

Draft- For discussion purpose only

**WOONGJIN COWAY CO., LTD.**

FINANCIAL STATEMENTS  
FOR THE SIX MONTHS  
ENDED JUNE 30, 2006 AND 2005  
AND INDEPENDENT ACCOUNTANTS'  
REVIEW REPORT

## Independent Accountants' Review Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of  
Woongjin Coway Co., Ltd.:

We have reviewed the accompanying balance sheet of Woongjin Coway Co., Ltd. (the "Company") as of June 30, 2006 and the related statements of income and cash flows for the six months ended June 30, 2006 and 2005, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the Republic of Korea, the balance sheet of the Company as of December 31, 2005, and the related statements of income, appropriations of retained earnings and cash flows for the year then ended (not presented herein) and in our report dated February 17, 2006, we expressed an unqualified opinion on those financial statements. The accompanying balance sheet as of December 31, 2005, which is comparatively presented, does not differ in material respects from such audited balance sheet.

Without affecting our conclusion, we draw attention to the following:

As discussed in Notes 1, 14 and 23 to the financial statements, on May 2, 2005, the Company merged with Woongjin Coway Development Co., Ltd. In relation with the merger, the Company issued 51,840,646 shares in exchange for shares of Woongjin Coway Development Co., Ltd. with merge ratio of 1.060266:1. The merger was accounted for on the basis that Woongjin Coway Development Co., Ltd. as an acquirer. As a result, capital stock, additional-paid-in capital, and goodwill had increased ₩14,189 million, ₩75,085 million and ₩23,471 million, respectively.

As discussed in Note 24 to the financial statements, on October 4, 2005, the Company transferred the Home Electric Appliances division to Woongjin Cuchen Co., Ltd. in order to focus on its principal business of rental business.

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

July 28, 2006

#### Notice to Readers

This report is effective as of July 28, 2006, the accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the accountants' review report.

## WOONGJIN COWAY CO., LTD.

## BALANCE SHEETS

AS OF JUNE 30, 2006 AND DECEMBER 31, 2005

	<u>Korean Won</u>	
	<u>2006</u>	<u>2005</u>
	(In thousands)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 14)	₩ 63,810,708	₩ 18,569,954
Short-term financial instruments (Note 3)	-	100,000
Short-term investment securities (Note 5)	72,929	67,230
Short-term loans	59,222	65,222
Trade receivables, net allowance for doubtful accounts of ₩58,255,181 thousand as of June 30, 2006 and ₩49,318,561 thousand as of December 31, 2005 (Notes 4, 14 and 20)	111,855,464	28,877,664
Accounts receivable-other, net allowance for doubtful accounts of ₩485,268 thousand as of June 30, 2006 and ₩475,106 thousand as of December 31, 2005 (Note 20)	23,574,627	34,461,906
Inventories (Note 6)	47,448,765	42,154,964
Advanced payments, net allowance for doubtful accounts of ₩10,157,966 thousand as of June 30, 2006 and ₩9,817,462 thousand as of December 31, 2005	2,036,421	4,974,657
Prepaid expenses	143,591,636	128,817,681
Current portion of deferred income tax assets (Note 19)	10,448,688	2,282,120
Other current assets	<u>220,482</u>	<u>297,778</u>
Total current assets	<u>403,118,942</u>	<u>260,669,176</u>
NON-CURRENT ASSETS:		
Long-term financial instruments (Note 3)	3,595,500	2,815,500
Long-term investment securities (Note 7)	2,683,765	2,628,950
Equity securities accounted for using the equity method (Notes 8 and 20)	8,042,180	541,874
Guarantee deposits	38,558,604	38,111,122
Other investments	180,000	180,000
Deferred income tax assets (Note 19)	4,167,542	4,185,388
Long-term prepaid expenses	18,500,000	12,500,000
Property, plant and equipment, net of accumulated depreciation of ₩291,197,411 thousand and ₩268,016,384 thousand, and accumulated impairment loss on rental assets of ₩12,081,834 thousand and ₩11,553,378 thousand as of June 30, 2006 and December 31, 2005, respectively (Notes 9 and 20)	381,201,331	369,847,596
Intangible assets, net of amortization (Note 10)	<u>28,818,420</u>	<u>23,673,170</u>
Total non-current assets	<u>485,747,342</u>	<u>454,483,600</u>
Total assets	<u>₩ 888,866,284</u>	<u>₩ 715,152,776</u>

(Continued)

## WOONGJIN COWAY CO., LTD.

## BALANCE SHEETS (CONTINUED)

AS OF JUNE 30, 2006 AND DECEMBER 31, 2005

	Korean Won	
	2006	2005
	(In thousands)	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Trade payables (Note 20)	₩ 38,177,696	₩ 32,605,060
Short-term borrowings (Note 11)	149,704,226	69,758,846
Accounts payable-other (Note 20)	79,385,910	75,656,177
Advanced receipts	131,081,090	108,604,285
Withholdings	7,645,956	3,489,579
Accrued expenses	2,311,638	3,224,340
Income tax payable	28,243,943	14,402,088
Current portion of debentures (Note 12)	46,000,000	46,000,000
Provision for product warranties	373,742	341,879
Provision for return of goods sold	70,488	70,489
Total current liabilities	<u>482,994,689</u>	<u>354,152,743</u>
LONG-TERM LIABILITIES:		
Reserve for accident compensation (Note 13)	6,343,679	5,939,796
Rental deposits provided from customers	2,693,919	9,624,212
Accrued severance benefits, net of payment to National Pension Fund of ₩41,576 thousand and ₩45,415 thousand, and severance insurance of ₩8,305,050 thousand and ₩9,099,848 thousand as of June 30, 2006 and as of December 31, 2005, respectively (Note 2)	7,664,642	3,454,194
Provision for product warranties	10,000	10,000
Total long-term liabilities	<u>16,712,240</u>	<u>19,028,202</u>
Total liabilities	<u>499,706,929</u>	<u>373,180,945</u>

(Continued)

WOONGJIN COWAY CO., LTD.

BALANCE SHEETS (CONTINUED)

AS OF JUNE 30, 2006 AND DECEMBER 31, 2005

	Korean Won	
	2006	2005
	(In thousands)	
COMMITMENTS AND CONTINGENCIES (Note 21)		
SHAREHOLDERS' EQUITY:		
Capital stock (Note 15)	₩ 39,287,797	₩ 39,025,806
Capital surplus (Notes 15 and 17)	113,831,969	76,308,402
Retained earnings (Note 15):		
Legal reserve	6,255,427	3,755,427
Reserve for business rationalization	16,227	16,227
Voluntary reserve	201,459,807	161,459,807
Reserve for corporation development	1,570,000	1,570,000
Before appropriations		
(Net income of ₩26,729,315 thousand for the six months ended June 30, 2006 and ₩60,888,560 thousand for the year ended December 31, 2005)	26,032,669	66,897,556
Capital adjustments:		
Gain on valuation of long-term investment securities	10,793	8,739
Gain (Loss) on valuation of equity securities accounted for using the equity method	(23,572)	38,648
Stock options (Note 15)	718,238	1,828,211
Treasury stock (Note 17)	-	(8,936,992)
	<u>389,159,355</u>	<u>341,971,831</u>
	<u>₩ 888,866,284</u>	<u>₩ 715,152,776</u>

See accompanying notes to financial statements.

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WOONGJIN COWAY CO., LTD.

STATEMENTS OF INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	Korean Won			
	2006		2005	
	Three months (Unreviewed)	Six months	Three months (Unreviewed)	Six months
	(In thousands, except per share amounts)			
SALES (Notes 20 and 25)	₩282,566,330	₩549,395,146	₩245,592,392	₩474,846,959
COST OF GOODS SOLD	<u>97,281,748</u>	<u>195,612,186</u>	<u>93,373,564</u>	<u>171,601,952</u>
GROSS PROFIT	185,284,582	353,782,960	152,218,828	303,245,007
SELLING AND ADMINISTRATIVE EXPENSES (Note 22)	<u>162,195,620</u>	<u>310,926,731</u>	<u>140,381,710</u>	<u>262,925,640</u>
OPERATING INCOME	<u>23,088,962</u>	<u>42,856,229</u>	<u>11,837,118</u>	<u>40,319,367</u>
NON-OPERATING INCOME (EXPENSES):				
Interest expense, net	(2,050,757)	(3,571,910)	(1,377,385)	(2,485,998)
Foreign currency exchange gain (loss), net	144,148	149,672	696	(358)
Foreign currency translation loss, net	(42,353)	(94,617)	(101,923)	(101,923)
Gain (Loss) on disposal of property, plant and equipment, net	104,920	104,920	(12,642)	(16,606)
Loss on valuation of equities securities accounted for using the equity method (Note 8)	(995,439)	(995,439)	(211,265)	(211,265)
Miscellaneous income, net	379,877	543,122	259,309	911,624
Loss on impairment of investment securities	422,177	422,177	-	-
Additional payment of income tax	(1,320,913)	(1,505,112)	(69,549)	(69,549)
Others, net	<u>(124,270)</u>	<u>(204,658)</u>	<u>989,677</u>	<u>364,773</u>
	<u>(3,482,610)</u>	<u>(5,151,845)</u>	<u>(523,082)</u>	<u>(1,609,302)</u>
ORDINARY INCOME	19,606,352	37,704,384	11,314,036	38,710,065
INCOME TAX EXPENSE (Note 19)	<u>5,844,721</u>	<u>10,975,069</u>	<u>2,273,201</u>	<u>9,829,850</u>
NET INCOME	<u>₩ 13,761,631</u>	<u>₩ 26,729,315</u>	<u>₩ 9,040,835</u>	<u>₩ 28,880,215</u>
ORDINARY INCOME/NET INCOME PER COMMON SHARE (Note 18)	<u>₩ 187</u>	<u>₩ 368</u>	<u>₩ 142</u>	<u>₩ 514</u>
DILUTIVE ORDINARY INCOME/NET INCOME PER COMMON SHARE (Note 18)	<u>₩ 187</u>	<u>₩ 368</u>	<u>₩ 142</u>	<u>₩ 512</u>

See accompanying notes to financial statements.

## WOONGJIN COWAY CO., LTD.

## STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	Korean Won			
	2006		2005	
	Three months (Unreviewed)	Six months	Three months Unreviewed)	Six months
	(In thousands)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	₩ 13,761,631	₩ 26,729,315	₩ 9,040,835	₩ 28,880,215
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for severance benefits	3,472,599	6,586,704	3,384,535	4,950,893
Stock compensation expense	617,449	1,339,288	462,834	462,834
Depreciation	32,647,855	64,607,422	30,692,400	58,335,550
Amortization of intangible assets	1,384,292	2,761,105	890,712	935,972
Bad debt expense	4,798,537	9,287,287	-	7,281,474
Impairment loss on rental assets	12,241,507	25,937,766	15,685,039	31,088,888
Loss on valuation of inventories	607,720	1,761,241	1,366,044	1,366,044
Loss (Gain) on disposal of property, plant and equipment, net	(104,920)	(104,920)	12,642	16,606
Loss (Gain) on foreign currency translation, net	66,874	66,874	101,826	101,826
Loss on valuation of equity securities accounted for using the equity method	995,439	995,439	211,265	211,265
Reversal of provision for doubtful accounts	-	-	(631,706)	-
Reversal of provision for product warranties	-	-	(181,391)	(181,391)
Others, net	448,343	449,228	44,204	44,204
Changes in operating assets and liabilities:				
Decrease (Increase) in trade receivables	(82,166,863)	(91,981,294)	80,840,967	35,459,985
Decrease (Increase) in accounts receivable-other	61,620,284	10,888,281	(2,076,771)	403,761
Decrease (Increase) in accrued income	16,116	(44,882)	(43,245)	(43,245)
Decrease (Increase) in advanced payments	3,019,737	(1,094,941)	(3,118,553)	(2,699,691)
Increase in prepaid expenses	(6,931,306)	(14,773,955)	(9,438,153)	(23,696,783)
Decrease in prepaid tax	-	-	1,873,930	1,873,930
Increase in deferred income tax assets	(2,759,905)	(8,148,722)	(8,106,180)	(8,106,180)
Decrease (Increase) in inventories	(8,261,330)	(7,055,927)	4,579,388	465,928
Increase in long-term prepaid expenses	(6,000,000)	(6,000,000)	-	-
Increase (Decrease) in trade payables	2,395,042	5,572,636	(69,178,845)	(45,012,436)
Increase (Decrease) in accounts payable-other	(1,116,315)	3,729,733	(26,455,765)	(22,957,824)
Increase in advanced receipts	13,499,884	22,476,805	12,866,519	24,140,277
Increase (Decrease) in withholdings	(1,272,952)	4,156,377	7,068,835	8,074,652
Increase (Decrease) in income tax payable	(1,506,164)	1,240,549	13,334,973	18,407,019
Decrease in rental deposits provided from customers	(3,386,065)	(6,930,293)	(1,841,543)	(4,485,643)
Payment of severance benefits	(1,302,243)	(3,186,058)	(1,426,561)	(2,720,426)
Decrease in deferred income tax liabilities	-	-	(6,599,701)	(6,599,701)
Increase in other current liabilities	2,976,021	289,816	643,820	884,310
	<u>39,761,267</u>	<u>49,554,874</u>	<u>54,002,354</u>	<u>106,882,313</u>

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## WOONGJIN COWAY CO., LTD.

## STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	Korean Won			
	2006		2005	
	Three months (Unreviewed)	Six months	Three months (Unreviewed)	Six months
	(In thousand)			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Withdrawal of short-term financial instruments, net	₩ 100,000	₩ 100,000	₩ -	₩ -
Disposal of short-term investment securities, net	-	-	230	230
Collection of short-term loans, net	3,000	6,000	12,556	17,222
Withdrawal of long-term financial instruments, net	(390,000)	(780,000)	(249,500)	(246,500)
Disposal (Acquisition) of equity securities accounted for using the equity method	(4,379,975)	(9,264,474)	178	178
Acquisition of long-term investment securities	(352,620)	(352,760)	(25)	(25)
Refund of guarantee deposits	(569,795)	(447,481)	(188,514)	(1,602,864)
Disposal of plant, property, and equipment	12,315,116	15,783,405	6,934,864	11,585,661
Acquisition of property, plant and equipment	(66,422,024)	(116,707,941)	(54,482,750)	(109,044,587)
Acquisition of intangible assets	(4,921,650)	(5,083,150)	(304,898)	(453,306)
	<u>(64,617,948)</u>	<u>(116,746,401)</u>	<u>(48,277,859)</u>	<u>(99,743,991)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds of short-term borrowings	24,850,217	79,945,381	13,690,284	13,690,284
Exercise of stock options	2,114,670	2,114,670	849,398	849,398
Repayment of current portion of debentures	-	-	(10,000,000)	(10,000,000)
Disposal (Acquisition) of treasury stock	54,759,924	54,759,924	(14,563)	(14,563)
Payment of dividends	(24,387,694)	(24,387,694)	(7,334,100)	(7,334,100)
	<u>(57,337,117)</u>	<u>(112,432,281)</u>	<u>(2,808,981)</u>	<u>(2,808,981)</u>
<b>INCREASE IN CASH THROUGH MERGER</b>	-	-	1,792,051	1,792,051
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	32,480,436	45,240,754	4,707,565	6,121,392
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	<u>31,330,272</u>	<u>18,569,954</u>	<u>2,327,633</u>	<u>913,806</u>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<u>₩ 63,810,708</u>	<u>₩ 63,810,708</u>	<u>₩ 7,035,198</u>	<u>₩ 7,035,198</u>

See accompanying notes to financial statements.

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WOONGJIN COWAY CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

1. GENERAL:

Woongjin Coway Co., Ltd. (the "Company") was incorporated in May 1989, under the laws of the Republic of Korea, to manufacture and distribute water purifier, home appliances and facilities for disposal of waste and others.

The Company's shares have been listed on the Korea Stock Exchange since August 7, 2001. Effective May 2, 2005, the Company merged with Woongjin Coway Development Co., Ltd. As the result of mergers and several increases in paid-in capital, the capital stock of the Company as of June 30, 2006 is ₩39,287,797 thousand. In addition, as a result of the extinguishment of treasury stock of 4,200,000 shares, shares issued as of June 30, 2005 is 74,375,593 and its face value is ₩37,187,797 thousand. As of June 30, 2006, majority shareholders of the Company are Seok-kum, Yoon (27.21%) and Woongjin Thinkbig Co., Ltd. (5.15%).

Global Depository Receipts of 7,318,200 accounts (number of common stock: 3,659,100 shares) were issued outside the Republic of Korea on May 3, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

Implementation of Statements of Korea Accounting Standards

The significant accounting policies followed by the Company in the preparation of its financial statements for the six months ended June 30, 2006 are identical to those for the year ended December 31, 2005, except for the adoption of the Statements of Korea Accounting Standards ("SKAS") No. 18 - "Interest in Joint Ventures", No. 19 - "Lease" and No. 20 - "Related Party Disclosures", which were effective from January 1, 2006.

The significant accounting policies followed by the Company in the preparation of its financial statements are summarized below.

### Revenue Recognition

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- 1) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods.
- 2) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- 3) The amount of revenue can be measured reliably.
- 4) It is probable that the economic benefits associated with the transaction will flow to the Company.

Revenue from rental assets is recognized during the period when the rental service is provided.

Revenue from interest, dividends and royalties is recognized when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

The Company uses the reserve method to appropriately cancel future portion of the gross profit due to return of the goods sold. The provision for return of goods sold is based on past experiences. As of June 30, 2006, provision for return of goods sold amounts to W70,488 thousand.

### Cash and Cash Equivalents

Cash and cash equivalents include currency, checks issued by others, other currency equivalents, current deposits, passbook deposits and cash equivalents, which are securities and short-term money market instruments that can be easily converted into cash and whose risk of value fluctuation arising from changes of interest rate is not material. Only investments, with maturities (or date of redemption) of three months or less from the acquisition date, are included as cash equivalents.

### Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on past collection experience and estimated loss on uncollected trade and other receivables.

### Inventories

Inventories are stated at cost or net realizable value, cost being determined by the moving average cost method. If the net realizable value of inventories is lower than cost, inventories are adjusted to net realizable value and the difference between cost and revalued amount is charged to current cost of goods sold. In addition, the physical counting of inventories was not taken as of June 30, 2006.

### Investments in Securities other than those Accounted for Using the Equity Method

#### *Classification of Securities*

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

### *Valuation of Securities*

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

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations.

Available-for-sales securities are also valued at fair value, with unrealized gains or losses included in capital adjustments, until the securities are sold and if the securities are determined to be impaired, the lump-sum cumulative amount of capital adjustments are included in current operations.

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

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

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

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

Equity Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. If the cost of the acquisition exceeded the acquirer's interest in the fair value of the identifiable assets and liabilities at the date of acquisition, the difference is amortized over the period during which future economic benefits are expected to flow to the enterprise. However, if the cost of the acquisition is less than the acquirer's interest in the fair value of the identifiable assets and liabilities, (1) the difference that relates to expectations of future losses and expenses that are identified in the acquirer's plan for the acquisition is recognized as income in the income statement when the future losses and expenses are recognized, (2) otherwise, the difference not exceeding the fair values of acquired identifiable non-monetary assets is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable or amortizable assets, and (3) the difference in excess of the fair values of acquired identifiable non-monetary assets is immediately recognized as income. The Company's share in the net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustments.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment. Depreciation is computed using the declining balance method, based on the estimated useful lives of the assets as enumerated below, except for the buildings and structures acquired after January 1, 1995, which are depreciated using the straight-line method.

	<u>Useful lives (years)</u>
Buildings	25 ~ 40
Structures	7 ~ 25
Machinery and equipment	2 ~ 12
Vehicles	5 ~ 10
Tools	2 ~ 6
Furniture and fixtures	2 ~ 20
Experimental research facility	3
Rental assets	5

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount, as a result of technological obsolescence, rapid declines in market value or other causes of impairment. When it is determined that an asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as the reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

Intangible Assets

Intangible assets are measured initially at its acquisition cost, comprised of the purchase price and any other directly attributable expenditure on preparing the asset for its intended use and are stated at cost, net of amortization, which is determined on a straight-line method over the estimated economic useful lives of five to ten years.

### Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rates of exchange on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services Ltd., which was ₩960.30 and ₩1,013.00 to US \$1.00 at June 30, 2006 and December 31, 2005, respectively.

### Accrued Severance Benefits

Employees with more than one year of service are entitled to receive severance indemnities, based on their length of service and rate of pay, upon termination of their employment. The accrued severance benefits that would be payable assuming all eligible employees were to resign amount to ₩16,011,268 thousand and ₩12,599,457 thousand as of June 30, 2006 and December 31, 2005, respectively.

Individual severance insurance deposits, in which the beneficiary is a respective employee, are presented as deduction from accrued severance benefits.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by offsetting the receivable against severance payments. Such receivables are presented as a deduction from accrued severance benefits.

Actual payment of severance benefits amounted to ₩3,186,058 thousand and ₩2,720,426 thousand for the six months ended as of June 30, 2006 and 2005, respectively.

### Provision for Product Warranties

The Company uses the reserve method to provide for future obligations arising from warranties issued for products sold. Accordingly, all actual warranty related losses are charged to the provision for product warranties. The provision for product warranty is based on past warranty claim experience.

### Income Tax

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets or liabilities. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting and according to the expected reversal date of the specific temporary difference if they are not related to an asset or liability for financial reporting, including deferred tax assets related to carryforwards. Deferred tax assets and liabilities in the same current or non-current classification are offset, if these relate to income tax levied by the same tax jurisdictions.

In addition, deferred income taxes are classified into current and non-current based on the nature of deferral. However, in accordance with the SKAS No. 16, the classification into current and non-current is applied prospectively. Deferred income taxes are recalculated based on the actual tax rate in effect at each balance sheet date.

#### Ordinary Income per Common Share and Net Income per Common Share

Ordinary income per common share and net income per common share are computed by dividing ordinary income (after deduction for tax effect) and net income, respectively, by the weighted average number of common shares outstanding during period. Dilutive ordinary income per common share and net income per share are computed by dividing ordinary income (after deduction for tax effect) and net income, respectively, after addition for the effect of expenses related to diluted securities on net income, by the weighted average number of common shares plus the number of dilutive potential common shares.

#### Reclassification

For comparative purposes, certain accounts in the 2005 financial statements were reclassified to conform to the 2006 financial statement presentation. Such reclassifications had no effect on the net income or the net equity reported in the 2005 financial statements.

### 3. RESTRICTED FINANCIAL INSTRUMENTS:

Financial instruments with withdrawal restrictions as of June 30, 2006 and December 31, 2005 consist of the following:

<u>Account</u>	<u>Description</u>	<u>Korean Won</u>	
		<u>2006</u>	<u>2005</u>
		(In thousands)	
Short-term financial instruments	Installment savings deposits	₩ -	₩ 100,000
Long-term financial instruments	Guarantee deposit for checking accounts	15,500	15,500
		<u>₩ 15,500</u>	<u>₩ 115,500</u>

4. TRANSFER OF RECEIVABLES:

- (1) Receivables transferred to SPC under the Law on Asset Securitization for the six months ended June 30, 2006 and December 31, 2005 are as follows:

<u>Company</u>	<u>Korean Won</u>	
	<u>2006</u>	<u>2005</u>
	(In thousands)	
Coway 1 <sup>st</sup> SPC	<u>₩ 315,010,260</u>	<u>₩ 528,714,166</u>

- (2) Receivables transferred to SPC under the Law on Asset Securitization and uncollected as of June 30, 2006 and December 31, 2005 are as follows:

<u>Company</u>	<u>Korean Won</u>	
	<u>2006</u>	<u>2005</u>
	(In thousands)	
Coway 1 <sup>st</sup> SPC	<u>₩ -</u>	<u>₩ 22,625,535</u>

- (3) Subordinated beneficiary certificates accounted for as trade receivables as of June 30, 2006 and December 31, 2005 are as follows:

<u>Company</u>	<u>Korea Won</u>	
	<u>2006</u>	<u>2005</u>
	(In thousands)	
Coway 1 <sup>st</sup> SPC	<u>₩ -</u>	<u>₩ 22,625,535</u>

As the receivables-trust contract and the relevant special conditions with Hana Bank Co. Ltd. expired on May 12, 2006, the Company closed the trust contract on May 30, 2006.

5. SHORT-TERM INVESTMENT SECURITIES:

Short-term investment securities as of June 30, 2006 and December 31, 2005 consist of the following:

<u>Account</u>	<u>Description</u>	<u>Korean Won</u>	
		<u>2006</u>	<u>2005</u>
		(In thousands)	
Available-for-sale securities	Government bonds	₩ 20	₩ 20
	Beneficiary certificates (*)	<u>72,909</u>	<u>67,210</u>
		<u>₩ 72,929</u>	<u>₩ 67,230</u>

- (\*) The acquisition cost and fair value of beneficiary certificates, whose portfolio included the bonds issued by SK Networks Co., Ltd., as of June 30, 2006 are ₩132,339 thousand and ₩72,909 thousand, respectively.



6. INVENTORIES:

Inventories as of June 30, 2006 and December 31, 2005 consist of the following:

<u>Account</u>	<u>Korean Won</u>	
	<u>2006</u>	<u>2005</u>
	(In thousands)	
Merchandise	₩ 40,973,655	₩ 33,091,334
Finished goods	7,894,061	8,665,351
Raw materials	4,912,299	5,184,766
Materials in transit	385,653	144,144
Merchandise for recycling	-	25,029
Allowance for valuation of inventories	<u>(6,716,903)</u>	<u>(4,955,660)</u>
	<u>₩47,448,765</u>	<u>₩42,154,964</u>

7. LONG-TERM INVESTMENT SECURITIES:

(1) Long-term investment securities as of June 30, 2006 and December 31, 2005 consist of the following:

<u>Account</u>	<u>Description</u>	<u>Korean Won</u>	
		<u>2006</u>	<u>2005</u>
		(In thousands)	
Available-for-sale securities	Equity securities stated at fair value	₩ 10,794	₩ 8,740
	Equity securities stated at acquisition cost	2,219,880	2,219,880
	Debt securities	453,091	400,330
		<u>₩ 2,683,765</u>	<u>₩ 2,628,950</u>

(2) Equity securities stated at fair value included in long-term investment securities as of June 30, 2006 consist of the following:

<u>Company</u>	<u>Ownership percentage (%)</u>	<u>Korean Won</u>		
		<u>Acquisition cost</u>	<u>Book value</u>	<u>Fair value</u>
		(In thousands)		
Tong Yang Investment Bank	0.0006	<u>₩ 1</u>	<u>₩ 10,794</u>	<u>₩ 10,794</u>

- (3) Equity securities stated at acquisition cost included in long-term investment securities as of June 30, 2006 and December 31, 2005 consist of the following:

Company	Ownership percentage (%)	Korean Won			
		2006		2005	
		Acquisition cost	Book value	Acquisition cost	Book value
(In thousands)					
McScience Inc.	5.90	₩ 1,133,760	₩ 1,133,760	₩ 1,133,760	₩ 1,133,760
Nextelecom Co., Ltd.	1.20	98,516	98,516	98,516	98,516
Coway 1 <sup>st</sup> SPC	10.00	1,000	1,000	1,000	1,000
Woongjin Foods Co., Ltd.	5.07	739,810	739,810	739,810	739,810
Woongjin Cuchen Co., Ltd.	0.24	4,089	4,089	4,089	4,089
Booxen Co., Ltd.	0.49	140,900	140,900	140,900	140,900
Academy Infra Corp.	7.84	165,100	1	165,100	1
Kirin Music Publishing Co., Ltd.	12.06	96,500	96,500	96,500	96,500
Korea Management Association Media	1.96	1	1	1	1
Korea Water Purifier Industry Cooperative	3.45	5,300	5,300	5,300	5,300
Others		<u>1,481,733</u>	<u>3</u>	<u>1,481,733</u>	<u>3</u>
		<u>₩ 3,866,709</u>	<u>₩ 2,219,880</u>	<u>₩ 3,866,709</u>	<u>₩ 2,219,880</u>

Equity securities are stated at acquisition cost because they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

- (4) Debt securities as of June 30, 2006 and December 31, 2005 consist of the following:

	Korean Won			
	2006		2005	
	Face value	Book value	Face value	Book value
(In thousands)				
Subordinated bonds	₩ 2,250,000	₩ 100,001	₩ 2,250,000	₩ 400,000
Government bonds	<u>353,090</u>	<u>353,090</u>	<u>330</u>	<u>330</u>
	<u>₩ 2,603,090</u>	<u>₩ 453,091</u>	<u>₩ 2,250,330</u>	<u>₩ 400,330</u>

The Company evaluated the subordinated bonds as the carrying amount; thus, the difference between the acquisition cost and the collectable value amounting to ₩299,999 thousand and the remaining balance of the related accrued interest amounting to ₩122,178 thousand is accounted for as impairment loss on long-term investment securities. In addition, the above debt securities are due over 1 through 5 years.

8. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

- (1) Equity securities accounted for using the equity method as of June 30, 2006 and December 31, 2005 consist of the following:

(As of June 30, 2006)

<u>Affiliated company</u>	Ownership percentage (%)	Korean Won		
		<u>Acquisition cost</u>	<u>Net asset value</u>	<u>Book value</u>
		(In thousands)		
Woongjin Japan Co., Ltd.	50.00	₩ 4,434,045	₩ 1,362,942	₩ 1,261,397
Woongjin USA Inc.	35.00	395,176	-	1
Platinum Media Co., Ltd.	15.75	300,001	-	1
Woong Jin Coway (Shenyang) Living Goods Co., Ltd. (*)	91.13	5,496,044	5,801,580	5,282,940
Woong Jin Coway (Thailand) Co., Ltd.	99.99	886,986	-	1
Woongjin Coway (M) Sdn Bhd.	100.00	1,497,840	1,497,840	1,497,840
		<u>₩ 13,010,092</u>	<u>₩ 8,662,362</u>	<u>₩ 8,042,180</u>

(\*) Woong Jin Cosmetic., Ltd. was renamed to Woong Jin Coway (Shenyang) Living Goods Co., Ltd.

There are cumulative losses of ₩374,810 thousand for Platinum Media Co., Ltd. and ₩137,943 thousand for Woong Jin Coway (Thailand) Co., Ltd. not recognized by the Company due to the suspension of the valuation of equity securities using the equity method as of June 30, 2006.

The company deducted ₩706,509 thousand, the unrecognized cumulative loss for prior years for Woong jin Japan Co., Ltd. from the equity securities accounted for using the equity method and debited unappropriated retained earnings when it participated in the issuance of new shares.

In addition, equity securities are valued based on the unaudited financial statements and the management of the Company did not expect any significant differences between the unaudited financial statements and the audited financial statements.

(As of December 31, 2005)

<u>Affiliated company</u>	Ownership percentage (%)	Korean won		
		<u>Acquisition cost</u>	<u>Net asset value</u>	<u>Book value</u>
		(In thousands)		
Woongjin Japan Co., Ltd.	42.86	₩ 1,551,910	₩ -	₩ 1
Woongjin USA Inc.	35.00	395,176	-	1
Platinum Media Co., Ltd.	15.75	300,001	-	1
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	36.00	611,544	604,575	541,870
Woong Jin Coway (Thailand) Co., Ltd.	99.99	886,986	-	1
		<u>₩ 3,745,617</u>	<u>₩ 604,575</u>	<u>₩ 541,874</u>

- (2) The changes in equity securities accounted for using the equity method for the six months ended June 30, 2006 and for the year ended December 31, 2005 are as follows:

(For the six months ended June 30, 2006)

Affiliated company	Korean Won				
	Beginning of the period	Acquisition	Gain (loss) on valuation	Other Changes	End of the period
	(In thousands)				
Woongjin Japan Co., Ltd.	₩ 1	₩ 2,882,134	₩ (985,073)	₩ (635,665)	₩ 1,261,397
Woongjin USA Inc.	1	-	-	-	1
Platinum Media Co., Ltd.	1	-	-	-	1
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	541,870	4,884,500	(10,366)	(133,064)	5,282,940
Woong Jin Coway (Thailand) Co., Ltd.	1	-	-	-	1
Woongjin Coway (M) Sdn Bhd.	-	1,497,840	-	-	1,497,840
	<u>₩ 541,874</u>	<u>₩ 9,264,474</u>	<u>₩ (995,439)</u>	<u>₩ (768,729)</u>	<u>₩ 8,042,180</u>

(\*)Other changes for Woongjin Japan Co., Ltd. occurred due to the recognition of the cumulative loss unrecognized for prior years and the changes in capital adjustment and those for Woong Jin Coway (Shenyang) Living Goods Co., Ltd. occurred due to the changes in equity method valuation.

(For the year ended December 31, 2005)

Affiliated company	Korean Won				
	Beginning of the year	Acquisition	Gain (loss) on valuation	Other changes	End of the year
	(In thousands)				
Woongjin Japan Co., Ltd.	₩ 232,476	₩ -	₩ (246,030)	₩ 13,555	₩ 1
Woongjin USA Inc.	1	-	-	-	1
Platinum Media Co., Ltd.	-	300,001	300,000	-	1
Woongjin Coway (Shenyang) Living Goods Co., Ltd.	-	611,544	(91,036)	21,362	541,870
Woong Jin Coway (Thailand) Co., Ltd.	-	886,986	(904,271)	17,286	1
	<u>₩ 232,477</u>	<u>₩ 1,798,531</u>	<u>₩ (1,541,337)</u>	<u>₩ 52,203</u>	<u>₩ 541,874</u>

- (3) The changes in the excess of cost over book value for the six months ended June 30, 2006 and for the year ended December 31, 2005 are as follows:

(For the six months ended June 30, 2006)

Affiliated company	Korean Won			
	Beginning of the period	Acquisition	Amortization	End of the period
	(In thousands)			
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	₩ (62,705)	₩ (492,585)	₩ 58,900	₩ (496,790)
Woong Jin Coway (Thailand) Co., Ltd.	257,523	-	(32,190)	225,333
Woongjin Japan Co., Ltd.	95,757	133,712	(25,341)	204,128
	<u>₩ 290,575</u>	<u>₩ (358,873)</u>	<u>₩ 969</u>	<u>₩ 967,329</u>

(For the year ended December 31, 2005)

<u>Affiliated company</u>	<u>Korean Won</u>			
	<u>Beginning of the year</u>	<u>Acquisition</u>	<u>Amortization</u>	<u>End of the year</u>
	(In thousands)			
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	₩ -	₩ (92,419)	₩ 29,714	₩ (62,705)
Woong Jin Coway (Thailand) Co., Ltd.	-	321,904	(64,381)	257,523
Woongjin Japan Co., Ltd.	<u>119,696</u>	<u>-</u>	<u>(23,939)</u>	<u>95,757</u>
	<u>₩ 119,696</u>	<u>₩ 229,485</u>	<u>₩ (58,606)</u>	<u>₩ 290,575</u>

(4) Among the difference between the acquisition cost and the Company's portion other than goodwill, the amount realized for the six months ended June 30, 2006 is as follows:

<u>Affiliated Company</u>	<u>Korean Won</u>
	(In thousands)
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	₩ 21,850
Woongjin Japan Co., Ltd.	<u>305,674</u>
	<u>₩ 327,524</u>

(5) Condensed financial information of the investee accounted for using the equity method as of and for the relevant cut-off date is as follows:

<u>Affiliated company</u>	<u>Korean Won</u>				<u>Cut-off date</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>	
	(In thousands)				
Woongjin Japan Co., Ltd.	₩ 12,097,087	₩ 9,371,202	₩ 2,398,797	₩ (1,192,440)	2006.6.30
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	12,535,141	6,168,873	3,471,249	8,221	2006.6.30
Platinum Media Co., Ltd.	8,305,310	10,685,055	23,081,775	397,227	2006.6.30
Woong Jin Coway (Thailand) Co., Ltd.	3,563,599	3,809,244	1,004,476	120,671	2006.6.30

9. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipments as of June 30, 2006 and December 31, 2005 consist of the following:

	Korean Won	
	2006	2005
	(In thousands)	
Land	₩ 9,900,274	₩ 6,448,665
Buildings	11,984,141	15,408,136
Structures	249,087	391,524
Machinery and equipment	3,363,469	2,787,537
Vehicles	123,410	127,158
Furniture and fixtures	57,979,282	53,106,353
Rental assets	579,665,514	561,194,060
Tools	10,841,987	8,037,187
Experimental research facility	2,075,603	1,261,022
Construction-in-progress	<u>8,297,809</u>	<u>655,716</u>
	684,480,576	649,417,358
Less: Accumulated depreciation	(291,197,411)	(268,016,384)
Accumulated loss on impairment of rental assets	<u>(12,081,834)</u>	<u>(11,553,378)</u>
	<u>₩381,201,331</u>	<u>₩369,847,596</u>

(2) The changes in the book value of property, plant and equipment for the six months ended June 30, 2006 and for the year ended December 31, 2005 are as follows:

(For the six months ended June 30, 2006)

	Korean Won					End of the period
	Beginning of the period	Acquisition	Disposal	Depreciation	Transfer	
	(In thousands)					
Land	₩ 6,448,665	₩ 7,878,788	₩ 4,427,179	₩ -	₩ -	₩ 9,900,274
Buildings	15,117,388	488,805	3,817,427	208,607	-	11,580,159
Structures	338,201	94,860	206,568	39,577	-	186,916
Vehicles	106,399	-	3,144	13,773	-	89,482
Machinery and equipment	2,550,753	582,900	6,113	218,124	-	2,909,416
Furniture and fixtures	27,119,942	4,872,928	-	4,991,401	-	27,001,469
Rental assets	309,661,059	91,852,136	32,610,305	57,649,725	-	311,253,165
Tools	6,798,371	2,804,801	-	1,204,825	-	8,398,347
Experimental research facility	1,051,102	814,582	-	281,390	-	1,584,294
Construction-in-progress	<u>655,716</u>	<u>7,318,141</u>	<u>545,515</u>	<u>-</u>	<u>869,467</u>	<u>8,297,809</u>
	<u>₩369,847,596</u>	<u>₩116,707,941</u>	<u>₩41,616,251</u>	<u>₩64,607,422</u>	<u>₩869,467</u>	<u>₩381,201,331</u>

(\*) Disposal of rental asset include loss on impairment of rental assets amounting to ₩25,937,766 thousand.

(For the year ended December 31, 2005)

	Korean Won					
	Beginning of year	Acquisition	Disposal	Depreciation	Merger / Transfer	End of year
	(In thousands)					
Land	₩ -	₩ -	₩ -	₩ -	₩ 6,448,665	₩ 6,448,665
Buildings	-	815,680	-	290,747	14,592,455	15,117,388
Structures	-	-	-	53,323	391,524	338,201
Vehicles	8,791	-	7,888	21,634	127,130	106,399
Machinery and equipment	-	909,869	-	252,259	1,893,143	2,550,753
Furniture and fixtures	20,743,539	13,005,247	35,841	8,479,604	1,886,601	27,119,942
Rental assets	316,696,978	176,004,894	70,334,135	112,706,678	-	309,661,059
Tools	-	5,070,647	-	1,978,502	3,706,226	6,798,371
Experimental research facility	-	1,023,254	-	241,418	269,266	1,051,102
Construction-in- progress	-	655,716	703,068	-	703,068	655,716
	<u>₩337,449,308</u>	<u>₩197,485,307</u>	<u>₩ 71,080,932</u>	<u>₩124,024,165</u>	<u>₩30,018,078</u>	<u>₩ 369,847,596</u>

(\*) Disposal for rental asset include loss on impairment of rental assets amounting to ₩50,428,831 thousand

- (3) As of June 30, 2006, inventories and property, plant and equipment are insured for ₩133,020,951 thousand. In addition, the Company carries general insurance for vehicles, individual severance insurance, workers' compensation and casualty insurance for employees and the liability insurance for reparation for directors. In addition, the above insurance is pledged as collateral up to ₩2,000,000 thousand to Shinhan Bank.
- (4) As of June 30, 2006, the published value of the Company-owned land (66,672 square meters) totals ₩9,212,796 thousand in terms of land prices officially announced by the Korean government.
- (5) The Company sold its factories and related land located in Incheon to Woongjin Cuchen Co., Ltd. at ₩9,101,608 thousand, and the difference between net book value and the consideration amounting to ₩104,926 thousand was accounted for non-operating income. In addition, the Company purchased the factories located in Kumcheon, Seoul, from Woongjin Cuchen Co., Ltd.

#### 10. INTANGIBLE ASSETS:

- (1) Intangible assets as of June 30, 2006 and December 31, 2005 consist of the following:

(As of June 30, 2006)

	Korean Won		
	Acquisition cost	Accumulated amortization	Book value
	(In thousands)		
Goodwill	₩ 23,941,598	₩ 5,900,102	₩ 18,041,496
Industrial property rights	208,838	45,928	162,910
Others	3,872,830	822,047	3,050,783
Software development cost	7,563,231	-	7,563,231
	<u>₩ 35,586,497</u>	<u>₩ 6,768,077</u>	<u>₩ 28,818,420</u>

(As of December 31, 2005)

	Korean Won		
	Acquisition cost	Accumulated amortization	Book value
	(In thousands)		
Goodwill	₩ 23,941,598	₩ 3,529,472	₩ 20,412,126
Industrial property rights	208,838	30,136	178,702
Others	3,529,706	447,364	3,082,342
	<u>₩ 27,680,142</u>	<u>₩ 4,006,972</u>	<u>₩ 23,673,170</u>

(2) The changes in intangible assets for the six months ended June 30, 2006 and for the year ended December 31, 2005 are as follows:

(For the six months ended June 30, 2006)

	Korean Won				
	Beginning of the period	Addition	Amortization	Other changes	End of the period
	(In thousands)				
Goodwill	₩ 20,412,126	₩ -	₩ 2,370,630	₩ -	₩ 18,041,496
Industrial property rights	178,702	-	15,792	-	162,910
Others	3,082,342	343,124	374,683	-	3,050,783
Software development cost	-	4,740,026	-	2,823,205	7,563,231
	<u>₩ 23,673,170</u>	<u>₩ 5,083,150</u>	<u>₩ 2,761,105</u>	<u>₩ 2,823,205</u>	<u>₩ 28,818,420</u>

(For the year ended December 31, 2005)

	Korean Won				
	Beginning of the year	Addition	Amortization	Merger (*)	End of the year
	(In thousands)				
Goodwill	₩ 117,648	₩ -	₩ 3,176,527	₩ 23,471,005	₩ 20,412,126
Industrial property rights	33,193	46,125	57,843	157,227	178,702
Development cost	-	-	50,650	50,650	-
Other	495,478	2,500,294	363,262	449,832	3,082,342
	<u>₩ 646,319</u>	<u>₩ 2,546,419</u>	<u>₩ 3,648,282</u>	<u>₩ 24,128,714</u>	<u>₩ 23,673,170</u>

(\*)The amounts are due to the Company's merger with the Woongjin Coway Development Co., Ltd.

## 11. BORROWINGS:

Short-term borrowings as of June 30, 2006 and December 31, 2005 consist of the following:

Lender	Description	Annual interest rate (%)	Korean Won	
		2006	2006	2005
			(In thousands)	
Kookmin Bank	Purchase loans	4.70	₩ 9,940,068	₩ -
Shinhan Bank	Purchase loans	4.70	29,122,555	16,399,264
Woori Bank	Purchase loans	4.70	17,722,205	327,165
Korea Development Bank	Purchase loans	4.71	7,930,842	7,819,255
Citibank Korea	Purchase loans	4.70	7,727,391	-
Hana Bank	Purchase loans and others	4.65~4.76	72,261,165	24,479,313
Korean French Banking Corp	Discounted notes	4.60	5,000,000	-
			<u>₩ 149,704,226</u>	<u>₩ 69,758,846</u>



12. DEBENTURES:

Debentures as of June 30, 2006 and December 31, 2005 are as follows:

Description	Issuance date	Maturity date	Interest (%)	Korean Won	
				2006	2005
(In thousands)					
15 <sup>th</sup> private debentures	2003.10.02	2006.10.02	6.50	₩ 16,000,000	₩ 16,000,000
16 <sup>th</sup> private debentures	2003.10.13	2006.10.13	5.69	10,000,000	10,000,000
17 <sup>th</sup> private debentures	2005.10.14	2006.10.14	4.90	10,000,000	20,000,000
18 <sup>th</sup> private debentures	2004.02.23	2007.02.23	5.30	10,000,000	10,000,000
				46,000,000	46,000,000
	Less: Current portion			46,000,000	46,000,000
				₩ -	₩ -

13. RESERVE FOR ACCIDENT COMPENSATION:

The Company pays commission fee to the sales agencies and certain portion of the commission is deducted and accounted as reserve for accident compensation in order to prevent insolvency of sales agencies. Accordingly, all actual insolvency related losses are charged to the reserve.

14. FOREIGN CURRENCY DENOMINATED ASSETS:

The assets denominated in foreign currencies as of June 30, 2006 are as follows:

	Foreign currencies		Korean Won	
	2006		2006	
(In thousands)				
Cash and cash equivalents	USD	262,399	₩	251,982
	EUR	1,301,932		1,583,058
	JPY	9,579,649		79,897
Trade receivables	USD	1,719,475		1,651,212
	THB	102,233,431		2,554,813
	JPY	131,848,914		1,099,659
	USD	1,981,874	₩	7,220,621
	EUR	1,301,932		
	JPY	141,428,563		
	THB	102,233,431		

15. CAPITAL STOCK AND CAPITAL SURPLUS:

(1) Common stock as of June 30, 2006 is as follows:

Authorized (shares)	Issued and Outstanding (shares)	Par value	Korean Won
200,000,000	74,375,593	₩ 500	₩ 39,287,797

Due to the retirement of treasury stock, face value of stock issued amounting to ₩37,187,797 thousand differs from the capital stock amount.

(2) Changes in common stock for the six months ended June 30, 2006 are as follows (Unit: Korean Won in thousands):

<u>Date</u>	<u>Description</u>	<u>Issued</u>	<u>Capital stock</u>	<u>Additional paid-in-capital</u>
Beginning of period		73,851,611 shares	₩ 39,025,806	₩ 76,308,195
April 10, 2006	Exercise of stock options	411,511 shares	205,756	3,113,597
June 23, 2006	Exercise of stock options	112,471 shares	56,235	1,188,344
End of period		<u>74,375,593 shares</u>	<u>₩ 39,287,797</u>	<u>₩ 80,610,136</u>

Increase in additional-paid-in capital as a result of exercise of stock option includes transfer from stock options at capital adjustment amounting to ₩2,449,262 thousand.

(3) Changes in common stock for the year ended December 31, 2005 are as follows (Unit: Korean Won in thousands):

<u>Date</u>	<u>Description</u>	<u>Issued</u>	<u>Capital stock</u>	<u>Additional paid-in-capital</u>
Beginning of year	(*)	48,894,000 shares	₩ 24,447,000	₩ 130,558
Mar. 2, 2005	(**)	24,177,736 shares	14,188,868	75,085,148
Jun. 22, 2005	Exercise of stock options (***)	714,875 shares	357,438	561,439
July 11, 2005	Exercise of stock options	65,000 shares	32,500	531,050
End of year		<u>73,851,611 shares</u>	<u>₩ 39,025,806</u>	<u>₩ 76,308,195</u>

(\*) Number of shares, capital stock and additional-paid-in capital as of January 1, 2005 are those of Woongjin Coway Development Co., Ltd.

(\*\*) The difference of the shares issued is the difference between the number of shares for Woongjin Coway Development Co., Ltd., as actual acquirer, prior to the merger and the number of shares for Woongjin Coway Co., Ltd., as an acquirer according to corporate tax law, subsequent to the merger. The effect of the extinguishment of treasury stock of 4,200,000 shares was not considered at the table above.

(\*\*\*) Increase in additional-paid-in capital as a result of exercise of stock options includes transfer from stock options in capital adjustment amounting to ₩69,479 thousand.

(4) Appropriations of retained earnings:

Appropriations of retained earnings for the year ended December 31, 2005 were approved at the shareholders' meeting on March 24, 2006 and consist of the following:

<u>Korean Won</u>	
<u>(In thousands)</u>	
Appropriated:	
Legal reserve	₩ 2,500,000
Voluntary reserve	40,000,000
Cash dividends	<u>24,387,694</u>
	<u>₩ 66,887,694</u>

16. STOCK OPTOINS:

(1) Stock options granted by Woongjin Coway Co., Ltd. as of June 30, 2006 are as follows:

Description	1st grant by Woongjin Coway Co., Ltd. prior to the merger	1st grant by Woongjin Coway Co., Ltd. after the merger
Granted shares	388,000	440,000
Remaining shares	56,400	440,000
Grant date	2000.3.17	2006.3.13
Exercise price	₩ 3,200	₩ 27,050
Exercisable period	2003.3.17~2008.3.16	2008.3.13~2013.3.13
Risk-free interest rate	9.04%	5.12%
Expected return on dividend	13.75%	42.00%
Expected expiry rate	0.00%	0.00%
Expected exercise period	5 years	5 years

(2) The changes of stock options for the six months ended June 30, 2006 are as follows:

Korean Won			
Beginning of period	Increase in compensation expense (*1)	Decrease as exercised (*2)	End of period
(In thousands)			
1,828,211	1,339,289	2,449,262	718,238

- (\*1) The compensation expense related with stock options calculated by the fair value approach using the option-pricing model was ₩1,339,289 thousand for the six months ended June 30, 2006, and ₩3,591,189 thousand will be accounted for as compensation expense after June 30, 2006.
- (\*2) For the six months ended June 30, 2006, 523,982 shares of the stock options were exercised, and the decreased amount of the stock options in the capital adjustment was transferred to the capital surplus.

17. TREASURY STOCK

On May 3, 2006, The Company sold all 2,123,094 shares of treasury stock for ₩54,759,924 thousand by issuing the GDR outside the Republic of Korea. As a result of the transaction above, the gain on disposition of treasury stock after deducting the deferred tax effect amounting ₩33,221,626 thousand was accounted for as other capital surplus.

18. EARNINGS PER SHARE:

Ordinary income per share and net income per share are computed by dividing ordinary income (after deduction of income tax) and net income, respectively, by the weighted average number of shares outstanding during the period.

(1) The weighted average number of shares outstanding for the six months ended June 30, 2006 is computed as follows:

	<u>Number of shares (1)</u>	<u>Weighted average (2)</u>	<u>(1) x (2)</u>
Beginning of period	71,728,511	99	7,101,122,589
Exercise of stock options	72,140,022	22	1,587,080,484
Disposal of treasury stock	74,263,122	52	3,861,682,344
Exercise of stock options	74,375,593	8	<u>595,004,744</u>
Total		181	<u><u>13,144,890,161</u></u>

Weighted average number of shares outstanding = 13,144,890,161 shares ÷ 181 days = 72,623,703 shares

(2) The weighted average number of shares outstanding for the three months ended June 30, 2006 is computed as follows:

	<u>Number of shares (1)</u>	<u>Weighted average (2)</u>	<u>(1) x (2)</u>
Beginning of period	71,728,511	9	645,556,599
Merger	72,140,022	22	1,587,080,484
Acquisition of treasury stock	74,263,122	52	3,861,682,344
Exercise of stock options	74,375,593	8	<u>595,004,744</u>
Total		91	<u><u>6,689,324,171</u></u>

Weighted average number of shares outstanding = 6,689,324,171 shares ÷ 91 days = 73,509,057 shares

(3) The weighted average number of shares outstanding for the six months ended June 30, 2005 is computed as follows:

	<u>Number of shares (1)</u>	<u>Weighted average (2)</u>	<u>(1) x (2)</u>
Beginning of period	48,894,000	121	5,916,174,000
Merger	70,949,836	22	1,560,896,392
Acquisition of treasury stock	70,948,642	29	2,057,510,618
Exercise of stock options	71,663,517	9	<u>644,971,653</u>
Total		181	<u><u>10,179,552,663</u></u>

Weighted average number of shares outstanding = 10,179,552,663 shares ÷ 181 days = 56,240,622 shares

(4) The weighted average number of shares outstanding for the three months ended June 30, 2005 is computed as follows:

	<u>Number of shares (1)</u>	<u>Weighted average (2)</u>	<u>(1) x (2)</u>
Beginning of period	48,894,000	31	1,515,714,000
Merger	70,949,836	22	1,560,896,392
Acquisition of treasury stock	70,948,642	29	2,057,510,618
Exercise of stock options	71,663,517	9	<u>644,971,653</u>
Total		91	<u><u>5,779,092,663</u></u>

Weighted average number of shares outstanding = 5,779,092,663 shares ÷ 91 days = 63,506,513 shares

- (5) Basic ordinary income per common share and net income per common share for the three months and six months ended June 30, 2006, and 2005 are computed as follows:

	Korean Won			
	Three months (Unreviewed)		Six months	
	2006	2005	2006	2005
	(In thousands, except per share amounts)			
Net income available to common share	₩ 13,761,631	₩ 9,040,834	₩ 26,729,315	₩ 28,880,215
Weighted average number of common shares outstanding	73,509,057 shares	63,506,513 shares	72,623,703 shares	56,240,622 shares
Ordinary income per common share	₩ 187	₩ 142	₩ 368	₩ 514

- (6) Diluted ordinary income per common share and diluted net income per common share for the six months ended June 30, 2005 are computed as follows:

	Korean Won
	(In thousands, except per share amounts)
Net income available to common share	₩ 28,880,215
The effect of expenses related to diluted securities (*)	31,570
Ordinary income/ net income, after addition for the effect of expenses related to diluted securities (**)	28,911,785
Weighted average number of common shares outstanding	56,240,622
Weighted average number of common shares plus the number of dilutive potential common shares	<u>277,597</u>
Total	<u>56,518,219</u>
Diluted ordinary income per common share and diluted net income per common share	<u>₩ 512</u>

(\*) The effect of expenses related to diluted securities is calculated net of income tax effect, and the effect of the 4<sup>th</sup> stock option granted by Woongjin Coway Development Co., Ltd. was not considered in calculating the effect of expenses related to diluted securities as the effect of dilution is anti-dilutive.

(\*\*) As there is no extraordinary item, the ordinary income and net income is the same.

In addition, as there are no diluted securities as of June 30, 2006, diluted ordinary income and net income per common share for the six months ended June 30, 2006 is the same with ordinary and net income per common share, respectively.

- (7) Ordinary income per common share and net income per common share for the three months ended March 31, 2006 are ₩176, respectively, and ordinary income per common share and net income per common share for the year ended December 31, 2005 are ₩951, respectively.

19. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS:

(1) Income tax expense for the six months ended June 30, 2006 and 2005 is computed as follows:

	Korean Won			
	Three months (Unreviewed)		Six months	
	2006	2005	2006	2005
	(In thousands)			
Income tax currently payable	₩ 20,980,505	₩ 18,956,595	₩ 28,349,071	₩ 24,535,731
Changes in deferred income taxes due to disposal of treasury stock	(2,534,478)	-	(4,772,696)	-
Changes in deferred income taxes due to temporary differences	(12,601,306)	(16,683,394)	(12,601,306)	(14,705,881)
Income tax expense	<u>₩ 5,844,721</u>	<u>₩ 2,273,201</u>	<u>₩ 10,975,069</u>	<u>₩ 9,829,850</u>

(2) Tax reconciling items between financial accounting income and taxable income for the six months ended June 30, 2006 and 2005 are computed as follows:

	Korean Won			
	Three months (Unreviewed)		Six months	
	2006	2005	2006	2005
	(In thousands)			
Income before tax	₩ 19,606,352	₩ 11,314,036	₩ 37,704,384	₩ 38,710,065
Temporary differences	11,705,825	22,469,525	18,930,703	13,691,558
Others	45,792,568	31,149,077	48,076,443	32,831,779
Taxable income	<u>₩ 77,104,745</u>	<u>₩ 64,932,638</u>	<u>₩ 104,711,530</u>	<u>₩ 85,233,402</u>

(3) The changes in accumulated temporary differences for the six months ended June 30, 2006 are computed as follows  
(Unit: Korean won in thousands):

	Beginning (*)	Decrease	Increase	Ending
Short term investment securities	₩ 135,439	₩ 5,699	₩ -	₩ 129,740
Allowances for doubtful accounts	648,051	-	-	648,051
Bad debt expense	58,568,983	58,568,983	66,730,256	66,730,256
Accrued interest income	(297,778)	364,975	297,778	(364,975)
Prepaid interest	(120,220,940)	134,361,336	120,220,940	(134,361,336)
Inventory reserve	4,955,661	5,040,735	6,175,824	6,090,750
Equity securities accounted for using the equity methods	9,422,509	-	1,764,169	11,186,678
Long-term investment securities	1,756,854	-	422,177	2,179,031
Land	(1,616,713)	-	1,616,713	-
Impairment losses on property	11,553,378	11,553,378	12,081,834	12,081,834
Goodwill	(7,957,147)	2,535,823	2,347,100	(8,145,870)
Intangible assets	848,783	147,224	-	701,559
Unpaid expense	-	-	2,154,489	2,154,489
Advanced receipts	82,445,633	82,445,633	98,211,778	98,211,778
Provision for return of goods sold	70,488	-	-	70,488
Provision for warranties	341,879	341,879	373,743	373,743
Provision for severance benefits	7,514,259	-	-	7,514,259
Individual severance insurance deposits	(7,514,259)	-	-	(7,514,259)
Reserve for business losses	(1,700,000)	-	850,000	(850,000)
Reserve for treasury stock	(3,230,000)	-	3,230,000	-
Treasury stock	2,180,433	2,359,787	179,354	-
Others	3,546,621	-	-	3,546,621
	41,452,134	<u>₩ 297,725,452</u>	<u>₩ 316,656,155</u>	60,382,837
Exception(**)	<u>(5,657,464)</u>			<u>(7,232,910)</u>
Total	35,794,669			53,149,927
Statutory tax rate	27.5%			27.5%
Deferred income tax assets	<u>₩ 9,843,534</u>			<u>₩ 14,616,230</u>

(\*) As a result of the tax adjustments subsequent to the closing of the book, difference between the deferred tax assets at beginning of 2006 amounting to ₩6,313,508 was incurred.

(\*\*) The Company did not recognize deferred income tax assets related to bad debt expense, equity securities accounted for using the equity method, goodwill and others since the probability of its realization in the near future is uncertain.

(4) The inter-period income tax allocation for the six months ended June 30, 2006 is as follows:

	Amount	Income tax expense
	(In thousands)	
Ordinary income	₩ 37,704,384	₩ 10,975,069
Capital stock	<u>45,822,932</u>	<u>12,601,306</u>
Total	<u>₩ 83,527,316</u>	<u>₩ 23,576,375</u>

(5) The deferred income tax assets and liabilities as of June 30, 2006 are as follows:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
	(In thousands)		
Deferred income tax assets	₩ 47,732,173	₩ 6,233,963	₩ 53,966,136
Deferred income tax liabilities	<u>(37,283,485)</u>	<u>(2,066,421)</u>	<u>(39,349,906)</u>
Total	<u>₩ 10,448,688</u>	<u>₩ 4,167,542</u>	<u>₩ 14,616,230</u>

(6) Effective tax rates for the three months and the six months ended June 30, 2006 and 2005 are computed as follows:

	<u>Korean Won</u>			
	<u>Three months (Unreviewed)</u>		<u>Six months</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In thousands)			
Income tax	₩ 5,844,721	₩ 2,273,202	₩ 10,975,069	₩ 9,829,850
Income before tax	19,606,352	11,314,036	37,704,384	38,710,065
Effective tax rates	29.81%	20.09%	29.11%	25.39%

## 20. RELATED PARTY TRANSACTIONS:

(1) The lists of the related parties as of June 30, 2006 are as follows;

<u>Related party</u>	<u>Nature of business</u>	<u>Shares (%)</u>	<u>Reference</u>
Woongjin Japan	Sales of the water purifier and others	50.00	Subsidiary company
Woong Jin Coway (Thailand) Co., Ltd.	Sales of the water purifier and others	99.99	Subsidiary company
Woongjin Coway (.M) Sdn Bhd	Sales of the water purifier and others	100.0	Subsidiary company
Woong Jin Coway (Shenyang) Living Goods Co., Ltd. (*)	Sales of the water purifier, cosmetics and others	91.13	Subsidiary company
Platinum Media Co., Ltd.	Development of on-line software	15.75	Affiliated company
Woongjin Thinkbig Co., Ltd.	Publication	-	Affiliated company
Woongjin Foods Co., Ltd.	Sales of drinks and foods from ginseng	-	Affiliated company
Woongjin Happyall Co., Ltd.	Provides service in relation to the water purifiers and the others	-	Affiliated company
Woongjin Cuchen Co., Ltd.	Sales of electronic machines for the domestic use and phonograph records	-	Affiliated company
Rexfield Country Club	Golf club and sales of sports equipment	-	Affiliated company
Booxen Co., Ltd.	Sales of books and others	-	Affiliated company
Woongjin Construction Co., Ltd.	General construction service	-	Affiliated company



(2) Significant transactions with related parties for the three months and six months ended June 30, 2006 and 2005 are as follows:

Related parties		Korean Won			
		Three months (Unreviewed)		Six months	
		2006	2005	2006	2005
(In thousands)					
Woongjin Thinkbig Co., Ltd.	Sales	₩ 73,698	₩ -	₩ 114,927	₩ -
	Selling and administrative expenses	93,975	164,345	297,443	280,285
Woongjin Foods Co., Ltd.	Sales	3,015	-	3,107	-
	Selling and administrative expenses	883,343	739,358	1,773,064	1,396,714
Woongjin ST	Selling and administrative expenses	-	1,286,662	-	1,931,518
Platinum Media Co., Ltd.	Selling and administrative expenses and others	6,608,786	1,180	12,072,575	1,580
Woongjin Happyall Co., Ltd.	Sales	98,904	250,942	152,491	297,240
	Service fees	25,800,560	24,149,916	42,555,647	45,929,329
	Selling and administrative expenses	2,883,595	231,736	13,464,164	333,998
Woongjin Cuchen Co., Ltd.	Sales	2,727,947	1,786,749	5,183,049	3,441,216
	Purchase of inventories	22,608,627	17,684,160	47,903,313	35,723,686
	Disposal of PP&E	9,101,618	-	9,101,618	-
	Purchase of PP&E	8,187,055	-	8,187,055	-
Rexfield Country Club	Sales	7,036	-	10,017	-
	Selling and administrative expenses	49,330	50,465	124,330	52,765
Booxen Co., Ltd.	Sales	2,738	-	2,738	-
	Selling and administrative expenses	4,689,896	4,141,509	9,029,810	6,737,268
Woongjin Construction Co., Ltd.	Rent revenue	600	-	1,200	-
	Selling and administrative expenses	1,191,300	-	1,191,300	-
Woong Jin Coway (Thailand) Co., Ltd.	Sales	453,939	309,714	729,868	309,714
Woongjin Japan Co., Ltd.	Sales	584,093	317,369	1,056,236	317,969
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	Sales	162,508	-	162,508	-

(3) Significant balances related to related parties as of June 30, 2006 and December 31, 2005 are summarized below.

Related parties	Description	Korean Won	
		2006	2005
		(In thousands)	
Woongjin Thinkbig Co., Ltd.	Accounts payable-other	₩ 76,786	₩ 80,487
Woongjin Foods Co., Ltd.	Trade accounts and notes payable	-	-
	Accounts payable-other	339,463	296,071
Platinum Media Co., Ltd.	Accounts payable-other	1,388,261	505,762
	Advanced payments	-	2,823,205
Woongjin Happyall Co., Ltd.	Trade accounts and notes receivable	73,600	122,682
	Accounts receivable - other	231,717	131
	Accounts payable-other	10,545,594	10,281,547
Woongjin Cuchen Co., Ltd.	Trade accounts and notes receivable	886,940	169,128
	Accounts receivable - other	17,451,155	21,827,717
	Trade accounts and notes payable	7,838,563	9,782,020
	Accounts payable-other	1,097,980	1,042,541
Rexfield Country Club	Trade accounts and notes receivable	1,637	1,637
	Account payable- others	9,167	27,500
Booxen Co., Ltd.	Accounts payable-other	1,758,147	1,586,174
Woong Jin Construction Co., Ltd.	Trade accounts and notes receivable	-	203,674
	Trade accounts and notes payable	-	20,909
	Deposit received	10,000	10,000
Woong Jin Coway (Thailand) Co., Ltd.	Trade accounts and notes receivable	2,554,813	1,793,098
	Advanced payments	3,811	16,320
	Accounts receivable - other	3,556	3,556
Woongjin Japan	Trade accounts and notes receivable	2,267,169	1,943,706
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	Trade accounts and notes receivable	377,704	220,341

(4) The guarantee provided on behalf of its related parties and others as of June 30, 2006 are as follows (Korean Won: In thousands):

Provided to	Provided amount	Types of payable	Creditors
Woongjin Cuchen Co., Ltd.	₩ 82,700,000	Privately offered bond and others	Hana Bank and others
Woongjin Construction Co., Ltd.	₩ 3,250,000	General loans, etc	Hana Bank and others
Platinum Media Co., Ltd.	₩ 3,490,000	General loan	Hana Bank and others
Woongjin Japan Co., Ltd	JPY1,170,000,000	General loan	Hana Bank
Woong Jin Coway (Thailand) Co., Ltd.	USD 1,000,000	General loan	Citibank Korea
Woong Jin Coway (Shenyang) Living Goods Co., Ltd.	USD 9,100,000	General loan	Hana Bank
	CNY 3,120,000	General loan	
	₩ 89,440,000		
	USD 1,910,000		
	JPY1,170,000,000		
	CNY 3,120,000		

Other than the guarantees above, the Company has provided payment guarantee of ₩154,728 thousand to Hana Bank on behalf of the borrowings of Employee Stock Ownership Plan.

- (5) The compensation amounts for the six months ended June 30, 2006 for both the registered and unregistered directors and executives are as follows:

Classification	Korean Won Compensation amounts (In thousand)
Salaries and bonus	₩ 1,031,574
Estimated provision for severance and retirement benefits (*1)	211,370
Compensation expense on the stock options (*2)	4,309,427

(\*1) It is the estimated provision for the severance and retirement benefits for the registered and unregistered executives as of June 30, 2006. On the other hand, the severance and retirement benefits as of June 30, 2006 are ₩742,055 thousand.

(\*2) It is the total compensation expense for the stock options granted to the executives for the current period.

- (6) Short-term loans provided on behalf of employees as of June 30, 2006 and December 31, 2005 amount to ₩59,222 thousand and ₩65,222 thousand, respectively.

## 21. COMMITMENTS AND CONTINGENCIES:

- (1) As of June 30, 2006, the Company has borrowing agreements with various financial institutions as follows (Korean Won: In thousands):

Types of borrowing	Financial institutions	Borrowing limits
Bank overdraft	Hana Bank and others	₩ 18,000,000
Loan provided in line with the purchase	Shinhan Bank and others	₩ 210,000,000
Discount of notes receivable	Hana Bank and others	₩ 60,000,000
General loan	Shinhan Bank and others	₩ 15,000,000
Borrowings related with import	Woori Bank and others	USD 5,000,000
Issuance of electronic notes payable	Korean Exchange Bank	₩ 10,000,000
Secured loan against the account receivables	Korean Exchange Bank	₩ 40,000

- (2) As of June 30, 2006, Seoul Guarantee Insurance Co., Ltd. has provided guarantee of execution of contract of ₩346,735 thousand on behalf of the Company.
- (3) As of June 30, 2006, the Company is involved with 9 lawsuits regarding the refund of sales commission amounting to ₩933,573 thousand. The Company estimates the result of the above lawsuit cases as immaterial.

## 22. SELLING AND ADMINISTRATIVE EXPENSES:

The details of selling and administrative expenses for the three months and six months ended June 30, 2006 and 2005 are as follows:

	2006		2005	
	Three months (Unreviewed)	Six months	Three months (Unreviewed)	Six months
	(In thousands)			
Salary related expenses	₩ 35,830,771	₩ 67,699,055	₩ 28,858,549	₩ 50,646,064
Travel	656,823	1,197,046	683,732	1,004,897
Communications	1,827,654	3,659,585	2,005,369	3,511,467
Entertainment	169,080	315,634	269,527	395,529
Education and training	3,164,292	6,236,983	2,412,825	4,150,545
Supplies	1,816,210	3,520,259	5,671,288	9,986,808
Books and publishing	302,203	523,420	168,062	455,174
Advertisements	9,512,996	17,768,225	8,422,555	13,773,236
Rent	7,308,271	14,560,458	6,098,717	11,072,706
Taxes and dues	304,166	395,671	276,094	374,781
Insurance	87,058	100,740	131,630	132,159
Transportation	332,002	631,471	370,776	589,430
Sales promotion	4,109,349	6,919,144	1,628,855	2,636,761
Sales warranties	31,864	31,864	113,573	113,573
Sales commissions	64,620,086	120,885,010	51,221,259	96,213,282
Fees and commissions	9,233,584	18,832,396	9,685,037	17,899,116
Repairs and maintenance	427,973	1,451,241	590,177	1,073,028
Ordinary research and development expense	965,326	1,757,018	470,147	935,032
Depreciation	2,730,775	5,341,335	2,714,563	4,451,311
Amortization	1,384,292	2,761,106	890,712	935,972
Bad debt	4,798,537	9,287,287	-	7,281,474
Loss on returned goods	-	-	1,493,720	3,269,103
Impairment loss on rental assets	12,241,507	25,937,766	15,685,039	31,088,888
Other	340,801	1,114,017	519,504	935,304
	<u>₩ 162,195,620</u>	<u>₩ 310,926,731</u>	<u>₩ 140,381,710</u>	<u>₩ 262,925,640</u>

## 23. MERGER:

Effective on May 2, 2005, the Company merged with Woongjin Coway Development Co., Ltd., in order to establish an original profit model and maximize synergy effect on the merger. Details of the merger are as follows:

- (1) The acquiree

Name: Woongjin Coway Development Co., Ltd.  
 CEO: Park, Young-Seon and Yoon, Seok-Kum  
 Principal business: Rental and sales business

## (2) Merger schedule

Shareholders' meeting held for the approval on spin-off plan: March 22, 2005

Spin-off date: May 2, 2005

Spin-off ratio: 1:1.060266

Number of shares issued as a result of merger: 51,840,646 shares

Ownership ratio attributable to the acquiree after merger: 70.94%

## (3) Accounting for merger

As a result of merger between Woongjin Coway Co., Ltd. and Woongjin Coway Development Co., Ltd., shareholders of Woongjin Coway Development Co. have controlled Woongjin Coway Co., Ltd. According to the regulation on accounting for merger and acquisition of corporation, the purchase method was used to account for the merger, and capital stock of the surviving company was disclosed on the basis of the number of shares issued by Woongjin Coway Co., Ltd. In addition, additional-paid-in capital and retained earnings were accounted for as if the Company assumed those of Woongjin Coway Development Co., Ltd. as of the date prior to the merger.

## (4) Calculation of purchase cost

Purchase cost was calculated assuming that Woongjin Coway Development Co., Ltd. issued its shares of 21,231,090 shares to the shareholders of Woongjin Coway Co., Ltd. by applying the merge ratio based on the terms in the merger contract. In addition, per share value of Woongjin Coway Development Co., Ltd. was calculated based on the fair value of net asset value per share as of the merger date.

## (5) Goodwill incurred as a result of merger is calculated as follows:

	<u>Description</u>	<u>Korean Won</u> (In thousands)
Acquisition cost (1)	(*)	₩ 89,274,015
Net asset value assumed (2)	Net asset value assumed ①=②-③	65,803,011
	Total assets assumed ② (**)	191,757,024
	Total liabilities assumed ③	<u>125,954,013</u>
Goodwill(3)=(1)-(2)		<u>₩ 23,471,004</u>

(\*) 21,231,090 shares X ₩4,204.87 (Net asset value per share of Woongjin Coway Development Co., Ltd.)

(\*\*) Details of the assets assumed are described as follows:

	<u>Description</u>	<u>Korean Won</u> (In thousands)
Assets		₩ 197,836,516
Treasury stock		8,922,318
Goodwill	Goodwill recognized by Woongjin Coway Co., Ltd. before merger	(14,668,627)
Long-term investments	Combined stock	<u>(333,183)</u>
Total assets assumed		<u>₩ 191,757,024</u>

The above goodwill is amortized over 5 years using the straight-line method.

- (6) Condensed financial information of the actual acquiree, which is Woongjin Coway Co., Ltd., for the period from January 1, 2005 through the merger date and for the year ended December 31, 2004, is as follows:

Condensed balance sheets

	Korean Won	
	May 2, 2005	Dec. 31, 2004
	(In thousands)	
Current assets	₩ 128,391,288	₩ 105,153,591
Non-current assets	<u>69,445,228</u>	<u>71,524,933</u>
Total assets	<u><u>197,836,516</u></u>	<u><u>176,678,524</u></u>
Current liabilities	118,937,009	94,219,420
Non-current liabilities	<u>7,017,004</u>	<u>6,820,503</u>
Total liabilities	<u><u>125,954,013</u></u>	<u><u>101,039,923</u></u>
Total shareholders' equity	<u>71,882,503</u>	<u>75,638,601</u>
Total liabilities and shareholders' equity	<u><u>₩ 197,836,516</u></u>	<u><u>₩ 176,678,524</u></u>

Condensed income statements

	Korean Won	
	May 2, 2005	Dec. 31, 2004
	(In thousands)	
Sales	₩ 100,958,762	₩ 308,707,990
Cost of sales	<u>67,221,619</u>	<u>192,674,431</u>
Gross profit	33,737,143	116,033,559
Selling and administrative expenses	<u>25,648,432</u>	<u>82,765,294</u>
Operating income	8,088,711	33,268,265
Non-operating income	669,250	2,852,763
Non-operating expenses	<u>4,726,326</u>	<u>17,964,459</u>
Ordinary income	4,031,635	18,156,569
Extraordinary item	-	-
Income before income tax	4,031,635	18,156,569
Income tax expense	<u>816,858</u>	<u>3,732,356</u>
Net income	<u><u>₩ 3,214,777</u></u>	<u><u>₩ 14,424,213</u></u>

- (7) Significant transactions with Woongjin Coway Development Co., Ltd. for the period from January 1, 2005 through the merger date and for the year ended December 31, 2004 are as follows:

	Korean Won	
	May 2, 2005	Dec. 31, 2004
	(In thousands)	
Sales	₩ 77,657,050	₩ 228,588,188
Purchases	905,107	14,949,126

- (8) Significant receivables and payables as of the merger date and December 31, 2004 as a result of transaction with Woongjin Coway Development Co., Ltd. are as follows:

	Korean Won	
	May 2, 2005	Dec. 31, 2004
	(In thousands)	
Trade accounts and notes receivable	₩ 87,221,083	₩ 46,105,107
Other accounts receivable	27,512	16,247
Trade accounts and notes payable	1,297,573	978,351
Accounts payable-other	289,719	314,472

**24. TRANSFER OF BUSINESS:**

(1) Effective on October 4, 2005, the Company transferred the Home Appliances business to Woongjin Cuchen Co., Ltd., a related party, in order to focus on its principal business of rental business. As a result, the Company transferred its assets and liabilities at fair value, and incurred loss on transfer of business amounting to ₩6,488,396 thousand. Details are as follows:

- 1) The acquiree  
 Name: Woongjin Cuchen Co., Ltd.  
 CEO: Moon, Mu-Kyung  
 Principal business: Sales of bidet and others
- 2) Condensed financial information of the transferred division

	<u>Korean Won</u>	
	(In thousands)	
Accounts receivable	₩	10,429,227
Inventories		9,136,314
Properties		8,615,122
Others		1,389,421
Total assets		<u>29,570,084</u>
Accounts payable		4,300,876
Other payables		7,719,760
Total liabilities		<u>12,020,636</u>
Net asset value	₩	<u>17,549,448</u>

- 3) As it is impossible to disaggregate financial result of the transferred division, condensed financial result of the transferred division was not prepared.

**25. SEGMENT INFORMATION**

Main segment of the Company is comprised of Rental division and Lump sum payment division.

Details of business segment information for the six months ended June 30, 2006 and 2005 are as follows:

	<u>Korean Won</u>					
	<u>2006</u>			<u>2005</u>		
	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross profit</u>	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross profit</u>
	(In thousands)					
Rental	₩ 434,967	₩ 175,955	₩ 322,382	₩ 434,967	₩ 154,171	₩ 280,796
Lump sum payment	35,271	13,267	22,004	22,476	8,144	14,332
Others	<u>15,787</u>	<u>6,390</u>	<u>9,397</u>	<u>17,404</u>	<u>9,287</u>	<u>8,117</u>
Total	<u>₩ 549,395</u>	<u>₩ 195,612</u>	<u>₩ 353,783</u>	<u>₩ 474,847</u>	<u>₩ 171,602</u>	<u>₩ 303,245</u>