

WOONGJIN COWAY CO., LTD.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005
AND INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying balance sheets of Woongjin Coway Co., Ltd. (the "Company") as of December 31, 2006 and 2005, and the related statements of income, appropriations of retained earnings and cash flows for the years then ended, all 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 generally accepted auditing standards in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations, 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 (See Note 2).

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 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 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 knowledgeable about Korean accounting procedures and auditing standards and their application in practice.



February 23, 2007

Notice to Readers

This report is effective as of February 23, 2007, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

WOONGJIN COWAY CO., LTD.

BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

| | Korean Won | |
|---|----------------------|----------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Note 14) | ₩ 34,519,828 | ₩ 18,569,954 |
| Short-term financial instruments (Note 3) | 4,360,000 | 100,000 |
| Short-term investment securities (Note 6) | 73,429 | 67,230 |
| Short-term loans (Note 22) | 633,621 | 65,222 |
| Trade receivables, net allowance for doubtful accounts of ₩68,012,122 thousand as of December 31, 2006 and ₩49,318,561 thousand as of December 31, 2005 (Notes 4, 14 and 22) | 110,848,764 | 28,877,664 |
| Accounts receivable-other, net allowance for doubtful accounts of ₩10,558,130 thousand as of December 31, 2006 and ₩10,292,568 thousand as of December 31, 2005 | 14,259,971 | 34,917,651 |
| Inventories (Notes 5 and 8) | 80,419,194 | 42,154,964 |
| Advanced payments (Note 22) | 1,312,889 | 4,518,912 |
| Prepaid expenses | 144,090,939 | 128,817,681 |
| Current portion of deferred income tax assets (Note 20) | 15,057,351 | 2,282,120 |
| Other current assets | 353,549 | 297,778 |
| Total current assets | <u>405,929,535</u> | <u>260,669,176</u> |
| NON-CURRENT ASSETS: | | |
| Long-term financial instruments (Note 3) | 15,500 | 2,815,500 |
| Long-term investment securities (Note 6) | 2,750,208 | 2,628,950 |
| Equity securities accounted for using the equity method (Note 7) | 11,073,215 | 541,874 |
| Long-term prepaid expenses | 18,500,000 | 12,500,000 |
| Guarantee deposits (Note 22) | 39,659,871 | 38,111,122 |
| Other investments | 180,000 | 180,000 |
| Deferred income tax assets (Note 20) | 4,694,543 | 4,185,388 |
| Property, plant and equipment, net of accumulated depreciation of ₩310,316,351 thousand and ₩268,016,384 thousand, and impairment loss on rental assets of ₩12,898,370 thousand and ₩11,553,378 thousand as of December 31, 2006 and 2005, respectively (Notes 8, 9 and 22) | 374,165,148 | 369,847,596 |
| Intangible assets, net of amortization (Notes 10 and 26) | 28,164,376 | 23,673,170 |
| Total non-current assets | <u>479,202,861</u> | <u>454,483,600</u> |
| Total assets | <u>₩ 885,132,396</u> | <u>₩ 715,152,776</u> |

(Continued)

WOONGJIN COWAY CO., LTD.
BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2006 AND 2005

| | Korean Won | |
|--|----------------|--------------|
| | 2006 | 2005 |
| | (In thousands) | |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| CURRENT LIABILITIES: | | |
| Trade payables (Notes 14 and 22) | ₩ 29,289,360 | ₩ 32,605,060 |
| Short-term borrowings (Note 11) | 101,745,026 | 69,758,846 |
| Accounts payable-other (Note 22) | 73,458,601 | 75,656,177 |
| Advanced receipts | 144,830,347 | 108,604,285 |
| Withholdings | 6,373,075 | 3,489,579 |
| Accrued expenses | 5,347,241 | 3,224,340 |
| Income tax payable | 40,241,805 | 14,402,088 |
| Current portion of debentures (Note 12) | 30,000,000 | 46,000,000 |
| Provision for product warranties | 373,742 | 341,879 |
| Provision for return of goods sold (Note 2) | 91,859 | 70,489 |
| Total current liabilities | 431,751,056 | 354,152,743 |
| LONG-TERM LIABILITIES: | | |
| Reserve for accident compensation (Note 13) | 5,750,432 | 5,939,796 |
| Rental deposits received | 2,365,388 | 9,624,212 |
| Accrued severance benefits, net of payment to National Pension Fund of ₩37,245 thousand and ₩45,415 thousand, and severance insurance of ₩9,722,145 thousand and ₩9,099,848 thousand as of December 31, 2006 and 2005, respectively (Note 2) | 6,471,981 | 3,454,194 |
| Other long-term liabilities (Note 22) | 10,000 | 10,000 |
| Total long-term liabilities | 14,597,801 | 19,028,202 |
| Total liabilities | 446,348,857 | 373,180,945 |

(Continued)

WOONGJIN COWAY CO., LTD.

BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2006 AND 2005

| | Korean Won | |
|---|----------------------|----------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| COMMITMENTS AND CONTINGENCIES (Note 23) | | |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock (Note 15) | ₩ 39,287,797 | ₩ 39,025,806 |
| Capital surplus (Note 15 and 17) | 113,831,969 | 76,308,402 |
| Retained earnings: | | |
| Legal reserve | 6,255,427 | 3,755,427 |
| Reserve for business rationalization | 16,228 | 16,227 |
| Voluntary reserve | 201,459,806 | 161,459,807 |
| Reserve for corporation development | 1,570,000 | 1,570,000 |
| Before appropriations | | |
| (Net income of ₩ 74,926,263 thousand for the year ended December 31, 2006 and ₩ 60,888,600 thousand for the year ended December 31, 2005) | 74,229,616 | 66,897,556 |
| Capital adjustments: | | |
| Gain on valuation of long-term investment securities (Note 6) | 9,657 | 8,739 |
| Gain on valuation of equity securities accounted for using the equity method (Note 7) | 52,591 | 38,648 |
| Stock options (Note 16) | 2,070,448 | 1,828,211 |
| Treasury stock (Note 17) | - | (8,936,992) |
| Total shareholders' equity | <u>438,783,539</u> | <u>341,971,831</u> |
| Total liabilities and shareholders' equity | <u>₩ 885,132,396</u> | <u>₩ 715,152,776</u> |

See accompanying notes to financial statements.

WOONGJIN COWAY CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

| | Korean Won | |
|--|---|---------------------|
| | <u>2006</u> | <u>2005</u> |
| | (In thousands, except per share amounts) | |
| SALES (Note 22) | ₩ 1,117,766,992 | ₩ 1,008,079,888 |
| COST OF GOODS SOLD | <u>380,380,741</u> | <u>363,699,498</u> |
| GROSS PROFIT | 737,386,251 | 644,380,390 |
| SELLING AND ADMINISTRATIVE EXPENSES (Notes 22 and 24) | <u>625,108,853</u> | <u>547,536,391</u> |
| OPERATING INCOME | <u>112,277,398</u> | <u>96,843,999</u> |
| NON-OPERATING INCOME (EXPENSES): | | |
| Interest expense, net | (6,966,366) | (5,839,988) |
| Foreign currency exchange gain, net | 591,156 | 12,746 |
| Foreign currency translation loss, net | (21,848) | (161,901) |
| Gain on disposal of short-term investment securities, net | - | 69,599 |
| Gain on disposal of long-term investment securities, net | - | 105,354 |
| Loss on impairment of long-term investment securities (Note 6) | (422,177) | (165,099) |
| Gain (Loss) on disposal of property, plant and equipment, net | 98,768 | (16,606) |
| Loss on valuation of equity securities accounted for using the equity method (Note 7) | (3,857,612) | (1,541,337) |
| Miscellaneous income, net | 1,142,956 | 3,419,492 |
| Additional payment of income tax | (1,653,923) | (69,549) |
| Loss on transfer of business (Note 25) | - | (6,488,396) |
| Others, net | <u>1,210,758</u> | <u>(199,030)</u> |
| | <u>(9,878,288)</u> | <u>(10,874,715)</u> |
| ORDINARY INCOME | 102,399,110 | 85,969,284 |
| INCOME TAX EXPENSE (Note 20) | <u>27,472,847</u> | <u>25,080,684</u> |
| NET INCOME | <u>₩ 74,926,263</u> | <u>₩ 60,888,600</u> |
| ORDINARY INCOME PER SHARE (Note 18) | <u>₩ 1,019</u> | <u>₩ 951</u> |
| DILUTIVE ORDINARY INCOME PER SHARE (Note 18) | <u>₩ 1,018</u> | <u>₩ 948</u> |

See accompanying notes to financial statements.

WOONGJIN COWAY CO., LTD.

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

| | <u>Korean Won</u> | |
|--|-------------------|-------------------|
| | <u>2006</u> | <u>2005</u> |
| | (In thousands) | |
| UNAPPROPRIATED RETAINED EARNING: | | |
| Accumulated retained earnings carried over from prior years | ₩ 9,862 | ₩ 6,008,956 |
| Changes in retained earnings by using the equity method (Note 7) | (706,509) | - |
| Net income | <u>74,926,263</u> | <u>60,888,600</u> |
| | <u>74,229,616</u> | <u>66,897,556</u> |
| APPROPRIATIONS: | | |
| Legal reserve | 3,000,000 | 2,500,000 |
| Voluntary reserve | 41,400,000 | 40,000,000 |
| Cash dividends (Note 19) | <u>29,750,237</u> | <u>24,387,694</u> |
| | <u>74,150,237</u> | <u>66,887,694</u> |
| UNAPPROPRIATED RETAINED EARNINGS | | |
| TO BE CARRIED FORWARD TO SUBSEQUENT YEAR | <u>₩ 79,379</u> | <u>₩ 9,862</u> |

See accompanying notes to financial statements.

WOONGJIN COWAY CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

| | Korean Won | |
|---|--------------------|--------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | ₩ 74,926,263 | ₩ 60,888,600 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for severance benefits | 10,129,378 | 9,377,652 |
| Stock compensation expense | 2,691,498 | 1,704,935 |
| Depreciation | 132,162,646 | 124,024,165 |
| Amortization of intangibles | 6,337,079 | 3,648,282 |
| Bad debt expense | 18,995,895 | 21,272,877 |
| Loss on impairment of rental assets | 49,980,186 | 50,428,831 |
| Loss on foreign currency translation, net | 1,786 | 112,838 |
| Gain on disposal of short-term investment securities, net | - | (69,599) |
| Loss on valuation of inventories | 173,370 | 4,364,649 |
| Loss (Gain) on disposal of property, plant and equipment, net | (98,768) | 16,606 |
| Gain on disposal of long-term investment securities, net | - | (130,761) |
| Loss on impairment of long-term investment securities | 422,177 | 165,099 |
| Loss on valuation of equity securities accounted for using the equity method | 3,857,612 | 1,541,337 |
| Loss on transfer of business | - | 6,488,396 |
| Others, net | (10,578) | 249,885 |
| Changes in operating assets and liabilities: | | |
| Decrease (Increase) in trade receivables | (100,701,266) | 66,986,378 |
| Decrease (Increase) in accounts receivable-other | 22,427,258 | (31,313,359) |
| Decrease in advanced payments | 1,168,930 | 1,157,971 |
| Increase in prepaid expenses | (15,273,258) | (38,576,407) |
| Decrease (Increase) in other current assets | (177,949) | 1,714,285 |
| Increase in deferred income taxes | (13,284,386) | (12,445,919) |
| Decrease (Increase) in inventories | (38,437,600) | 2,341,262 |
| Increase in long-term prepaid expenses | (6,000,000) | (12,500,000) |
| Decrease in trade payables | (3,315,701) | (54,410,413) |
| Increase (Decrease) in accounts payable-other | (2,197,576) | 1,881,039 |
| Increase in advanced receipts | 36,226,061 | 39,573,429 |
| Increase (Decrease) in withholdings | 2,883,496 | (2,586,430) |
| Increase in income tax payable | 13,238,410 | 7,548,435 |
| Decrease in rental deposits received | (7,258,824) | (14,343,962) |
| Payment of severance benefits | (6,497,464) | (7,412,760) |
| Increase (Decrease) in other current liabilities | 1,340,782 | (4,872,749) |
| | <u>183,709,457</u> | <u>226,824,592</u> |

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WOONGJIN COWAY CO., LTD.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

| | Korean Won | |
|---|----------------------|----------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash inflows from investing activities: | | |
| Withdrawal of short-term financial instruments | ₩ 100,000 | ₩ - |
| Proceeds from disposal of short-term investment securities | - | 250 |
| Collection of short-term loans | 22,556 | 52,430 |
| Withdrawal of long-term financial instruments | 2,800,000 | 18,500 |
| Proceeds from disposal of long-term investment securities | - | 456,117 |
| Proceeds from disposal of investment securities accounted for using the equity method | - | 1 |
| Refund of guarantee deposits | 5,764,625 | 9,165,761 |
| Disposal of plant, property, equipment | <u>22,119,204</u> | <u>19,932,429</u> |
| | <u>30,806,385</u> | <u>29,625,488</u> |
| Cash outflows from investing activities: | | |
| Acquisition of short-term financial instruments | 4,360,000 | - |
| Acquisition of short-term investment securities | - | 20 |
| Extension of short-term loans | 590,955 | 44,972 |
| Acquisition of long-term financial instruments | - | 1,040,000 |
| Acquisition of long-term investment securities | 420,320 | 111 |
| Acquisition of investment securities accounted for using the equity method | 15,081,520 | - |
| Repayment of guarantee deposits | 7,313,372 | 14,075,046 |
| Acquisition of plant, property, equipment | 208,644,884 | 197,485,307 |
| Acquisition of intangible assets | <u>10,627,998</u> | <u>2,546,419</u> |
| | <u>247,039,049</u> | <u>215,191,875</u> |
| | <u>(216,232,664)</u> | <u>(185,566,387)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash inflows from financing activities: | | |
| Proceeds from short-term borrowings | 565,327,132 | 325,294,991 |
| Proceeds from issuance of debentures | 20,000,000 | - |
| Exercise of stock options | 2,114,670 | 1,412,948 |
| Proceeds from disposal of treasury stock | <u>54,759,924</u> | <u>-</u> |
| | <u>642,201,726</u> | <u>326,707,939</u> |
| Cash outflows from financing activities: | | |
| Repayment of short-term borrowings | 533,340,951 | 324,920,430 |
| Repayment of current portion of debentures | 36,000,000 | 32,000,000 |
| Payment of dividends | 24,387,694 | 7,334,100 |
| Acquisition of treasury stock | <u>-</u> | <u>14,674</u> |
| | <u>593,728,645</u> | <u>364,269,204</u> |
| | <u>48,473,081</u> | <u>(37,561,265)</u> |

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WOONGJIN COWAY CO., LTD.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

| | Korean Won | |
|--|---------------------|---------------------|
| | <u>2006</u> | <u>2005</u> |
| | (In thousands) | |
| INCREASE IN CASH THROUGH MERGER | ₩ - | ₩ 1,792,051 |
| INCREASE IN CASH THROUGH THE TRANSFER OF BUSINESS | - | <u>12,167,157</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 15,949,874 | 17,656,148 |
| CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR | <u>18,569,954</u> | <u>913,806</u> |
| CASH AND CASH EQUIVALENTS, AT END OF YEAR | <u>₩ 34,519,828</u> | <u>₩ 18,569,954</u> |

See accompanying notes to financial statements.

WOONGJIN COWAY CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 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 Woong Jin Coway Development Co., Ltd. As the result of the merger and several increases in paid-in capital, the capital stock of the Company as of December 31, 2006 is ₩39,287,797 thousand. In addition, as a result of extinguishment of 4,200,000 shares of treasury stock, the number of shares issued as of December 31, 2006 is 74,375,593 and face value of stock issued differs from the capital stock amount. As of December 31, 2006, majority shareholders of the Company are Seok-kum, Yoon (27.21%) and Woong Jin Thinkbig Co., Ltd. (5.15%).

The Company has issued 7,318,200 Global Depository Receipts (common stock: 3,659,100 shares) through the global stock market 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 Company prepared its financial statements as of December 31, 2006 in accordance with the existing Korea Financial Accounting Standards and Statements of Korea Accounting Standards ("SKAS") No.1 through No.20 except for No.11 and No.14. The Company's accounting policies have not been changed since the preparation of the financial statements for the year ended December 31, 2005, except for changes due to the application of new SKAS No.18 – Interests in Joint Ventures, No.19 – Lease and No.20 – Related Party Disclosures, which are effective from January 1, 2006.

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

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 recognized in the balance sheet at the lower of their historical costs or net realizable values. The historical costs are determined using the moving average method (the specific identification method for materials-in-transit). Quantities of inventories at year-end are determined based on physical counts. Valuation loss incurred when the net realizable value of an inventory falls below its carrying amount is reported as a contra inventory account and added to the cost of goods sold.

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 refer 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 company. 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 statement of income 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, and vehicles, furniture and fixtures and rental assets, 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 ₩929.60 and ₩1,013.00 to US \$1.00 at December 31, 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 warranties is based on past warranty claim experience.

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 ₩16,231,371 thousand and ₩12,599,457 thousand as of December 31, 2006 and 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 ₩6,497,464 thousand and ₩7,412,760 thousand in 2006 and 2005, respectively.

Revenue Recognition

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. In addition, rental revenue is recognized on an accrual basis over the periods rental services are provided. Revenue from interest, dividends and royalties is recognized when the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company. The Company generally provides provision for return of goods sold by subtracting expected sales and cost of goods sold, which are expected to be returned in the near future. Provision for return of goods sold as of December 31, 2006 amounts to ₩ 91,859 thousand.

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 carry forwards. 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.

Ordinary Income per Share and Earnings per Share

Ordinary income per share and earnings per 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 share and earnings 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 net equity reported in the 2005 financial statements.

3. RESTRICTED FINANCIAL INSTRUMENTS:

Financial instruments with withdrawal restrictions as of December 31, 2006 and 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 in 2006 and 2005 are as follows:

| Company | Korean Won | |
|---------------------------|----------------------|----------------------|
| | 2006 | 2006 |
| | (In thousands) | |
| Coway 1 st SPC | <u>₩ 315,010,260</u> | <u>₩ 914,972,718</u> |

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

| Company | Korean Won | |
|---------------------------|----------------|----------------------|
| | 2006 | 2006 |
| | (In thousands) | |
| Coway 1 st SPC | <u>₩ -</u> | <u>₩ 102,625,535</u> |

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

| Company | Korean Won | |
|---------------------------|----------------|---------------------|
| | 2006 | 2006 |
| | (In thousands) | |
| Coway 1 st 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. INVENTORIES:

- (1) Inventories as of December 31, 2006 and 2005 consist of the following:

| Account | Korean Won | |
|--|---------------------|---------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Merchandise | ₩ 64,063,731 | ₩ 33,091,334 |
| Finished goods | 14,808,015 | 8,690,380 |
| Semi-finished goods | 1,119,861 | - |
| Raw materials | 5,548,311 | 5,184,766 |
| Materials in transit | 8,307 | 144,145 |
| Allowance for valuation of inventories | <u>(5,129,031)</u> | <u>(4,955,661)</u> |
| | <u>₩ 80,419,194</u> | <u>₩ 42,154,964</u> |

- (2) Lower of cost or margin applied to the inventories as of December 31, 2006 and 2005 are as follows:

| | Korean Won | | | | | |
|---------------------|---------------------|---------------------|---------------------|---------------------|--|----------------------|
| | Acquisition cost | | After valuation | | Allowance for valuation of inventories | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | (In thousands) | | | | | |
| Merchandise | ₩ 64,063,731 | ₩ 33,091,334 | ₩ 60,709,530 | ₩ 28,757,322 | ₩ (3,354,201) | ₩ (4,334,012) |
| Finished goods | 14,808,015 | 8,690,380 | 13,303,537 | 8,167,846 | (1,504,478) | (522,534) |
| Semi-finished goods | 1,119,861 | - | 1,116,993 | - | (2,868) | - |
| Raw material | 5,548,311 | 5,184,766 | 5,280,827 | 5,085,651 | (267,484) | (99,115) |
| Material-in-transit | <u>8,307</u> | <u>144,145</u> | <u>8,307</u> | <u>144,145</u> | <u>-</u> | <u>-</u> |
| Total | <u>₩ 85,548,225</u> | <u>₩ 47,110,625</u> | <u>₩ 80,419,194</u> | <u>₩ 42,154,964</u> | <u>₩ (5,129,031)</u> | <u>₩ (4,955,661)</u> |

Valuation loss incurred when the net realizable value of an inventory falls below its carrying amount is reported as a contra inventory account and added to the cost of goods sold. In 2006 and 2005, loss on valuation of inventories amounted to ₩173,370 thousand and ₩4,363,649 thousand, respectively.

6. INVESTMENT SECURITIES:

(1) Short-term investment securities as of December 31, 2006 and 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 |
| | Beneficiary certificates (*) | <u>73,429</u> | <u>67,210</u> |
| | | <u>₩ 73,429</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 December 31, 2006 are ₩132,339 thousand and ₩73,429 thousand, respectively

(2) Long-term investment securities as of December 31, 2006 and 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 | ₩ 9,657 | ₩ 8,740 |
| | Equity securities stated at acquisition cost | 2,218,880 | 2,219,880 |
| | Debt securities | <u>521,671</u> | <u>400,330</u> |
| | | <u>₩ 2,750,208</u> | <u>₩ 2,628,950</u> |

(3) Equity securities stated at fair value included in long-term investment securities as of December 31, 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 Co., Ltd. | 0.06 | <u>₩ 1</u> | <u>₩ 9,657</u> | <u>₩ 9,657</u> |

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

| <u>Company</u> | <u>Ownership percentage (%)</u> | <u>Korean Won</u> | | | |
|------------------------------------|---------------------------------|-------------------|-------------|-------------|-------------|
| | | <u>2006</u> | | <u>2005</u> | |
| (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 st SPC | - | - | - | 1,000 | 1,000 |
| Woongjin Foods Co., Ltd. | 5.07 | 739,810 | 739,810 | 739,810 | 739,810 |
| Woongjin Cuchen Co., Ltd. | 0.01 | 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 |

| Company | Ownership percentage (%) | Korean Won | | | |
|---|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | | 2006 | | 2005 | |
| | | Acquisition cost | Book value | Acquisition cost | Book value |
| (In thousands) | | | | | |
| Korea Water Purifier Industry Cooperative | 3.33 | 5,300 | 5,300 | 5,300 | 5,300 |
| Others | | 1,481,733 | 3 | 1,481,733 | 3 |
| | | <u>₩ 3,865,709</u> | <u>₩ 2,218,880</u> | <u>₩ 3,866,709</u> | <u>₩ 2,219,880</u> |

In 2005, the difference between the book value and the collectable value for Academy Infra Co., Ltd., amounting to ₩165,099 thousand excluding ₩1 thousand (memorandum price) have been accounted for as loss on impairment of long-term investment securities. The difference between the book value and the collectable value for Open Solution Co., Ltd., KMACS Inc. and Korea Culture Promotion, Inc. have been accounted for as loss on impairment of long-term investment securities prior to 2005.

(5) Debt securities as of December 31, 2006 and 2005 consist of the following:

| | Korean Won | | | |
|--------------------|--------------------|------------------|--------------------|------------------|
| | 2006 | | 2006 | |
| | Face value | Book value | Face value | Book value |
| (In thousands) | | | | |
| Subordinated bonds | ₩ 2,250,000 | ₩ 100,001 | ₩ 2,250,000 | ₩ 400,000 |
| Government bonds | 421,670 | 421,670 | 330 | 330 |
| | <u>₩ 2,671,670</u> | <u>₩ 521,671</u> | <u>₩ 2,250,330</u> | <u>₩ 400,330</u> |

The difference between the book value and the collectable value for subordinated bonds, amounting to ₩299,999 thousand and the related accrued income amounting to ₩122,178 thousand have been accounted for as loss on impairment of long-term investment securities in 2006. The debt securities will mature after 1 year through 5 years from December 31, 2006.

7. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Equity securities accounted for using the equity method as of December 31, 2006 are summarized as follows:

| Affiliated company | Ownership Percentage (%) | Korean won | | |
|---|--------------------------------|---------------------|---------------------|---------------------|
| | | Acquisition cost | Net asset value | Book value |
| (In thousands) | | | | |
| Woongjin Japan Co., Ltd. (*1) | 50.00 | ₩ 4,434,045 | ₩ - | ₩ 1 |
| Woongjin USA Inc. (*1) | 35.00 | 395,176 | - | 1 |
| Platinum Media Co., Ltd. (*1) | 15.75 | 300,001 | - | 1 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. (*2) | 91.13 | 5,496,044 | 4,971,991 | 4,475,288 |
| Woongjin Coway (Thailand) Co., Ltd. (*1) | 99.99 | 886,986 | - | 1 |
| Woongjin Coway (M) Sdn Bhd. | 70.00 | 906,885 | 247,001 | 248,286 |
| Woongjin Energy Co., Ltd. | 80.10 | 6,408,000 | 6,349,637 | 6,349,637 |
| | | <u>₩ 18,827,137</u> | <u>₩ 11,568,629</u> | <u>₩ 11,073,215</u> |

(*1) Use of the equity method was discontinued for the equity securities since the value of investments is less than zero due to accumulated deficit.

(*2) Woong Jin Coway (Shenyang) Living Goods Co., Ltd. has changed its name from Woongjin Cosmetic, Ltd. in 2006.

There are cumulative losses of ₩988,458 thousand for Woongjin Japan Co., Ltd., ₩9,639 thousand for Platinum Media Co., Ltd. and ₩971,148 thousand for Woongjin Coway (Thailand) Co., Ltd. not recognized by the Company due to the suspension of the valuation of equity securities accounted for using the equity method as of December 31, 2006.

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.

(2) Equity securities accounted for using the equity method as of December 31, 2005 are summarized as follows:

| Affiliated company | Ownership Percentage (%) | Korean won | | |
|--|--------------------------|--------------------|------------------|------------------|
| | | Acquisition cost | Net asset value | Book value |
| (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 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | 36.00 | 611,544 | 604,575 | 541,870 |
| Woongjin Coway (Thailand) Co., Ltd. | 99.99 | 886,986 | - | 1 |
| | | <u>₩ 3,745,617</u> | <u>₩ 604,575</u> | <u>₩ 541,874</u> |

(3) The changes in equity securities accounted for using the equity method in 2006 are as follows:

| Affiliated company | Korean Won | | | | | | Dec 31, 2006 |
|--|------------------|--------------------|--------------------------|--------------------------|--------------------------------|------------------------------|---------------------|
| | Jan 1, 2006 | Acquisition | Paid in capital increase | Gain (loss) on valuation | Changes in capital adjustments | Changes in retained earnings | |
| (In thousands) | | | | | | | |
| Woongjin Japan Co., Ltd. | ₩ 1 | ₩ - | ₩2,882,135 | ₩(2,262,199) | ₩ 86,573 | ₩(706,509) | ₩ 1 |
| Woongjin USA Inc. | 1 | - | - | - | - | - | 1 |
| Platinum Media Co., Ltd. | 1 | - | - | - | - | - | 1 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | 541,870 | - | 4,884,500 | (874,406) | (76,676) | - | 4,475,288 |
| Woongjin Coway (Thailand) Co., Ltd. | 1 | - | - | - | - | - | 1 |
| Woongjin Coway (M) Sdn Bhd. | - | 906,885 | - | (662,644) | 4,045 | - | 248,286 |
| Woongjin Energy Co., Ltd | - | 6,408,000 | - | (58,363) | - | - | 6,349,637 |
| | <u>₩ 541,874</u> | <u>₩ 7,314,885</u> | <u>₩ 7,766,635</u> | <u>₩(3,857,612)</u> | <u>₩ 13,942</u> | <u>₩(706,509)</u> | <u>₩ 11,073,215</u> |

In 2006, the Company purchased new shares of Woongjin Japan Co., Ltd. where the cumulative losses were not recognized due to the suspension of the valuation of equity securities using the equity method until 2005. The cumulative losses of ₩706,509 thousand for Woongjin Japan Co., Ltd. were accounted for using the equity method as decreases of accumulated retained earnings carried over from prior years as of December 31, 2006.

(4) The changes in equity securities accounted for using the equity method in 2005 are as follows:

| Affiliated company | Korean Won | | | | |
|-------------------------------------|------------------|--------------------|--------------------------|-------------------|------------------|
| | Jan 1, 2005 | Acquisition | Gain (loss) on valuation | Other changes (*) | Dec 31, 2005 |
| (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 Cosmetics Co., Ltd. | - | 611,544 | (91,036) | 21,362 | 541,870 |
| Woongjin 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> |

(*) Other changes for Woongjin Cosmetic Co., Ltd. and Woongjin Coway (Thailand) Co., Ltd. are due to changes in equity due to the equity method valuation.

- (5) The changes in the excess of cost over book value for the year ended December 31, 2006 consist of the following:

| Affiliated company | Korean Won | | | | |
|--|------------------|--------------------------|------------------|-------------------|-------------------|
| | Jan 1, 2006 | Paid in capital increase | Acquisition | Amortized | Dec 31, 2006 |
| | (In thousands) | | | | |
| Woongjin Japan Co., Ltd. | ₩ 95,757 | ₩ - | ₩ 133,712 | ₩ (43,996) | ₩ 185,473 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | (62,705) | (492,585) | - | 92,371 | (462,919) |
| Woongjin Coway (Thailand) Co., Ltd. | 257,523 | - | - | (64,381) | 193,142 |
| | <u>₩ 290,575</u> | <u>₩ (492,585)</u> | <u>₩ 133,712</u> | <u>₩ (16,006)</u> | <u>₩ (84,304)</u> |

The difference between the acquisition cost and the Company's portion of an investee's net equity at the date the Company was considered to be able to exercise significant influence over the operating and financial policy of an investee is amortized 5 years, using the straight-line method.

- (6) The changes in the excess of cost over book value for the year ended December 31, 2005 consist of the following:

| Affiliated company | Korean Won | | | |
|--|------------------|------------------|-------------------|------------------|
| | Jan 1, 2005 | Acquisition | Amortized | Dec 31, 2005 |
| | (In thousands) | | | |
| Woongjin Japan Co., Ltd. | ₩ 119,696 | ₩ - | ₩ (23,939) | ₩ 95,757 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | - | (92,419) | 29,714 | (62,705) |
| Woongjin Coway (Thailand) Co., Ltd. | - | 321,904 | (64,381) | 257,523 |
| | <u>₩ 119,696</u> | <u>₩ 229,485</u> | <u>₩ (58,606)</u> | <u>₩ 290,575</u> |

- (7) Significant unrealized profits (losses) that occurred in transactions with investees in 2006 are as follows:

| Affiliated company | Korean Won 2006 (In thousands) |
|--|--------------------------------------|
| Woongjin Japan Co., Ltd. | ₩ 563,855 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | 33,784 |
| Woongjin Coway (Thailand) Co., Ltd. | 127,970 |
| Woongjin Coway (M) Sdn Bhd. | (1,285) |
| | <u>₩ 724,324</u> |

- (8) Condensed financial information of the investees accounted for using the equity method as of and for the year ended December 31, 2006 is as follows:

| Affiliated company | Korean Won | | | |
|--|----------------|--------------|-------------|-------------------|
| | Assets | Liabilities | Sales | Net income (Loss) |
| | (In thousands) | | | |
| Woongjin Japan Co., Ltd. | ₩ 11,206,912 | ₩ 12,427,063 | ₩ 5,072,105 | ₩ (5,161,964) |
| Platinum Media Co., Ltd. | 9,248,636 | 10,685,055 | 44,736,483 | 1,323,740 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | 8,756,758 | 3,411,173 | 3,016,018 | (1,023,805) |
| Woongjin Coway (Thailand) Co., Ltd. | 3,865,352 | 4,901,775 | 2,242,649 | (1,379,045) |
| Woongjin Coway (M) Sdn Bhd. | 1,255,252 | 902,393 | 103,333 | (948,470) |
| Woongjin Energy Co., Ltd. | 10,998,729 | 3,071,592 | - | (72,863) |

8. INSURANCE:

Property, plant, and equipments, and inventories are insured with ceiling of ₩74,004,805 thousand as of December 31, 2006. In addition, the Company has insured sales compensation liability insurance and vehicle insurance.

9. PROPERTY, PLANT AND EQUIPMENT:

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

| | Korean Won | |
|-------------------------------------|---------------------|---------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Land | ₩ 12,652,116 | ₩ 6,448,665 |
| Buildings | 11,951,681 | 15,408,136 |
| Structures | 606,455 | 391,524 |
| Machinery and equipment | 6,035,222 | 2,787,537 |
| Vehicles | 131,085 | 127,158 |
| Furniture and fixtures | 59,321,361 | 53,106,353 |
| Rental assets | 575,465,171 | 561,194,060 |
| Tools | 17,173,041 | 8,037,187 |
| Experimental research facility | 2,242,575 | 1,261,022 |
| Construction-in-progress | <u>11,801,162</u> | <u>655,716</u> |
| | 697,379,869 | 649,417,358 |
| Less: Accumulated depreciation | (310,316,351) | (268,016,384) |
| Loss on impairment of rental assets | <u>(12,898,370)</u> | <u>(11,553,378)</u> |
| | <u>₩374,165,148</u> | <u>₩369,847,596</u> |

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

| | Korean Won | | | | | |
|-----------------------------------|----------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
| | Beginning of year | Acquisition | Disposal(*) | Depreciation | Transfer | End of year |
| | (In thousands) | | | | | |
| Land | ₩ 6,448,665 | ₩ 7,878,788 | ₩ 4,427,179 | ₩ - | ₩ 2,751,842 | ₩ 12,652,116 |
| Buildings | 15,117,388 | 488,805 | 3,817,428 | 389,276 | (38,557) | 11,360,932 |
| Structures | 338,201 | 94,860 | 206,568 | 88,165 | 285,516 | 423,844 |
| Vehicles | 106,399 | 5,362 | 4,238 | 27,804 | 3,181 | 82,900 |
| Machinery and equipment | 2,550,753 | 2,363,680 | 6,113 | 550,060 | 917,988 | 5,276,248 |
| Furniture and fixtures | 27,119,942 | 8,732,407 | 23,513 | 10,337,339 | (595,476) | 24,896,021 |
| Rental assets | 309,661,059 | 165,427,809 | 62,933,842 | 117,079,476 | - | 295,075,550 |
| Tools | 6,798,371 | 2,898,544 | - | 3,084,151 | 4,488,596 | 11,101,360 |
| Experimental research facility | 1,051,102 | 1,198,220 | - | 606,375 | (147,931) | 1,495,016 |
| Construction-in- progress | <u>655,716</u> | <u>19,556,409</u> | <u>545,518</u> | <u>-</u> | <u>(7,865,446)</u> | <u>11,801,161</u> |
| | <u>₩369,847,596</u> | <u>₩208,644,884</u> | <u>₩ 71,964,399</u> | <u>₩132,162,646</u> | <u>₩ (200,288)</u> | <u>₩374,165,148</u> |

(*) Disposal for rental asset include loss on impairment of rental assets amounting to ₩49,980,186 thousand.

In 2006, the Company disposed a building and land of the plant in In-Cheon to Woongjin Cuchen Co., Ltd. for ₩ 9,101,618 thousand and the difference amounting to ₩ 104,926 thousand between disposal price and book value was recorded as a non-operating income. The Company acquired a building and land of the plant located in Seoul, Geum-Cheon Gu for ₩ 8,187,055 thousand in 2006.

- (3) The changes in book value of property, plant and equipment for the year ended December 31, 2005 are as follows:

| | Korean Won | | | | | |
|-----------------------------------|----------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| | Beginning of year | Acquisition | Disposal(*) | Depreciation | 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.

- (4) As of December 31, 2006, the published value of the Company-owned land (97,364 square meters) totals ₩10,829,913 thousand in terms of land prices officially announced by the Korean government.

10. INTANGIBLE ASSETS:

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

| | Korean Won | | |
|----------------------------|---------------------|-----------------------------|---------------------|
| | Acquisition cost | Accumulated amortization | Book value |
| | (In thousands) | | |
| Goodwill | ₩ 23,941,598 | ₩ 8,270,732 | ₩ 15,670,866 |
| Industrial property rights | 212,615 | 61,713 | 150,902 |
| Other | 13,727,554 | 2,011,606 | 11,715,948 |
| Construction-in-progress | 626,660 | - | 626,660 |
| | <u>₩ 38,508,427</u> | <u>₩ 10,344,051</u> | <u>₩ 28,164,376</u> |

- (2) Intangible assets as of December 31, 2005 consist of the following:

| | 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 |
| Other | 3,529,706 | 447,364 | 3,082,342 |
| | <u>₩ 27,680,142</u> | <u>₩ 4,006,972</u> | <u>₩ 23,673,170</u> |

(3) The changes in book value of intangible assets for the year ended December 31, 2006 are as follows:

| | Korean Won | | | | |
|----------------------------|--------------------------|---------------------|--------------------------------|------------------|---------------------|
| | Beginning of the year | Addition | Amortization (In thousands) | Transfer | End of the year |
| Goodwill | ₩ 20,412,126 | ₩ - | ₩ 4,741,260 | ₩ - | ₩ 15,670,866 |
| Industrial property rights | 178,702 | 3,777 | 31,577 | - | 150,902 |
| Other | 3,082,342 | 2,006,725 | 1,564,242 | 8,191,123 | 11,715,948 |
| Construction-in-progress | - | 8,617,496 | - | (7,990,836) | 626,660 |
| | <u>₩ 23,673,170</u> | <u>₩ 10,627,998</u> | <u>₩ 6,337,089</u> | <u>₩ 200,287</u> | <u>₩ 28,164,376</u> |

(4) The changes in book value of intangible assets for the year ended December 31, 2005 are as follows:

| | Korean Won | | | | |
|----------------------------|--------------------------|--------------------|--------------------------------|---------------------|---------------------|
| | Beginning of the year | Addition | Amortization (In thousands) | Transfer | End of the year |
| 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> |

(5) The ordinary research and development expenses amounting to ₩4,786,590 thousand and ₩2,860,954 thousand for the years ended December 31, 2006 and 2005, respectively, were charged to selling and administrative expenses.

11. BORROWINGS:

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

| Lender | Description | Annual interest | Korean Won | |
|--------------------------------------|--|-----------------|----------------------|---------------------|
| | | rate | 2006 | 2005 |
| | | (%) | (In thousands) | |
| Kookmin Bank | Purchase loans | 5.02 | ₩ 23,446,720 | ₩ - |
| Shinhan Bank | Purchase loans | 4.85 | 46,567,687 | 28,566,806 |
| Woori Bank | Purchase loans | 4.95 | 18,230,619 | 327,165 |
| Hana Bank | Discount of commercial paper and others | 4.99 | 10,000,000 | 24,479,313 |
| Korean French Banking Corporation | Discount of commercial paper | 4.95 | 3,500,000 | - |
| SC First Bank | Purchase loans | - | - | 8,566,307 |
| Korea Development Bank | Purchase loans | - | - | 7,819,255 |
| | | | <u>₩ 101,745,026</u> | <u>₩ 69,758,846</u> |

12. DEBENTURES:

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

| | Issuance date | Maturity date | Interest (%) 2006 | Korean Won | |
|------------------|-----------------------|---------------|----------------------|------------|--------------|
| | | | | 2006 | 2005 |
| (In thousands) | | | | | |
| 15 th | 2003.10.02 | 2006.10.02 | - | ₩ - | ₩ 16,000,000 |
| 16 th | 2003.10.13 | 2006.10.13 | - | - | 10,000,000 |
| 17 th | 2005.10.14 | 2006.10.14 | - | - | 10,000,000 |
| 18 th | 2006.02.23 | 2007.02.23 | 5.30 | 10,000,000 | 10,000,000 |
| 21 st | 2006.10.13 | 2007.10.13 | 5.07 | 10,000,000 | - |
| 23 rd | 2006.10.13 | 2007.10.13 | 4.96 | 10,000,000 | - |
| | | | | 30,000,000 | 46,000,000 |
| | | | | 30,000,000 | 46,000,000 |
| | Less: Current portion | | | ₩ - | ₩ - |

13. RESERVE FOR ACCIDENT COMPENSATION:

Certain portion of the commission that was paid to sales agencies is deducted and accounted for 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. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005 are as follows:

| | | Foreign Currencies | | Korean Won | |
|---------------------------|-----|--------------------|------------|-------------|-------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | (In thousands) | | | |
| Cash and cash equivalents | USD | 1,574,635 | 1,119,721 | ₩ 1,463,781 | ₩ 1,134,277 |
| | JPY | 16,948,020 | 2,005,298 | 132,505 | 17,246 |
| | EUR | 1,366,197 | 845,126 | 1,669,820 | 1,014,278 |
| Trade receivables | USD | 1,628,048 | 2,067,351 | 1,513,433 | 2,094,227 |
| | EUR | - | 74,860 | - | 89,844 |
| | JPY | 198,115,824 | 48,642,700 | 1,548,929 | 1,793,098 |
| | THB | 122,628,271 | 72,595,055 | 3,225,123 | 418,347 |
| | USD | 3,202,683 | 3,187,072 | ₩ 9,553,591 | ₩ 6,561,317 |
| | JPY | 215,063,844 | 50,647,998 | | |
| | EUR | 1,366,197 | 919,986 | | |
| Trade payables | THB | 122,628,271 | 72,595,055 | | |
| | USD | - | 117,918 | ₩ - | ₩ 119,352 |

15. CAPITAL STOCK:

(1) Common stock as of December 31, 2006 is as follows:

| <u>Authorized (shares)</u> | <u>Issued and Outstanding (shares)</u> | <u>Par value</u> | <u>Korean Won (In thousands)</u> |
|--------------------------------|--|------------------|--------------------------------------|
| 200,000,000 | 74,375,593 | ₩ 500 | <u>₩39,287,797</u> |

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 in 2006 are as follows:

| <u>Date</u> | <u>Description</u> | <u>Issued</u> | <u>Capital stock</u> | <u>Paid-in capital in excess of par value</u> |
|-------------------|-------------------------------|--------------------------|----------------------|---|
| Beginning of year | | 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 (*) | <u>112,471 shares</u> | <u>56,235</u> | <u>1,188,344</u> |
| End of year | | <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 options includes transfer from stock options in capital adjustment amounting to ₩2,449,263 thousand.

(3) Changes in common stock in 2005 are as follows:

| <u>Date</u> | <u>Description</u> | <u>Issued</u> | <u>Capital stock</u> | <u>Paid-in capital in excess of par value</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 | <u>65,000 shares</u> | <u>32,500</u> | <u>531,050</u> |
| 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 Woong Jin 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 an 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.

16. STOCK OPTIONS:

(1) Stock options as of December 31, 2006 are as follows:

| Description | Prior to the merger 1st grant | Subsequent to the merger 1st grant | Subsequent to the merger 2nd grant | Subsequent to the merger 3rd grant |
|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Granted shares | 388,000 | 440,000 | 150,000 | 50,000 |
| Remaining shares | 56,400 | 440,000 | 150,000 | 50,000 |
| Grant date | 2000.3.17 | 2006.3.13 | 2006.8.01 | 2006.9.28 |
| Exercise price | ₩ 3,200 | ₩ 27,050 | ₩ 20,780 | ₩ 22,970 |
| Exercisable period | 2003.3.17~2008.3.16 | 2008.3.13~2013.3.12 | 2008.8.1~2013.7.31 | 2008.9.28~2013.9.27 |
| Risk-free interest rate | 9.04% | 5.12% | 4.86% | 4.67% |
| Expected return on dividend | 13.75% | 42% | 42% | 42% |
| Expected expiry rate | 0.00% | 0.00% | 0.00% | 0.00% |
| Variability of stock price | 0.6319 | 0.3439 | 0.3335 | 0.3286 |
| Expected exercise period | 5 years | 5 years | 4.5 years | 4.5 years |

(2) The changes in compensation expense accounted for a credit to capital adjustments for the year ended December 31, 2006 are as follows:

| | Korean Won | |
|--------------------------------------|----------------|------------------|
| | (In thousands) | |
| Beginning of year | ₩ | 1,828,211 |
| Increase in compensation expense (*) | | 2,691,498 |
| Decrease as exercised (**) | | <u>2,449,263</u> |
| End of year | ₩ | <u>2,070,448</u> |

(*) The total compensation costs related with stock option were calculated by the fair value approach using the option-pricing model. In 2006, the Company recognized compensation cost amounting to ₩ 2,691,498 thousand, and stock options as of December 31, 2006 amounts to ₩ 2,070,448 thousand. Subsequent to December 31, 2006, additional compensation cost amounting to ₩ 3,622,035 thousand will be charged.

(**) In 2006, the stock options have been exercised by 201,400 shares. As a result, the decreased in stock options in capital adjustment was transferred to additional-paid-in capital.

17. OTHER CAPITAL SURPLUS AND TREASURY STOCK:

As of December 31, 2005, the Company retained 2,123,094 shares of treasury stock. In 2006, the Company registered Global Depository Receipts and sold all shares of treasury stock for ₩54,759,924 thousand. As of December 31, 2006, gains of sale of treasury stock from which deferred tax effect is subtracted are accounted for as other capital surplus in relation with above transaction.

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 year.

(1) The weighted average number of shares outstanding for the year ended December 31, 2006 is computed as follows:

| | Number of shares (1) | Weighted average (2) | (1) x (2) |
|--|----------------------|----------------------|-----------------------|
| Beginning of year | 71,728,511 | 99 | 7,101,122,589 |
| Exercise of stock warrants | 72,140,022 | 22 | 1,587,080,484 |
| Disposal of treasury stock | 74,263,122 | 52 | 3,861,682,344 |
| Exercise of stock warrants | 74,375,593 | 192 | <u>14,280,113,856</u> |
| Total | | | <u>26,829,999,273</u> |
| Weighted average number of shares outstanding = 26,829,999,273 shares ÷ 365 days = 73,506,847 shares | | | |

- (2) The weighted average number of shares outstanding for the year ended December 31, 2005 is computed as follows:

| | <u>Number of shares (1)</u> | <u>Weighted average (2)</u> | <u>(1) x (2)</u> |
|-------------------------------|-----------------------------|-----------------------------|-----------------------|
| Beginning of year | 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 warrants | 71,663,517 | 19 | 1,361,606,823 |
| Exercise of stock warrants | 71,728,517 | 129 | 9,252,978,693 |
| Acquisition of treasury stock | 71,728,511 | 45 | 3,227,782,995 |
| | Total | | <u>23,376,949,521</u> |

Weighted average number of shares outstanding = 23,376,949,521 shares ÷ 365 days = 64,046,437 shares

- (3) Basic ordinary income per share and net income per share for the years ended December 31, 2006, and 2005 are computed as follows:

| | <u>Korean Won</u> | |
|--|--|-------------------|
| | <u>2006</u> | <u>2005</u> |
| | (in thousands, except per share amounts) | |
| Net income available to common share | ₩ 74,926,263 | ₩ 60,888,600 |
| Weighted average number of common shares outstanding | 73,506,847 shares | 64,046,437 shares |
| Ordinary income per share | ₩ 1,019 | ₩ 951 |

- (4) Diluted ordinary income per share and diluted net income per share for the year ended December 31, 2006 is computed as follows:

| | <u>Korean Won</u> | |
|--|--|--------------------------|
| | <u>2006</u> | <u>2005</u> |
| | (in thousands, except per share amounts) | |
| Net income available to common share | ₩ 74,926,263 | ₩ 60,888,600 |
| The effect of expenses related to diluted securities | - | - |
| Ordinary income/ net income, after addition for the effect of expenses related to diluted securities (*) | <u>₩ 74,926,263</u> | <u>₩ 60,888,600</u> |
| Weighted average number of common shares outstanding | 73,506,847 shares | 64,046,437 shares |
| Weighted average number of common shares plus the number of dilutive potential common shares | <u>62,454 shares</u> | <u>194,463 shares</u> |
| | <u>73,569,301 shares</u> | <u>64,240,900 shares</u> |
| Diluted ordinary income per share and diluted net income per share | ₩ 1,018 | ₩ 948 |

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

19. DIVIDENDS:

(1) Proposed dividends for 2006 and 2005 are computed as follows:

| | <u>2006</u> | <u>2005</u> |
|---------------------------------------|-------------------|-------------------|
| Types of dividend | Cash dividend | Cash dividend |
| Number of shares entitled to dividend | 74,375,593 shares | 71,728,511 shares |
| Par value | ₩ 500 | ₩ 500 |
| Dividend ratio | 80% | 68% |
| Dividend (In thousands) | ₩ 29,750,237 | ₩ 24,387,694 |

Number of shares in 2005 entitled to dividends is net of treasury stock of 2,123,100 shares.

(2) Dividend payout ratio for 2006 and 2005 is computed as follows:

| | <u>Korean Won</u> | |
|-----------------------|---|--------------|
| | <u>2006</u> | <u>2005</u> |
| | (In thousands, except for percentage amounts) | |
| Dividend | ₩ 29,750,237 | ₩ 24,387,694 |
| Net income | 74,926,263 | 60,888,600 |
| Dividend payout ratio | 39.71% | 40.05% |

(3) Dividend yield ratio for 2006 and 2005 is computed as follows:

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Dividend per share | ₩ 400 | ₩ 340 |
| Market price per share at December 31, 2006 | ₩ 25,800 | ₩ 23,950 |
| Dividend yield ratio | 1.55% | 1.42% |

20. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS:

(1) Income tax expense for the years ended December 31, 2006 and 2005 is as follows:

| | <u>Korean Won</u> | |
|---|---------------------|---------------------|
| | <u>2006</u> | <u>2005</u> |
| | (In thousands) | |
| Income tax currently payable | ₩ 49,982,513 | ₩ 37,388,476 |
| Changes in deferred income taxes due to temporary differences | (9,908,360) | (12,307,792) |
| Gain on sale of treasury stock-related income tax expense | (12,601,306) | - |
| Income tax expense | <u>₩ 27,472,847</u> | <u>₩ 25,080,684</u> |

(2) Tax reconciling items between financial accounting income and taxable income for the years ended December 31, 2006 and 2005 are as follows:

| | <u>Korean Won</u> | |
|-----------------------|----------------------|---------------------|
| | <u>2006</u> | <u>2005</u> |
| | (In thousands) | |
| Income before tax | ₩ 102,399,110 | ₩ 85,969,284 |
| Temporary differences | 40,006,786 | (9,225,977) |
| Others | 49,908,271 | (572,940) |
| Taxable income | <u>₩ 192,314,167</u> | <u>₩ 76,170,367</u> |

(3) Deferred income taxes as of December 31, 2006 and 2005 are computed as follows:

| | Korean Won | |
|--|---------------------|--------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Accumulated temporary differences, net | ₩ 81,458,920 | ₩ 14,150,876 |
| Adjustments | <u>(9,633,852)</u> | <u>9,367,335</u> |
| | 71,825,068 | 23,518,211 |
| Statutory tax rate | x 27.5% | x 27.5% |
| Deferred income tax assets | <u>₩ 19,751,894</u> | <u>₩ 6,467,508</u> |

(4) The intraperiod allocation of income tax as of December 31, 2006 is as follows:

| | Korean Won | |
|-----------------|----------------------|---------------------|
| | Amount | Income tax expense |
| | (In thousands) | |
| Ordinary income | ₩ 102,399,110 | ₩ 27,472,847 |
| Capital | <u>45,822,932</u> | <u>12,601,306</u> |
| Total | <u>₩ 148,222,042</u> | <u>₩ 40,074,153</u> |

(5) The deferred income tax assets and liabilities as of December 31, 2006 are as follows:

| | Korean Won | | |
|---------------------------------|---------------------|--------------------|---------------------|
| | Current | Non-current | Total |
| | (In thousands) | | |
| Deferred income tax assets | ₩ 53,181,377 | ₩ 6,760,964 | ₩ 59,942,341 |
| Deferred income tax liabilities | <u>(38,124,026)</u> | <u>(2,066,421)</u> | <u>(40,190,447)</u> |
| Net | <u>₩ 15,057,351</u> | <u>₩ 4,694,543</u> | <u>₩ 19,751,894</u> |

(6) Effective tax rate for the years ended December 31, 2006 and 2005 is computed as follows:

| | Korean Won | |
|---------------------|----------------|--------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Income tax | ₩ 27,472,847 | ₩ 25,080,684 |
| Income before tax | 102,399,110 | 85,969,284 |
| Effective tax rates | 26.83% | 29.17% |

21. OPERATIONAL RESULT OF THE 4TH QUARTER OF 2006 AND 2005:

Significant result of the operation in the 4th quarter of 2006 and 2005 (Unaudited) are summarized as follows:

| | Korean Won | |
|----------------------|--|---------------|
| | 2006 | 2005 |
| | (In thousands, except per share amounts) | |
| Sales | ₩ 290,170,288 | ₩ 269,137,805 |
| Gross profit | 197,904,492 | 173,288,927 |
| Operating income | 41,334,356 | 34,037,937 |
| Ordinary income | 38,924,758 | 25,224,637 |
| Net income | 29,638,094 | 15,330,737 |
| Net income per share | 398 | 214 |

22 RELATED PARTY TRANSACTIONS:

(1) Related parties for the year ended December 31, 2006 are as follows:

| <u>Related parties</u> | <u>Business</u> | <u>Ownership(%)</u> |
|---|--|---------------------|
| Subsidiary except for consolidated financial statement: | | |
| Woongjin Japan Co., Ltd. | Sales of water purifier and other | 50.00 |
| Woongjin USA Inc | Sales of water purifier and others | 35.00 |
| Woongjin Coway (Thailand) Co., Ltd. | Sales of water purifier and others | 99.99 |
| Woongjin Coway (M) Sdn Bhd. | Sales of water purifier and others | 70.00 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. (*) | Sales of cosmetics, water purifier and others | 91.13 |
| Woongjin Energy Co., Ltd. | Manufacture of diode, transistor and semiconductor | 80.10 |
| The investees accounted for using the equity method: | | |
| Platinum Media Co., Ltd. | Developing an on-line information software | 15.75 |
| Other related parties | | |
| Woongjin Thinkbig Co., Ltd | Publishing | - |
| Woongjin Foods Co., Ltd. | Sales of ginseng product and beverage | 5.07 |
| Woongjin Happyall Co., Ltd. | Servicing of water purifier and others | - |
| Woongjin Cuchen Co., Ltd. | Sales of household appliance and CDs | 0.01 |
| Rexfield Country Club | A golf course and sales of sporting goods | - |
| Booxen Co., Ltd. | Sales of books and others | 0.49 |
| Woongjin Construction Co., Ltd. | Construction | - |

(*) Woongjin Coway (Shenyang) Living Goods Co., Ltd. has changed its name from Woongjin Cosmetic., Ltd. in 2006.

(2) Significant transactions with related parties for the years ended December 31, 2006 and 2005 are as follows:

| Related parties | Description | Korean Won | |
|---|-------------------------------------|-------------|-------------|
| | | 2006 | 2005 |
| (In thousands) | | | |
| Subsidiaries: | | | |
| Woongjin Japan Co., Ltd. | Sales | ₩ 1,803,915 | ₩ 1,185,500 |
| Woongjin Coway (Thailand) Co., Ltd. | Sales | 1,237,114 | 1,091,109 |
| Woongjin Coway (M)SDN BHD | Sales | 204,285 | - |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | Sales | 328,095 | 7,573 |
| The investee accounted for using the equity method: | | | |
| Platinum Media Co., Ltd. | Sales | 1,624 | 1,195 |
| | Purchases | 2,634,177 | - |
| | Selling and administrative expenses | 17,183,543 | 1,807,932 |
| Other related parties: | | | |
| Woongjin Thinkbig Co., Ltd. | Sales | 183,904 | 392,388 |
| | Selling and administrative expenses | 543,135 | 505,328 |
| Woongjin Foods Co., Ltd. | Sales | 8,715 | 13,199 |
| | Purchases | - | 342,007 |
| | Selling and administrative expenses | 3,704,791 | 2,911,140 |
| Mco Digital Co., Ltd. | Sales | - | 124,139 |
| | Commission | - | 1,500,974 |
| | Penalty for the return of goods | - | 6,693 |
| Woongjin ST | Sales | - | 7,300 |
| | Selling and administrative expenses | - | 5,068,309 |
| Woongjin Happyall Co., Ltd. | Sales | 442,470 | 473,869 |
| | Service fees | 96,506,116 | 94,414,227 |
| | Purchases | 204,321 | - |
| | Selling and administrative expenses | 19,659,391 | - |
| Woongjin Cuchen Co., Ltd. | Sales | 10,588,864 | 7,110,035 |
| | Rent income | 195,496 | 26,726 |
| | Disposal of tangible assets | 9,101,618 | - |
| | Transfer of business | - | 11,061,052 |
| | Penalty for the return of goods | 46,708 | 1,304,685 |
| | Purchases | 99,682,900 | 72,335,025 |
| | Selling and administrative expenses | 1,204,048 | 77,367 |
| | Acquisition of tangible assets | 8,187,055 | - |
| Rexfield Country Club | Sales | 18,853 | 22,688 |
| | Selling and administrative expenses | 188,019 | 213,804 |
| Booxen Co., Ltd. | Sales | 5,665 | 5,227 |
| | Service fees | 5,155,656 | 15,234,173 |
| | Selling and administrative expenses | 13,862,829 | - |
| Woongjin Construction Co., Ltd. | Sales | 2,400 | 395,024 |
| | Acquisition of tangible assets | 6,762,475 | - |
| | Penalty for the return of goods | - | 145,244 |
| | Purchases | - | 6,144 |
| | Service fees | - | 2,364,360 |

(3) Significant balances with related companies as of December 31, 2006 and 2005 are summarized below.

| Related parties | Description | Korean Won | |
|---|------------------------------|-------------|-------------|
| | | 2006 | 2005 |
| (In thousands) | | | |
| Subsidiaries: | | | |
| Woongjin Japan Co., Ltd. | Trade receivables | ₩ 2,220,128 | ₩ 1,943,706 |
| Woongjin Coway (Thailand) Co., Ltd. | Trade receivables | 3,225,123 | 1,793,098 |
| | Advanced payments | 16,320 | 16,320 |
| | Accounts receivable – other | 3,556 | 3,556 |
| Woongjin Coway (M) Sdn Bhd. | Trade receivables | 199,695 | - |
| | Short-term loans | 590,955 | - |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | Trade receivables | 590,628 | 220,341 |
| The investee accounted for using the equity method: | | | |
| Platinum Media Co., Ltd. | Advanced payments | - | 2,823,205 |
| | Accounts payable-others | 1,468,964 | 505,762 |
| Other parties: | | | |
| Woongjin Thinkbig Co., Ltd. | Trade payables | 61,654 | - |
| | Accounts payable-others | 71,541 | 80,487 |
| Woongjin Foods Co., Ltd. | Trade receivables | 77,770 | - |
| | Accounts payable-others | 440,168 | 296,071 |
| Woongjin Happyall Co., Ltd. | Trade receivables | 139,701 | 122,682 |
| | Accounts receivable – others | 131 | 131 |
| | Guarantee deposits | 320,612 | - |
| | Accounts payable-others | 11,131,876 | 10,281,547 |
| Woongjin Cuchen Co., Ltd. | Trade receivables | 100,127 | 169,128 |
| | Accounts receivable – others | 5,891,237 | 21,827,717 |
| | Trade payables | 9,455,605 | 9,782,020 |
| | Accounts payable-others | 1,344,598 | 1,042,541 |
| Woongjin Construction Co., Ltd. | Trade receivables | - | 203,674 |
| | Accounts receivable – others | 220 | - |
| | Trade payables | - | 20,909 |
| | Other long-term liabilities | 10,000 | 10,000 |
| Booxen Co., Ltd. | Accounts payable-others | 1,819,915 | 1,586,174 |
| Rexfield Country Club | Trade receivables | 1,636 | 1,637 |
| | Guarantee deposits | 4,303,400 | - |
| | Accounts payable-others | 15,513 | 27,500 |

(4) Short-term loans provided to employees as of December 31, 2006 and 2005 amount to ₩ 42,666 thousand and ₩65,222 thousand, respectively.

(5) Guarantee provided on behalf of its related parties and others as of December 31, 2006 are as follows
(Korean Won: In thousands):

| <u>Provided to</u> | <u>Creditors</u> | <u>Types of payable</u> | <u>Borrowing limit</u> | |
|--|-------------------------|-------------------------|------------------------|------------------|
| Subsidiaries: | | | | |
| Woongjin Japan Co., Ltd. | Hana Bank | General loan and others | JPY | 1,560,000,000 |
| Woongjin Coway (Thailand) Co., Ltd. | Citibank | General loan and others | US \$ | 2,000,000 |
| Woongjin Coway (Shenyang) Living Goods Co., Ltd. | Hana Bank | General loan and others | US \$ | 3,250,000 |
| Woongjin Energy Co., Ltd. | Hana Bank | General loan and others | ₩ | 41,600,000 |
| The investee accounted for using the equity method; Platinum Media Co., Ltd. | Hana Bank and others | | ₩ | 2,990,000 |
| Other parties; | | | | |
| Woongjin Cuchen Co., Ltd. | | | | 82,700,000 |
| Woongjin Construction Co., Ltd. | | | | <u>3,250,000</u> |
| | | | ₩ | 130,540,000 |
| | | | JPY | 1,560,000,000 |
| | | | US \$ | <u>5,250,000</u> |

(6) Details of compensation to key management of the Company in 2006 are as follows:

| | <u>Korean Won</u> | |
|---------------------------|-------------------|------------------|
| | <u>2006</u> | |
| | (In thousands) | |
| Salaries | ₩ | 739,997 |
| Severance indemnities (*) | | 60,757 |
| Stock options (**) | | <u>243,278</u> |
| | ₩ | <u>1,044,032</u> |

(*) Total cost of severance indemnities for key management as of December 31, 2006 amounted to ₩172,805 thousand.

(**) Total compensation cost for management' stock options as of December 31, 2006 amounted to ₩ 485,200 thousand.

23. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2006, the Company has borrowing agreements with various financial institutions as follows (Korean Won: In thousands):

| <u>Types of borrowing</u> | <u>Financial institutions</u> | <u>Borrowing limits</u> | |
|---|--|-------------------------|-------------|
| Bank overdraft | Kookmin Bank and others | ₩ | 10,000,000 |
| Loan provided in line with the purchase | Shinhan Bank and others | | 205,000,000 |
| Discount of notes receivable | Korean French Banking Corp. and others | | 60,000,000 |
| General loan | Shinhan Bank and others | | 15,000,000 |
| Issuance of electronic notes payable | Korean Exchange Bank | | 10,000,000 |
| Borrowings related with import | Woori Bank and others | US \$ | 5,000,000 |

(2) As of December 31, 2006, Seoul Guarantee Insurance Co., Ltd. has provided guarantee of execution of contract of ₩543,959 thousand on behalf of the Company.

(3) As of December 31, 2006, the Company is involved with 13 lawsuits regarding the refund of sales commission amounting to ₩ 1,104,138 thousand. The Company estimates the result of the above lawsuit cases as immaterial.

24. SELLING AND ADMINISTRATIVE EXPENSES:

The details of selling and administrative expenses for the years ended December 31, 2006 and 2005 are as follows:

| | Korean Won | |
|--|----------------------|----------------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Salary related expenses | ₩ 135,971,319 | ₩ 109,959,874 |
| Travel | 2,691,726 | 1,896,493 |
| Communications | 8,339,305 | 7,207,494 |
| Entertainment | 660,677 | 672,776 |
| Education and training | 10,754,961 | 9,225,008 |
| Supplies | 8,234,351 | 17,591,636 |
| Books and publishing | 968,992 | 828,053 |
| Advertisements | 31,259,773 | 32,380,682 |
| Rent | 29,760,632 | 25,062,838 |
| Taxes and dues | 755,220 | 798,420 |
| Insurance | 200,243 | 626,231 |
| Transportation | 1,124,770 | 1,413,831 |
| Sales promotion | 14,321,028 | 5,836,299 |
| Sales warranties | 31,864 | 113,573 |
| Sales commissions | 241,656,094 | 200,642,426 |
| Fees and commissions | 41,643,741 | 36,261,307 |
| Repairs and maintenance | 3,162,742 | 2,434,164 |
| Ordinary research and development | 4,786,590 | 2,860,954 |
| Depreciation | 11,699,378 | 8,622,389 |
| Amortization | 6,330,942 | 3,648,282 |
| Bad debt | 18,995,895 | 21,272,877 |
| Loss on returned goods | - | 6,066,592 |
| Loss on impairment loss of rental assets | 49,980,186 | 50,428,831 |
| Other | 1,778,424 | 1,685,361 |
| | <u>₩ 625,108,853</u> | <u>₩ 547,536,391</u> |

25. TRANSFER OF BUSINESS:

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: bidet and others

(2) Condensed financial information of the transferred division

| | <u>Korean Won</u> | |
|-------------------|-----------------------|-------------------|
| | <u>(In thousands)</u> | |
| Trade receivables | ₩ | 10,429,227 |
| Inventories | | 9,136,314 |
| Properties | | 8,615,122 |
| Others | | <u>1,389,421</u> |
| Assets | | <u>29,570,084</u> |
| Trade payables | | 4,300,876 |
| Other payables | | 7,719,760 |
| 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.

26. 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 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 of merger plan: March 22, 2006
Merger date: May 2, 2006
Merger ratio: 1:1.060266
Number of shares distributed 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. distributed its shares of 21,231,090 shares to the shareholders of Woongjin Coway Co., Ltd. by applying the merge ratio in terms of 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:

| | Description | Korean Won (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 | 125,954,013 |
| 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:

| | Description | Korean Won (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 | (333,183) |
| Total assets assumed | | <u>₩ 191,757,024</u> |

The above goodwill is amortized over 5 years using the straight line method, and ₩4,694,200 thousand was amortized in 2006.

(6) Condensed financial information of the actual acquiree, which is Woongjin Coway Co., Ltd., for the period from January 1, 2006 through the merger date and for the year ended December 31, 2005 is as follows:

| | Korean Won | |
|--|----------------------|----------------------|
| | May. 2, 2006 | Dec. 31, 2005 |
| | (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>₩ 197,836,516</u> | <u>₩ 176,678,524</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>125,954,013</u> | <u>101,039,923</u> |
| Total shareholders' equity | <u>71,882,503</u> | <u>75,638,601</u> |
| Total liabilities and shareholders' equity | <u>₩ 197,836,516</u> | <u>₩ 176,678,524</u> |

| | Korean Won | |
|-------------------------------------|--------------------|---------------------|
| | May 2, 2006 | Dec. 31, 2005 |
| | (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>₩ 3,214,777</u> | <u>₩ 14,424,213</u> |

- (7) Significant transactions with Woongjin Coway Development Co., Ltd. for the period from January 1, 2006 through the merger date and for the year ended December 31, 2005 are as follows:

| | Korean Won | |
|-----------|----------------|---------------|
| | May 2, 2006 | Dec. 31, 2005 |
| | (In thousands) | |
| Sales | ₩ 77,657,050 | ₩ 228,588,188 |
| Purchases | 905,107 | 14,949,126 |

- (8) Significant receivables and payables as of merger date and December 31, 2005 as a result of transaction with Woongjin Coway Development Co., Ltd. are as follows:

| | Korean Won | |
|-------------------------------------|----------------|---------------|
| | May 2, 2006 | Dec. 31, 2005 |
| | (In thousands) | |
| Trade accounts and notes receivable | ₩ 87,221,083 | ₩ 46,105,107 |
| Accounts receivable-other | 27,512 | 16,247 |
| Trade accounts and notes payable | 1,297,573 | 978,351 |
| Accounts payable-other | 289,719 | 314,472 |

27. SEGMENT INFORMATION:

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

Details of business segment information for the years ended December 31, 2006 and 2005 are as follows:

| | Korean Won | | | | | |
|------------------|--------------------|------------------|------------------|--------------------|------------------|------------------|
| | 2006 | | | 2005 | | |
| | Sales | Cost of sales | Gross profit | Sales | Cost of sales | Gross profit |
| | (In millions) | | | | | |
| Rental | ₩ 1,019,928 | ₩ 340,626 | ₩ 679,302 | ₩ 903,383 | ₩ 316,072 | ₩ 587,311 |
| Lump sum payment | 49,732 | 17,779 | 31,953 | 45,371 | 18,309 | 27,062 |
| Others | <u>48,107</u> | <u>21,976</u> | <u>26,131</u> | <u>59,326</u> | <u>29,319</u> | <u>30,007</u> |
| Total | <u>₩ 1,117,767</u> | <u>₩ 380,381</u> | <u>₩ 737,386</u> | <u>₩ 1,008,080</u> | <u>₩ 363,700</u> | <u>₩ 644,380</u> |

28. SUPPLEMENTARY INFORMATION ON CALCULATION OF VALUE-ADDED AMOUNTS:

Supplementary information on calculation of value-added amounts for the years ended December 31, 2006 and 2005 are as follows

| | <u>Korean Won</u> | |
|--------------------|----------------------|----------------------|
| | <u>2006</u> | <u>2005</u> |
| | (In thousands) | |
| Ordinary income | ₩ 102,399,110 | ₩ 85,969,284 |
| Salaries | 114,350,559 | 92,817,563 |
| Severance benefits | 10,129,378 | 9,377,652 |
| Employee benefits | 17,596,277 | 13,158,545 |
| Rent | 29,760,632 | 25,062,838 |
| Depreciation | 132,162,646 | 124,024,165 |
| Taxes and dues | <u>763,728</u> | <u>836,380</u> |
| | <u>₩ 407,162,330</u> | <u>₩ 351,246,427</u> |

Independent Accountants' Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Woongjin Coway Co., Ltd.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Woongjin Coway Co., Ltd. (the "Company") as of December 31, 2006. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2006, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2006, and we did not review its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.



February 23, 2007

Report on the Assessment of Internal Accounting Control System (“IACS”)

To the Board of Directors and Auditor (Audit Committee) of
Woongjin Coway Company

I, as the Internal Accounting Control Officer (“IACO”) of Woongjin Coway Company (“the Company”), assessed the status of the design and operation of the Company’s IACS for the year ended December 31, 2006.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements reporting. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company’s IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework.

February 23, 2007

Kim Dong-Hyun

Name, Internal Accounting Control Officer



Park Yong-Sun

Name, Chief Executive Officer or President

