

**Woongjin Coway Co., Ltd.**

Non-consolidated financial statements

Years ended December 31, 2010 and 2009

with independent auditors' report

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**December 31, 2010 and 2009**

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## **Independent auditors' report**

The Board of Directors and Stockholders  
Woongjin Coway Co., Ltd.

We have audited the accompanying non-consolidated statements of financial position of Woongjin Coway Co., Ltd. (the "Company") as of December 31, 2010 and 2009, and the related statements of income, appropriations of retained earnings, changes in equity and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We did not audit the financial statements of a subsidiary, which is accounted for using the equity method. The carrying amount of the investment in that subsidiary represents approximately 9.8% and 8.05% of the Company's total assets as of December 31, 2010 and 2009, respectively, and equity in earnings of the subsidiary using the equity method represents approximately 10.94% and 2.13% of the Company's income before income taxes for the years ended December 31, 2010 and 2009, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this subsidiary, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Woongjin Coway Co., Ltd. as of December 31, 2010 and 2009, and the results of its financial performance, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.



The Board of Directors and Stockholders  
Woongjin Coway Co., Ltd.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, result of financial performance, 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 non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

A handwritten signature in black ink that reads "Ernst &amp; Young Han Young".

March 16, 2011

This audit report is effective as of March 16, 2011, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying non-consolidated financial statements and may result in modifications to this report.

**Woongjin Coway Co., Ltd.**  
**Non-consolidated statements of financial position**  
**As of December 31, 2010 and 2009**

(Korean won in thousands)

|  | <u>2010</u>            | <u>2009</u>            |
|--|------------------------|------------------------|
| <b>Assets</b>  |                        |                        |
| Current assets:  |                        |                        |
| Cash and cash equivalents (Notes 14 and 26)  | ₩ 56,348,925           | ₩ 63,721,045           |
| Short-term investment assets (Notes 5, 14 and 21)  | 3,865,721              | 5,494,230              |
| Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩54,852,357 in 2010 and ₩51,918,324 in 2009 (Notes 14, 21 and 36) | 207,250,199            | 194,577,162            |
| Other accounts receivable, net of allowance for doubtful accounts of ₩15,289,700 in 2010 and ₩13,730,119 in 2009 (Notes 14 and 21)               | 10,360,650             | 3,978,655              |
| Accrued income, net of allowance for doubtful accounts of ₩2,173,950 in 2010 and ₩1,318,777 in 2009 (Note 14 and 21)                             | 64,251                 | 32,062                 |
| Advance payments, net of allowance for doubtful accounts of ₩8,691,528 in 2010 and ₩8,691,528 in 2009  | 3,135,073              | 1,340,461              |
| Prepaid expenses (Note 36)   | 224,581,420            | 180,005,187            |
| Deferred income tax assets (Note 22)   | -                      | 5,716,383              |
| Inventories (Note 27):   |                        |                        |
| Merchandise  | 35,015,698             | 30,289,284             |
| Finished goods   | 36,754,179             | 24,613,553             |
| Work-in-process  | 324,975                | 169,205                |
| Raw materials  | 6,148,458              | 4,908,721              |
| Others   | 291,220                | 232,638                |
|  | <u>78,534,530</u>      | <u>60,213,401</u>      |
| Less valuation allowance   | (5,335,336)            | (5,623,407)            |
| Inventories, net   | <u>73,199,194</u>      | <u>54,589,994</u>      |
| Total current assets   | <u>578,805,433</u>     | <u>509,455,179</u>     |
| Non-current assets:  |                        |                        |
| Long-term investment assets (Note 6)   | 3,101,917              | 2,103,738              |
| Equity method investments (Note 7)   | 197,068,092            | 128,581,578            |
| Long-term loans receivable, net of allowance for doubtful accounts of ₩9,391,567 in 2010 and ₩4,399,949 in 2009 (Notes 13, 14 and 21)            | 4,096,189              | -                      |
| Long-term guarantee deposits, net of allowance for doubtful accounts of ₩2,302,939 in 2010 and 2009  | 43,489,628             | 44,661,417             |
| Defaulted notes receivable, net of allowance for doubtful account of ₩3,295,259 in 2010 and ₩2,959,073 in 2009                                   | -                      | 654,500                |
| Long-term prepaid expenses   | 15,647,916             | 16,572,917             |
| Deferred income tax assets (Note 22)   | 5,247,490              | 8,463,627              |
| Property, plant and equipment (Notes 8, 9 and 27)  | 454,155,395            | 418,204,136            |
| Intangible assets (Notes 10 and 22)  | 133,624,438            | 141,086,744            |
| Other non-current assets (Note 4)  | 4,295,830              | 895,830                |
|  | <u>860,726,895</u>     | <u>761,224,487</u>     |
| Total assets   | <u>₩ 1,439,532,328</u> | <u>₩ 1,270,679,666</u> |

(Continued)

See accompanying notes.

**Woongjin Coway Co., Ltd.**  
**Non-consolidated statements of position (cont'd)**  
**As of December 31, 2010 and 2009**

(Korean won in thousands)

|  | <b>2010</b>   | <b>2009</b>  |
|--|---------------|--------------|
| <b>Liabilities and equity</b>  |               |              |
| Current liabilities:   |               |              |
| Trade accounts and notes payable (Note 21)                                     | ₩ 38,311,602  | ₩ 29,220,399 |
| Short-term borrowings (Notes 12 and 28)  | 74,473,032    | 119,715,069  |
| Other accounts payable (Note 21)   | 132,391,930   | 103,577,575  |
| Advances received  | 116,351,448   | 121,280,682  |
| Unearned revenues  | 420,821       | 43,467       |
| Withholdings   | 8,612,358     | 9,776,951    |
| Accrued expenses   | 10,762,422    | 12,207,841   |
| Income taxes payable (Note 22)   | 23,263,552    | 23,514,516   |
| Provision for product warranties (Note 16)                                     | 3,008,687     | 1,765,671    |
| Provision for return of goods sold (Note 16)                                   | 1,193,744     | 668,268      |
| Current portion of long-term borrowings (Notes 12 and 28)                      | 30,000,000    | 30,000,000   |
| Current portion of bonds (Notes 12 and 28)                                     | -             | 90,000,000   |
| Deferred income tax liabilities (Note 22)                                      | 2,179,905     | -            |
| Total current liabilities  | 440,969,501   | 541,770,439  |
| Non-current liabilities:   |               |              |
| Long-term borrowings (Notes 12 and 28)   | ₩ 170,000,000 | ₩ 30,000,000 |
| Private bonds, net of discount on bonds<br>of ₩227,446 in 2010 and nil in 2009 | 49,772,554    | -            |
| Long-term other accounts payable   | 81,400        | 24,000       |
| Reserve for agent losses (Note 13)   | 5,948,614     | 5,594,074    |
| Rental deposits received from customers  | 1,119,762     | 1,121,308    |
| Provision for construction warranties (Note 16)                                | 91,816        | 139,217      |
| Severance and retirement benefits, net (Notes 15 and 21)                       | 6,723,517     | 11,336,869   |
| Leasehold deposits received  | 25,000        | 15,000       |
| Total non-current liabilities  | 233,762,663   | 48,230,468   |
| Total liabilities  | 674,732,164   | 590,000,907  |
| Equity:  |               |              |
| Capital stock (Note 17)  | 40,662,398    | 40,662,398   |
| Capital surplus:   |               |              |
| Paid-in capital in excess of par value<br>(Notes 17, 22 and 33)                | 95,244,305    | 97,276,688   |
| Capital surplus in equity method<br>(Notes 7, 21 and 22)                       | 11,671,472    | 11,671,472   |
| Other capital surplus (Notes 18 and 22)  | 33,115,087    | 32,979,546   |
|  | 140,030,864   | 141,927,706  |
| Capital adjustments:   |               |              |
| Treasury stock (Note 19)   | (34,026,806)  | (36,432,706) |
| Stock options (Notes 21 and 29)  | 6,707,194     | 5,167,222    |
| Capital adjustments in equity method<br>(Notes 7 and 22)                       | (15,671,255)  | (248,702)    |
|  | (42,990,867)  | (31,514,186) |

(Continued)

See accompanying notes.

**Woongjin Coway Co., Ltd.**  
**Non-consolidated statements of financial position (cont'd)**  
**As of December 31, 2010 and 2009**

(Korean won in thousands)

|   | <u>2010</u>            | <u>2009</u>            |
|---|------------------------|------------------------|
| <b>Liabilities and equity (cont'd)</b>                                    |                        |                        |
| Equity (cont'd):  |                        |                        |
| Accumulated other comprehensive income:                                   |                        |                        |
| Gain on valuation of long-term investment securities (Notes 6, 22 and 25) | ₩ 7,223                | ₩ 8,676                |
| Equity adjustments in equity method (Notes 7, 22 and 25)                  | 1,529,229              | 2,000,412              |
| Negative equity adjustments in equity method (Notes 7, 22 and 25)         | <u>(4,243,989)</u>     | <u>(1,993,927)</u>     |
|   | (2,707,537)            | 15,161                 |
| Retained earnings:  |                        |                        |
| Legal reserve (Note 20)   | 31,025,427             | 23,325,427             |
| Voluntary reserve (Note 20)   | 421,736,035            | 352,976,035            |
| Unappropriated retained earnings  | <u>177,043,844</u>     | <u>153,286,218</u>     |
|   | <u>629,805,306</u>     | <u>529,587,680</u>     |
| Total equity  | <u>764,800,164</u>     | <u>680,678,759</u>     |
| <br>  |                        |                        |
| Total liabilities and equity  | <u>₩ 1,439,532,328</u> | <u>₩ 1,270,679,666</u> |



**Woongjin Coway Co., Ltd.**  
**Non-consolidated statements of income**  
**Years ended December 31, 2010 and 2009**

(Korean won in thousands, except per share amounts)

|  | <b>2010</b>          | <b>2009</b>          |
|--|----------------------|----------------------|
| Sales (Note 31)  | ₩ 1,519,140,211      | ₩ 1,411,922,316      |
| Cost of sales (Notes 30, 31 and 32)                                      | 494,072,068          | 460,172,221          |
| Gross profit   | <u>1,025,068,143</u> | <u>951,750,095</u>   |
| Selling and administrative expenses (Notes 30 and 33)                    | <u>796,264,364</u>   | <u>747,492,690</u>   |
| Operating income   | 228,803,779          | 204,257,405          |
| Other income (expenses):   |                      |                      |
| Interest income  | 3,542,598            | 3,116,811            |
| Interest expenses  | (17,628,237)         | (12,526,386)         |
| Dividend income  | 578                  | 401                  |
| Rental income  | 278,161              | 502,892              |
| Commission income  | 1,192,046            | 1,162,939            |
| Allowance for doubtful accounts (non-trade)                              | (2,969,915)          | (1,426,090)          |
| Loss on foreign currency transactions, net                               | (40,907)             | (1,082,704)          |
| Loss on foreign currency translation, net (Note 14)                      | (373,527)            | (4,164,862)          |
| Equity in earnings of equity method investments, net<br>(Notes 7 and 22) | 22,109,228           | 13,915,031           |
| Loss on disposal of property, plant and equipment, net                   | (280,767)            | (350,696)            |
| Loss on inventory written off  | (10,208)             | (1,461,488)          |
| Loss on disposal of long-term investments securities                     | -                    | (1,099,637)          |
| Contributions  | (1,132,360)          | (560,160)            |
| Miscellaneous income, net  | 3,036,637            | 2,154,507            |
| Reversal of allowance for doubtful accounts                              | -                    | 286,425              |
|  | <u>7,723,327</u>     | <u>(1,533,017)</u>   |
| Income before income taxes   | 236,527,106          | 202,724,388          |
| Provision for income taxes (Note 22)                                     | 59,484,036           | 49,444,874           |
| Net income   | <u>₩ 177,043,070</u> | <u>₩ 153,279,514</u> |
| Earnings per share (Note 23):  |                      |                      |
| Basic  | <u>₩ 2,327</u>       | <u>₩ 2,034</u>       |
| Diluted  | <u>₩ 2,323</u>       | <u>₩ 2,031</u>       |

See accompanying notes.

**Woongjin Coway Co., Ltd.****Non-consolidated statements of appropriations of retained earnings****Years ended December 31, 2010 and 2009**

(Korean won in thousands)

|   | <u>2010</u>        | <u>2009</u>        |
|---|--------------------|--------------------|
| <b>Retained earnings before appropriations:</b>                                   |                    |                    |
| Unappropriated retained earnings carried forward from the prior year              | ₩ 774              | ₩ 6,704            |
| Net income for the year   | <u>177,043,070</u> | <u>153,279,514</u> |
|   | <u>177,043,844</u> | <u>153,286,218</u> |
| <b>Appropriations (2010 - proposed):</b>  |                    |                    |
| Legal reserve   | 8,000,000          | 7,700,000          |
| Other reserves  | 89,102,000         | 68,760,000         |
| Cash dividends (Note 24)  | <u>79,941,536</u>  | <u>76,825,444</u>  |
|   | <u>177,043,536</u> | <u>153,285,444</u> |
| <b>Unappropriated retained earnings to be carried forward to to the next year</b> | <u>₩ 308</u>       | <u>₩ 774</u>       |

**Woongjin Coway Co., Ltd.**

**Non-consolidated statements of changes in equity**

**Years ended December 31, 2010 and 2009**

(Korean won in thousands)

|  | <b>Capital stock</b> | <b>Capital surplus</b> | <b>Capital adjustments</b> | <b>Accumulated other comprehensive income</b> | <b>Retained earnings</b> | <b>Total</b>         |
|--|----------------------|------------------------|----------------------------|---|--------------------------|----------------------|
| As of January 1, 2009                                | ₩ 39,315,997         | ₩ 108,723,905          | ₩ 6,180,975                | ₩ 1,346,595                                   | ₩ 441,064,000            | ₩ 596,631,472        |
| Dividends  | -                    | -                      | -                          | -   | (64,755,834)             | (64,755,834)         |
| Net income for the year                              | -                    | -                      | -                          | -   | 153,279,514              | 153,279,514          |
| Repurchase of treasury stock                         | -                    | -                      | (46,400,006)               | -   | -                        | (46,400,006)         |
| Disposal of treasury stock                           | -                    | 67,571                 | 9,967,300                  | -   | -                        | 10,034,871           |
| Issuance of common shares due to merger              | 1,346,401            | 82,379,108             | -                          | -   | -                        | 83,725,509           |
| Acquisition of business from a related party         | -                    | (49,248,850)           | -                          | -   | -                        | (49,248,850)         |
| Stock-based compensation expense                     | -                    | -                      | 1,590,290                  | -   | -                        | 1,590,290            |
| Exercise of stock options                            | -                    | -                      | (2,604,043)                | -   | -                        | (2,604,043)          |
| Loss on valuation of long-term investment securities | -                    | -                      | -                          | 1,100,148                                     | -                        | 1,100,148            |
| Capital surplus in equity method                     | -                    | 5,972                  | -                          | -   | -                        | 5,972                |
| Capital adjustments in equity method                 | -                    | -                      | (248,702)                  | -   | -                        | (248,702)            |
| Equity adjustments in equity method                  | -                    | -                      | -                          | (2,146,950)                                   | -                        | (2,146,950)          |
| Negative equity adjustments in equity method         | -                    | -                      | -                          | (284,632)                                     | -                        | (284,632)            |
| As of December 31, 2009                              | <u>₩ 40,662,398</u>  | <u>₩ 141,927,706</u>   | <u>₩ (31,514,186)</u>      | <u>₩ 15,161</u>                               | <u>₩ 529,587,680</u>     | <u>₩ 680,678,759</u> |

(Continued)

See accompanying notes.

**Woongjin Coway Co., Ltd.**

**Non-consolidated statements of changes in equity (cont'd)**

**Years ended December 31, 2010 and 2009**

(Korean won in thousands)

|  | <b>Capital stock</b> | <b>Capital surplus</b> | <b>Capital adjustments</b> | <b>Accumulated other comprehensive income</b> | <b>Retained earnings</b> | <b>Total</b>         |
|--|----------------------|------------------------|----------------------------|---|--------------------------|----------------------|
| As of January 1, 2010                                | ₩ 40,662,398         | ₩ 141,927,706          | ₩ (31,514,186)             | ₩ 15,161                                      | ₩ 529,587,680            | ₩ 680,678,759        |
| Dividends  |                      |                        |                            |   | (76,825,444)             | (76,825,444)         |
| Net income for the year                              |                      |                        |                            |   | 177,043,070              | 177,043,070          |
| Disposal of treasury stock                           | -                    | 135,541                | 2,405,900                  | -   | -                        | 2,541,441            |
| Acquisition of business from a related party         | -                    | (2,032,383)            | -                          | -   | -                        | (2,032,383)          |
| Stock-based compensation expense                     |                      |                        | 2,226,143                  | -   | -                        | 2,226,143            |
| Exercise of stock options                            | -                    | -                      | (686,171)                  | -   | -                        | (686,171)            |
| Gain on valuation of long-term investment securities | -                    | -                      | -                          | (1,453)                                       | -                        | (1,453)              |
| Capital adjustments in equity method                 | -                    | -                      | (15,422,553)               | -   | -                        | (15,422,553)         |
| Equity adjustments in equity method                  | -                    | -                      | -                          | (471,183)                                     | -                        | (471,183)            |
| Negative equity adjustments in equity method         | -                    | -                      | -                          | (2,250,062)                                   | -                        | (2,250,062)          |
| As of December 31, 2010                              | <u>₩ 40,662,398</u>  | <u>₩ 140,030,864</u>   | <u>₩ (42,990,867)</u>      | <u>₩ (2,707,537)</u>                          | <u>₩ 629,805,306</u>     | <u>₩ 764,800,164</u> |

See accompanying notes.

**Woongjin Coway Co., Ltd.**  
**Non-consolidated statements of cash flows**  
**Years ended December 31, 2010 and 2009**

(Korean won in thousands)

|   | <b>2010</b>   | <b>2009</b>   |
|---|---------------|---------------|
| <b>Cash flows from operating activities:</b>                                      |               |               |
| Net income  | ₩ 177,043,070 | ₩ 153,279,514 |
| Adjustments to reconcile net income to net cash provided by operating activities: |               |               |
| Provision for severance and retirement benefits                                   | 16,652,432    | 19,355,829    |
| Stock-based compensation expenses   | 2,226,143     | 1,590,290     |
| Depreciation  | 131,572,957   | 128,228,881   |
| Amortization of intangible assets   | 22,213,464    | 19,874,921    |
| Allowance for doubtful accounts   | 14,388,770    | 7,408,687     |
| Loss on disposal of rental assets   | 40,854,477    | 38,135,698    |
| Gain (loss) on foreign currency translation, net                                  | (246,171)     | 3,812,426     |
| Loss on disposal of long-term investment securities                               | -             | 1,099,637     |
| Equity in earnings of equity method investments, net                              | (22,109,228)  | (13,915,031)  |
| Loss on disposal of property, plant and equipment, net                            | 280,767       | 350,696       |
| Loss on inventory written off   | 10,208        | 1,461,488     |
| Provision for return of goods sold  | 525,476       | 219,380       |
| Provision for product warranties  | 1,243,016     | 354,159       |
| Reversal of loss on valuation of inventories                                      | (288,070)     | (456,198)     |
| Others  | 11,654        | (252,546)     |
| Changes in operating assets and liabilities:                                      |               |               |
| Trade accounts and notes receivable   | (23,635,787)  | (51,945,030)  |
| Other accounts receivable   | (7,944,600)   | 10,304,500    |
| Prepaid expenses  | (44,576,233)  | (16,912,639)  |
| Accrued income  | (887,362)     | (522,671)     |
| Advance payments  | (1,794,614)   | 10,183,114    |
| Inventories   | (17,789,727)  | 4,240,977     |
| Long-term prepaid expenses  | 925,000       | 925,000       |
| Deferred income taxes   | 13,361,321    | 8,339,059     |
| Trade accounts and notes payable  | 9,091,203     | (8,955,345)   |
| Other accounts payable  | 28,814,355    | 17,721,349    |
| Advances received   | (4,929,233)   | (7,311,050)   |
| Unearned revenues   | 377,354       | 43,467        |
| Withholdings  | (1,164,593)   | (695,391)     |
| Accrued expenses  | (1,445,418)   | 6,722,117     |
| Income taxes payable  | (250,964)     | (3,300,706)   |
| Deferred income tax liabilities   | 2,179,905     | -             |
| Long-term other accounts payable  | 57,400        | 24,000        |
| Reserve for agent loss  | 354,540       | (153,383)     |
| Provision for construction warranties   | (57,400)      | (34,518)      |
| Rental deposits received from customers   | (1,545)       | (2,700)       |
| Payment of severance and retirement benefits, net                                 | (21,265,785)  | (17,565,191)  |
| Total adjustments   | 136,753,712   | 158,373,276   |
| Net cash provided by operating activities   | ₩ 313,796,782 | ₩ 311,652,790 |

(Continued)

See accompanying notes.

**Woongjin Coway Co., Ltd.**  
**Non-consolidated statements of cash flows (cont'd)**  
**Years ended December 31, 2010 and 2009**

(Korean won in thousands)

|  | <b>2010</b>          | <b>2009</b>          |
|--|----------------------|----------------------|
| <b>Cash flows from investing activities:</b>   |                      |                      |
| Increase in short-term investment assets, net  | ₩ (3,322,315)        | ₩ (50,000)           |
| Proceeds from disposal of long-term investment securities                            | -                    | 3,807,002            |
| Acquisition of long-term investments securities                                      | (1,000,043)          | -                    |
| Refund of long-term loans receivable   | 478,533              | -                    |
| Payment of long-term loans receivable  | (861,658)            | -                    |
| Acquisition of equity method investments   | (63,749,006)         | (1,022,545)          |
| Proceeds from disposal of property, plant and equipment                              | 11,217,131           | 13,804,417           |
| Acquisition of property, plant and equipment   | (223,120,234)        | (217,922,093)        |
| Proceeds from disposal of intangible assets  | 40,000               | 33,772               |
| Acquisition of intangible assets   | (9,808,056)          | (6,233,809)          |
| Refund of long-term guarantee deposits   | 21,572,883           | 18,082,427           |
| Payment of long-term guarantee deposits  | (19,988,214)         | (23,450,393)         |
| Increase of goodwill   | (4,960,000)          | -                    |
| Others, net  | (2,930,000)          | (54,734)             |
| Net cash used in investing activities  | <u>(296,430,979)</u> | <u>(213,005,956)</u> |
| <b>Cash flows from financing activities:</b>   |                      |                      |
| Drawdown of short-term borrowings  | 807,312,654          | 745,684,306          |
| Repayment of short-term borrowings   | (852,554,691)        | (764,258,185)        |
| Issuance of private bonds  | 49,747,800           | -                    |
| Proceeds from current portion of bonds   | -                    | 70,000,000           |
| Proceeds from long-term borrowings   | 100,000,000          | -                    |
| Redemption of current portion of bonds   | (50,000,000)         | -                    |
| Repurchase of treasury stock   | -                    | 7,452,400            |
| Acquisition of treasury stock  | -                    | (46,400,006)         |
| Exercise of stock options  | 1,893,500            | -                    |
| Payment of dividends   | (76,825,444)         | (64,755,834)         |
| Others, net  | 10,000               | (10,000)             |
| Net cash used in financing activities  | <u>(20,416,181)</u>  | <u>(52,287,319)</u>  |
| <b>Increase of cash and cash equivalents due to merger and business combinations</b> | (4,321,742)          | (58,740,380)         |
| <b>Net decrease in cash and cash equivalents</b>                                     | (7,372,120)          | (12,380,865)         |
| <b>Cash and cash equivalents at the beginning of the year</b>                        | <u>63,721,045</u>    | <u>76,101,910</u>    |
| <b>Cash and cash equivalents at the end of the year</b>                              | <u>₩ 56,348,925</u>  | <u>₩ 63,721,045</u>  |

See accompanying notes.

## **1. Corporate information**

Woongjin Coway Co., Ltd. (the "Company") was incorporated on May 2, 1989 under the laws of the Republic of Korea to engage in the manufacture and sales or rental of water purifiers and home appliances, construction of waste disposal facilities and other related business. The Company listed its common shares at the Korea Exchange ("KRX") on August 7, 2001.

As the result of a merger and several increases in paid-in capital, the capital stock of the Company as of December 31, 2010 amounts to ₩40,662 million. In addition, the Company had previously retired 4,200,000 shares of treasury stock through the appropriation of retained earnings. As a result, the number of shares common stock outstanding amounting to 77,124,796 shares with a face value of ₩38,562 million differs from the face value and number of shares issued as recorded in the statement of financial position as of December 31, 2010.

As of December 31, 2010, the majority stockholder of the Company is Woongjin Holdings Co., Ltd., with a shareholding of 28.37%, and Woongjin Chemical Co., Ltd., Woong Jin Coway (Shenyang) Living Goods Co., Ltd., Woong jin Coway USA Inc., Woong Jin Coway (M) Sdn Bhd. and GETC Co., Ltd. are subsidiaries of the Company.

## **2. Summary of significant accounting policies**

### **Basis of financial statement preparation**

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP"). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. In the event of any differences in interpreting the non-consolidated financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

The non-consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Republic of Korea, including Statements of Korea Accounting Standards ("SKAS") 1 to 23, and the summary of significant account policies used for the preparation of the financial statements are as follows:

### **Revenue recognition**

Revenue from the sale of goods is recognized when significant risks and rewards of ownership of goods have passed to the buyer upon delivery of goods sold and rental revenue is recognized on an accrual basis over the rental period. Other revenue is recognized when the revenue has been earned, 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.

### **Cash equivalents**

Highly liquid deposits and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

## 2. Summary of significant accounting policies (cont'd)

### Financial instruments

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments

### Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts in consideration of the estimated losses that may arise from non-collection of its receivables. The estimate of losses, if any, is based on a review of the aging and current status of the outstanding receivables.

### Inventories

Inventories are stated at the lower of cost or net realizable value, with cost being determined using the moving-average method. Perpetual inventory system is used to record inventories, in which inventories are adjusted to physical inventory counts that are performed at the end of the year.

When a decline in the value of an inventory indicates that its cost exceeds net realizable value, a valuation loss will be recognized to write the inventory down to its net realizable value. The loss on valuation is recognized in cost of sales which amounted to nil, as of December 31, 2010 and 2009.

In the event of an increase in the net realizable value of previous written down inventory, the amount of the write-down is reversed to the extent of the original write-down amount so that the new carrying amount is the lower of cost and the revised net realizable value. The Company has made reversal of write-down which amounted to ₩288,070 thousand and ₩456,198 thousand for the years ended December 31, 2010 and 2009.

### Investments in securities

Investments in securities within the scope of SKAS 8 *Investments in Securities* are classified as either trading, held-to-maturity or available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses, with cost being determined using the moving average method. The Company determines the classification of its investments after initial recognition, and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Company has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities.

After initial measurement, available-for-sale securities are measured at fair value with unrealized gains or losses being recognized directly in equity as other comprehensive income. Likewise, trading securities are also measured at fair value after initial measurement, but with unrealized gains or losses reported as part of net income. Held-to-maturity securities are measured at amortized cost after initial measurement. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.



## **2. Summary of significant accounting policies (cont'd)**

### **Investments in securities (cont'd)**

The fair value of trading and available-for-sale securities that are traded actively in the open market (marketable securities) is measured at the closing price of those securities at the reporting date. Non-marketable equity securities are measured at cost subsequent to initial measurement if their fair values cannot be reliably estimated. Non-marketable debt securities are carried at a value using the present value of future cash flows discounted using an appropriate interest rate which reflects the issuer's credit rating announced by a public independent credit rating agency.

If the application of such measurement method is not feasible, estimates of fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting business in similar industries.

Trading securities are classified as current assets. Available-for-sale and held-to-maturity securities are classified as long-term investments, except that securities maturing within one year or that are certain to be disposed of within one year from the reporting date are classified as short-term investments.

The Company recognizes an impairment loss on its investments in securities if there is objective evidence that the securities are impaired. The impairment loss is charged to statement of income.

### **Equity method investments**

Investments in entities over which the Company has control or significant influence are accounted for using the equity method.

Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the non-consolidated statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

Negative goodwill represents the excess of the Company's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

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

In translating the financial statements of foreign investees into Korean won, assets and liabilities are translated at the exchange rate on the reporting date and income and expenses are translated at the average exchange rate for the period. All resulting exchange differences are recognized as foreign currency translation adjustments in other comprehensive income within equity.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which enhance the value or extend the useful life of the related assets are capitalized.

## 2. Summary of significant accounting policies (cont'd)

### Property, plant and equipment (cont'd)

Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful life of the assets as follows:

|                         | <u>Years</u> |
|-------------------------|--------------|
| Buildings               | 25 – 40      |
| Structures              | 7 – 25       |
| Machinery and equipment | 2 – 12       |
| Vehicles                | 5 – 10       |
| Tools                   | 2 – 6        |
| Furniture and fixtures  | 2 – 20       |
| Research facility       | 3            |
| Rental assets           | 3 – 5        |

### Intangible assets

Intangible assets of the Company consist of goodwill, industrial property rights and other intangible assets, which are stated at cost less accumulated amortization. Amortization is recognized as an expense based on the straight-line method over the estimated useful life of 5 to 10 years for goodwill and industrial property rights and 5 years for all other intangible assets.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are expensed in the period in which they are incurred.

### Impairment of assets

When the recoverable amount of an asset is less than its carrying amount due to obsolescence, physical damage or abrupt decline in the market value of the asset, the decline in value, if material, is deducted from the carrying amount and recognized as an asset impairment loss in the current year.

A previously recognized impairment loss for an impaired asset is reversed if the recoverable amount during the reporting period exceeds its carrying amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

The Company recorded no impairment loss or reversal of impairment loss for the years ended December 31, 2010 and 2009.

### Government subsidy

Government subsidy, which is used for the acquisition of certain assets, is accounted for as a deduction from the acquisition cost of the acquired assets. Such subsidy amount is offset against the depreciation or amortization of the acquired assets during such assets' useful life. Government subsidy, which is required to be repaid, is recorded as a liability in the statements of financial position. Government subsidy with no repayment obligation, which is used to purchase a designated asset or to develop a certain technology, is presented as a deduction of the related asset and is amortized against the depreciation or amortization expense of the related asset. Government subsidy, contributed to compensate for specific expenses, is offset against the related expenses as incurred.

### Discount (premium) on bonds

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

## 2. Summary of significant accounting policies (cont'd)

### Severance and retirement benefits

In accordance with the Employee Retirement Benefit Security Act ("ERBSA") and the Company's employee benefits policy, employees terminating their employment with at least one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision is determined based on the amount that would be payable assuming all employees were to terminate their employment as of the reporting date.

The Company's severance and retirement benefits are partly funded through an insurance plan with Samsung Fire & Marine Insurance Co., Ltd. Up to March 1999, the Company had previously prepaid a portion of its severance and retirement benefits obligation to the National Pension Service ("NPS"). The insurance deposits and prepayments are presented as a deduction from the provision for severance and retirement benefits.

### Provisions and contingent liabilities

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

A contingent liability is disclosed, but not recognized when it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

### Income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse, and are classified as current or non-current, respectively, based on the classification of the related asset or liability in the statements of financial position. In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

### Foreign currency translation

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made. The year-end exchange rate used were ₩1,138.90: US\$1 and ₩1,167.60: US\$1, ₩1,513.60: EUR1 and ₩1,674.28: EUR1, ₩13,970.8: JPY1 and ₩12,628.2: JPY1 and ₩37.78: THB1 and ₩35.02: THB1, as of December 31, 2010 and 2009, respectively, for statements of financial position items.

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates on the reporting date. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations.

## **2. Summary of significant accounting policies (cont'd)**

### **Share-based payment transactions**

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity at the fair value of the goods or services received or the equity instruments granted over the vesting period. For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability, and re-measures the fair value of the liability at each reporting date, with any changes in value recognized in profit or loss for the period.

For share-based payment transactions in which the terms of the arrangement provide the supplier of goods or services with a choice of whether the Company settles the transaction in cash or by issuing equity instruments, the Company accounts for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Company has incurred a liability to settle in cash (or other assets), or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Share-based payment transactions implemented before the effective date of SKAS 22 are accounted in accordance with Korea Financial Accounting Standards Interpretation 39-35 *Accounting for Stock Options*.

### **Provision for construction warranties**

The Company records a provision for the estimated warranty costs relating to construction defects during the warranty period. Estimated warranty costs are charged to current operations at the time of sale and are included in the statement of financial position as provision for construction warranty. The provision for construction warranty made will be offset against the actual amount of rectification expense incurred on the defects in subsequent period. The actual rectification expense incurred in excess of the provision made is accounted for as an expense in the current period.

### **Per share amounts**

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted earnings per share are calculated by dividing net income by the weighted-average number of common shares outstanding during the year plus the weighted-average number of common shares that would have been outstanding assuming the conversion of all dilutive potential common shares.

## **3. The effect of adoption Korea International Financial Reporting Standards (“K-IFRS”)**

The Company will adopt K-IFRS from the fiscal year of 2011. The date of transition to K-IFRS is January 1, 2010. The Company’s approach to adopt K-IFRS is illustrated as follows:

### **Preparation and implementation of K-IFRS adoption**

The Company formed a task force to prepare for its transition from the generally accepted accounting principle in Republic of Korean (“K-GAAP”) to K-IFRS. The three phases of the transition which the K-IFRS task force performed are as follows:

- (1) Analysis and planning phase: This phase included a preliminary analysis and impact assessments over the Company’s current accounting policies, financial reporting processes, including the determination of the reporting entity, and the system to identify key areas that would be impacted by the transition to K-IFRS.
- (2) Design phase: This phase included further detailed analysis and employee training on the impact assessments over the Company’s current accounting policies, financial information generating process and information systems.
- (3) Implementation Phase: This phase included applying and embedding the changes identified above in the Company’s operational processes and system. The Company anticipates the completion of this phase enables the Company to provide financial information in accordance with K-IFRS.

**3. The effect of adoption Korea International Financial Reporting Standards (“K-IFRS”) (cont’d)**

**Significant differences in accounting policies**

The difference between K-GAAP and K-IFRS that are expected to give use to a significant impact on the Company’s consolidated financial statements as of December 31, 2010 are summarized as follows:

| Subject   | K-GAAP  | K-IFRS   |
|---|---|--|
| First-time adoption of K-IFRS   | Business combination  | Not applicable   |
|   | Investments in subsidiaries or affiliates.  | Not applicable   |
|   | Borrowing costs   | Not applicable   |
| Investments in subsidiaries and affiliates on non-consolidated financial statements | Investments in subsidiaries and affiliates are accounted for using the equity method on non-consolidated financial statements. .  | Does not restate retrospectively past business combinations that occurred prior to January 1, 2010 (the transition date).<br><br>Uses its previous K-GAAP carrying amount as deemed cost for the investments in subsidiaries and affiliates as of January 1, 2010 (the transition date).<br><br>Capitalize of borrowing costs related to qualified assets which are acquired after the transition date.                |
| Severance and retirement benefits   | Estimated based on the amount that would be payable assuming all employees were to terminate their employment at the reporting date.  | On separate financial statements, investments in subsidiaries and affiliates are accounted for using the cost method.<br><br>Based on projected unit credit method, the obligation for severance and retirement benefit is calculated based on actuarial present value on a discounted basis. In addition, for the reward for long-service, other long-term estimated liabilities are measured using actuarial method. |
| Accumulated paid-time-off   | Recognize as expenses when the Company’s obligation to pay is determined.   | Records liabilities as payables and recognizes expenses when employees render services.  |
| Investment properties   | Real estate for rental income or trading gain is classified as plant, property and equipment.   | Real estate for rental income or trading gain is classified as investment properties.  |
| Goodwill  | Goodwill is amortized for reasonable periods within 20 years.   | Goodwill is not subject to amortization and impairment test is performed at least once every financial year.   |
| Membership (facility usage rights)  | Membership and guarantee deposits are recognized as other long-term assets.   | Membership is classified as an intangible asset with indefinite useful life, and membership with characteristics of equity is classified as available-for-sale financial assets.   |
| financial guarantee contracts   | Financial guarantee contracts to subsidiaries and related parties are not recognized, but are disclosed in the financial statements.  | Measurement of the value of guarantees provided is required for financial guarantee contracts.   |
| Deferred income taxes   | Does not separate temporary differences arising from investments in subsidiaries and affiliates by each source.<br><br>Presented deferred tax assets and liabilities based on the classification of related assets and liabilities.<br><br>Does not recognize deferred income tax liabilities from revaluation gains under the Assets Revaluations Law. | Does separate temporary differences arising from investments in subsidiaries and affiliates by each source.<br><br>Present deferred tax assets and liabilities as non-current assets and liabilities.<br><br>Does recognize deferred income tax liabilities from revaluation gains under the Assets Revaluations Law.  |

**3. The effect of adoption Korea International Financial Reporting Standards (“K-IFRS”) (cont’d)**

**Changes in-scope entities for consolidation**

The Company is required to prepare consolidated financial statements under K-GAAP and K-IFRS, and changes in-scope entities are as follow:

| K-GAAP  | K-IFRS  | Difference  |
|---|---|---|
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | -   |
| Woong Jin Coway USA Inc.                          | Woong Jin Coway USA Inc.                          | -   |
| Woong Jin Coway (M) S dn Bhd.                     | Woong Jin Coway (M) S dn Bhd.                     | -   |
| Woongjin Chemical Co., Ltd.                       | -   | Under Korean GAAP, based on the Act on External Audit of Stock Companies, it was considered that the Company has control over the entity hence the Company holds in excess of 30% of equity interest as a major shareholders. Under K-IFRS, it is considered that the Company has no control over the entity.         |
| GTEC Co., Ltd.                                    | GTEC Co., Ltd.                                    | -   |
| -   | Woong Jin Coway (Thailand) Co.,Ltd.               | Under Korean GAAP, based on the Act on External Audit of Stock Companies, a stock company whose total value of asset is less than ₩10 billion shall not be considered as a subsidiary. Under K-IFRS, if the parent company has control over company, the company is deemed to be a subsidiary regardless of its size. |

**4. Restricted deposits**

Restricted deposits as of December 31, 2010 and 2009 consist of the following (Korean won in thousands):

|                                 | Financial<br>institution | 2010            | 2009            | Description                                  |
|---------------------------------|--------------------------|-----------------|-----------------|--|
| Long-term financial instruments | Shinhan Bank             | <u>₩ 10,500</u> | <u>₩ 10,500</u> | Security deposit for bank overdraft facility |

**5. Short-term investment assets**

The balances of short-term investment assets of the Company as of December 31, 2010 and 2009 are presented as follows (Korean won in thousands):

|                                  | 2010               |                    |                    | 2009               |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                  | Acquisition        | Fair value         | Book value         | Book value         |
| Short-term loans receivable      | ₩ 2,905,721        | ₩ 2,905,721        | ₩ 2,905,721        | ₩ 5,494,230        |
| Short-term financial instruments | <u>960,000</u>     | <u>960,000</u>     | <u>960,000</u>     | <u>-</u>           |
|                                  | <u>₩ 3,865,721</u> | <u>₩ 3,865,721</u> | <u>₩ 3,865,721</u> | <u>₩ 5,494,230</u> |

**6. Long-term investment assets**

The balances of long-term investment assets of the Company as of December 31, 2010 and 2009 are presented as follows (Korean won in thousands):

|   | 2010               | 2009               |
|---|--------------------|--------------------|
| Available-for-sale securities (Equity securities) |                    |                    |
| Marketable  | ₩ 9,260            | ₩ 11,124           |
| Non-marketable                                    | <u>2,670,766</u>   | <u>1,670,773</u>   |
|   | 2,680,026          | 1,681,897          |
| Held-to-maturity securities (Debt securities)     | 421,891            | 421,841            |
|   | <u>₩ 3,101,917</u> | <u>₩ 2,103,738</u> |

**Woongjin Coway Co., Ltd.**  
**Notes to non-consolidated financial statements**  
**December 31, 2010 and 2009**

**6. Long-term investment assets (cont'd)**

Available-for-sale equity securities as of December 31, 2010 and 2009 consist of the following (Korean won in thousands):

|  | 2010             |               |                  |            |             |                              | Impairment loss |      |
|--|------------------|---------------|------------------|------------|-------------|------------------------------|-----------------|------|
|  | Number of shares | Ownership (%) | Acquisition cost | Fair value | Book value  | Unrealized holding gain (*2) | Up to 2009      | 2010 |
| <b>&lt; Marketable securities &gt;</b>     |                  |               |                  |            |             |                              |                 |      |
| Tong Yang Investment Bank Co., Ltd.        |                  |               |                  |            |             |                              |                 |      |
|  | 927              | 0.0008%       | ₩ 1              | ₩ 9,260    | ₩ 9,260     | ₩ 9,259                      | ₩ -             | ₩ -  |
|  |                  |               | 1                | 9,260      | 9,260       | 9,259                        | -               | -    |
| <b>&lt; Non-marketable securities &gt;</b> |                  |               |                  |            |             |                              |                 |      |
| McScience Inc.                             | 6,000            | 5.90%         | 1,133,760        | (*1)       | 1,133,760   | -                            | -               | -    |
| Nextelecom Co., Ltd.                       | 11,000           | 1.20%         | 98,516           | "          | 98,516      | -                            | -               | -    |
| Kirin Music Publishing Co., Ltd.           | 51,868           | 12.06%        | 96,500           | "          | 96,500      | -                            | -               | -    |
| Korea Water Purifier Industry Cooperative  | 53               | 3.33%         | 5,300            | "          | 5,300       | -                            | -               | -    |
| Academy Infra Corp.                        | 15,773           | 7.84%         | 165,100          | "          | 1           | -                            | 165,099         | -    |
| Kwang Myung SG Co., Ltd.                   | 4,000            | 4.00%         | 1,434,640        | "          | 1           | -                            | 1,434,639       | -    |
| OpenSolution Co., Ltd.                     | 250              | 0.05%         | 22,093           | "          | 1           | -                            | 22,092          | -    |
| Korea Culture promotion Inc.               | 5,000            | 1.25%         | 25,000           | "          | 1           | -                            | 24,999          | -    |
| Kizmam Co., Ltd.(*3)                       | 15,885           | 34.00%        | 999,993          | "          | 999,993     | -                            | -               | -    |
| Construction Guarantee                     |                  |               | 336,693          | "          | 336,693     | -                            | -               | -    |
|  |                  |               | 4,317,595        | -          | 2,670,766   | -                            | 1,646,829       | -    |
|  |                  |               | ₩ 4,317,596      | ₩ 9,260    | ₩ 2,680,026 | ₩ 9,259                      | ₩ 1,646,829     | ₩ -  |
| <b>2009</b>                                |                  |               |                  |            |             |                              |                 |      |
|  | Number of shares | Ownership (%) | Acquisition cost | Fair value | Book value  | Unrealized holding gain (*2) | Up to 2008      | 2009 |
| <b>&lt; Marketable securities &gt;</b>     |                  |               |                  |            |             |                              |                 |      |
| Tong Yang Investment Bank Co., Ltd.        |                  |               |                  |            |             |                              |                 |      |
|  | 927              | 0.0008%       | ₩ 1              | ₩ 11,124   | ₩ 11,124    | ₩ 11,123                     | ₩ -             | ₩ -  |
|  |                  |               | 1                | 11,124     | 11,124      | 11,123                       | -               | -    |
| <b>&lt; Non-marketable securities &gt;</b> |                  |               |                  |            |             |                              |                 |      |
| McScience Inc.                             | 6,000            | 5.90%         | 1,133,760        | (*1)       | 1,133,760   | -                            | -               | -    |
| Nextelecom Co., Ltd.                       | 11,000           | 1.20%         | 98,516           | "          | 98,516      | -                            | -               | -    |
| Kirin Music Publishing Co., Ltd.           | 51,868           | 12.06%        | 96,500           | "          | 96,500      | -                            | -               | -    |
| Korea Water Purifier Industry Cooperative  | 53               | 3.33%         | 5,300            | "          | 5,300       | -                            | -               | -    |
| Academy Infra Corp.                        | 15,773           | 7.84%         | 165,100          | "          | 1           | -                            | 165,099         | -    |
| Kwang Myung SG Co., Ltd.                   | 4,000            | 4.00%         | 1,434,640        | "          | 1           | -                            | 1,434,639       | -    |
| OpenSolution Co., Ltd.                     | 250              | 0.05%         | 22,093           | "          | 1           | -                            | 22,092          | -    |
| Korea Culture promotion Inc.               | 5,000            | 1.25%         | 25,000           | "          | 1           | -                            | 24,999          | -    |
| Construction Guarantee                     |                  |               | 336,693          | "          | 336,693     | -                            | -               | -    |
|  |                  |               | 3,317,602        | -          | 1,670,773   | -                            | 1,646,829       | -    |
|  |                  |               | ₩ 3,317,603      | ₩ 11,124   | ₩ 1,681,897 | ₩ 11,123                     | ₩ 1,646,829     | ₩ -  |

(\*1) In assessing the fair value of these non-marketable equity investments, the Company could not obtain sufficient information to perform a reliable estimation of the fair value of the investments. Therefore, investment in these equity securities were recorded at acquisition cost except when there was objective evidence that the equity securities were impaired in which case impairment losses were recognized.

(\*2) Gain or loss on valuation of long-term investment securities amounting to ₩7,223 thousand (2009: ₩8,676 thousand) recognized in other comprehensive income as of December 31, 2010 represents the difference between acquisition cost and fair value of the investments of ₩9,259 thousand (2009: ₩11,123 thousand), net of the related tax effects.

(\*3) Investments in this investee were not accounted for using the equity method of accounting as the investee's total assets were less than ₩10,000 million threshold as of December 31, 2009 and the changes in carrying amount of investments was immaterial.



**6. Long-term investment assets (cont'd)**

Held-to-maturity debt securities as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                    |                | 2010               |                    |                  | Impairment loss    |            |
|--------------------|----------------|--------------------|--------------------|------------------|--------------------|------------|
|                    | Maturity       | Acquisition cost   | Amortized cost     | Book value       | Up to 2009         | 2010       |
| Government bonds   | Within 5 years | ₩ 421,890          | ₩ 421,890          | ₩ 421,890        | ₩ -                | ₩ -        |
| Subordinated bonds | Within 5 years | 2,450,000          | 2,450,000          | 1                | 2,449,999          | -          |
|                    |                | <u>₩ 2,871,890</u> | <u>₩ 2,871,890</u> | <u>₩ 421,891</u> | <u>₩ 2,449,999</u> | <u>₩ -</u> |

|                    |                | 2009               |                    |                  | Impairment loss    |            |
|--------------------|----------------|--------------------|--------------------|------------------|--------------------|------------|
|                    | Maturity       | Acquisition cost   | Amortized cost     | Book value       | Up to 2008         | 2009       |
| Government bonds   | Within 5 years | ₩ 421,840          | ₩ 421,840          | ₩ 421,840        | ₩ -                | ₩ -        |
| Subordinated bonds | Within 5 years | 2,450,000          | 2,450,000          | 1                | 2,449,999          | -          |
|                    |                | <u>₩ 2,871,840</u> | <u>₩ 2,871,840</u> | <u>₩ 421,841</u> | <u>₩ 2,449,999</u> | <u>₩ -</u> |

**7. Equity method investments**

Investments in equity securities accounted for using the equity method as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   |               | 2010                 |                               |            |                    |
|---|---------------|----------------------|-------------------------------|------------|--------------------|
|   | Ownership (%) | Acquisition cost     | Proportionate net asset value | Book value |                    |
| Coway Japan Corporation                           | 49.00%        | ₩ 4,345,364          | ₩ (21,251,667)                | ₩          | 1                  |
| Woong Jin USA Inc.                                | 35.00%        | 395,176              | -                             |            | 1                  |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | 100.00%       | 5,970,197            | 27,262,800                    |            | 27,210,805         |
| Woong Jin Coway (Thailand) Co., Ltd.              | 100.00%       | 886,986              | (9,723,417)                   |            | 1                  |
| Woong Jin Coway (M) Sdn Bhd.                      | 100.00%       | 906,885              | (5,800,358)                   |            | 1                  |
| Woong Jin Coway USA Inc.                          | 100.00%       | 12,251,800           | 1,247,220                     |            | 1,408,756          |
| Woongjin Chemical Co., Ltd.                       | 45.24%        | 83,179,907           | 146,033,283                   |            | 141,060,140        |
| GETC Co., Ltd.                                    | 100.00%       | 28,180,000           | 9,528,518                     |            | 27,237,413         |
| Woongjin Coway Italia S.r.l.                      | 100.00%       | 150,974              | 150,974                       |            | 150,974            |
|   |               | <u>₩ 136,267,289</u> | <u>₩ 147,447,353</u>          | <u>₩</u>   | <u>197,068,092</u> |

|   |               | 2009                 |                               |            |                    |
|---|---------------|----------------------|-------------------------------|------------|--------------------|
|   | Ownership (%) | Acquisition cost     | Proportionate net asset value | Book value |                    |
| Coway Japan Corporation                           | 49.00%        | ₩ 4,345,364          | ₩ (17,208,855)                | ₩          | 1                  |
| Woong Jin USA Inc.                                | 35.00%        | 395,176              | -                             |            | 1                  |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | 100.00%       | 5,970,197            | 23,016,367                    |            | 22,788,397         |
| Woong Jin Coway (Thailand) Co., Ltd.              | 99.99%        | 886,986              | (6,770,525)                   |            | 1                  |
| Woong Jin Coway (M) S dn Bhd.                     | 70.00%        | 906,885              | (3,730,375)                   |            | 1                  |
| Woong Jin Coway USA Inc.                          | 100.00%       | 12,251,800           | 4,163,707                     |            | 3,485,093          |
| Woongjin Chemical Co., Ltd.                       | 40.24%        | 83,179,907           | 107,505,769                   |            | 102,308,084        |
|   |               | <u>₩ 107,936,315</u> | <u>₩ 106,976,088</u>          | <u>₩</u>   | <u>128,581,578</u> |

**7. Equity method investments (cont'd)**

The summary of financial position of the investees as of December 31, 2010 and 2009, and the results of their financial performance for the years then ended, are presented as follows (Korean won in thousands):

|   | 2010                 |                      |                        |                     |
|---|----------------------|----------------------|------------------------|---------------------|
|   | Total assets         | Total liabilities    | Sales                  | Net income (loss)   |
| Coway Japan Corporation (*)                           | ₩ 7,243,879          | ₩ 50,614,629         | ₩ 8,724,800            | ₩ (4,750,917)       |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. (*) | 38,088,063           | 10,825,263           | 46,377,411             | 3,995,583           |
| Woong Jin Coway (Thailand) Co., Ltd. (*)              | 6,449,673            | 16,173,090           | 7,014,006              | (2,209,360)         |
| Woong Jin Coway (M) Sdn. Bhd. (*)                     | 30,847,676           | 36,648,034           | 20,796,108             | (2,447,913)         |
| Woong Jin Coway USA, Inc. (*)                         | 11,771,363           | 10,524,143           | 10,140,153             | (2,671,896)         |
| Woongjin Chemical Co., Ltd.                           | 681,869,094          | 359,068,817          | 911,193,874            | 60,192,889          |
| GETC Co., Ltd.  | 22,608,281           | 13,079,763           | 25,445,142             | 1,025,068           |
| Woongjin Coway Italia S.r.l.                          | 150,974              | -                    | -                      | -                   |
|   | <u>₩ 799,029,003</u> | <u>₩ 496,933,739</u> | <u>₩ 1,029,691,494</u> | <u>₩ 53,133,454</u> |

|   | 2009                 |                      |                      |                     |
|---|----------------------|----------------------|----------------------|---------------------|
|   | Total assets         | Total liabilities    | Sales                | Net income (loss)   |
| Coway Japan Corporation (*)                           | ₩ 9,750,569          | ₩ 44,870,680         | ₩ 9,756,992          | ₩ (3,578,993)       |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. (*) | 33,691,303           | 10,674,936           | 41,569,496           | 13,376,306          |
| Woong Jin Coway (Thailand) Co., Ltd. (*)              | 2,909,194            | 9,679,719            | 4,525,193            | (1,340,842)         |
| Woong Jin Coway (M) Sdn. Bhd. (*)                     | 15,298,241           | 20,627,348           | 10,809,026           | (558,359)           |
| Woong Jin Coway USA, Inc. (*)                         | 11,329,838           | 7,166,131            | 9,594,031            | (2,475,647)         |
| Woongjin Chemical Co., Ltd.                           | 620,741,739          | 353,577,178          | 803,174,786          | 10,182,466          |
|   | <u>₩ 693,720,884</u> | <u>₩ 446,595,992</u> | <u>₩ 879,429,524</u> | <u>₩ 15,604,931</u> |

(\*) Audited financial statements of these investees were not available as of the Company's audit opinion date and therefore unaudited financial statements signed by the investees' management were used in applying the equity method.

Due to the differences identified between the accounting policies adopted by Woong Jin Coway (Shenyang) Living Goods Co., Ltd. and those of the Company, the Company made adjustments to the investee's financial statements. The details of the adjustments are as follows (Korean won in thousands):

|   | Reporting date | 2010                          |               |                              |
|---|----------------|-------------------------------|---------------|------------------------------|
|   |                | Net assets before adjustments | Adjustments   | Net assets after adjustments |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | Dec. 31, 2010  | ₩ 28,334,376                  | ₩ (1,071,576) | ₩ 27,262,800                 |
|   |                |                               |               | ₩ 27,262,800                 |

|   | Reporting date | 2009                          |               |                              |
|---|----------------|-------------------------------|---------------|------------------------------|
|   |                | Net assets before adjustments | Adjustments   | Net assets after adjustments |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | Dec. 31, 2009  | ₩ 24,450,847                  | ₩ (1,434,480) | ₩ 23,016,367                 |
|   |                |                               |               | ₩ 23,016,367                 |

**Woongjin Coway Co., Ltd.**  
**Notes to non-consolidated financial statements**  
**December 31, 2010 and 2009**

**7. Equity method investments (cont'd)**

The changes in carrying amount of goodwill for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                             | 2010                 |                     |                      |                     |
|-----------------------------|----------------------|---------------------|----------------------|---------------------|
|                             | Jan.1, 2010          | Additions           | Amortization         | Dec.31, 2010        |
| Woongjin Chemical Co., Ltd. | ₩ (5,139,532)        | ₩ -                 | ₩ 213,608            | ₩ (4,925,924)       |
| GETC Co., Ltd.              | -                    | 19,676,550          | (1,967,655)          | 17,708,895          |
|                             | <u>₩ (5,139,532)</u> | <u>₩ 19,676,550</u> | <u>₩ (1,754,047)</u> | <u>₩ 12,782,971</u> |

|                             | 2009          |           |              |               |
|-----------------------------|---------------|-----------|--------------|---------------|
|                             | Jan.1, 2009   | Additions | Amortization | Dec.31, 2009  |
| Woongjin Chemical Co., Ltd. | ₩ (5,353,140) | ₩ -       | ₩ 213,608    | ₩ (5,139,532) |

The elimination of unrealized (gains) or losses arising from inter-company transactions for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010                 |                    |                      |
|---|----------------------|--------------------|----------------------|
|   | Inventories          | Provisions         | Total                |
| Coway Japan Corporation                           | ₩ (257,861)          | ₩ 1,269,834        | ₩ 1,011,973          |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | (844,601)            | 792,607            | (51,994)             |
| Woong Jin Coway (Thailand) Co., Ltd.              | (1,003,155)          | -                  | (1,003,155)          |
| Woong Jin Coway (M) Sdn Bhd.                      | (1,297,835)          | -                  | (1,297,835)          |
| Woong Jin Coway USA, Inc.                         | (648,152)            | 809,688            | 161,536              |
| Woongjin Chemical Co., Ltd.                       | (47,217)             | -                  | (47,217)             |
|   | <u>₩ (4,098,821)</u> | <u>₩ 2,872,129</u> | <u>₩ (1,226,692)</u> |

|   | 2009                 |                    |                      |
|---|----------------------|--------------------|----------------------|
|   | Inventories          | Provisions         | Total                |
| Coway Japan Corporation                           | ₩ (223,657)          | ₩ 1,269,834        | ₩ 1,046,177          |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | (1,157,926)          | 929,956            | (227,970)            |
| Woong Jin Coway (Thailand) Co., Ltd.              | (333,783)            | -                  | (333,783)            |
| Woong Jin Coway (M) Sdn Bhd.                      | (1,052,458)          | -                  | (1,052,458)          |
| Woong Jin Coway USA, Inc.                         | (903,186)            | 224,572            | (678,614)            |
| Woongjin Chemical Co., Ltd.                       | (58,152)             | -                  | (58,152)             |
|   | <u>₩ (3,729,162)</u> | <u>₩ 2,424,362</u> | <u>₩ (1,304,800)</u> |

**7. Equity method investments (cont'd)**

The details of changes in carrying amount of equity method investments for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|  | 2010                 |                            |   |                       |                      |
|--|----------------------|----------------------------|---|-----------------------|----------------------|
|  | Jan. 1, 2010         | Acquisition<br>(disposals) | Equity in<br>earnings (loss)<br>of investee | Others (*1)           | Dec. 31, 2010        |
| Coway Japan Corporation (*2)                         | ₩ 1                  | ₩ -                        | ₩ -   | ₩ -                   | ₩ 1                  |
| Woong Jin USA, Inc.                                  | 1                    | -                          | -   | -                     | 1                    |
| Woong Jin Coway (Shenyang)<br>Living Goods Co., Ltd. | 22,788,397           | -                          | 4,475,550                                   | (53,142)              | 27,210,805           |
| Woong Jin Coway (Thailand)<br>Co., Ltd.              | 1                    | 87,485                     | -   | (87,485)              | 1                    |
| Woong Jin Coway (M) Sdn Bhd. (*3)                    | 1                    | 4,329,984                  | (3,381,215)                                 | (948,769)             | 1                    |
| Woong Jin Coway USA, Inc.                            | 3,485,093            | -                          | (1,646,604)                                 | (429,733)             | 1,408,756            |
| Woongjin Chemical Co., Ltd.                          | 102,308,084          | 31,000,562                 | 25,882,731                                  | (18,131,237)          | 141,060,140          |
| GETC Co., Ltd.                                       | -                    | 28,180,000                 | (942,587)                                   | -                     | 27,237,413           |
| Woongjin Coway Italia S.r.l.                         | -                    | 150,974                    | -   | -                     | 150,974              |
|  | <u>₩ 128,581,578</u> | <u>₩ 63,749,005</u>        | <u>₩ 24,387,875</u>                         | <u>₩ (19,650,366)</u> | <u>₩ 197,068,092</u> |

(\*1) Refer to net changes in equity method investments due to the dividends received from the investees and share of changes in capital surplus, capital adjustments, other comprehensive income or retained earnings of the investees in equity method during the year ended December 31, 2010.

(\*2) Since the suspension of application of equity method, the Company has recognized further share of losses in Coway Japan Corporation amounting to ₩2,375,036 thousand out of total share of losses amounting to ₩20,239,696 thousand as an allowance for doubtful accounts against long-term loans receivable as of December 31, 2010.

(\*3) Since the suspension of application of equity method, the Company has recognized further share of losses in Woong Jin Coway (M) Sdn Bhd. amounting to ₩6,797,555 thousand (including equity in loss of equity method investments of ₩96,389 thousand and changes in capital adjustments in equity method of ₩2,493,996 thousand) out of total share of losses amounting to ₩7,098,194 thousand as an allowance for doubtful accounts against long-term loans receivable as of December 31, 2010.

|  | 2009                 |                            |   |                      |                      |
|--|----------------------|----------------------------|---|----------------------|----------------------|
|  | Jan. 1, 2009         | Acquisition<br>(disposals) | Equity in<br>earnings (loss)<br>of investee | Others               | Dec. 31, 2009        |
| Coway Japan Corporation                              | ₩ 1                  | ₩ -                        | ₩ -   | ₩ -                  | ₩ 1                  |
| Woong Jin USA, Inc.                                  | 1                    | -                          | -   | -                    | 1                    |
| Woong Jin Coway (Shenyang)<br>Living Goods Co., Ltd. | 10,385,818           | -                          | 14,054,384                                  | (1,651,805)          | 22,788,397           |
| Woong Jin Coway (Thailand)<br>Co., Ltd.              | 1                    | -                          | -   | -                    | 1                    |
| Woong Jin Coway (M) Sdn Bhd.                         | 1                    | -                          | (226,960)                                   | 226,960              | 1                    |
| Woong Jin Coway USA, Inc.                            | 1,432,396            | 5,775,150                  | (3,317,201)                                 | (405,252)            | 3,485,093            |
| Woongjin Chemical Co., Ltd.                          | 97,947,334           | 1,022,545                  | 4,312,942                                   | (974,736)            | 102,308,085          |
|  | <u>₩ 109,765,552</u> | <u>₩ 6,797,695</u>         | <u>₩ 14,823,165</u>                         | <u>₩ (2,804,833)</u> | <u>₩ 128,581,579</u> |

**7. Equity method investments (cont'd)**

The details of changes in equity adjustments in equity method for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|  | 2010               |                      |                      |
|--|--------------------|----------------------|----------------------|
|  | Jan. 1, 2010       | Net changes          | Dec. 31, 2010        |
| Coway Japan Corporation                                | ₩ 86,573           | ₩ -                  | ₩ 86,573             |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. (*1) | 1,355,282          | (41,451)             | 1,313,831            |
| Woong Jin Coway (Thailand) Co., Ltd.                   | 17,286             | -                    | 17,286               |
| Woong Jin Coway (M) Sdn Bhd.                           | (350,026)          | (421,374)            | (771,400)            |
| Woong Jin Coway USA, Inc.                              | 541,271            | (429,733)            | 111,538              |
| Woongjin Chemical Co., Ltd. (*1)                       | (1,643,900)        | (1,828,689)          | (3,472,589)          |
|  | <u>₩ 6,486</u>     | <u>₩ (2,721,247)</u> | <u>₩ (2,714,761)</u> |
|  | 2009               |                      |                      |
|  | Jan. 1, 2009       | Net changes          | Dec. 31, 2009        |
| Coway Japan Corporation                                | ₩ 86,573           | ₩ -                  | ₩ 86,573             |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. (*1) | 3,096,977          | (1,741,695)          | 1,355,282            |
| Woong Jin Coway (Thailand) Co., Ltd.                   | 17,286             | -                    | 17,286               |
| Woong Jin Coway (M) Sdn Bhd. (*2)                      | (576,986)          | 226,960              | (350,026)            |
| Woong Jin Coway USA, Inc.                              | 946,524            | (405,253)            | 541,271              |
| Woongjin Chemical Co., Ltd. (*1)                       | (1,132,308)        | (511,592)            | (1,643,900)          |
|  | <u>₩ 2,438,066</u> | <u>₩ (2,431,580)</u> | <u>₩ 6,486</u>       |

(\*1) Deferred income tax effect was reflected in the current year adjustments for Woong Jin Coway (Shenyang) Living Goods Co., Ltd. and Woongjin Chemical Co., Ltd.

The details of changes in capital surplus in equity method for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010                |                |                     |
|---|---------------------|----------------|---------------------|
|   | Jan. 1, 2010        | Net changes    | Dec. 31, 2010       |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | ₩ (21,173)          | ₩ -            | ₩ (21,173)          |
| Woongjin Chemical Co., Ltd.                       | 11,692,645          | -              | 11,692,645          |
|   | <u>₩ 11,671,472</u> | <u>₩ -</u>     | <u>₩ 11,671,472</u> |
|   | 2009                |                |                     |
|   | Jan. 1, 2009        | Net changes    | Dec. 31, 2009       |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | ₩ (27,145)          | ₩ 5,972        | ₩ (21,173)          |
| Woongjin Chemical Co., Ltd.                       | 11,692,645          | -              | 11,692,645          |
|   | <u>₩ 11,665,500</u> | <u>₩ 5,972</u> | <u>₩ 11,671,472</u> |

**7. Equity method investments (cont'd)**

The details of changes in capital adjustments in equity method for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010               |                       |                       |
|---|--------------------|-----------------------|-----------------------|
|   | Jan. 1, 2010       | Net changes           | Dec. 31, 2010         |
| Woong Jin Coway (Thailand) Co., Ltd. (*1) | ₩ -                | ₩ (87,485)            | ₩ (87,485)            |
| Woong Jin Coway (M) Sdn Bhd. (*2)         | -                  | (3,021,391)           | (3,021,391)           |
| Woongjin Chemical Co., Ltd. (*3)          | (248,702)          | (12,313,676)          | (12,562,378)          |
|   | <u>₩ (248,702)</u> | <u>₩ (15,422,552)</u> | <u>₩ (15,671,254)</u> |

|                                  | 2009         |                    |                    |
|----------------------------------|--------------|--------------------|--------------------|
|                                  | Jan. 1, 2009 | Net changes        | Dec. 31, 2009      |
| Woongjin Chemical Co., Ltd. (*3) | -            | (248,702)          | (248,702)          |
|                                  | <u>₩ -</u>   | <u>₩ (248,702)</u> | <u>₩ (248,702)</u> |

(\*1) The Company acquired additional 0.01% equity interest in Woong Jin Coway (Thailand) Co., Ltd. during the year ended December 31, 2010. At the acquisition, the difference which is the excess of the cost of the additional investment over the entity's proportionate net asset value amounted to ₩87,485 thousand.

(\*2) The Company acquired additional 30% equity interest in Woong Jin Coway (M) Sdn Bhd. during the year ended December 31, 2010. At the acquisition, the difference which is the excess of the cost of the investment over the entity's proportionate net asset value amounted to ₩3,322,030 thousand. However, due to the suspension of equity method accounting, the Company only charged upto ₩3,021,391 in capital adjustment account, out of which ₩2,493,996 thousand is reserved in allowance for doubtful accounts against the related long-term loans receivable from Woongjin Coway (M) Sdn Bhd.

(\*3) Deferred income tax effect was deducted from the current year adjustment for Woongjin Chemical Co., Ltd.

As of December 31, 2010 and 2009, the unrecognized losses of the respective investees from which the application of the equity method of accounting has been suspended are as follows (Korean won in thousands):

|                                      | 2010                  | 2009                  |
|--------------------------------------|-----------------------|-----------------------|
| Coway Japan Corporation              | ₩ (17,864,660)        | ₩ (16,162,677)        |
| Woong Jin Coway (Thailand) Co., Ltd. | (10,726,573)          | (7,104,308)           |
| Woong Jin Coway (M) Sdn Bhd.         | (300,639)             | (382,884)             |
|                                      | <u>₩ (28,891,872)</u> | <u>₩ (23,649,869)</u> |

The market value of investment of a listed investee as of December 31, 2010 and 2009 is as follows (Korean won in thousands):

|                             | 2010                 |                      | 2009                 |                      |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
|                             | Market value         | Book value           | Market value         | Book value           |
| Woongjin Chemical Co., Ltd. | <u>₩ 258,646,131</u> | <u>₩ 141,060,140</u> | <u>₩ 218,604,540</u> | <u>₩ 102,308,084</u> |

**8. Government posted value of land owned**

The book value of the Company-owned land and the assessment value of land officially announced by the Korean government for tax administration purposes as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

| Land included in:                | Book value          |                     | Publicly announced value |                     |
|----------------------------------|---------------------|---------------------|--------------------------|---------------------|
|                                  | 2010                | 2009                | 2010                     | 2009                |
| Property, plant and equipment    |                     |                     |                          |                     |
| - Factory land in Yoo-gu         | ₩ 27,366,809        | ₩ 24,242,031        | ₩ 16,442,450             | ₩ 16,080,184        |
| - Rental building land in Ga-san | 7,878,788           | 7,878,788           | 8,446,080                | 8,050,170           |
|                                  | <u>₩ 35,245,597</u> | <u>₩ 32,120,819</u> | <u>₩ 24,888,530</u>      | <u>₩ 24,130,354</u> |

**9. Property, plant and equipment**

Changes in the net book value of property, plant and equipment for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                          | 2010                 |                         |                      |                             |                        |                      |                      |
|--------------------------|----------------------|-------------------------|----------------------|-----------------------------|------------------------|----------------------|----------------------|
|                          | Jan. 1, 2010         | Increase by combination | Additions            | Disposals / impairment loss | Depreciation           | Transfers (*1)       | Dec. 31, 2010        |
| Land                     | ₩ 32,120,819         | ₩ -                     | ₩ 209,768            | ₩ (1,524)                   | ₩ -                    | ₩ 2,916,535          | ₩ 35,245,598         |
| Buildings                | 17,719,015           | -                       | 45,071               | -                           | (541,826)              | -                    | 17,222,260           |
| Structures               | 469,042              | -                       | 52,898               | -                           | (85,151)               | -                    | 436,789              |
| Machinery and equipment  | 8,054,911            | -                       | 1,034,956            | (12,605)                    | (1,402,306)            | 2,129,071            | 9,804,027            |
| Tools                    | 30,817,432           | -                       | 12,040,461           | -                           | (10,989,851)           | 4,121,508            | 35,989,550           |
| (Government subsidy)     | (53,300)             | -                       | -                    | -                           | 16,400                 | -                    | (36,900)             |
| Research facility        | 4,057,162            | -                       | 2,000,079            | -                           | (2,549,967)            | 306,055              | 3,813,329            |
| Rental assets            | 297,118,701          | -                       | 185,190,632          | (52,032,958)                | (107,918,201)          | -                    | 322,358,174          |
| Furniture and fixtures   | 20,069,058           | 209,866                 | 8,767,856            | (305,290)                   | (8,021,200)            | -                    | 20,720,290           |
| Vehicles                 | 261,044              | -                       | -                    | -                           | (80,855)               | -                    | 180,189              |
| Construction-in-progress | 7,570,252            | -                       | 13,778,513           | -                           | -                      | (12,926,676)         | 8,422,089            |
|                          | <u>₩ 418,204,136</u> | <u>₩ 209,866</u>        | <u>₩ 223,120,234</u> | <u>₩ (52,352,377)</u>       | <u>₩ (131,572,957)</u> | <u>₩ (3,453,507)</u> | <u>₩ 454,155,395</u> |

(\*1) Refers to transfer to long-term loans receivable.

|                          | 2009                 |                     |                      |                             |                        |             |                      |
|--------------------------|----------------------|---------------------|----------------------|-----------------------------|------------------------|-------------|----------------------|
|                          | Jan. 1, 2009         | Increase by merger  | Additions            | Disposals / impairment loss | Depreciation           | Transfers   | Dec. 31, 2009        |
| Land                     | ₩ 14,456,459         | ₩ 14,826,915        | ₩ 2,185,135          | ₩ -                         | ₩ -                    | ₩ 652,310   | ₩ 32,120,819         |
| Buildings                | 10,643,187           | 6,613,220           | 922,010              | -                           | (459,402)              | -           | 17,719,015           |
| Structures               | 181,220              | 297,236             | -                    | -                           | (79,114)               | 69,700      | 469,042              |
| Machinery and equipment  | 6,001,040            | 1,512,457           | 771,900              | (36,881)                    | (1,111,405)            | 917,800     | 8,054,911            |
| Tools                    | 26,087,992           | 405,925             | 11,397,803           | (1,907)                     | (9,326,741)            | 2,254,360   | 30,817,432           |
| (Government subsidy)     | (69,700)             | -                   | -                    | -                           | 16,400                 | -           | (53,300)             |
| Research facility        | 3,318,526            | 98,437              | 1,623,151            | (7,615)                     | (1,995,326)            | 1,019,989   | 4,057,162            |
| Rental assets            | 278,451,687          | -                   | 178,547,820          | (51,885,977)                | (107,994,829)          | -           | 297,118,701          |
| Furniture and fixtures   | 15,911,255           | 383,087             | 11,195,207           | (340,181)                   | (7,195,440)            | 115,130     | 20,069,058           |
| Vehicles                 | 338,461              | 14,356              | 9,500                | (18,249)                    | (83,024)               | -           | 261,044              |
| Construction-in-progress | 1,090,794            | 239,180             | 11,269,567           | -                           | -                      | (5,029,289) | 7,570,252            |
|                          | <u>₩ 356,410,921</u> | <u>₩ 24,390,813</u> | <u>₩ 217,922,093</u> | <u>₩ (52,290,810)</u>       | <u>₩ (128,228,881)</u> | <u>₩ -</u>  | <u>₩ 418,204,136</u> |

**10. Intangible assets**

Details of intangible assets as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                            | 2010                 |                          |                      |
|----------------------------|----------------------|--------------------------|----------------------|
|                            | Cost                 | Accumulated amortization | Net book value       |
| Goodwill                   | ₩ 141,914,850        | ₩ (52,392,202)           | ₩ 89,522,648         |
| Industrial property rights | 199,821              | (152,776)                | 47,045               |
| Others                     | 63,175,872           | (23,269,400)             | 39,906,472           |
| Construction-in-progress   | 4,148,273            | -                        | 4,148,273            |
|                            | <u>₩ 209,438,816</u> | <u>₩ (75,814,378)</u>    | <u>₩ 133,624,438</u> |

|                            | 2009                 |                          |                      |
|----------------------------|----------------------|--------------------------|----------------------|
|                            | Cost                 | Accumulated amortization | Net book value       |
| Goodwill                   | ₩ 136,954,850        | ₩ (37,022,374)           | ₩ 99,932,476         |
| Industrial property rights | 199,821              | (137,925)                | 61,896               |
| Others                     | 53,779,129           | (16,546,716)             | 37,232,413           |
| Construction-in-progress   | 3,859,960            | -                        | 3,859,960            |
|                            | <u>₩ 194,793,760</u> | <u>₩ (53,707,015)</u>    | <u>₩ 141,086,745</u> |

Changes in the net book value of intangible assets for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                            | 2010                 |                     |                       |             |                   |                      |
|----------------------------|----------------------|---------------------|-----------------------|-------------|-------------------|----------------------|
|                            | Jan. 1, 2010         | Additions           | Amortization          | Transfers   | Disposals         | Dec. 31, 2010        |
| Goodwill                   | ₩ 99,932,476         | ₩ 4,960,000         | ₩ (15,369,828)        | ₩ -         | ₩ -               | ₩ 89,522,648         |
| Industrial property rights | 61,896               | -                   | (14,852)              | -           | -                 | 47,044               |
| Others                     | 37,232,413           | 1,481,123           | (6,828,784)           | 8,038,620   | (16,899)          | 39,906,473           |
| Construction-in-progress   | 3,859,960            | 8,326,933           | -                     | (8,038,620) | -                 | 4,148,273            |
|                            | <u>₩ 141,086,745</u> | <u>₩ 14,768,056</u> | <u>₩ (22,213,464)</u> | <u>₩ -</u>  | <u>₩ (16,899)</u> | <u>₩ 133,624,438</u> |

|                            | 2009                |                     |                    |                       |            |                   |                      |
|----------------------------|---------------------|---------------------|--------------------|-----------------------|------------|-------------------|----------------------|
|                            | Jan. 1, 2009        | Increase by         | Additions          | Amortization          | Transfers  | Disposals         | Dec. 31, 2009        |
| Goodwill (*1)              | ₩ 24,631,434        | ₩ 89,215,560        | ₩ -                | ₩ (13,914,518)        | ₩ -        | ₩ -               | ₩ 99,932,476         |
| Industrial property rights | 89,040              | 932                 | -                  | (24,522)              | -          | (3,554)           | 61,896               |
| Others                     | 40,136,717          | 709,694             | 2,300,099          | (5,935,881)           | 73,750     | (51,966)          | 37,232,413           |
| Construction-in-progress   | -                   | -                   | 3,933,710          | -                     | (73,750)   | -                 | 3,859,960            |
|                            | <u>₩ 64,857,191</u> | <u>₩ 89,926,186</u> | <u>₩ 6,233,809</u> | <u>₩ (19,874,921)</u> | <u>₩ -</u> | <u>₩ (55,520)</u> | <u>₩ 141,086,745</u> |

(\*1) Refers to the difference between fair value of net assets of the acquired entity and purchase consideration paid by the Company.



**11. Research and development costs**

Research and development costs incurred and charged to operations for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousand):

|                                | Selling and administrative expenses |             | Cost of sales |           |
|--------------------------------|-------------------------------------|-------------|---------------|-----------|
|                                | 2010                                | 2009        | 2010          | 2009      |
| Research and development costs | ₩ 6,318,866                         | ₩ 7,352,561 | ₩ 718,269     | ₩ 534,662 |

**12. Borrowings**

Short-term borrowings as of December 31, 2010 and 2009 consist of the following (Korean won in thousands):

| Financial institution | Description    | Annual interest rate as of Dec. 31, 2010 | 2010 |            | 2009 |             |
|-----------------------|----------------|--|------|------------|------|-------------|
|                       |                |  |      |            |      |             |
| Shinhan Bank          | Purchase loans | 4.68%                                    | ₩    | 12,682,819 | ₩    | 59,574,416  |
| Woori Bank            | Purchase loans | 5.07%                                    |      | 7,832,328  |      | 26,027,776  |
| SC First Bank Korea   | Purchase loans | 4.80%                                    |      | 8,861,977  |      | 10,095,554  |
| Korea Exchange Bank   | Purchase loans | 4.73%                                    |      | 4,224,725  |      | 6,249,826   |
| Hana Bank             | Purchase loans | 4.71%                                    |      | 40,871,183 |      | 17,767,497  |
|                       |                |  | ₩    | 74,473,032 | ₩    | 119,715,069 |

Long-term borrowings including bonds of the Company as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

|  | 2010          | 2009         |
|--|---------------|--------------|
| Working capital loans (long-term borrowings) | ₩ 200,000,000 | ₩ 60,000,000 |
| Bonds  | 50,000,000    | 90,000,000   |
|  | 250,000,000   | 150,000,000  |
| Less current portion of long-term borrowings | (30,000,000)  | (30,000,000) |
| Less current portion of bonds                | -             | (90,000,000) |
| Less discount on bonds                       | (227,446)     | -            |
|  | 219,772,554   | 30,000,000   |

The terms of interest and principal repayments of the long-term borrowings as of December 31, 2010 are as follows (Korean won in thousands):

|                       | Description           | Annual interest rate as of | Amounts |             | Maturity      | Terms of Interest payment  | Terms of principal payment |
|-----------------------|-----------------------|----------------------------|---------|-------------|---------------|----------------------------|----------------------------|
|                       |                       |                            |         |             |               |                            |                            |
| Long-term borrowings  | Working capital loans | 4.45%                      | ₩       | 30,000,000  | Feb. 28, 2011 | Monthly payment in arrears | Lump-sum at maturity       |
|                       |                       | 5.90%                      |         | 50,000,000  | Mar. 02, 2012 |                            |                            |
|                       |                       | 5.50%                      |         | 20,000,000  | Apr. 16, 2012 |                            |                            |
|                       | General loans         | 6.10%                      |         | 40,000,000  | Mar. 12, 2012 |                            |                            |
|                       |                       | 5.97%                      |         | 30,000,000  | Apr. 14, 2013 |                            |                            |
| Public offering bonds | 1st                   | 5.98%                      |         | 30,000,000  | Apr. 14, 2013 |                            |                            |
|                       |                       | 4.61%                      |         | 50,000,000  | Sep. 08, 2013 |                            |                            |
|                       |                       |                            | ₩       | 250,000,000 |               |                            |                            |

**13. Reserve for agent losses**

In accordance with the contract between the Company and its sales agents, the Company provides a reserve by deducting a certain portion of commission fees payable to its sales agents to account for any unfavorable events that may result in losses to be absorbed by the Company due to the business conduct of the sales agents. All actual losses incurred are deducted against the reserve originally recognized.

**14. Monetary assets denominated in foreign currencies**

Monetary assets denominated in foreign currencies as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                                     | 2010               |                       | 2009               |                       |
|-------------------------------------|--------------------|-----------------------|--------------------|-----------------------|
|                                     | Foreign currencies | Korean won equivalent | Foreign currencies | Korean won equivalent |
| <b>Assets:</b>                      |                    |                       |                    |                       |
| Cash and cash equivalents           | USD                | 6,694,511             | ₩                  | 7,624,378             |
|                                     | EUR                | 2,358,170             |                    | 3,569,327             |
|                                     | JPY                | 3,000,026             |                    | 41,913                |
| Short-term loans receivable         | USD                | 2,070,000             |                    | 2,357,523             |
|                                     | JPY                | -                     |                    | -                     |
| Trade accounts and notes receivable | USD                | 43,490,714            |                    | 49,531,574            |
|                                     | JPY                | 670,449,511           |                    | 9,366,716             |
|                                     | THB                | 125,507,303           |                    | 4,741,666             |
|                                     | EUR                | 1,367,265             |                    | 2,069,493             |
| Other accounts receivable           | USD                | 105,351               |                    | 119,984               |
| Accrued interest income (*1)        | USD                | 1,499,682             |                    | 1,707,987             |
|                                     | JPY                | 33,352,602            |                    | 465,963               |
| Long-term loans receivable (*2)     | USD                | 5,968,527             |                    | 6,797,555             |
|                                     | JPY                | 170,000,000           |                    | 2,375,036             |
| Total                               | USD                | 59,828,785            |                    | 34,397,358            |
|                                     | EUR                | 3,725,435             |                    | 1,674,004             |
|                                     | JPY                | 876,802,139           |                    | 769,331,760           |
|                                     | THB                | 125,507,303           | ₩                  | 90,769,115            |
|                                     |                    |                       | THB                | 132,207,303           |
|                                     |                    |                       | ₩                  | 57,310,282            |

Gain on foreign currency translation for the years ended December 31, 2010 and 2009 amounted to ₩1,338,918 thousand and ₩21,757 thousand, respectively. Loss on foreign currency translation for the years ended December 31, 2010 and 2009 amounted to ₩1,712,446 thousand and ₩4,189,619 thousand, respectively.

(\*1) Refers to income arising from loans receivables from subsidiaries and investees as of December 31, 2010, and they are fully (100%) reserved as an allowance for doubtful accounts.

(\*2) Since the suspension of application of equity method, the Company has recognized further share of losses as an allowance for doubtful accounts against long-term loans receivable as of December 31, 2010 (Note 8)

**15. Severance and retirement benefits**

Changes in net carrying amount of severance and retirement benefits for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                                    | 2010               | 2009                |
|------------------------------------|--------------------|---------------------|
| As of January 1,                   | ₩ 37,808,985       | ₩ 27,351,459        |
| Payments during the year           | (24,159,484)       | (13,866,684)        |
| Provision during the year          | 16,652,432         | 19,355,829          |
| Succeeded from merger              | -                  | 862,380             |
| Transfer from related parties      | (75,579)           | 4,106,001           |
|                                    | <u>30,226,354</u>  | <u>37,808,985</u>   |
| Presented net of:                  |                    |                     |
| Insurance deposits                 | (93,929)           | (26,436,652)        |
| Defined benefit plan assets (*1)   | (23,385,400)       | -                   |
| Accumulated prepayments to the NPS | (23,508)           | (35,464)            |
| As of December 31,                 | <u>₩ 6,723,517</u> | <u>₩ 11,336,869</u> |

(\*1) During the year ended December 31, 2010, the Company made a transition to defined benefit pension plans for its employees and most of previous insurance deposits were transferred to defined benefit plan assets and those are presented as a deduction from the provision for severance and retirement benefits.

**16. Provisions**

Changes in the carrying amount of provisions for the year ended December 31, 2010 are as follows (Korean won in thousands):

| Provision for:            | Jan. 1, 2010       | Provisions         | Utilization /<br>Reversal | Dec. 31, 2010      |
|---------------------------|--------------------|--------------------|---------------------------|--------------------|
| Product warranties (*1)   | ₩ 1,765,671        | ₩ 1,243,016        | ₩ -                       | ₩ 3,008,687        |
| Return of goods sold (*1) | 668,268            | 525,476            | -                         | 1,193,744          |
| Construction warranties   | 139,217            | 10,000             | (57,401)                  | 91,816             |
|                           | <u>₩ 2,573,156</u> | <u>₩ 1,778,492</u> | <u>₩ (57,401)</u>         | <u>₩ 4,294,247</u> |

(\*1) The Company recognized the estimated liability to repair or replace products sold with one year warranty as provision for product warranties and recognized the estimated liability for the return of goods sold within 10 months after sales of goods as a provision for return of goods sold as of December 31, 2010.

**17. Capital stock**

Details of capital stock of the Company as of December 31, 2010 and 2009 are as follows:

Number of shares authorized : 200,000,000 shares  
 Par value per share : ₩500  
 Number of common shares outstanding : 77,124,796 shares in 2010 and 2009

The details of changes in capital stock of the Company during the year ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|  | Number of shares<br>issued | Common stock        | Capital surplus      |
|--|----------------------------|---------------------|----------------------|
| As of January 1, 2009                                | 74,431,993                 | ₩ 39,315,997        | ₩ 108,723,905        |
| Increase due to merger                               | 2,692,803                  | 1,346,401           | 82,379,108           |
| Others   | -                          | -                   | (49,175,307)         |
| As of December 31, 2009                              | <u>77,124,796</u>          | <u>₩ 40,662,398</u> | <u>₩ 141,927,706</u> |
| As of January 1, 2010                                | 77,124,796                 | ₩ 40,662,398        | ₩ 141,927,706        |
| Acquisition of business from<br>a related party (*1) | -                          | -                   | (1,690,613)          |
| Others   | -                          | -                   | (206,229)            |
| As of December 31, 2010                              | <u>77,124,796</u>          | <u>₩ 40,662,398</u> | <u>₩ 140,030,864</u> |

(\*1) Related to acquisition of health functional food business unit from Woongjin Food Co., Ltd. during the year ended December 31, 2010 (Note 33).

The Company had previously retired 4,200,000 shares of treasury stock through the appropriation of retained earnings. As a result, the number of shares common stock outstanding amounting to 77,124,796 shares with a face value of ₩38,562,398 thousand differs from the face value and number of shares issued as recorded in the non-consolidated statements of financial position of December 31, 2010.

**18. Other capital surplus**

Other capital surplus consists of gain on disposal of treasury stock as of December 31, 2010.

**19. Treasury stock**

The Company acquired and disposed of its treasury stock through specified money trust during the year ended December 31, 2010 and the treasury stock amounting to ₩34,026,806 thousand are recorded as capital adjustments as of December 31, 2010.

**20. Retained earnings**

Appropriated retained earnings of the Company as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                                   | 2010                 |          | 2009               |
|-----------------------------------|----------------------|----------|--------------------|
| Appropriated:                     |                      |          |                    |
| Legal reserve (*1)                | ₩ 29,455,427         | ₩        | 21,755,427         |
| Business development reserve (*2) | 1,570,000            |          | 1,570,000          |
| Business rationalization reserve  | 16,228               |          | 16,228             |
| Voluntary reserve                 | 421,719,807          |          | 352,959,807        |
|                                   | <u>₩ 452,761,462</u> | <u>₩</u> | <u>376,301,462</u> |

(\*1) In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

(\*2) In accordance with the Korean Corporate Income Tax Law, the amount appropriated at the annual ordinary stockholders' meeting as a business development reserve can be deducted in the calculation of excess retained earnings for corporate income tax reporting purposes. The reserve may only be used to offset a deficit, if any, or may be transferred to capital without a reversal of the tax benefit. Effective from December 2001, such reserve is no longer required by the revised Tax Incentives Limitation Law ("TILL").

**21. Related party disclosures**

The related parties of the Company and nature of their relationship with the Company are as follows:

| Company name                                      | Parent company | Relationship with the Company |
|---|----------------|-------------------------------|
| Woongjin Chemical Co., Ltd.                       | The Company    | Subsidiary                    |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | The Company    | Subsidiary                    |
| Woong Jin Coway USA Inc.                          | The Company    | Subsidiary                    |
| Woong Jin Coway (M) Sdn Bhd.                      | The Company    | Subsidiary                    |
| GETC Co., Ltd.                                    | The Company    | Subsidiary                    |

Significant transactions with related parties for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010                |                      | 2009                |                      |
|---|---------------------|----------------------|---------------------|----------------------|
|   | Sales and other     | Purchases and other  | Sales and other     | Purchases and other  |
| Woongjin Chemical Co., Ltd.                       | ₩ 1,071,660         | ₩ 24,424,209         | ₩ 3,933,832         | ₩ 25,034,079         |
| Woong Jin Coway (Shenyang) Living Goods Co., Ltd. | 2,829,691           | -                    | 1,482,911           | -                    |
| Woong Jin Coway (M) Sdn Bhd.                      | 12,930,614          | -                    | 2,632,867           | -                    |
| Woong Jin Coway USA Inc.                          | 3,719,319           | -                    | 3,539,425           | -                    |
| GETC Co., Ltd.                                    | 1,000               | -                    | -                   | -                    |
| Coway Japan Corporation                           | 1,388,849           | 1,462,368            | 1,721,112           | 1,010,078            |
| Woong Jin Coway (Thailand) Co., Ltd.              | 4,440,469           | -                    | 1,370,630           | -                    |
| Woong Jin Coway (Hongkong) Co., Ltd.              | 47,720              | -                    | 206,418             | -                    |
| Woongjin Holdings Co., Ltd.                       | 83,097              | 89,145,354           | 31,090              | 60,209,069           |
| Woongjin Energy Co., Ltd.                         | 3,387,392           | -                    | 266,622             | -                    |
| Kukdong Construction Co., Ltd.                    | 4,362,680           | 6,633,719            | 5,278,996           | -                    |
| Woongjin ST Co., Ltd.                             | 1,016,091           | 3,960,684            | 867,334             | 4,779,861            |
| Woongjin Happyall Co., Ltd. (*1)                  | -                   | -                    | 107,425             | 82,708,365           |
| Woongjin Foods Co., Ltd.                          | 32,562              | 7,863,043            | 28,214              | 4,226,011            |
| Woongjin Cuchen Co., Ltd.                         | -                   | -                    | 357,298             | 28,143,400           |
| Booxen Co., Ltd.                                  | 7,369               | 22,570,138           | 8,423               | 22,718,653           |
| Rexfield CC Co., Ltd.                             | 99,622              | 647,938              | 23,273              | 552,932              |
| Woongjin Thinkbig Co., Ltd.                       | 73,666              | 672,002              | 89,379              | 670,788              |
| Woongjin Polysilicon Co., Ltd.                    | 572,699             | -                    | 6,110               | -                    |
| Woongjin Passone Co., Ltd.                        | 44,693              | 358,232              | 62,095              | 413,481              |
| Woongjin Homecare Co., Ltd.                       | 1,030               | 33,842               | 20,548              | 255                  |
| Woongjin Capital Co., Ltd.                        | 5,154               | -                    | 2,867               | -                    |
| Woongjin Playdoci Co., Ltd.                       | 20,435              | 3,086,359            | -                   | -                    |
| Woongjin Logistics Co., Ltd.                      | -                   | 452,578              | -                   | -                    |
| Kizmam Co., Ltd.                                  | 938                 | 27,500               | -                   | -                    |
|   | <u>₩ 36,136,750</u> | <u>₩ 161,337,966</u> | <u>₩ 22,036,869</u> | <u>₩ 230,466,972</u> |

(\*1) Woongjin Happyall Co., Ltd. was merged into Woongjin Holdings Co., Ltd., by disposing of its CS.DR business unit to the Company and spun off its other business to Woongjin Homecare Co., Ltd during the year ended December 31, 2009.

**Woongjin Coway Co., Ltd.**  
**Notes to non-consolidated financial statements**  
**December 31, 2010 and 2009**

**21. Related party disclosures (cont'd)**

Outstanding balances with related parties as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                                      | 2010                |                     | 2009                |                     |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                      | Receivables         | Payables            | Receivables         | Payables            |
| Woongjin Chemical Co., Ltd.          | ₩ 78,814            | ₩ 2,401,353         | ₩ 33,976            | ₩ 904,343           |
| Woong Jin Coway (Shenyang) Living    | 5,981,940           | -                   | 5,183,952           | -                   |
| Woong Jin Coway (M) Sdn Bhd.         | 30,517,581          | -                   | 18,727,306          | -                   |
| Woong Jin Coway USA Inc.             | 9,342,553           | -                   | 6,124,697           | -                   |
| Coway Japan Corporation              | 12,213,536          | 53,267              | 10,035,319          | 66,457              |
| Woong Jin Coway (Thailand) Co., Ltd. | 14,493,042          | -                   | 7,659,125           | -                   |
| Woong Jin Coway (Hongkong) Co., Ltd. | 1,077,057           | -                   | 1,834,586           | -                   |
| Woongjin Holdings Co., Ltd.          | 1,519,796           | 12,730,772          | 1,509,135           | 11,813,934          |
| Woongjin Energy Co., Ltd.            | 10,531              | -                   | -                   | -                   |
| Kukdong Construction Co., Ltd.       | 1,182,460           | -                   | 1,642,043           | 10,000              |
| Woongjin ST Co., Ltd.                | 223                 | 354,986             | -                   | 1,333,095           |
| Woongjin Foods Co., Ltd.             | 2,769               | 724,608             | 253                 | 407,823             |
| Booxen Co., Ltd.                     | 1,351               | 2,143,475           | 115,471             | 2,034,165           |
| Rexfield CC Co., Ltd.                | 4,395,714           | 68,951              | 4,305,037           | 67,851              |
| Woongjin Thinkbig Co., Ltd.          | 122,589             | 64,022              | 5,894               | 69,204              |
| Woongjin Polysilicon Co., Ltd.       | 63,891              | -                   | -                   | -                   |
| Woongjin Passone Co., Ltd.           | 5,585               | 84,144              | -                   | 18,874              |
| Woongjin Homecare Co., Ltd.          | 172,683             | 44,947              | 175,783             | 7,721               |
| Woongjin Capital Co., Ltd.           | 340                 | -                   | -                   | -                   |
| Woongjin Playdoci Co., Ltd.          | 2,283               | 15,133              | -                   | -                   |
| Woongjin Logistics Co., Ltd.         | -                   | 74,867              | -                   | -                   |
| Kizmam Co., Ltd.                     | 247                 | -                   | -                   | -                   |
|                                      | <u>₩ 81,184,985</u> | <u>₩ 18,760,525</u> | <u>₩ 57,352,577</u> | <u>₩ 16,733,467</u> |

In addition to above receivable, short-term loans receivable from directors and employees as of December 31, 2010 and 2009 amounted to ₩548,198 thousand and ₩300,000 thousand, respectively.

Allowance for doubtful accounts is reserved against the above receivable in the amount of ₩26,278,534 thousand and ₩15,244,842 thousand, as of December 31, 2010 and 2009, respectively.

**21. Related party disclosures (cont'd)**

As of December 31, 2010, there are no guarantees provided by related parties to the Company. Details of guarantee provided to related parties by the Company as of December 31, 2010 are as follows (Korean won in thousands):

| Guarantee provided to                | Guaranteed amount |               | Description of guarantee |
|--------------------------------------|-------------------|---------------|--------------------------|
| Woong Jin Coway (M) Sdn Bhd.         | MYR               | 13,000,000    | General loans            |
| Woong Jin Coway (Thailand) Co., Ltd. | USD               | 2,000,000     | General loans            |
| Coway Japan Corporation              | JPY               | 3,184,000,000 | General loans            |
|                                      | MYR               | 13,000,000    |                          |
|                                      | USD               | 2,000,000     |                          |
|                                      | JPY               | 3,184,000,000 |                          |

There are no assets pledged as collateral by the Company on behalf of related parties as of December 31, 2010.

Key management personnel include standing directors and outside directors who have the authority and responsibilities for planning, operation and control of the business of the Company. Compensation for key management personnel for the years ended December 31, 2010 and 2009 is as follows (Korean won in thousands):

|  | 2010 |            | 2009 |            |
|--|------|------------|------|------------|
| Salaries                               | ₩    | 3,546,613  | ₩    | 2,820,298  |
| Severance and retirement benefits (*1) |      | 1,524,245  |      | 1,387,595  |
| Stock options (*2)                     |      | 7,792,248  |      | 7,956,849  |
|  | ₩    | 12,863,106 | ₩    | 12,164,742 |

(\*1) Accrued severance and retirement benefits for standing and outside directors for the years ended December 31, 2010 and 2009 amounted to ₩495,194 thousand and ₩391,017 thousand, respectively.

(\*2) Stock options represent the cumulative compensation expenses for stock options granted to key management personnel as of December 31, 2010. During the years ended December 31, 2010 and 2009, stock-based compensation expense for key management personnel amounted to ₩2,123,845 thousand and ₩1,356,421 thousand, respectively.



**22. Income taxes**

For the year ended December 31, 2010, the Company is subject to corporate income taxes, including resident surtax, at the aggregate rates of 11% on taxable income of up to ₩200,000 thousand and 24.2% (22% from 2012 and thereafter) on taxable income in excess of ₩200,000 thousand.

The major components of provision for income taxes for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|  | 2010                | 2009                |
|--|---------------------|---------------------|
| Current income taxes   | ₩ 43,942,810        | ₩ 41,127,388        |
| Change in deferred income taxes arising from temporary differences | 11,112,426          | (5,387,638)         |
| Current and deferred income taxes recognized directly to equity    | 4,428,800           | 13,705,124          |
| Provision for income taxes   | <u>₩ 59,484,036</u> | <u>₩ 49,444,874</u> |

A reconciliation of provision for income taxes applicable to income before income taxes at the Korea statutory tax rate to provision for income taxes at the effective income tax rate of the Company is as follows (Korean won in thousands):

|  | 2010                 | 2009                 |
|--|----------------------|----------------------|
| Income before income taxes   | <u>₩ 236,527,106</u> | <u>₩ 202,724,388</u> |
| Tax at the statutory income tax rate of 11% and 24.2% (2009: 12.1% and 24.2%)        | ₩ 57,213,160         | ₩ 49,035,102         |
| Adjustments:   |                      |                      |
| Income not subject to tax  | (769,600)            | -                    |
| Expenses not deductible for tax purposes   | 1,013,080            | 24,383,870           |
| Deferred income taxes not recognized   | 773,373              | (22,726,820)         |
| Recognition of previously unrecognized deferred income taxes                         | -                    | (1,161,994)          |
| Tax credit   | (218,267)            | (98,812)             |
| Special tax for rural development  | 20,768               | 5,808                |
| Additional payment of income taxes   | 2,138,679            | 335,263              |
| Others (Difference in tax rates etc)   | <u>(687,157)</u>     | <u>(327,543)</u>     |
| Provision for Income taxes at the effective income tax rate of 25.15% (2009: 24.39%) | <u>₩ 59,484,036</u>  | <u>₩ 49,444,874</u>  |

**22. Income taxes (cont'd)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax reporting purposes. Significant changes in cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010                  |                      |                        |  |                     |                     |
|---|-----------------------|----------------------|------------------------|--|---------------------|---------------------|
|   | As of Jan. 1,<br>2010 | Net changes          | As of Dec. 31,<br>2010 | Deferred<br>income taxes<br>recognized | Current             | Non-current         |
| < Deductible temporary differences >                      |                       |                      |                        |  |                     |                     |
| Short-term investment assets                              | ₩ 70,310              | ₩ -                  | ₩ 70,310               | ₩ -                                    | ₩ -                 | ₩ -                 |
| Accrued interest income                                   | 1,438                 | -                    | 1,438                  | -                                      | -                   | -                   |
| Advanced receipts   | 94,298,606            | (6,457,551)          | 87,841,055             | 21,257,535                             | 21,257,535          | -                   |
| Inventory reserve   | 5,623,407             | (288,071)            | 5,335,336              | 1,291,151                              | 1,291,151           | -                   |
| Accrued expenses  | 6,587,521             | 2,356,347            | 8,943,868              | 2,164,416                              | 2,164,416           | -                   |
| Provision for return of goods sold                        | 668,268               | 525,476              | 1,193,744              | 288,886                                | 288,886             | -                   |
| Provision for warranties                                  | 1,765,671             | 1,243,016            | 3,008,687              | 728,102                                | 728,102             | -                   |
| Allowance for doubtful accounts                           | 82,488,635            | 10,426,045           | 92,914,680             | 22,485,353                             | 22,485,353          | -                   |
| Loss of foreign currency translation                      | 4,186,619             | (2,474,173)          | 1,712,446              | 414,412                                | 414,412             | -                   |
| Government subsidy (current)                              | 73,332                | 347,490              | 420,822                | 101,839                                | 101,839             | -                   |
| Bad debt expenses   | 957,670               | (103,850)            | 853,820                | 206,624                                | 206,624             | -                   |
| Depreciation (rental assets)                              | 549,543               | (19,363)             | 530,180                | 116,640                                | -                   | 116,640             |
| Depreciation (general)                                    | 2,570                 | -                    | 2,570                  | -                                      | -                   | -                   |
| Impairment losses on rental assets                        | 5,564,150             | (941,881)            | 4,622,269              | 1,016,899                              | -                   | 1,016,899           |
| Intangible assets   | 164,778               | (104,070)            | 60,708                 | 13,356                                 | -                   | 13,356              |
| Severance and retirement benefits                         | 27,027,855            | (2,922,333)          | 24,105,522             | 5,303,215                              | -                   | 5,303,215           |
| Equity method investments                                 | 15,389,795            | 7,436,393            | 22,826,188             | -                                      | -                   | -                   |
| Long-term Investment securities                           | 4,546,000             | 1,863                | 4,547,863              | 475,150                                | -                   | 475,150             |
| Goodwill (Woongjin Chemical)                              | 14,092,996            | (4,124,779)          | 9,968,217              | 2,193,008                              | -                   | 2,193,008           |
| Goodwill (Woongjin Happyall)                              | 50,511,641            | (12,627,910)         | 37,883,731             | 8,334,421                              | -                   | 8,334,421           |
| Goodwill (Woongjin Food)                                  | -                     | 1,977,211            | 1,977,211              | 434,986                                | -                   | 434,986             |
| Government subsidy (non-current)                          | 168,980               | 28,520               | 197,500                | 43,450                                 | -                   | 43,450              |
| Provision for repair of defects                           | 139,217               | (47,400)             | 91,817                 | 20,200                                 | -                   | 20,200              |
| Suspense payment  | 1,457,564             | 386,718              | 1,844,282              | 405,742                                | -                   | 405,742             |
| Deferred assets   | 29,048                | -                    | 29,048                 | -                                      | -                   | -                   |
| Miscellaneous Losses                                      | 54,521                | -                    | 54,521                 | -                                      | -                   | -                   |
|   | <u>₩ 316,420,135</u>  | <u>₩ (5,382,302)</u> | <u>₩ 311,037,833</u>   | <u>₩ 67,295,384</u>                    | <u>₩ 48,938,318</u> | <u>₩ 18,357,066</u> |
| < Taxable temporary differences >                         |                       |                      |                        |  |                     |                     |
| Accrued interest income                                   | 44,270                | (44,270)             | -                      | -                                      | -                   | -                   |
| Prepaid expenses  | 150,624,404           | 5,654,362            | 156,278,766            | 37,819,461                             | 37,819,461          | -                   |
| Gain of foreign currency translation                      | -                     | 10,754,048           | 10,754,048             | 2,602,480                              | 2,602,480           | -                   |
| Equity method investments                                 | -                     | 15,789,971           | 15,789,971             | 3,473,794                              | -                   | 3,473,794           |
| Provision for advance depreciation<br>(Woongjin Cuchen)   | -                     | -                    | -                      | -                                      | -                   | -                   |
| Provision for temporary depreciation<br>(Woongjin Cuchen) | -                     | 69,700               | 69,700                 | 15,334                                 | -                   | 15,334              |
| Insurance deposits  | 14,108,807            | 4,219,885            | 18,328,692             | 4,032,312                              | -                   | 4,032,312           |
| Goodwill (Woongjin Cuchen)                                | -                     | -                    | -                      | -                                      | -                   | -                   |
| Goodwill  | 8,712,038             | (2,453,103)          | 6,258,934              | -                                      | -                   | -                   |
|   | <u>₩ 173,489,519</u>  | <u>₩ 33,990,593</u>  | <u>₩ 207,480,111</u>   | <u>₩ 47,943,381</u>                    | <u>₩ 40,421,941</u> | <u>₩ 7,521,440</u>  |
| Deferred income taxes recognized:                         |                       |                      |                        |  |                     |                     |
| Deferred income tax assets                                | 18,379,483            | -                    | -                      | 67,295,384                             | 48,938,318          | 18,357,066          |
| Deferred income tax liabilities                           | -                     | -                    | -                      | (47,943,381)                           | (40,421,941)        | (7,521,440)         |
|   | <u>₩ 18,379,483</u>   |                      |                        | <u>₩ 19,352,003</u>                    | <u>₩ 8,516,377</u>  | <u>₩ 10,835,626</u> |

Income taxes payable as of December 31, 2010 and 2009 amounted to ₩41,804,131 thousand and ₩40,792,125 thousand, respectively. And income taxes receivable before set-off with income taxes payable as of December 31, 2010 and 2009 amounted to ₩18,540,579 thousand and ₩17,277,609 thousand, respectively.

**Woongjin Coway Co., Ltd.**  
**Notes to non-consolidated financial statements**  
**December 31, 2010 and 2009**

**22. Income taxes (cont'd)**

|   | 2009                  |                      |                        |  |                     |                     |
|---|-----------------------|----------------------|------------------------|--|---------------------|---------------------|
|   | As of Jan. 1,<br>2009 | Net changes          | As of Dec. 31,<br>2009 | Deferred<br>income taxes<br>recognized | Current             | Non-current         |
| < Deductible temporary differences >  |                       |                      |                        |  |                     |                     |
| Short-term investment assets  | ₩ 70,310              | ₩ -                  | ₩ 70,310               | ₩ -                                    | ₩ -                 | ₩ -                 |
| Accrued interest income   | 1,438                 | -                    | 1,438                  | -                                      | -                   | -                   |
| Advanced receipts   | 100,778,615           | (6,480,009)          | 94,298,606             | 22,820,263                             | 22,820,263          | -                   |
| Inventory reserve   | 5,674,818             | (51,411)             | 5,623,407              | 1,360,864                              | 1,360,864           | -                   |
| Accrued expenses  | 5,138,115             | 1,449,406            | 6,587,521              | 1,594,180                              | 1,594,180           | -                   |
| Provision for return of goods sold  | 408,437               | 259,831              | 668,268                | 161,721                                | 161,721             | -                   |
| Provision for warranties  | 1,411,512             | 354,159              | 1,765,671              | 427,292                                | 427,292             | -                   |
| Allowance for doubtful accounts   | 68,635,013            | 13,853,622           | 82,488,635             | 19,962,250                             | 19,962,250          | -                   |
| Loss on foreign currency translation  | 111,274               | 4,075,345            | 4,186,619              | 1,013,162                              | 1,013,162           | -                   |
| Government subsidy (current)  | 61,138                | 12,194               | 73,332                 | 17,746                                 | 17,746              | -                   |
| Bad debt expenses   | 853,820               | 103,850              | 957,670                | 231,756                                | 231,756             | -                   |
| Depreciation (rental assets)  | 826,944               | (277,401)            | 549,543                | 120,900                                | -                   | 120,900             |
| Depreciation (general)  | 2,570                 | -                    | 2,570                  | -                                      | -                   | -                   |
| Impairment losses on rental assets  | 7,784,495             | (2,220,345)          | 5,564,150              | 1,224,113                              | -                   | 1,224,113           |
| Intangible assets   | 268,848               | (104,070)            | 164,778                | 36,251                                 | -                   | 36,251              |
| Severance and retirement benefits   | 19,296,672            | 7,731,183            | 27,027,855             | 5,946,128                              | -                   | 5,946,128           |
| Equity method investments   | 11,727,153            | 3,662,642            | 15,389,795             | -                                      | -                   | -                   |
| Long-term Investment securities   | 5,883,988             | (1,337,988)          | 4,546,000              | 474,740                                | -                   | 474,740             |
| Allowance for doubtful accounts<br>(equity in loss of equity method<br>investments) | 3,718,955             | (3,718,955)          | -                      | -                                      | -                   | -                   |
| Goodwill (Woongjin Chemical)  | 18,217,776            | (4,124,780)          | 14,092,996             | 3,100,459                              | -                   | 3,100,459           |
| Goodwill (Woongjin Happyall)  | -                     | 50,511,641           | 50,511,641             | 11,112,561                             | -                   | 11,112,561          |
| Government subsidy (non-current)  | 69,700                | 99,280               | 168,980                | 37,176                                 | -                   | 37,176              |
| Provision for repair of defects   | 161,603               | (22,386)             | 139,217                | 30,628                                 | -                   | 30,628              |
| Suspense payment  | -                     | 1,457,564            | 1,457,564              | 320,664                                | -                   | 320,664             |
| Deferred assets   | 29,048                | -                    | 29,048                 | -                                      | -                   | -                   |
| Miscellaneous Losses  | 54,521                | -                    | 54,521                 | -                                      | -                   | -                   |
| Others  | 4,200                 | (4,200)              | -                      | -                                      | -                   | -                   |
|   | <u>₩ 251,190,964</u>  | <u>₩ 65,229,172</u>  | <u>₩ 316,420,135</u>   | <u>₩ 69,992,853</u>                    | <u>₩ 47,589,234</u> | <u>₩ 22,403,619</u> |
| < Taxable temporary differences >   |                       |                      |                        |  |                     |                     |
| Accrued interest income   | -                     | 32,062               | 32,062                 | 7,759                                  | 7,759               | -                   |
| Prepaid expenses  | 156,278,766           | 16,695,724           | 172,974,490            | 41,859,827                             | 41,859,827          | -                   |
| Gain on foreign currency translation  | 10,754,048            | (10,732,291)         | 21,757                 | 5,265                                  | 5,265               | -                   |
| Equity method investments   | 15,789,971            | 15,680,974           | 31,470,945             | 6,201,566                              | -                   | 6,201,566           |
| Appropriated retained earnings<br>for treasury stock                                | 3,230,000             | (3,230,000)          | -                      | -                                      | -                   | -                   |
| Provision for advance depreciation<br>(Woongjin Cuchen)                             | -                     | 7,872,697            | 7,872,697              | 1,731,993                              | -                   | 1,731,993           |
| Provision for temporary depreciation<br>(Woongjin Cuchen)                           | -                     | 812,019              | 812,019                | 178,644                                | -                   | 178,644             |
| Provision for temporary depreciation  | 69,700                | (16,400)             | 53,300                 | 11,726                                 | -                   | 11,726              |
| Insurance deposits  | 18,328,692            | 8,107,960            | 26,436,652             | 5,816,063                              | -                   | 5,816,063           |
| Goodwill (Woongjin Cuchen)  | -                     | 84,754,782           | 84,754,782             | -                                      | -                   | -                   |
| Goodwill  | 6,258,934             | (4,694,200)          | 1,564,734              | -                                      | -                   | -                   |
|   | <u>₩ 210,710,111</u>  | <u>₩ 115,283,327</u> | <u>₩ 325,993,438</u>   | <u>₩ 55,812,843</u>                    | <u>₩ 41,872,851</u> | <u>₩ 13,939,992</u> |
| Deferred income taxes recognized:   |                       |                      |                        |  |                     |                     |
| Deferred income tax assets  | 55,331,446            | -                    | -                      | 69,992,853                             | 47,589,234          | 22,403,619          |
| Deferred income tax liabilities   | (48,725,041)          | -                    | -                      | (55,812,843)                           | (41,872,851)        | (13,939,992)        |
|   | <u>₩ 6,606,405</u>    |                      |                        | <u>₩ 14,180,010</u>                    | <u>₩ 5,716,383</u>  | <u>₩ 8,463,627</u>  |

**22. Income taxes (cont'd)**

Details of the amount of deductible (taxable) temporary differences arising from unrecognized deferred income tax assets (liabilities) as of December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010                  | 2009                  |
|---|-----------------------|-----------------------|
| Equity in loss of equity method investments (*1)                                  | ₩ 22,826,188          | ₩ 15,389,795          |
| Equity in earnings of of equity method investments (exclusion of dividend income) | (16,223,375)          | (3,282,010)           |
| Goodwill (*2)   | (75,833,226)          | (86,319,515)          |
| Others  | 2,545,980             | 2,545,980             |
|   | <u>₩ (66,684,433)</u> | <u>₩ (71,665,750)</u> |

(\*1) Deferred income tax assets arising from deductible temporary differences from equity method investments were not recognized as it is not probable that the Company will be able to realize those deductible temporary differences in future periods.

(\*2) The Company did not recognize the related deferred income tax, as the amortization expense is not deductible according to the Corporate Income Tax Law.

Details of deferred income taxes charged (credited) directly to equity for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010              |  |  | 2009              |  |  |
|---|-------------------|--|--|-------------------|--|--|
|   | Before-tax amount | Income taxes recognized directly to equity | Deferred income tax assets (liabilities) | Before-tax amount | Income taxes recognized directly to equity | Deferred income tax assets (liabilities) |
| Paid-in capital in excess of par value                      | ₩ -               | ₩ -  | ₩ 10,962,415                             | ₩ -               | ₩ -  | ₩ 14,213,020                             |
| Gain on disposal of treasury stock                          | 173,771           | 38,230                                     | -  | 89,143            | 21,573                                     | -  |
| Capital surplus in equity method                            | -                 | -  | (3,291,954)                              | -                 | -  | (3,291,954)                              |
| Capital adjustments in equity method                        | -                 | -  | 3,543,235                                | -                 | -  | 70,147                                   |
| Gain (loss) on valuation of long-term investment securities | -                 | -  | (2,037)                                  | -                 | -  | (2,447)                                  |
| Equity adjustments in equity method                         | -                 | -  | (78,200)                                 | -                 | -  | (89,892)                                 |
| Negative equity adjustments in equity method                | -                 | -  | 979,448                                  | -                 | -  | 463,664                                  |
|   | <u>₩ 173,771</u>  | <u>₩ 38,230</u>                            | <u>₩ 12,112,907</u>                      | <u>₩ 89,143</u>   | <u>₩ 21,573</u>                            | <u>₩ 11,362,538</u>                      |

**23. Per share amounts**

The Company's per share amounts for the years ended December 31, 2010 and 2009 are computed as follows:

Basic earnings per share

|  | 2010              |   | 2009            |
|--|-------------------|---|-----------------|
| Net income   | ₩ 177,043,069,713 | ₩ | 153,279,513,697 |
| Weighted-average number of shares of common stock outstanding (*1) | 76,097,700        |   | 75,348,868      |
| Basic earnings per share   | ₩ 2,327           | ₩ | 2,034           |

|   | 2010                            |      |  |
|---|---------------------------------|------|--|
|   | Number of shares<br>outstanding | Days | Weighted number of<br>shares outstanding |
| Beginning of the year   | 76,064,796                      | 189  | 14,376,246,444                           |
| Exercise of stock options                                     | 76,124,796                      | 31   | 2,359,868,676                            |
| Exercise of stock options                                     | 76,134,796                      | 145  | 11,039,545,420                           |
|   |                                 | 365  | 27,775,660,540                           |
| Weighted-average number of shares of common stock outstanding |                                 |      | 76,097,700                               |

|   | 2009                            |      |  |
|---|---------------------------------|------|--|
|   | Number of shares<br>outstanding | Days | Weighted number of<br>shares outstanding |
| Beginning of the year   | 74,431,993                      | 181  | 13,472,190,733                           |
| Increase by merger  | 77,124,796                      | 16   | 1,233,996,736                            |
| Repurchase of treasury stock (*1)                             | 76,208,661                      | 120  | 9,145,039,270                            |
| Exercise of stock options                                     | 76,064,796                      | 48   | 3,651,110,208                            |
|   |                                 | 365  | 27,502,336,947                           |
| Weighted-average number of shares of common stock outstanding |                                 |      | 75,348,868                               |

(\*1) Refer to average number of shares from July 17, 2009 to November 13, 2009.

The Company's Diluted earnings per share amounts for the years ended December 31, 2010 and 2009 are computed as follows:

Diluted earnings per share

|   | 2010              |   | 2009            |
|---|-------------------|---|-----------------|
| Net income attributable to common stock   | ₩ 177,043,069,713 | ₩ | 153,279,513,697 |
| Share-based compensation expense  | -                 |   | -               |
| Net income attributable to common stock adjusted for the effect of dilution                       | 177,043,069,713   |   | 153,279,513,697 |
| Weighted-average number of shares of common stock outstanding                                     | 76,097,700        |   | 75,348,868      |
| Adjustment for assumed exercise of stock options  | 105,410           |   | 137,274         |
| Weighted-average number of shares of common stock outstanding adjusted for the effect of dilution | 76,203,110        |   | 75,486,142      |
| Diluted earnings per share  | ₩ 2,323           | ₩ | 2,031           |

**24. Dividends**

The 2009 dividends were approved at the ordinary stockholders' meeting held on March 19, 2010 and the 2010 dividends will be proposed for stockholders' approval at the annual ordinary stockholders' meeting to be held on March 25, 2011.

Details of dividends declared for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands, except for dividend per share):

|                        | 2010         | 2009         |
|------------------------|--------------|--------------|
| Dividend per share (A) | ₩ 1,050      | ₩ 1,010      |
| Number of shares (B)   | 76,134,796   | 76,064,796   |
| Dividends (A x B)      | ₩ 79,941,536 | ₩ 76,825,444 |
| Dividend rate          | 210%         | 202%         |

The dividend payout ratio for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|                               | 2010          | 2009          |
|-------------------------------|---------------|---------------|
| Dividends (A)                 | ₩ 79,941,536  | ₩ 76,825,444  |
| Net income (B)                | ₩ 177,043,070 | ₩ 153,279,514 |
| Dividend payout ratio (A / B) | 45.15%        | 50.12%        |

The dividend yield ratio for the years ended December 31, 2010 and 2009 are as follows:

|   | 2010     | 2009     |
|---|----------|----------|
| Dividend per share (A)                      | ₩ 1,050  | ₩ 1,010  |
| Market value per share at year-end date (B) | ₩ 40,300 | ₩ 38,400 |
| Dividend yield ratio (A / B)                | 2.61%    | 2.63%    |

**25. Comprehensive income**

The details of comprehensive income for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|  | 2010          | 2009          |
|--|---------------|---------------|
| Net income   | ₩ 177,043,070 | ₩ 153,279,514 |
| Other comprehensive income (loss):   |               |               |
| Gain (loss) on valuation of available-for-sale securities<br>(Income tax effect: current year ₩294,526 thousand,<br>prior year: ₩353,588 thousand) | (1,453)       | 1,100,148     |
| Changes in equity adjustments in equity method<br>(Income tax effect: current year ₩89,892 thousand,<br>prior year: nil)                           | (471,183)     | (2,146,949)   |
| Negative changes in equity adjustments in equity method<br>(Income tax effect: current year ₩144,295<br>thousand, prior year: ₩319,369 thousand)   | (2,250,062)   | (284,632)     |
| Comprehensive income   | ₩ 174,320,372 | ₩ 151,948,081 |

**26. Supplementary cash flow information**

Significant transactions not involving cash flows for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010       | 2009        |
|---|------------|-------------|
| Acquisition of an equity method investment through a debt-for-equity swap                   | ₩ -        | ₩ 5,775,150 |
| Transfer of short-term loans receivable to long-term loans receivable                       | 5,347,565  | -           |
| Transfer of current private bonds to long-term borrowings                                   | 40,000,000 | -           |
| Transfer of current portion of long-term borrowings to long-term borrowings                 | 30,000,000 | -           |
| Reclassification of construction-in-progress to each class of property, plant and equipment | 20,965,296 | 5,103,040   |
| Transfer of current portion of long-term borrowings   | 30,000,000 | 30,000,000  |

**27. Insurance**

Details of insured inventories and property, plant and equipment as of December 31, 2010 are as follows (Korean won in thousands):

| Description              | Insured assets                                | Insurance company     | Coverage amount |
|--------------------------|---|-----------------------|-----------------|
| Fire and other insurance | Property, plant and equipment and Inventories | Samsung Marins & Fire | ₩ 161,022,999   |

In addition, the Company maintains product liability insurance, employee's group insurance, fidelity insurance and vehicle insurance as of December 31, 2010.

**28. Commitments and contingencies**

As of December 31, 2010, the Company has seven pending lawsuits with total claims against the Company amounting to ₩1,539,186 thousand. Among seven lawsuits, the Company is a defendant in five lawsuits with total claims amounting to ₩469,897 thousand. The outcome of those pending lawsuits cannot presently be determined as of December 31, 2010.

As of December 31, 2010, the details of available credit lines of the Company with various banks and financial institutions are as follows (Korean won in thousands):

| Credit provider                    | Limit         | Description of credit line |
|------------------------------------|---------------|----------------------------|
| Shinhan Bank and five others       | ₩ 227,000,000 | Purchase Loan              |
| Korea Development Bank and another | ₩ 215,000,000 | General borrowings         |
| Hana Bank                          | ₩ 50,000,000  | Private equity bonds       |
| Meritz Investment Bank and another | ₩ 50,000,000  | Commercial paper           |
| Korea Exchange Bank                | ₩ 3,000,000   | Electronic promissory note |
| Hana Bank and two others           | USD 7,600,000 | Lines of credit (sight)    |

The Company has provided two blank promissory notes to Korea Development Bank as security in connection with a refinancing borrowing arrangement of Woongjin Chemical Co., Ltd. as of December 31, 2010.

**29. Share-based payment transactions**

The details of stock options granted by the Company as of December 31, 2010 are as follows:

|                    | 1st grant                                 | 2nd grant                                 | 3rd grant                                 | 4th grant                                 | 5th grant                                 | 6th grant                                 |
|--------------------|---|---|---|---|---|---|
| Granted shares     | 440,000                                   | 150,000                                   | 50,000                                    | 185,000                                   | 330,000                                   | 132,120                                   |
| Remaining shares   | 160,000                                   | 120,000                                   | -   | 185,000                                   | 330,000                                   | 132,120                                   |
| Grant date         | 2006.03.13                                | 2006.08.01                                | 2006.09.28                                | 2008.03.21                                | 2009.03.20                                | 2010.03.19                                |
| Exercise price     | ₩ 27,050                                  | ₩ 20,780                                  | ₩ 22,970                                  | ₩ 28,690                                  | ₩ 27,480                                  | ₩ 35,260                                  |
| Vesting condition  | Remain in service for a period of 2 years | Remain in service for a period of 2 years | Remain in service for a period of 2 years | Remain in service for a period of 2 years | Remain in service for a period of 3 years | Remain in service for a period of 3 years |
| Exercisable period | 2008.3.13~2013.3.12                       | 2008.8.1~2013.7.31                        | 2008.9.28~2013.9.27                       | 2010.3.21~2015.3.20                       | 2012.3.20~2016.3.19                       | 2013.3.19~2017.3.18                       |

Rollforward of stock options during the year ended December 31, 2010 are as follows:

|                                     | 1st grant | 2nd grant | 3rd grant | 4th grant | 5th grant | 6th grant |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Outstanding as of January 1, 2010   | 230,000   | 120,000   | -         | 185,000   | 330,000   | -         |
| Granted during 2010                 | -         | -         | -         | -         | -         | 132,120   |
| Exercised during 2010               | (70,000)  | -         | -         | -         | -         | -         |
| Outstanding as of December 31, 2010 | 160,000   | 120,000   | -         | 185,000   | 330,000   | 132,120   |
| Exercisable as of December 31, 2010 | 160,000   | 120,000   | -         | 185,000   | 330,000   | 132,120   |

The exercise prices of stock options range from ₩20,780 to ₩35,260 and the weighted average remaining years till maturity are 4.3 years as of December 31, 2010.

The fair value of stock options is estimated at the grant date by using the Black-Scholes option pricing model. The assumptions used under the Black-Scholes option pricing model for all grants made are as follows:

|                             | 1st grant | 2nd grant | 3rd grant | 4th grant | 5th grant | 6th grant |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Stock price                 | ₩ 28,500  | ₩ 21,700  | ₩ 22,800  | ₩ 23,594  | ₩ 25,543  | ₩ 31,291  |
| Exercise price per share    | ₩ 27,050  | ₩ 20,780  | ₩ 22,970  | ₩ 28,690  | ₩ 27,480  | ₩ 35,260  |
| Expected volatility         | 34.39%    | 33.35%    | 32.86%    | 44.66%    | 45.30%    | 40.25%    |
| Expected life of option     | 5 years   | 5 years   | 5 years   | 5 years   | 5 years   | 5 years   |
| Expected dividend per share | ₩ 208     | ₩ 208     | ₩ 208     | ₩ 780     | ₩ 870     | ₩ 1,010   |
| Risk-free interest rate     | 5.12%     | 4.86%     | 4.67%     | 5.23%     | 4.15%     | 4.30%     |

The share-based compensation expense recognized for the year ended December 31, 2010 is as follows:

|  | 1st grant   | 2nd grant   | 3rd grant | 4th grant   | 5th grant   | 6th grant | Total       |
|--|-------------|-------------|-----------|-------------|-------------|-----------|-------------|
| Cumulative share-based compensation expense up to 2009 | ₩ 4,313,077 | ₩ 1,042,346 | ₩ 337,060 | ₩ 1,074,683 | ₩ 1,004,099 | ₩ -       | ₩ 7,771,265 |
| Share-based compensation expense during 2010           | -           | -           | -         | 586,191     | 1,204,919   | 435,034   | 2,226,144   |
| Unrecognized share-based compensation expense          | -           | -           | -         | 97,698      | 1,405,739   | 1,131,087 | 2,634,524   |
| Recognized share-based compensation expense            | 4,313,077   | 1,042,346   | 337,060   | 1,758,572   | 3,614,757   | 1,566,121 | 12,631,933  |
| Exercise of stock options                              | (2,744,686) | (208,469)   | (337,060) | -           | -           | -         | (3,290,215) |
| Stock options as of Dec. 31, 2010                      | ₩ 1,568,391 | ₩ 833,877   | ₩ -       | ₩ 1,660,874 | ₩ 2,209,018 | ₩ 435,034 | ₩ 6,707,194 |



**Woongjin Coway Co., Ltd.**  
**Notes to non-consolidated financial statements**  
**December 31, 2010 and 2009**

**30. Value added information**

In accordance with SKAS 21 *Preparation and Presentation of Financial Statements*, the “value added” items as defined by the standard, which are required to be disclosed by the Company for the years ended December 31, 2010 and 2009, are as follows (Korean won in thousands):

|                                   | Cost of sales |              | Selling and administrative expenses |               | Depreciation of rental assets |               | Total         |               |
|-----------------------------------|---------------|--------------|-------------------------------------|---------------|-------------------------------|---------------|---------------|---------------|
|                                   | 2010          | 2009         | 2010                                | 2009          | 2010                          | 2009          | 2010          | 2009          |
| Labor costs                       | ₩ 20,100,163  | ₩ 16,084,839 | ₩ 151,513,978                       | ₩ 150,847,189 | ₩ -                           | ₩ -           | ₩ 171,614,141 | ₩ 166,932,028 |
| Severance and retirement benefits | 1,949,365     | 1,077,632    | 14,703,067                          | 18,278,197    | -                             | -             | 16,652,432    | 19,355,829    |
| Employee benefits                 | 2,605,541     | 2,210,748    | 28,697,616                          | 26,349,593    | -                             | -             | 31,303,157    | 28,560,341    |
| Rent                              | 158,355       | 106,655      | 39,276,778                          | 36,700,729    | -                             | -             | 39,435,133    | 36,807,384    |
| Depreciation                      | 10,900,944    | 7,307,319    | 12,753,812                          | 12,926,733    | 107,918,201                   | 107,994,829   | 131,572,957   | 128,228,881   |
| Taxes and dues                    | 69,393        | 32,764       | 1,884,140                           | 1,504,647     | -                             | -             | 1,953,533     | 1,537,411     |
|                                   | ₩ 35,783,761  | ₩ 26,819,957 | ₩ 248,829,391                       | ₩ 246,607,088 | ₩ 107,918,201                 | ₩ 107,994,829 | ₩ 392,531,353 | ₩ 381,421,874 |

**31. Segment information**

The Company has two main reportable business segments; rental division and product sales division. The following table presents the financial information of the Company by business segments for the years ended December 31, 2010 and 2009 (Korean won in thousands):

|               | 2010            |               |              | 2009            |               |              |
|---------------|-----------------|---------------|--------------|-----------------|---------------|--------------|
|               | Rental          | Product sales | Others       | Rental          | Product sales | Others       |
| Sales         | ₩ 1,254,006,508 | ₩ 205,572,131 | ₩ 59,561,572 | ₩ 1,197,020,387 | ₩ 172,222,550 | ₩ 42,679,379 |
| Cost of sales | (348,224,740)   | (122,411,132) | (23,436,196) | (336,801,796)   | (96,655,687)  | (26,714,738) |
| Gross profit  | ₩ 905,781,768   | ₩ 83,160,999  | ₩ 36,125,376 | ₩ 860,218,591   | ₩ 75,566,863  | ₩ 15,964,641 |

**32. Cost of sales**

The cost of sales for the years ended December 31, 2010 and 2009 are made up of the following (Korean won in thousands):

|   | 2010                     |                             | 2009                     |                             |
|---|--------------------------|-----------------------------|--------------------------|-----------------------------|
|   | Cost of merchandise sold | Cost of finished goods sold | Cost of merchandise sold | Cost of finished goods sold |
| Beginning inventories                           | ₩ 27,055,834             | ₩ 23,075,583                | ₩ 32,564,595             | ₩ 19,672,503                |
| Cost of finished goods or merchandise purchased | 121,081,863              | 421,550,402                 | 103,175,314              | 281,117,707                 |
| Transfer from other accounts                    | 191,864,591              | 739,075,485                 | 262,643,077              | 580,333,390                 |
| Total   | 340,002,288              | 1,183,701,470               | 398,382,986              | 881,123,600                 |
| Transfer to other accounts                      | (258,619,581)            | (1,075,706,533)             | (327,652,954)            | (805,066,529)               |
| Ending inventories                              | (32,244,019)             | (34,722,493)                | (27,055,833)             | (23,075,583)                |
| Cost of goods sold                              | ₩ 49,138,688             | ₩ 73,272,444                | ₩ 43,674,199             | ₩ 52,981,488                |

**33. Selling and administrative expenses**

Selling and administrative expenses recognized for the years ended December 31, 2010 and 2009 are as follows (Korean won in thousands):

|   | 2010                 | 2009                 |
|---|----------------------|----------------------|
| Salaries (Note 30)                                      | ₩ 151,513,978        | ₩ 150,847,189        |
| Severance and retirement benefits (Notes 15, 21 and 30) | 14,703,067           | 18,278,197           |
| Stock-based compensation expense (Notes 21 and 29)      | 2,226,143            | 1,590,290            |
| Sales commission  | 239,488,035          | 229,496,263          |
| Sales promotion   | 26,215,898           | 21,013,749           |
| Employee benefits (Note 30)                             | 28,697,616           | 26,349,593           |
| Travel  | 6,090,933            | 4,595,548            |
| Communications  | 14,093,413           | 13,718,660           |
| Entertainment   | 656,165              | 809,235              |
| Conference  | 1,758,158            | 2,496,693            |
| Education and training                                  | 7,277,426            | 6,459,353            |
| Supplies  | 25,664,385           | 25,931,396           |
| Books and publishing                                    | 948,816              | 1,185,107            |
| Advertisements  | 56,119,801           | 39,902,660           |
| Water, electricity and gas                              | 1,185,296            | 1,045,160            |
| Rent (Note 30)  | 39,276,778           | 36,700,729           |
| Taxes and dues (Note 30)                                | 1,884,140            | 1,504,647            |
| Insurance   | 473,407              | 625,429              |
| Transportation  | 1,770,445            | 1,678,236            |
| Fees and commissions                                    | 73,387,552           | 71,327,704           |
| Repairs and maintenance                                 | 4,181,350            | 3,104,844            |
| Vehicles  | 20,915               | 12,343               |
| Depreciation (Notes 9 and 30)                           | 12,753,812           | 12,926,733           |
| Samples   | 262,854              | 306,312              |
| Amortization (Note 10)                                  | 22,062,530           | 19,801,685           |
| Research and development costs (Note 11)                | 6,318,866            | 7,352,561            |
| Bad debt expenses                                       | 11,418,855           | 5,982,597            |
| Loss on disposal of rental assets                       | 40,854,478           | 38,135,698           |
| Provision for product warranties (Note 16)              | 1,243,016            | 354,159              |
| Compensation for customers                              | 3,549,026            | 3,947,790            |
| Provision for construction warranties (Note 16)         | 167,210              | 12,132               |
|   | <u>₩ 796,264,364</u> | <u>₩ 747,492,692</u> |

**34. Acquisition and transfer of business**

On September 3, 2010, the Company acquired the health functional food business unit from Woongjin Food Co., Ltd. The summarized statements of financial position of the acquired business unit as of December 31, 2010 are as follows (Korean won in thousands):

|                               | <u>Dec. 31, 2010</u> |                  |
|-------------------------------|----------------------|------------------|
| Assets                        |                      |                  |
| Current assets                | ₩                    | 1,010,556        |
| Quick assets                  |                      | 468,946          |
| Inventories                   |                      | 541,610          |
| Non-current assets            |                      | 812,746          |
| Property, plant and equipment |                      | 209,866          |
| Others                        |                      | 602,880          |
| Total assets                  |                      | <u>1,823,302</u> |
| Liabilities                   |                      |                  |
| Current liabilities           |                      | -                |
| Non-current liabilities       |                      | -                |
| Total liabilities             |                      | <u>-</u>         |
| Net assets                    | ₩                    | <u>1,823,302</u> |

The assets acquired and liabilities assumed were measured at the recorded book value of the consolidated financial statements of Woongjin Food Co., Ltd. at the date of acquisition on September 3, 2010.

The purchase consideration the Company paid to acquire the division was ₩4,321,742 thousand and the difference between the purchase consideration and net assets assumed amounted to ₩2,498,440, before tax effects. The amount net of income taxes was recorded as a deduction against paid-in capital in excess of par value within capital surplus.

**35. Operating results of the final interim period (unaudited)**

Summary of operating results for the three months ended December 31, 2010 and 2009 are as follows (Korean won in thousands except per share amounts):

|                                       | (Unaudited)                            |             |   |             |
|---------------------------------------|--|-------------|---|-------------|
|                                       | <u>Three months ended December 31,</u> |             |   |             |
|                                       |  | <u>2010</u> |   | <u>2009</u> |
| Sales                                 | ₩                                      | 403,223,293 | ₩ | 371,409,958 |
| Cost of sales                         |  | 124,495,284 |   | 122,430,392 |
| Gross profit                          |  | 278,728,009 |   | 248,979,556 |
| Operating income                      |  | 53,728,822  |   | 57,114,470  |
| Income before income taxes            |  | 54,976,338  |   | 53,115,032  |
| Net income                            |  | 42,987,354  |   | 40,331,976  |
| Basic earnings per share (Korean won) |  | 565         |   | 531         |

**36. Normal business operating cycle and liquidity classification**

The Company classifies its account receivables and prepaid expenses in accordance with its normal business operating cycle. Receivables and prepaid expenses with maturities of more than one year from the reporting date and within one year from the reporting date which were classified as current assets as of December 31, 2010 are as follows (Korean won in thousands):

|                                       | <u>Within one year</u> | <u>Over one year</u> | <u>Description</u>           |
|---------------------------------------|------------------------|----------------------|------------------------------|
| Prepaid expenses                      | ₩ 10,947,166           | ₩ 24,537,389         | Cost of rental               |
|                                       | 57,281,883             | 129,412,012          | Sales commissions            |
|                                       | 2,402,970              | -                    | Advertisements and Insurance |
| Trade account and note<br>receivables | 8,999,843              | 50,880,940           | Receivable from export sales |
|                                       | 202,221,773            | -                    | Others                       |
|                                       | <u>₩ 281,853,635</u>   | <u>₩ 204,830,341</u> |                              |

**37. Financial statement approval**

The non-consolidated financial statements of the Company for the year ended December 31, 2010 was approved by the Board of Directors on February 8, 2011.

### Internal control over financial reporting review report

The Chief Executive Officer  
Woongjin Coway Co., Ltd.

We have reviewed the accompanying management's report on the operations of the internal control over financial reporting ("ICFR") of Woongjin Coway Co., Ltd. (the "Company") as of December 31, 2010. The Company's management is responsible for the design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review management's ICFR report and issue a report based on our review. Management's report on the operations of the ICFR of the Company states that "Based on the assessment results, I believe that the Company's ICFR, as of December 31, 2010, is effectively designed and operating, in all material respects, in conformity with the Best Practice Guideline."

We conducted our review in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the ICFR. A review includes the procedures of obtaining an understanding of the ICFR, inquiring as to management's report on the operations of the ICFR and performing a review of related documentation within limited scope, if necessary.

A company's ICFR consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes in accordance with accounting principles generally accepted in the Republic of Korea. However, because of its inherent limitations, the ICFR may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the ICFR on future periods are subject to the risk that ICFR may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

Based on our review of management's report on the operations of the ICFR, nothing has come to our attention that causes us to believe that management's report referred to above is not presented fairly, in all material respects, in accordance with the ICFR standards.

We conducted our review of the ICFR in existence as of December 31, 2010, and we did not review the ICFR subsequent to December 31, 2010. This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit for Stock Companies, and may not be appropriate for other purposes or for other users.



March 16, 2011

This report is annexed in relation to the audit of the financial statements as of December 31, 2010 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

**Report on the Operations of the Internal Control over Financial Reporting**

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

I, as the Internal Control over Financial Reporting("ICFR") Officer of Woongjin Coway Company ("the Company"), assessed the effectiveness of the design and operation of the Company's ICFR for the year ending December 31, 2010.

The Company's management, including myself, is responsible for designing and operating an ICFR. I assessed the design and operational effectiveness of the ICFR in the prevention and detection of an error or fraud which may cause a misstatement in the preparation and disclosure of reliable financial statements. I followed the Best Practice Guideline for ICFR to evaluate the effectiveness of the ICFR design and operation.

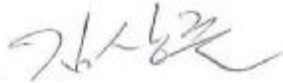
Based on the assessment results, I believe that the Company's ICFR, as of December 31, 2010, is effectively designed and operating, in all material respects, in conformity with the Best Practice Guideline for ICFR.

<Attachment>

Detail of significant deficiencies and remediation plans

January 31, 2011

Kim, Sang-Joon  
Name, ICFR OFFICER



Hong Joon-Kee  
Name, Chief Executive Officer or President

