩ 21,259 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

8. Property, Plant and Equipment

Changes in property, plant and equipment and for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | 2005 | | | | | |
|-----------------------------|-----------|------------|-------------------------|--------------------------|------------|-------------|
| | Land | Buildings | Machinery and equipment | Construction-in-progress | Others | Total |
| Beginning balances | ₩ 152,381 | ₩ 249,748 | ₩ 502,048 | ₩ 24,700 | ₩ 112,127 | ₩ 1,041,004 |
| Acquisition | - | - | - | 104,213 | 7,662 | 111,875 |
| Transfer | 4,815 | 7,572 | 46,399 | (82,220) | 23,434 | - |
| Disposal | (3,694) | (1,358) | (8,409) | - | (1,886) | (15,347) |
| Depreciation | - | (7,065) | (77,363) | - | (33,738) | (118,166) |
| Ending Balance | ₩ 153,502 | ₩ 248,897 | ₩ 462,675 | ₩ 46,693 | ₩ 107,599 | ₩ 1,019,366 |
| Accumulated depreciation | ₩ - | ₩ (17,213) | ₩ (175,784) | ₩ - | ₩ (72,465) | ₩ (265,462) |

| (in millions of Korean won) | 2004 | | | | | |
|-----------------------------|-----------|------------|-------------------------|--------------------------|------------|-------------|
| | Land | Buildings | Machinery and equipment | Construction-in-progress | Others | Total |
| Beginning balances | ₩ 152,204 | ₩ 249,325 | ₩ 449,915 | ₩ 77,535 | ₩ 115,744 | ₩ 1,044,723 |
| Acquisition | - | - | - | 108,513 | 10,676 | 119,189 |
| Transfer | 1,047 | 7,410 | 134,415 | (161,348) | 18,476 | - |
| Disposal | (870) | (80) | (12,121) | - | (3,483) | (16,554) |
| Depreciation | - | (6,907) | (70,161) | - | (29,286) | (106,354) |
| Ending Balance | ₩ 152,381 | ₩ 249,748 | ₩ 502,048 | ₩ 24,700 | ₩ 112,127 | ₩ 1,041,004 |
| Accumulated depreciation | ₩ - | ₩ (10,207) | ₩ (98,880) | ₩ - | ₩ (40,005) | ₩ (149,092) |

As of December 31, 2005, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to approximately ₩142,779 million.

As of December 31, 2005, a substantial portion of the Company's land, buildings and machinery are pledged as collateral for long-term and short-term debt obligations up to ₩273,600 million, US\$457 million and JPY2,532 million in aggregate (Notes 10 and 11). Property, plant and equipment are insured against fire casualty losses up to ₩1,746,561 million with The Korea Development Bank as the beneficiary of the insured amount.

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

9. Intangible Assets

Changes in intangible assets for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | 2005 | | |
|-----------------------------|-----------|----------------------------|-----------|
| | Goodwill | Industrial Property Rights | Total |
| Beginning balance | ₩ 124,426 | ₩ 1,114 | ₩ 125,540 |
| Acquisition | - | 140 | 140 |
| Amortization | (6,726) | (421) | (7,147) |
| Ending balance | ₩ 117,700 | ₩ 833 | ₩ 118,533 |

| (in millions of Korean won) | 2004 | | |
|-----------------------------|-----------|----------------------------|-----------|
| | Goodwill | Industrial Property Rights | Total |
| Beginning balance | ₩ 131,152 | ₩ 1,192 | ₩ 132,344 |
| Acquisition | - | 325 | 325 |
| Amortization | (6,726) | (403) | (7,129) |
| Ending balance | ₩ 124,426 | ₩ 1,114 | ₩ 125,540 |

The Company has classified the amortization of intangible assets as selling and administrative expense for the years ended December 31, 2005 and 2004.

10. Short-Term Borrowings

Short-term borrowings as of December 31, 2005 and 2004, consist of the following:

| (in millions of Korean won) | Annual Interest Rate (%) | | |
|---|--------------------------|-----------|-----------|
| | Dec. 31, 2005 | 2005 | 2004 |
| Bank overdraft | - | ₩ - | ₩ 16,092 |
| Commercial papers issued | 5.38 | 150,000 | 37,000 |
| General term-loans | 4.34~4.68 | | 33,350 |
| Included US\$ 16.313 million (2004: US\$ 14.647 million) | | 34,587 | |
| Usance of | 4.90 | 85,606 | 50,694 |
| US\$ 84.507 million (2004: US\$ 48.567 million) | | ₩ 270,193 | ₩ 137,136 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

The Company has bank overdraft agreements with Korea Developments Bank and other banks amounting to ₩74,200 million. Also a substantial portion of the Company's property, plant and equipment are pledged as collateral for the borrowings above (Note 8).

11. Long-Term Borrowings

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

| (in millions of Korean won) | Annual Interest Rate (%) | | |
|------------------------------|--------------------------|-----------|------|
| | Dec. 31, 2005 | 2005 | 2004 |
| Non-guaranteed debentures | 4.76 ~ 5.53 | ₩ 310,000 | ₩ - |
| Less: Discount on debentures | | (1,042) | - |
| | | ₩ 308,958 | ₩ - |

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

| (in millions of Korean won) | Creditor | Annual Interest Rate (%) | | |
|------------------------------|-----------------------------------|--------------------------|-----------|-----------|
| | | Dec. 31, 2005 | 2005 | 2004 |
| Won currency loans | Korea Development Bank, and other | 4.18 ~ 5.72 | ₩ 197,950 | ₩ 392,500 |
| Less: Current portion | | | (100) | (110,000) |
| | | | 197,850 | 282,500 |
| Foreign currency loans | Korea Development Bank, and other | 1.97 ~ 6.42 | | |
| US\$ 20.951 million, | | | 39,324 | 58,714 |
| JPY 2,104.653 million | | | | |
| (2004: US\$ 56.250 million) | | | | |
| Less: Current portion | | | | |
| US\$ 0.189 million | | | (191) | (15,657) |
| (2004: US\$15.000 million) | | | | |
| | | | 39,133 | 43,057 |
| | | | 236,983 | 325,557 |
| Less: Present value discount | | | (1,755) | (7,848) |
| | | | ₩ 235,228 | ₩ 317,709 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

Current maturities of long-term borrowings as of December 31 2005 and 2004, consist of the following:

| (in millions of Korean won) | 2005 | 2004 |
|--|-------|-----------|
| Won currency long-term loans | ₩ 100 | ₩ 110,000 |
| Foreign currency long-term loans of US\$ 0.189 million (2004: US\$15.000 million) | 191 | 15,657 |
| | 291 | 125,657 |
| Less: Present value discount | (8) | (5,048) |
| | ₩ 283 | ₩ 120,609 |

The aggregate annual maturities of the long-term borrowings outstanding at December 31, 2005, are as follows:

| (in millions of Korean won) | | | | | |
|-----------------------------------|------------|--------------------|------------------------|-----------|--|
| Year Ending | Debentures | Won Currency Loans | Foreign Currency Loans | Total | |
| 2007 | 200,000 | 135,500 | 191 | ₩ 335,691 | |
| 2008 | 110,000 | 15,625 | 9,807 | 135,432 | |
| 2009 | - | 31,150 | 19,423 | 50,573 | |
| January 1, 2010 and thereafter | - | 15,575 | 9,712 | 25,287 | |
| Total | ₩ 310,000 | ₩ 197,850 | ₩ 39,133 | ₩ 546,983 | |

As of December 31, 2005, a substantial portion of the Company's property, plant and equipment are pledged as collateral for the borrowings above (Note 8).

12. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2005 and 2004 consist of the following:

| (in millions of Korean won) | 2005 | 2004 |
|--|-----------|-----------|
| Beginning balance | ₩ 242,423 | ₩ 207,748 |
| Provision for severance benefits | 56,590 | 70,049 |
| Succession of accrued severance benefits | 109 | 98 |
| Actual severance payments | (50,183) | (35,472) |
| | 248,939 | 242,423 |
| Cumulative deposits to national pension fund | (4,353) | (5,149) |
| Severance insurance deposits | (129,372) | (98,665) |
| Ending balance | ₩ 115,214 | ₩ 138,609 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

13. Commitments and Contingencies

As of December 31, 2005 and 2004, the Company has provided guarantees amounting to ₩141,144 million (equivalent to US\$ 139.333 million) and ₩20,932 million (equivalent to US\$ 20.053 million), for the operations of its overseas affiliates as follows:

| (in thousands of US dollar) | 2005 | | 2004 | |
|-----------------------------|------|---------|------|--------|
| Kumho Tire Japan | US\$ | 15,845 | US\$ | 8,377 |
| Kumho Tire Canada | | 447 | | 7,574 |
| Kumho Tyre U.K. | | 896 | | 1,001 |
| Kumho Tire Europe | | - | | 3,101 |
| Tianjin Kumho Tire | | 122,145 | | - |
| | US\$ | 139,333 | US\$ | 20,053 |

As of December 31, 2005, the Company has provided guarantees amounting up to ₩1,372 million for the borrowings of Tire Net Corporation, one of its suppliers.

As of December 31, 2005, the outstanding balance of trade accounts receivable in foreign currency sold at a discount to various financial institutions amounted to ₩263,653 million.

As of December 31, 2005, Korea Development Bank and other banks have provided the Company with guarantees in relation to the opening of letters of credit. In addition, the Company has been provided with performance guarantees by Seoul Guarantee Insurance Company, and other.

The Company has provided Kia Motors Corporation and others with two promissory notes as collateral in connection with performance guarantees.

As of December 31, 2005, the Company has technical assistance and license agreements with affiliated companies, the Nanjing Kumho Tire Co., Ltd., and the Tianjin Kumho Tire Co., Ltd.

As of December 31, 2005, the Company has granted put options to the International Finance Corporation("IFC") and other shareholders of Nanjing Kumho Tire Co.,Ltd.(Nanjing Kumho) which give them the right. to request the Company to purchase their shares. Further, the Company has also agreed with thr IFC and other that it should maintain ownership of more than 51% in the investee, Nanjing Kumho, until Nanjing Kumho's loans are fully paid. and that should the said investee suffer financial insolvency resulting in a default, the company is required to provide subordinated loans.

The Company is engaged in a contract with Standard Chartered First Bank Korea Ltd., etc. to provide funds to Kumho PFV1 INC., a related party in the way of capital investment or subordinated loans up to the amounts multiplied the deficiency by the equity proportion in case that Kumho PFV1 INC. faces the financial deficiency with regard to the loans amounting to ₩54,200 million.

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

As of December 31, 2005, the Company is a defendant in several lawsuits filed by customers in relation to product liability. The ultimate outcome of these cases cannot presently be determined. The Company is also insured by Hyundai Marine & Fire Insurance Co., Ltd. and other insurance companies against future claims.

In conjunction with the business acquisition of the Company from Kumho Industrial Co., Ltd., the Company entered into agreements for limited liabilities on compensation for damages, claims, guarantees or environmental pollution resulting from the operations of the acquired business.

14. Retained Earnings

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

15. Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | 2005 | 2004 |
|-----------------------------|-------------|-------------|
| Sales | ₩ 1,649,642 | ₩ 1,589,694 |
| Sales of finished goods | 107,544 | 42,221 |
| Sales of merchandise | 15,270 | 14,429 |
| Others | ₩ 1,772,456 | ₩ 1,646,344 |
| Cost of sales | ₩ 1,249,846 | ₩ 1,184,014 |
| Cost of finished goods sold | 75,418 | 32,501 |
| Cost of merchandise sold | 1,200 | 2,081 |
| Others | ₩ 1,326,464 | ₩ 1,218,596 |

16. Income Taxes

Income tax expenses for the years ended December 31, 2005 and 2004 consist of the following:

| (in millions of Korean won) | 2005 | 2004 |
|---|----------|----------|
| Current income tax | ₩ 30,193 | ₩ 23,574 |
| Deferred income tax from temporary differences ¹ | (4,295) | 935 |
| Income tax expense | ₩ 25,898 | ₩ 24,509 |

¹ Changes in deferred income tax from temporary differences are computed as follows:

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

| (in millions of Korean won) | 2005 | 2004 |
|-----------------------------|-----------|---------|
| Beginning | ₩ 3,641 | ₩ 4,576 |
| Ending | 7,936 | 3,641 |
| Changes | ₩ (4,295) | ₩ 935 |

The statutory income tax rate applicable to the Company, including resident tax surcharges, is approximates 27.5%. However, due to permanent differences and utilization of tax credits, the Company's effective tax rate is approximately 20.9% for the year ended December 31, 2005 (2004: 19.6%).

The differences between taxable income and net income before income taxes for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | Details | 2005 | 2004 |
|-----------------------------|---|----------|---------|
| Temporary Differences | Allowance for doubtful accounts | ₩ 1,307 | ₩ 564 |
| | Provision for warranty expense | 1,329 | 1,479 |
| | Equity in earnings(losses) of equity-method investees | (118) | 999 |
| | Equity method investments | 1,847 | - |
| | Foreign currency swap | (2,339) | 2,339 |
| | Foreign currency forward | (2,088) | - |
| | Accrued severance benefits | 15,638 | - |
| | Others | 42 | - |
| | Sub total | 15,618 | 5,381 |
| Non-Temporary Differences | Taxes and dues | 28 | 1,915 |
| | Interest paid | 740 | - |
| | Deemed interest of suspense payments | 411 | - |
| | Others | 1,778 | 301 |
| | Sub total | 2,957 | 2,216 |
| | | ₩ 18,575 | ₩ 7,597 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

The changes in temporary differences for the years ended December 31, 2005 and 2004, and the deferred income tax assets as of December 31, 2005 and 2004, are as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance | Deferred Income Tax Assets (Liability) |
|---------------------------------|----------------------|----------|----------|-------------------|--|
| (in millions of Korean won) | | | | | |
| Allowance for doubtful accounts | ₩ 10,861 | ₩ 1,307 | ₩ - | ₩ 12,168 | ₩ 3,346 |
| Provision for warranty expense | 1,993 | 1,329 | - | 3,322 | 914 |
| Equity in earnings(losses) of | | | | | |
| equity-method investees | (1,521) | (118) | (1,847) | 208 | 57 |
| Bad debt expenses | (434) | - | - | (434) | (119) |
| Foreign currency swap | 2,339 | - | 2,339 | - | - |
| Foreign currency forward | - | (2,088) | - | (2,088) | (574) |
| Accrued severance benefits | - | 15,638 | - | 15,638 | 4,300 |
| Others | - | 42 | - | 42 | 12 |
| 2005 | ₩ 13,238 | ₩ 16,110 | ₩ 492 | ₩ 28,856 | ₩ 7,936 |
| 2004 | ₩ 7,857 | ₩ 15,678 | ₩ 10,297 | ₩ 13,238 | ₩ 3,641 |

As of the December 31, 2005, the details of deferred income tax assets and deferred income tax liability, which were based on gross amount before offsetting, are as follows:

| | Temporary differences | | Deferred Income Tax Assets(Liability) | | |
|---|-----------------------|---------|---------------------------------------|-------|-------------|
| (in millions of Korean won) | | | Current | | Non-current |
| Allowance for doubtful accounts | ₩ | 12,168 | ₩ | 3,346 | ₩ - |
| Provision for warranty expense | | 3,322 | | - | 914 |
| Accrued severance benefits | | 15,638 | | - | 4,300 |
| Equity in earnings(losses) of equity-method investees | | 208 | | - | 57 |
| Others | | 42 | | - | 12 |
| | | 31,378 | | 3,346 | 5,283 |
| Foreign currency forward | | (2,088) | | (574) | - |
| Bad debt expenses | | (434) | | (119) | - |
| | | (2,522) | | (693) | - |
| Total | ₩ | 28,856 | ₩ | 2,653 | ₩ 5,283 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

17.Dividend Information

Dividends for the years ended December 31, 2005 and 2004, are calculated as follows:

| | 2005 | 2004 |
|-------------------------|-------------------|---|
| Number of common shares | 70,000,000 shares | 50,000,000 shares |
| Par value | ₩ 5,000 | ₩ 5,000 |
| Dividend ratio | 12% | Largest shareholder : 6% Other shareholder : 16% |
| Cash dividends | ₩ 42,000,000,000 | ₩ 27,500,000,000 |

Dividend payout ratio for the years ended December 31, 2005, and 2004 is follows:

| | 2005 | 2004 |
|-----------------------|------------------|-------------------|
| Dividend | ₩ 42,000,000,000 | ₩ 27,500,000,000 |
| Net income | ₩ 98,199,192,962 | ₩ 100,382,614,707 |
| Dividend Payout Ratio | 42.8% | 27.4% |

18.Earnings per Share

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

| | 2005 | 2004 |
|---|-------------------|-------------------|
| (1) Weighted average number of common shares outstanding ¹ | 67,397,260 shares | 50,000,000 shares |
| (2) Net income for common shares | ₩ 98,199,192,962 | ₩ 100,382,614,707 |
| (3) Basic earnings per share ((2)/(1)) | ₩ 1,457 | ₩ 2,008 |

¹ The weighted average number of common shares outstanding for the year ended December 31, 2005 is calculated as follows:

| | Number of shares issued | Number of Days outstanding | Weighted Number of Shares |
|-----------------|-------------------------|----------------------------|---------------------------|
| January 1, 2005 | 50,000,000 | 46 days | 2,300,000,000 |
| New issuances | 68,000,000 | 15 days | 1,020,000,000 |
| | 70,000,000 | 304 days | 21,280,000,000 |
| | | 365 days | 24,600,000,000 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

Weighted average number of common shares outstanding:

24,600,000,000 shares / 365 days = 67,397,260 shares

There are no outstanding dilutive securities as of December 31, 2005 and 2004. Accordingly, basic earnings and ordinary income per share are identical to fully diluted earnings per share.

19. Assets and Liabilities Denominated in Foreign Currencies

Significant monetary assets or liabilities denominated in foreign currency as of December 31, 2005 and 2004, other than accounts presented elsewhere in the non-consolidated financial statements are as follows:

| (in millions of Korean won, foreign currencies in thousands) | Foreign Currency | | | | Won Equivalent | |
|---|------------------|---------|-------|---------------------|----------------|---------|
| | US\$ | JPY | EUR | Others ¹ | | |
| Assets | | | | | | |
| Trade accounts receivable | 87,564 | 197,619 | 8,680 | 6,227 | ₩ | 107,045 |
| Other accounts receivable | 13,532 | - | - | 12 | | 13,720 |
| 2005 | 101,096 | 197,619 | 8,680 | 6,239 | ₩ | 120,765 |
| 2004 | 62,199 | - | 1,703 | 1,640 | ₩ | 68,987 |
| Liabilities | | | | | | |
| Trade accounts payable | 59,760 | - | 120 | - | | 60,681 |
| Other accounts payable | 19,186 | 3,701 | 254 | 812 | | 20,583 |
| 2005 | 78,946 | 3,701 | 374 | 812 | ₩ | 81,264 |
| 2004 | 66,108 | 14,325 | 670 | 789 | ₩ | 70,891 |

1 Won equivalent of other foreign currencies.

20. Related Party Transactions

Significant transactions entered into in the ordinary course of business with related parties for the years ended December 31, 2005 and 2004, and the related account balances outstanding as of December 31, 2005 and 2004, are summarized as follows:

| (in millions of Korean won) | | | | |
|-----------------------------|----------|-----------|-------------|----------|
| Companies | Revenues | Purchases | Receivables | Payables |
| Nanjing Kumho Tire | ₩ 24,926 | ₩ 76,650 | ₩ 26,019 | ₩ 7,324 |
| Kumho Tire U.S.A. | 365,853 | 8,116 | 34,337 | 4,497 |
| Kumho Tyre U.K. | 64,606 | 171 | 3,061 | 25 |
| Kumho Tire Europe | 234,581 | 2,843 | 12,129 | 323 |
| Kumho Tire Japan | 26,376 | 34 | 1,699 | 7 |
| Kumho Tire Canada | 45,109 | 273 | 1,061 | 86 |
| Kumho Tyre Australia | 32,962 | 171 | 713 | 21 |
| Kumho Industrial | 2,036 | 15,903 | 1,497 | 1,852 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

| (in millions of Korean won) | | | | |
|-----------------------------------|-----------|-----------|-------------|----------|
| Companies | Revenues | Purchases | Receivables | Payables |
| Kumho Petrochemical | - | 127,667 | - | 44,620 |
| Asiana IDT | - | 13,791 | 27 | 1,408 |
| Korea Integrated Freight Terminal | - | 30,963 | 214 | 5,318 |
| Others | 6,340 | 5,509 | 6,285 | 220 |
| 2005 | ₩ 802,789 | ₩ 282,091 | ₩ 87,042 | ₩ 65,701 |
| 2004 | ₩ 720,083 | ₩ 185,766 | ₩ 47,788 | ₩ 46,848 |

As of December 31, 2005, the Company has provided guarantees for its overseas affiliates (Note 13).

21.Selling and Administrative expenses

Selling and administrative expenses for the years ended December 31, 2005 and 2004, are summarized as follows.

| (in millions of Korean won) | 2005 | 2004 |
|-----------------------------|-----------|-----------|
| Salaries | ₩ 43,366 | ₩ 37,470 |
| Severance benefits | 9,663 | 8,505 |
| Welfare expenses | 7,313 | 5,996 |
| Depreciation | 6,818 | 6,301 |
| Advertising expenses | 26,703 | 28,321 |
| Freight | 100,436 | 98,591 |
| Sales commissions | 14,793 | 8,735 |
| Warranty expense | 8,146 | 11,150 |
| Others | 59,499 | 53,354 |
| | ₩ 276,737 | ₩ 258,423 |

22.Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2005 and 2004 are as follows:

| (in millions of Korean won) | 2005 | | |
|-----------------------------|-------------------------------------|---------------|-----------|
| | Selling and Administrative expenses | Cost of sales | Total |
| Salaries and wages | ₩ 43,366 | ₩ 254,341 | ₩ 297,707 |
| Severance benefits | 9,663 | 46,927 | 56,590 |
| Welfare expenses | 7,313 | 37,913 | 45,226 |
| Rental charges | 8,383 | 2,212 | 10,595 |
| Depreciation | 6,818 | 111,348 | 118,166 |
| Taxes and dues | 3,135 | 9,967 | 13,102 |
| | ₩ 78,678 | ₩ 462,708 | ₩ 541,386 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 adn 2004)

| (in millions of Korean won) | 2004 | | |
|-----------------------------|-------------------------------------|---------------|-----------|
| | Selling and Administrative expenses | Cost of sales | Total |
| Salaries and wages | ₩ 37,470 | ₩ 226,229 | ₩ 263,699 |
| Severance benefits | 8,505 | 61,544 | 70,049 |
| Welfare expenses | 5,996 | 34,708 | 40,704 |
| Rental charges | 6,316 | 1,840 | 8,156 |
| Depreciation | 6,301 | 100,053 | 106,354 |
| Taxes and dues | 2,984 | 9,084 | 12,068 |
| | ₩ 67,572 | ₩ 433,458 | ₩ 501,030 |

23.Environmental Investments

Environmental investments of the Company for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | 2005 | 2004 |
|--|---------|---------|
| Facilities for prevention of air pollution | ₩ 1,222 | ₩ 915 |
| Facilities for sanitation | 573 | 96 |
| Others | 2,364 | 624 |
| Total | ₩ 4,159 | ₩ 1,635 |

24.Contributions for Society

Contributions for society of the Company for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | 2005 | 2004 |
|------------------------------------|---------|---------|
| Scholarship | ₩ 850 | ₩ 224 |
| Donation for social welfare | 394 | - |
| Donation to cultural organizations | 890 | - |
| Others | 290 | 853 |
| Total | ₩ 2,424 | ₩ 1,077 |

As part of its employee welfare program, the Company extends long-term housing loans to its qualified employees. As of December 31, 2005, outstanding loans to employees amounted to ₩680 million (2004: ₩737 million).

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

25. Geographical Segment Information

The Company's sales by geographical segments for the years ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won) | 2005 | 2004 |
|-----------------------------|-------------|-------------|
| Domestic | ₩ 693,380 | ₩ 610,392 |
| North America | 423,176 | 434,617 |
| Europe | 301,812 | 271,960 |
| Asia | 52,489 | 54,846 |
| Others | 301,599 | 274,529 |
| Total | ₩ 1,772,456 | ₩ 1,646,344 |

26. Foreign Currency Forward agreement

The Company has a foreign currency forward agreement to hedge its foreign currency assets and liabilities. Details of foreign currency forward agreement as of December 31, 2005 are as follows:

| (in millions of Korean won, foreign currencies in thousands) | Contract | Valuation gain | Valuation loss |
|---|------------|----------------|----------------|
| Forward exchange | EUR 54,979 | ₩ 2,094 | ₩ 6 |

27. Approval of Financial Statements

The Company's non-consolidated financial statements will be approved by the Board of Directors on March 2, 2006.

28. Operating Results for the Final Interim Period

Significant operating results for the three-month periods ended December 31, 2005 and 2004, are as follows:

| (in millions of Korean won except per share amounts) | 2005 | 2004 |
|---|-------------------|-------------------|
| Sales | ₩ 472,747 | ₩ 451,482 |
| Ordinary income | 42,671 | 45,231 |
| Net income | 31,142 | 33,370 |
| Weighted average number of common shares outstanding | 70,000,000 shares | 50,000,000 shares |
| Basic ordinary income and earnings per share | ₩ 445 | ₩ 667 |

| Notes to non-consolidated Financial Statements |

(December 31, 2005 and 2004)

29. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2005 and 2004 are as follows:

| (in millions of Korean won) | 2005 | 2004 |
|---|----------|-----------|
| Reclassification of current portion of long-term debt | ₩ 291 | ₩ 93,665 |
| Reclassification of construction-in-progress to property, plant and equipment | 82,220 | 161,348 |
| Reclassification from machinery-in-transit to machinery | 7,649 | 8,927 |
| Total | ₩ 90,160 | ₩ 263,940 |

30. Reclassification of prior year financial statement presentation

Certain amounts in the financial statements as of and for the year ended December 31, 2004 have been reclassified to conform to the December 31, 2005 financial statement presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

| Report on the Review of Internal Accounting Control System |

To the President of KUMHO TIRE CO., INC.

We have reviewed the management's report on the operations of the internal accounting control system ("IACS") of KUMHO TIRE CO., INC. (the "Company") as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for reporting on the design and operations of its IACS ("IACS report"). Our responsibility is to review the management's IACS report 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 included inquiries of management and employees, inspection 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 existence as of December 31, 2005. We did not review the Company's IACS after December 31, 2005. This report has been prepared for Korean regulatory 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 IACS Report issued by the Korean Audit Standards Committee on March 29, 2005, they apply only from that date until the date the Final Standards for Management's IACS Report, and the Final Standards for Auditors' Review and Report on Management's IACS Report become effective. A review based on the final standards may have different results and accordingly, the content of any updated report may be different.



January 26, 2006

Notice to Readers

This report is annexed in relation to the audit of the financial statements as of and 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 Stock Companies of the Republic of Korea.

Company Information

| | | |
|-----------------------------|---|-------|
| Headquarters | KUMHO TIRE CO., INC. Kumho Asiana building. 57. Sinmunno 1-ga. Jongno-gu. Seoul. South Korea. | |
| Representative | Oh, Sae-chul | |
| Date of foundation | September 1960 | |
| Total market capitalization | 350 billion won | |
| Employees | Office workers | 929 |
| | Factory workers | 4,249 |
| | Misc | 119 |
| | Total | 5,297 |

Investor Relations Contacts

| | |
|-------------------|--|
| Rhee, Chang-hyeon | Vice President/Strategic Planning & Finance |
| Koo, Sung-lim | Manager/ IR representative at Financing Team |
| Jeon, Gweon-sik | Assistant Manager/ IR representative at Financing Team |

Kumho Asiana Building, 57, Simmun-no 1-ga, Jongro-gu, Seoul, South Korea.

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