

WOONGJIN COWAY CO., LTD.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2004
AND INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying balance sheets of Woongjin Coway Co., Ltd. (the "Company") as of December 31, 2005 and 2004, and the related statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

Without qualifying our opinion, we draw attention to the following:

As discussed in Notes 1, 15, and 27 to the financial statements, effective on May 2, 2005, the Company merged with Woongjin Coway Development Co., Ltd. In relation with the merger, the Company distributed 51,840,646 shares in exchange for shares of Woongjin Coway Development Co., Ltd. with merge ratio of 1.060266:1. The merger was accounted for in accordance with the regulation on accounting for merger and acquisition of corporation, with Woongjin Coway Development Co., Ltd. as an acquirer. As a result, capital stock, additional-paid-in capital and goodwill has increased by ₩14,189 million, ₩75,085 million and ₩23,471 million, respectively. In addition, the balance sheet as of December 31, 2004, the statements of income and cash flows for the year ended December 31, 2004, which are presented for comparative purposes, are the financial statements of Woongjin Coway Development Co., Ltd.

As discussed in Note 25 to the financial statements, effective on September 30, 2004, the Company spun off its Bidet Manufacturing division and PLYZEN division, an entertainment business division, in order to streamline its business. Accordingly, assets and liabilities decreased by ₩49,657 million and ₩47,464 million, respectively.

As discussed in Note 26 to the financial statements, effective on October 4, 2005, the Company transferred the Home Appliances business to Woongjin Cuchen Co., Ltd., a related party, and effective on January 1, 2004, the Company also transferred the A/S division to Woongjin Happy All Co., Ltd., a related party, based on the resolution at the board of directors' meeting on December 18, 2003, in order to focus on its principal business of rental business.

As discussed in Note 28 to the financial statements, on January 5, 2006, based on the resolution at the board of directors' meeting, the Company will sell its factories and related lands located in Incheon for ₩9,102million to Woongjin Cuchen Co., Ltd., and purchase factories and related lands located in Kumcheon, Seoul for ₩8,187million from Woongjin Cuchen Co., Ltd. In addition, the Company will invest in Woong Jin Cosmetic Co., Ltd., an overseas affiliate, amounting to ₩5,258million to achieve shareholding ratio of 93% with accumulated capital investment of ₩9,897million.

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

February 17, 2006

Notice to Readers

This report is effective as of February 17, 2006, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

WOONGJIN COWAY CO., LTD.

BALANCE SHEETS

AS OF DECEMBER 31, 2005 AND 2004

	Korean Won	
	2005	2004
	(In thousands)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 14)	₩ 18,569,954	₩ 913,806
Short-term financial instruments (Note 3)	100,000	100,000
Short-term investment securities (Note 6)	67,230	250
Short-term loans (Note 22)	65,222	52,431
Trade receivables, net allowance for doubtful accounts of ₩49,318,561 thousand as of December 31, 2005 and ₩32,115,698 thousand as of December 31, 2004 (Notes 4, 14 and 22)	28,877,664	28,301,248
Accounts receivable-other, net allowance for doubtful accounts of ₩475,106 thousand as of December 31, 2005 and ₩27,224 thousand as of December 31, 2004	34,461,906	3,283,458
Inventories (Notes 5 and 8)	42,154,964	37,772,642
Advanced payments, net allowance for doubtful account of ₩9,817,462 thousand as of December 31, 2005 and ₩5,449,864 thousand as of December 31, 2004	4,974,657	2,992,557
Prepaid expenses	141,317,681	89,396,172
Current portion of deferred income tax assets (Note 20)	2,282,120	-
Other current assets	297,778	101,226
Total current assets	273,169,176	162,913,790
NON-CURRENT ASSETS:		
Long-term financial instruments (Note 3)	2,815,500	21,500
Long-term investment securities (Note 6)	2,628,950	1,726,271
Equity securities accounted for using the equity method (Note 7)	541,874	232,477
Guarantee deposits	38,111,122	23,774,298
Other investments	180,000	-
Deferred income tax assets (Note 20)	4,185,388	-
Property, plant and equipment, net of accumulated depreciation of ₩268,016,384 thousand and ₩214,283,377 thousand, and impairment loss on rental assets of ₩11,553,378 thousand and ₩1,501,977 thousand as of December 31, 2005 and 2004, respectively (Notes 8 and 9)	369,847,596	337,449,308
Intangible assets, net of amortization (Note 10)	23,673,170	646,319
Total non-current assets	441,983,600	363,850,173
Total assets	₩ 715,152,776	₩ 526,763,963

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WOONGJIN COWAY CO., LTD.

BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2005 AND 2004

	Korean Won	
	2005	2004
	(In thousands)	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Trade payables (Notes 14 and 22)	₩ 32,605,060	₩ 76,040,117
Short-term borrowings (Note 11)	69,758,846	-
Accounts payable-other	75,656,177	61,488,738
Advanced receipts	108,604,285	68,682,509
Withholdings	3,489,579	4,602,499
Accrued expenses	3,224,340	195,357
Income tax payable	14,402,088	5,537,510
Current portion of debentures (Note 12)	46,000,000	33,000,000
Provision for product warranties	341,879	248,731
Provision for return of goods sold (Note 2)	70,489	-
Total current liabilities	<u>354,152,743</u>	<u>249,795,461</u>
LONG-TERM LIABILITIES:		
Debentures (Note 12)	-	36,000,000
Reserve for accident compensation (Note 13)	5,939,796	4,934,040
Rental deposits received	9,624,212	23,968,174
Accrued severance benefits, net of payment to National Pension Fund of ₩45,415 thousand and ₩28,046 thousand, and severance insurance of ₩9,099,848 thousand and ₩4,336,464 thousand as of December 31, 2005 and 2004, respectively (Note 2)	3,454,194	3,089,751
Other long-term liabilities	10,000	-
Deferred income tax liabilities (Note 20)	-	4,075,054
Total long-term liabilities	<u>19,028,202</u>	<u>72,067,019</u>
Total liabilities	<u>₩ 373,180,945</u>	<u>₩ 321,862,480</u>

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WOONGJIN COWAY CO., LTD.

BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2005 AND 2004

	Korean Won	
	2005	2004
	(In thousands)	
COMMITMENTS AND CONTINGENCIES (Note 23)		
SHAREHOLDERS' EQUITY:		
Capital stock (Note 15)	₩ 39,025,806	₩ 24,447,000
Capital surplus	76,308,402	130,765
Retained earnings:		
Legal reserve	3,755,427	2,755,427
Reserve for business rationalization	16,227	16,227
Voluntary reserve	161,459,807	101,459,807
Reserve for corporation development	1,570,000	1,570,000
Retained earnings before appropriations		
(Net income of ₩ 60,888,600 thousand for the		
year ended December 31, 2005 and ₩71,020,390		
thousand for the year ended December 31, 2004)	66,897,556	76,253,702
Capital adjustments:		
Gain on valuation of long-term investment		
securities (Note 6)	8,739	-
Gain (loss) on valuation of equity securities		
accounted for using the equity method (Note 7)	38,648	(13,554)
Stock options (Note 16)	1,828,211	192,755
Loss on capital reduction	-	(1,910,646)
Treasury stock (Note 17)	(8,936,992)	-
Total shareholders' equity	<u>341,971,831</u>	<u>204,901,483</u>
Total liabilities and shareholders' equity	<u>₩ 715,152,776</u>	<u>₩ 526,763,963</u>

See accompanying notes to financial statements.

WOONGJIN COWAY CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won	
	2005	2004
	(In thousands, except per share amounts)	
SALES (Note 22)	₩ 1,008,079,888	₩ 827,772,988
COST OF GOODS SOLD	<u>363,699,498</u>	<u>303,837,207</u>
GROSS PROFIT	644,380,390	523,935,781
SELLING AND ADMINISTRATIVE EXPENSES (Notes 22 and 24)	<u>547,536,391</u>	<u>412,453,914</u>
OPERATING INCOME	<u>96,843,999</u>	<u>111,481,867</u>
NON-OPERATING INCOME (EXPENSES):		
Interest expense, net	(5,839,988)	(9,775,181)
Foreign currency exchange gain, net	12,746	487,245
Foreign currency translation loss, net	(161,901)	-
Gain (Loss) on disposal of short-term investment securities, net	69,599	(5,958)
Loss on retirement of inventories	-	(566,678)
Gain (Loss) on disposal of long-term investment securities, net	105,354	(688,557)
Loss on impairment of long-term investment securities	(165,099)	(22,092)
Loss on impairment of intangible assets	-	(848,573)
Gain (Loss) on disposal of property, plant and equipment, net	(16,606)	1,431,358
Loss on valuation of equity securities accounted for using the equity method (Note 7)	(1,541,337)	(2,146,712)
Miscellaneous income, net	3,419,492	1,418,899
Additional payment of income tax	(69,549)	(484)
Loss on transfer of business (Note 26)	(6,488,396)	-
Others, net	<u>(199,030)</u>	<u>(164,556)</u>
	<u>(10,874,715)</u>	<u>(10,881,289)</u>
ORDINARY INCOME	85,969,284	100,600,578
INCOME TAX EXPENSE (Note 20)	<u>25,080,684</u>	<u>29,580,188</u>
NET INCOME	<u>₩ 60,888,600</u>	<u>₩ 71,020,390</u>
ORDINARY INCOME PER SHARE (Note 18)	<u>₩ 951</u>	<u>₩ 1,439</u>
DILUTIVE ORDINARY INCOME PER SHARE (Note 18)	<u>₩ 948</u>	<u>₩ 1,439</u>

See accompanying notes to financial statements.

WOONGJIN COWAY CO., LTD.

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won	
	2005	2004
	(In thousands)	
UNAPPROPRIATED RETAINED EARNING:		
Accumulated retained earnings carried over from prior years	₩ 6,008,956	₩ 5,233,312
Net income	<u>60,888,600</u>	<u>71,020,390</u>
	<u>66,897,556</u>	<u>76,253,702</u>
APPROPRIATIONS:		
Legal reserve	2,500,000	1,000,000
Voluntary reserve	40,000,000	60,000,000
Loss on capital reduction	-	1,910,646
Cash dividends (Note 19)	<u>24,387,694</u>	<u>7,334,100</u>
	<u>66,887,694</u>	<u>70,244,746</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ 9,862</u>	<u>₩ 6,008,956</u>

See accompanying notes to financial statements.

WOONGJIN COWAY CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won	
	2005	2004
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 60,888,600	₩ 71,020,390
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance benefits	9,377,652	6,263,127
Stock compensation expense	1,704,935	109,800
Depreciation	124,024,165	104,195,169
Amortization of intangibles	3,648,282	756,174
Bad debt expense	21,272,877	12,964,704
Loss on impairment of rental assets	50,428,831	26,265,386
Interest expense	-	53,468
Loss on foreign currency translation, net	112,838	-
Loss (Gain) on disposal of short-term investment securities, net	(69,599)	5,958
Loss on retirement of inventories	522,211	566,678
Loss on valuation of inventories	4,364,649	-
Loss (Gain) on disposal of property, plant and equipment, net	16,606	(1,431,358)
Loss on impairment of intangible assets	-	848,573
Loss (Gain) on disposal of long-term investment securities, net	(130,761)	688,557
Loss on impairment of long-term investment securities	165,099	22,092
Loss on valuation of equity securities accounted for using the equity method	1,541,337	2,146,712
Loss on transfer of business	6,488,396	-
Others, net	249,885	662,906
Changes in operating assets and liabilities:		
Decrease in trade receivables	66,986,378	51,052,766
Increase in accounts receivable-other	(31,313,359)	(10,523,423)
Decrease (Increase) in advance payments	1,157,971	(318,409)
Increase in prepaid expenses	(51,076,407)	(54,469,010)
Decrease(Increase) in other current assets	1,714,285	972,837
Decrease (Increase) in deferred income tax assets	(5,846,218)	12,832,344
Decrease (Increase) in inventories	1,819,051	(8,655,948)
Increase (Decrease) in trade payable	(54,410,413)	4,830,612
Increase (Decrease) in accounts payable-other	1,881,039	(11,187,885)
Increase in advanced receipts	39,573,429	57,012,998
Increase (Decrease) in withholdings	(2,586,430)	1,694,815
Increase (Decrease) in income tax payable	7,548,435	(13,732,178)
Decrease in rental deposits received	(14,343,962)	(7,873,921)
Payment of severance benefits	(7,412,760)	(3,812,082)
Increase (Decrease) in deferred income tax liabilities	(6,599,701)	4,075,054
Decrease in other current liabilities	(4,882,749)	(2,142,408)
	<u>226,814,592</u>	<u>242,948,824</u>

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WOONGJIN COWAY CO., LTD.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won	
	2005	2004
	(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash inflows from investing activities:		
Decrease in short-term financial instruments	₩ -	₩ 509,200
Proceeds from disposal of short-term investment securities	250	76,107
Collection of short-term loans	52,430	-
Decrease in long-term financial instruments	18,500	598,750
Proceeds from disposal of long-term investment securities	456,117	510,643
Proceeds from disposal of investment securities accounted for using the equity method	1	-
Refund of guarantee deposits	9,175,761	19,456,434
Disposal of plant, property, equipment	<u>19,932,429</u>	<u>23,651,424</u>
	<u>29,635,488</u>	<u>44,802,528</u>
Cash outflows from investing activities:		
Increase in short-term financial instruments	-	100,000
Acquisition of short-term investment securities	20	-
Extension of short-term loans	44,972	45,553
Increase in long-term financial instruments	1,040,000	-
Acquisition of long-term investment securities	110	1,000
Repayment of guarantee deposits	14,075,046	7,669,860
Acquisition of plant, property, equipment	197,485,308	202,602,257
Acquisition of intangible assets	<u>2,546,419</u>	<u>491,195</u>
	<u>215,191,875</u>	<u>210,909,865</u>
	<u>(185,556,387)</u>	<u>(166,107,307)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	325,294,991	341,236,611
Proceeds from issuance of debentures	-	43,000,000
Exercise of stock options	<u>1,412,948</u>	-
	<u>326,707,939</u>	<u>384,236,611</u>
Cash outflows from financing activities:		
Repayment of short-term borrowings	324,920,430	412,531,124
Repayment of current portion of long-term liabilities	-	1,906,141
Repayment of current portion of debentures	32,000,000	35,000,000
Repayment of debentures	-	1,608,000
Payment of dividends	7,334,100	7,424,100
Acquisition of treasury stock	<u>14,674</u>	-
	<u>364,269,204</u>	<u>458,469,365</u>
	<u>(37,561,265)</u>	<u>(74,232,754)</u>

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WOONGJIN COWAY CO., LTD.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>Korean Won</u>	
	<u>2005</u>	<u>2004</u>
	(In thousands)	
INCREASE IN CASH THROUGH MERGER	1,792,051	-
INCREASE IN CASH THROUGH THE TRANSFER OF BUSINESS	12,167,157	-
CASH FLOW FROM SPIN-OFF	-	(3,400,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,656,148	(791,237)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	<u>913,806</u>	<u>1,705,043</u>
CASH AND CASH EQUIVALENTS, AT END OF YEAR	<u>₩ 18,569,954</u>	<u>₩ 913,806</u>

See accompanying notes to financial statements.

WOONGJIN COWAY CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. GENERAL:

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

The Company's shares have been listed on the Korea Stock Exchange since August 7, 2001. Effective May 2, 2005, the Company merged with Woongjin Coway Development Co., Ltd. As the result of the merger and several increases in paid-in capital, the capital stock of the Company as of December 31, 2005 is ₩39,025,806 thousand. In addition, as a result of extinguishment of 4,200,000 shares of treasury stock, the number of shares issued as of December 31, 2005 is 73,786,611 and face value of stock issued differs from the capital stock amount. As of December 31, 2005, majority shareholders of the Company are Seok-kum, Yoon (30.41%) and Woongjin Thinkbig Co., Ltd. (5.19%).

The merger was accounted for in accordance with the regulation on accounting for merger and acquisition of corporation, and Woongjin Coway Development Co., Ltd. as an acquirer. The balance sheet as of December 31, 2004, the statements of income and cash flows for the year ended December 31, 2004, which are presented for comparative purposes, are the financial statements of Woongjin Coway Development Co., Ltd.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

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

Implementation of Statements of Korea Accounting Standards

Beginning March 2001, the Korea Accounting Standards Board ("KASB") has issued the Statements of Korea Accounting Standards ("SKAS") No. 1 through No. 20, of which the Company has applied SKAS No. 1 through SKAS No. 17, except for SKAS No.11. The Company did not apply SKAS No. 18 through 20, which are effective after December 31, 2005. Such accounting standards permit early adoption..

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Inventories

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

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

Classification of Securities

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

Valuation of Securities

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

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

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

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

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

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

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

Equity Securities Accounted for Using the Equity Method

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

Property, Plant and Equipment

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

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

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

Intangible Assets

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

Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rates of exchange on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services Ltd., which was ₩1,013.00 and ₩1,043.80 to US \$1.00 at December 31, 2005 and 2004, respectively.

Provision for Product Warranties

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

Accrued Severance Benefits

Employees with more than one year of service are entitled to receive severance indemnities, based on their length of service and rate of pay, upon termination of their employment. The accrued severance benefits that would be payable assuming all eligible employees were to resign amount to ₩12,599,457 thousand and ₩7,454,260 thousand as of December 31, 2005 and 2004, respectively.

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

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

Actual payment of severance benefits amounted to ₩7,412,760 thousand and ₩3,812,082 thousand in 2005 and 2004, respectively.

Revenue Recognition

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. In addition, rental revenue is recognized on an accrual basis over the periods rental services are provided. Revenue from interest, dividends and royalties is recognized when the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company. The Company generally provides provision for return of goods sold by subtracting expected sales and cost of goods sold, which are expected to be returned in the near future. Provision for return of goods sold as of December 31, 2005 amounts to W 70,489 thousand.

Income Tax

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

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

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

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

Ordinary Income per Share and Earnings per Share

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

Reclassification

For comparative purposes, certain accounts in the 2004 financial statements were reclassified to conform to the 2005 financial statement presentation. Such reclassifications had no effect on the net income or net equity reported in the 2004 financial statements.

3. RESTRICTED FINANCIAL INSTRUMENTS:

Financial instruments with withdrawal restrictions as of December 31, 2005 and 2004 consist of the following:

<u>Account</u>	<u>Description</u>	<u>Korean Won</u>	
		<u>2005</u>	<u>2004</u>
		(In thousands)	
Short-term financial instruments	Installment savings deposits	₩ 100,000	₩ 100,000
Long-term financial instruments	Guarantee deposit for checking accounts	<u>15,500</u>	<u>21,500</u>
		<u>₩ 115,500</u>	<u>₩ 121,500</u>

4. TRANSFER OF RECEIVABLES:

(1) Receivables transferred to SPC under the Law on Asset Securitization in 2005 are as follows:

<u>Company</u>	<u>Korean Won (In thousands)</u>	
	<u>Transfer price</u>	<u>Book value</u>
Coway 1 st SPC	<u>₩ 914,972,718</u>	<u>₩ 914,972,718</u>

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

<u>Company</u>	<u>Korean Won (In thousands)</u>	
	<u>Transferred assets</u>	<u>Book value</u>
Coway 1 st SPC	Trade receivables (Rental receivables)	<u>₩ 102,625,535</u>

(3) Subordinated beneficiary certificates accounted for as trade receivables as of December 31, 2005 and 2004 are as follows:

<u>Company</u>	<u>Korean Won (In thousands)</u>	
	<u>2005</u>	<u>2004</u>
Coway 1 st SPC	<u>₩ 22,625,535</u>	<u>₩ 11,281,576</u>

The Company transferred rental receivables to SPC, and the SPC issued beneficiary certificates and subordinate beneficiary certificates backed with the transferred receivables. The Company assumed the subordinate beneficiary certificates and accounted for as investment assets amounting to ₩11,281,576 thousand until 2004, but reclassified as trade receivables beginning 2005. As a result, prior year's balance sheet, which is presented for comparative purposes, was restated to conform to current year's balance sheet.

5. INVENTORIES:

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

<u>Account</u>	<u>Korean Won</u>	
	<u>2005</u>	<u>2004</u>
	(In thousands)	
Merchandise	₩ 33,091,334	₩ 38,363,653
Finished goods	8,665,351	-
Raw materials	5,184,766	-
Materials in transit	144,144	-
Merchandise for recycling	25,029	-
Allowance for valuation of inventories	(4,955,660)	(591,011)
	<u>₩ 42,154,964</u>	<u>₩ 37,772,642</u>

(2) Lower of cost or margin applied to the inventories as of December 31, 2005 and 2004 are as follows:

	<u>Korean Won</u>					
	<u>Acquisition cost</u>		<u>After valuation</u>		<u>Allowance for valuation of inventories</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(In thousands)					
Merchandise	₩33,091,334	₩38,363,653	₩28,757,322	₩37,772,642	₩ 4,334,012	₩ 591,011
Finished goods	8,665,351	-	8,142,818	-	522,533	-
Raw material	5,184,766	-	5,085,651	-	99,115	-
Material-in-transit	144,144	-	144,144	-	-	-
Spares	<u>25,029</u>	-	<u>25,029</u>	-	-	-
Total	<u>₩47,110,624</u>	<u>₩38,363,653</u>	<u>₩42,154,964</u>	<u>₩37,772,642</u>	<u>₩ 4,955,660</u>	<u>₩ 591,011</u>

Valuation loss incurred when the net realizable value of an inventory falls below its carrying amount is reported as a contra inventory account and added to the cost of goods sold. In 2005 and 2004, loss on valuation of inventories amounted to ₩4,363,649 thousand and ₩591,011 thousand, respectively.

6. INVESTMENT SECURITIES:

(1) Short-term investment securities

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

<u>Account</u>	<u>Description</u>	<u>Korean Won</u>	
		<u>2005</u>	<u>2004</u>
		(In thousands)	
Available-for-sale securities	Government bonds	₩ 20	₩ 250
	Beneficiary certificates (*)	<u>67,210</u>	-
		<u>₩ 67,230</u>	<u>₩ 250</u>

(*) The acquisition cost and fair value of beneficiary certificates, whose portfolio included the bonds issued by SK Networks Co., Ltd., as of December 31, 2005 are ₩132,339 thousand and ₩67,210 thousand, respectively

- (2) Long-term investment securities as of December 31, 2005 and 2004 consist of the following:

Account	Description	Korean Won	
		2005	2004
(In thousands)			
Available-for-sale securities	Equity securities stated at fair value	₩ 8,740	₩ -
	Equity securities stated at acquisition cost	2,219,880	1,326,271
	Debt securities	<u>400,330</u>	<u>400,000</u>
		<u>₩ 2,628,950</u>	<u>₩ 1,726,271</u>

- (3) Equity securities stated at fair value included in long-term investment securities as of December 31, 2005 consist of the following:

Company	Korean Won (In thousands)			
	Ownership percentage (%)	Acquisition cost	Book value	Fair value
Tong Yang Investment Bank Co., Ltd.	0.0006	<u>₩ 1,000</u>	<u>₩ 8,740</u>	<u>₩ 8,740</u>

Tong Yang Investment Bank Co., Ltd., formerly Tong Yang Orion Investment Securities Co., Ltd., has become a listed company as a result of a merger with a listed company, and was valued at market price.

- (4) Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2005 and 2004 consist of the following:

Company	Ownership percentage (%)	Korean Won (In thousands)			
		2005		2004	
		Acquisition cost	Book value	Acquisition cost	Book value
McScience Inc.	5.90	₩ 1,133,760	₩ 1,133,760	₩ 1,133,760	₩ 1,133,760
Nextelecom Co., Ltd.	1.20	98,516	98,516	98,516	98,516
Cham E&T Co., Ltd.	-	-	-	92,990	92,990
Coway 1 st SPC	10.00	1,000	1,000	1,000	1,000
Woongjin Foods Co., Ltd.	5.07	739,810	739,810	-	-
Woongjin Cuchen Co., Ltd.	0.24	4,089	4,089	-	-
Booxen Co., Ltd.	0.49	140,900	140,900	-	-
Academy Infra Corp.	7.84	165,100	1	-	-
Kirin Music Publishing Co., Ltd.	12.06	96,500	96,500	-	-
Korea Management Association Media	1.96	1	1	-	-
Korea Water Purifier Industry Cooperative	3.45	5,300	5,300	-	-
Others		<u>1,481,733</u>	<u>3</u>	<u>1,581,759</u>	<u>5</u>
		<u>₩ 3,866,709</u>	<u>₩ 2,219,880</u>	<u>₩ 2,908,025</u>	<u>₩ 1,326,271</u>

The difference between the book value and the collectable value for Open Solution Co., Ltd., KMACS INC. and Korea Culture Promotion, Inc., amounting to ₩1,481,730 thousand have been accounted for as loss on impairment of long-term investment securities prior to 2005. In 2005, the difference between the book value and the collectable value for Academy Infra Co., Ltd., amounting to ₩165,099 thousand, have been accounted for as loss on impairment of long-term investment securities. In addition, the Company disposed shares of Charm E&T Co., Ltd. in 2005, and incurred loss on disposal of long-term investment securities amounting to ₩25,407 thousand.

(5) Debt securities as of December 31, 2005 and 2004 consist of the following:

	Korean Won			
	2005		2004	
	Face value	Book value	Face value	Book value
	(In thousands)			
Subordinated bonds	₩ 2,250,000	₩ 400,000	₩ 2,250,000	₩ 400,000
Government bonds	330	330	-	-
	<u>₩ 2,250,330</u>	<u>₩ 400,330</u>	<u>₩ 2,250,000</u>	<u>₩ 400,000</u>

If the collectable amount is significantly less than book value, the difference is charged to current operations. The Company accounted for the difference amounting to ₩1,850,000 thousand as loss on impairment of long-term investment securities prior to 2004.

7. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

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

Affiliated company	Ownership percentage (%)	Korean won (In thousands)		
		Acquisition cost	Net asset value	Book value
Woongjin Japan Co., Ltd. (*)	42.86	₩ 1,551,910	₩ -	₩ 1
Woongjin USA Inc. (*)	35.00	395,176	-	1
Platinum Media Co., Ltd. (*)	25.78	300,001	-	1
Woongjin Cosmetics Co., Ltd.	36.00	611,544	604,575	541,870
Woongjin Coway (Thailand) Co., Ltd. (*)	89.84	886,986	-	1
		<u>₩ 3,745,617</u>	<u>₩ 604,575</u>	<u>₩ 541,874</u>

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

There are cumulative losses of ₩802,320 thousand for Woongjin Japan Co., Ltd., ₩158,213 thousand for Platinum Media Co., Ltd. and ₩677,671 thousand for Woongjin Coway(Thailand) Co., Ltd. not recognized by the Company due to the suspension of the valuation of equity securities accounted for using the equity method as of December 31, 2005.

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

In addition, Woongjin USA Inc. has temporarily closed its business as of December 31, 2005.

(2) Equity securities accounted for using the equity method as of December 31, 2004 are summarized as follows:

Affiliated company	Owner ship (%)	Korean Won		
		Acquisition cost	Net asset value	Book value
		(In thousands)		
Woongjin Japan Co., Ltd.	42.86	₩1,551,910	₩ 232,476	₩ 232,476
Woongjin USA Inc.	35.00	395,176	-	1
		<u>₩1,947,086</u>	<u>₩ 232,476</u>	<u>₩ 232,477</u>

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

Affiliated company	Korean Won				
	Jan 1, 2005	Acquisition	Gain (loss) on valuation	Other changes	Dec 31, 2005
	(In thousands)				
Woongjin Japan Co., Ltd.	₩ 232,476	₩ -	₩ (246,030)	₩ 13,555	₩ 1
Woongjin USA Inc.	1	-	-	-	1
Platinum Media Co., Ltd.	-	300,001	(300,000)	-	1
Woongjin Cosmetics Co., Ltd.	-	611,544	(91,036)	21,362	541,870
Woongjin Coway (Thailand) Co., Ltd.	-	886,986	(904,271)	17,286	1
	<u>₩ 232,477</u>	<u>₩1,798,531</u>	<u>₩ (1,541,337)</u>	<u>₩ 52,203</u>	<u>₩ 541,874</u>

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

(4) The changes in equity securities accounted for using the equity method in 2004 are as follows:

Affiliated company	Korean Won					
	Jan 1, 2004	Acquisition	Gain (loss) on valuation	Other changes	Spin-off	Dec 31, 2004
	(In thousands)					
Woongjin Foods Co., Ltd.	₩10,088,847	₩ -	₩ (23,465)	₩ (2,801)	₩(10,062,581)	₩ -
Woongjin Japan Co., Ltd.	848,853	-	(535,268)	(81,109)	-	232,476
Woongjin Media Co., Ltd.	2,196,918	-	(1,614,706)	-	(582,212)	-
Mco Digital Co., Ltd.	1	-	-	-	(1)	-
Woongjin ST	635,056	-	26,727	-	(661,783)	-
Woongjin USA Inc.	1	-	-	-	-	1
	<u>₩13,769,676</u>	<u>₩ -</u>	<u>₩(2,146,712)</u>	<u>₩ (83,910)</u>	<u>₩(11,306,577)</u>	<u>₩ 232,477</u>

(*)Spin-off for 2004 is attributable to the spin-off of Woongjin Cuchen Co., Ltd., which was newly established on October 1, 2004.

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

Affiliated company	Korean Won			
	Jan 1,2005	Acquisition	Amortized	Dec 31, 2005
	(In thousands)			
Woongjin Cosmetics Co., Ltd.	₩ -	₩ (92,419)	₩ 29,714	₩ (62,705)
Woongjin Coway (Thailand) Co., Ltd.	-	321,904	(64,381)	257,523

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

(6) The changes in the excess of cost over book value for the year ended December 31, 2004 consist of the following:

<u>Affiliated company</u>	<u>Korean Won</u>				
	<u>Jan 1, 2004</u>	<u>Acquisition</u>	<u>Amortized</u>	<u>Spin-off</u>	<u>Dec 31, 2004</u>
	(In thousands)				
Woongjin Foods Co., Ltd.	₩ 5,436,789	₩ -	₩ (679,599)	₩ (4,757,190)	-

(7) Condensed financial information of the investees accounted for using the equity method as of and for the year ended December 31, 2005 is as follows:

<u>Affiliated company</u>	<u>Korean Won</u>			
	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net income</u>
	(In thousands)			
Woongjin Japan Co., Ltd.	₩3,948,469	₩5,820,425	₩3,405,075	₩(2,172,463)
Woongjin Coway (Thailand) Co., Ltd.	5,344,078	5,957,429	12,003,081	(927,401)
Woongjin Cosmetics Co., Ltd.	3,523,871	1,844,495	3,545,258	(287,108)
Platinum Media Co., Ltd.	15,214,341	16,218,871	15,300,530	(3,278,221)

8. INSURANCE:

Property, plant, and equipments, and inventories are insured with ceiling of ₩133,020,951 thousand as of December 31, 2005. In addition, the Company has insured sales compensation liability insurance and vehicle insurance.

9. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipment as of December 31, 2005 and 2004 consist of the following:

	<u>Korean Won</u>	
	<u>2005</u>	<u>2004</u>
	(In thousands)	
Land	₩ 6,448,665	₩ -
Buildings	15,408,136	-
Structures	391,524	-
Machinery and equipment	2,787,537	-
Vehicles	127,158	15,426
Furniture and fixtures	53,106,353	38,364,856
Rental assets	561,194,060	514,854,380
Tools	8,037,187	-
Experimental research facility	1,261,022	-
Construction-in-progress	655,716	-
	<u>649,417,358</u>	<u>553,234,662</u>
Less: Accumulated depreciation	(268,016,384)	(214,283,377)
Less: Loss impairment of rental assets	<u>(11,553,378)</u>	<u>(1,501,977)</u>
	<u>₩369,847,596</u>	<u>₩337,449,308</u>

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

	Korean Won					
	Beginning of year	Acquisition	Disposal	Depreciation	Merger / Transfer	End of year
	(In thousands)					
Land	₩ -	₩ -	₩ -	₩ -	₩ 6,448,665	₩ 6,448,665
Buildings	-	815,680	-	290,747	14,592,455	15,117,388
Structures	-	-	-	53,323	391,524	338,201
Vehicles	8,791	-	7,888	21,634	127,130	106,399
Machinery and equipment	-	909,869	-	252,259	1,893,143	2,550,753
Furniture and fixtures	20,743,539	13,005,247	35,841	8,479,604	1,886,601	27,119,942
Rental assets	316,696,978	176,004,894	70,334,135	112,706,678	-	309,661,059
Tools	-	5,070,647	-	1,978,502	3,706,226	6,798,371
Experimental research facility	-	1,023,254	-	241,418	269,266	1,051,102
Construction-in- progress	-	655,716	703,068	-	703,068	655,716
	<u>₩337,449,308</u>	<u>₩197,485,307</u>	<u>₩ 71,080,932</u>	<u>₩124,024,165</u> [slm2]	<u>₩30,018,078</u>	<u>₩ 369,847,596</u>

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

(3) The changes in book value of property, plant and equipment for the year ended December 31, 2004 are as follows:

	Korean Won					
	Beginning of year	Acquisition	Disposal	Depreciation	Other changes	End of year
	(In thousands)					
Land	₩ 6,364,050	₩ -	₩ -	₩ -	₩ (6,364,050)	₩ -
Buildings	3,925,006	-	-	281,335	(3,643,671)	-
Structures	129,515	-	-	7,932	(121,583)	-
Vehicles	121,617	-	15,078	18,562	(79,186)	8,791
Machinery and equipment	5,066,357	418,989	74,174	1,618,906	(3,792,266)	-
Furniture and fixtures and others	28,235,510	5,809,960	3,622,649	7,327,735	(2,351,547)	20,743,539
Rental assets	258,412,062	196,281,719	41,554,127	94,940,699	(1,501,977)	316,696,978
Construction-in- progress	1,625,857	91,589	1,717,446	-	-	-
	<u>₩303,879,974</u>	<u>₩202,602,257</u>	<u>₩46,983,474</u>	<u>₩104,195,169</u>	<u>₩(17,854,280)</u>	<u>₩337,449,308</u>

(*) Others include changes in property, plant, and equipment due to loss on impairment of rental assets amounting to ₩1,501,977 thousand, spin-off and business transfer.

(4) As of December 31, 2005, the published value of the Company-owned land (71,035 square meters) totals ₩6,028,839 thousand in terms of land prices officially announced by the Korean government.

10. INTANGIBLE ASSETS:

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

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

(2) Intangible assets as of December 31, 2004 consist of the following:

	Korean Won			
	<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment</u>	<u>Book value</u>
	(In thousands)			
Goodwill	₩ 2,895,088	₩ 1,928,867	₩ 848,573	₩ 117,648
Industrial property rights	40,722	7,529	-	33,193
Other	<u>579,790</u>	<u>84,312</u>	-	<u>495,478</u>
	<u>₩ 3,515,600</u>	<u>₩ 2,020,708</u>	<u>₩ 848,573</u>	<u>₩ 646,319</u>

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

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

(*) Merger is related to the merger with Woongjin Coway Development Co., Ltd.

(4) The changes in book value of intangible assets for the year ended December 31, 2004 are as follows:

	Korean Won				
	<u>Beginning of the year</u>	<u>Addition</u>	<u>Amortization</u>	<u>Other changes</u>	<u>End of the year</u>
	(In thousands)				
Goodwill	₩1,376,955	₩ -	₩ 410,734	₩ (848,573)	₩ 117,648
Industrial property rights	905,215	18,405	270,045	(620,382)	33,193
Other	<u>98,083</u>	<u>472,790</u>	<u>75,395</u>	-	<u>495,478</u>
	<u>₩2,380,253</u>	<u>₩ 491,195</u>	<u>₩ 756,174</u>	<u>₩ (1,468,955)</u>	<u>₩ 646,319</u>

(*) Other changes in goodwill for 2004 are attributable to the spin-off of PLYZEN division effective from October 1, 2004. In addition, other changes in industrial property rights for 2004 are attributable to the spin-off of Woongjin Cuchen Co., Ltd., which was newly established on October 1, 2004.

The ordinary research and development expenses amounting to ₩2,860,954 thousand and ₩2,204,090 thousand for the years ended December 31, 2005 and 2004, respectively, were charged to selling and administrative expenses.

11. BORROWINGS:

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

<u>Lender</u>	<u>Description</u>	<u>Annual interest rate (%)</u>	<u>Korean Won</u>
		<u>2005</u>	<u>2005</u>
			(In thousands)
Shinhan Bank	Purchase loans	4.58	₩ 16,399,264
Woori Bank	Purchase loans	4.60	327,165
Chohung Bank	Purchase loans	4.60	12,167,542
Hana Bank	Purchase loans	4.60	24,479,313
SC First Bank	Purchase loans	4.60	8,566,307
Korea Development Bank	Purchase loans	4.60	7,819,255
			<u>₩ 69,758,846</u>

12. DEBENTURES:

Debentures as of December 31, 2005 and 2004 are summarized as follows:

	<u>Issuance date</u>	<u>Maturity date</u>	<u>Interest (%)</u>	<u>Korean Won</u>	
				<u>2005</u>	<u>2004</u>
					(In thousands)
15 th	2003.10.02	2006.10.02	6.50	₩ 16,000,000	₩ 16,000,000
16 th	2003.10.13	2006.10.13	5.69	10,000,000	10,000,000
17 th	2005.10.14	2006.10.14	4.09	10,000,000	20,000,000
18 th	2004.02.23	2006.02.23	5.99	10,000,000	10,000,000
21 st	2004.06.09	2005.06.09	6.10	-	10,000,000
23 rd	2004.09.10	2005.09.10	6.02		3,000,000
				46,000,000	69,000,000
	Less: Current portion			46,000,000	33,000,000
				<u>₩ -</u>	<u>₩ 36,000,000</u>

13. RESERVE FOR ACCIDENT COMPENSATION:

Certain portion of the commission that was paid to sales agencies is deducted and accounted for as reserve for accident compensation in order to prevent insolvency of sales agencies. Accordingly, all actual insolvency related losses are charged to the reserve.

14. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2005 and 2004 are as follows:

	<u>Foreign currencies</u>		<u>Korean Won</u>
	<u>2005</u>		<u>(In thousands)</u>
Cash and cash equivalents	USD	1,119,721	₩ 1,134,277
	EUR	845,126	1,014,278
	JPY	2,005,298	17,246
Trade receivables	USD	2,067,351	2,094,227
	EUR	74,860	89,844
	THB	72,595,055	1,793,098
	JPY	48,642,700	418,347
	USD	3,187,072	₩ 6,561,317
Trade payables	EUR	919,986	
	JPY	50,647,998	
	THB	72,595,055	
	USD	117,918	₩ 119,352

15. CAPITAL STOCK:

(1) Common stock as of December 31, 2005 is as follows:

<u>Authorized (shares)</u>	<u>Issued and Outstanding (shares)</u>	<u>Par value</u>	<u>Korean Won (In thousands)</u>
200,000,000	73,851,611	₩ 500	₩39,025,806

Due to the retirement of treasury stock, face value of stock issued amounting to ₩36,893,306 thousand differs from the capital stock amount.

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

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

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

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

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

(3) Changes in common stock in 2004 are as follows:

<u>Date</u>	<u>Description</u>	<u>Issued</u>	<u>Capital stock</u>
Beginning of year		49,494,000 shares	₩ 24,747,000
Sep 30, 2004	Spin-off	(600,000) shares	(300,000)
End of year		<u>48,894,000 shares</u>	<u>₩ 24,447,000</u>

16. STOCK OPTIONS:

(1) The Company granted stock options to its directors as determined at the meeting of the shareholders. The total compensation costs related with stock option were calculated by the minimum value approach using the option-pricing model for the options granted prior to 2004, and by the fair value approach using the option-pricing model for the others. Details of stock options are as follows:

1) Stock options granted by Woongjin Coway Co., Ltd. prior to the merger are as follows:

<u>Description</u>	<u>1st grant</u>	<u>2nd grant</u>	<u>3rd grant</u>
Granted shares	388,000	280,000	145,000
Remaining shares	112,800	65,000	145,000
Grant date	2000.3.17	2003.1.8	2004.3.23
Exercise price	₩ 3,200	₩ 8,670	₩ 8,010
Exercisable period	2003.3.17~2008.3.16	2005.1.8~2010.1.9	2006.3.23~2011.3.22
Risk-free interest rate	9.04%	5.38%	4.70%
Expected return on dividend	13.75%	25.00%	25.00%
Expected expiry rate	0.00%	0.00%	0.00%
Expected exercise period	5 years	5 years	5 years

2) Stock options granted by Woongjin Coway Development Co., Ltd. prior to the merger are as follows:

<u>Description</u>	<u>1st grant</u>	<u>2nd grant</u>	<u>3rd grant</u>	<u>4th grant</u>
Granted shares (*)	412,443	519,530	180,245	212,053
Remaining shares	20,410	-	90,122	212,053
Grant date	2000.3.28	2002.3.28	2003.3.28	2004.3.30
Exercise price	₩ 500	₩ 1,270	₩ 1,520	₩ 2,950
Exercisable period	2003.3.28 ~ 2007.3.27	2005.3.28 ~ 2009.3.27	2006.3.28 ~ 2010.3.27	2006.3.30 ~ 2011.3.29
Risk-free interest rate	7.60%	6.53%	6.53%	4.58%
Expected return on dividend	-	-	-	30%
Expected expiry rate	0.00%	0.00%	0.00%	0.00%
Expected exercise period	4 years	4 years	4 years	3years

(*) As a result of the merger in 2005, terms of stock options granted by Woongjin Coway Development Co., Ltd. were modified by the decision at the board of directors' meeting such that number of shares granted were changed in line with the merger ratio of 1:1.060266, and total number of shares granted were recalculated accordingly.

Subsequent to the merger, the stock options have been exercised as follows (Amount Unit: Korean Won in thousands):

<u>Description</u>		<u>Amount</u>
Woongjin Coway Development Co., Ltd	1st	105,226
	2nd	519,527
	3rd	90,122
Woongjin Coway	2nd	65,000
		<u>779,875</u>

As a result, the decreased in stock options in capital adjustment was transferred to additional-paid-in capital.

(2) The changes in compensation expense accounted for a credit to capital adjustments for the year ended December 31, 2005 are as follows:

	Korean Won			Total
	3rd grant by Woongjin Coway	1 st grant by Woongjin Coway Development	4 th grant by Woongjin Coway Development	
	(In thousands)			
Beginning of year	₩ -	₩ 82,955	₩ 109,800	₩ 192,755
Increase in compensation expense	174,176	-	1,530,759	1,704,935
Decrease as exercised	-	69,479	-	69,479
End of year	<u>₩ 174,176</u>	<u>₩ 13,476</u>	<u>₩ 1,640,559</u>	<u>₩ 1,828,211</u>

In 2005, the Company recognized compensation cost amounting to ₩ 1,704,935 thousand, and stock options as of December 31, 2005 amounts to ₩ 1,828,211 thousand. Subsequent to December 31, 2005, additional compensation cost amounting to ₩ 621,051 thousand will be charged.

17. TREASURY STOCK:

Shares of treasury stock as of December 31, 2005 are as follows (Amount: Korean Won in thousands):

<u>Reasons for acquisition</u>	<u>Acquisition period</u>	<u>Number of shares</u>	<u>Amount</u>
Merger with Woongjin Coway Development Co., Ltd.	2005.5.02	2,121,900	8,922,318
Fraction	2005.5.24	1,194	14,563
Exercise of stock options	2005.11.17	6	111
		<u>2,123,100</u>	<u>8,936,992</u>

Treasury stock of 2,000,009 shares was acquired prior to the merger in order to extinguish retained earnings. The residual of 121,891 shares is the shares of Woongjin Coway Development Co., Ltd. The Company valued the residual stock using net asset value of Woongjin Coway Development Co., Ltd. per share of ₩4,204.87 per share.

18. EARNINGS PER SHARE:

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

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

	<u>Number of shares (1)</u>	<u>Weighted average (2)</u>	<u>(1) x (2)</u>
Beginning of year	48,894,000	121	5,916,174,000
Merger	70,949,836	22	1,560,896,392
Acquisition of treasury stock	70,948,642	29	2,057,510,618
Exercise of stock warrants	71,663,517	19	1,361,606,823
Exercise of stock warrants	71,728,517	129	9,252,978,693
Acquisition of treasury stock	71,728,511	45	3,227,782,995
	Total		<u>23,376,949,521</u>

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

(2) The weighted average number of shares outstanding for the year ended December 31, 2004 is computed as follows:

	<u>Number of shares (1)</u>	<u>Weighted average (2)</u>	<u>(1) x (2)</u>
Beginning of year	49,494,000	273	13,511,862,000
Spin-off	48,894,000	92	4,498,248,000
	Total	365	<u>18,010,110,000</u>

Weighted average number of shares outstanding 18,010,110,000shares ÷365 days = 49,342,767 shares

(3) Basic ordinary income per share and net income per share for the years ended December 31, 2005, and 2004 are computed as follows:

	Korean Won	
	<u>(in thousands, except per share amounts)</u>	
	<u>2005</u>	<u>2004</u>
Net income available to common share	₩ 60,888,600	₩ 71,020,391
Weighted average number of common shares outstanding	64,046,437	49,342,767
Ordinary income per share	₩ 951	₩ 1,439

(4) Diluted ordinary income per share and diluted net income per share for the year ended December 31, 2005 computed as follows:

	Korean Won	
	<u>(in thousands, except per share amounts)</u>	
	<u>2005</u>	<u>2004</u>
Net income available to common share	₩ 60,888,600	₩ 71,020,391
The effect of expenses related to diluted securities (*)	-	-
Ordinary income/ net income, after addition for the effect of expenses related to diluted securities (**)	<u>₩ 60,888,600</u>	<u>₩ 71,020,391</u>
Weighted average number of common shares outstanding		64,046,437shares
Weighted average number of common shares plus the number of dilutive potential common shares		<u>194,463shares</u>
		<u>64,240,900shares</u>
Diluted ordinary income per share and diluted net income per share	₩ 948	₩ 1,105

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

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

19. DIVIDENDS:

(1) Proposed dividends for 2005 and 2004 are computed as follows:

Types of dividend	<u>2005</u>	<u>2004</u>
	Cash dividend	Cash dividend
Number of shares entitled to dividend	71,728,511 shares	48,894,000 shares
Par value	₩ 500	₩ 500
Dividend ratio	68%	30%
Dividend (In thousands)	₩ 24,387,694	₩ 7,334,100

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

(2) Dividend payout ratio for 2005 and 2004 are computed as follows:

	Korean Won	
	2005	2004
	(In thousands, except for percentage amounts)	
Dividend	₩ 24,387,694	₩ 7,334,100
Net income	60,888,600	60,888,600
Dividend payout ratio	40%	10%

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

	2005
Dividend per share	₩ 340
Market price per share at December 31, 2005	₩ 23,950
Dividend yield ratio	1.42%

20. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS:

(1) Income tax expense for the years ended December 31, 2005 and 2004 is as follows:

	Korean Won	
	2005	2004
	(In thousands)	
Income tax currently payable	₩ 37,388,476	₩ 12,672,790
Changes in deferred income taxes due to temporary differences	(12,307,792)	16,907,398
Income tax expense	<u>₩ 25,080,684</u>	<u>₩ 29,580,188</u>

The changes in accumulated temporary differences for the years ended December 31, 2005 and 2004 are computed as follows:

	Korean Won	
	2005	2004
	(In thousands)	
Current deferred income tax assets (liabilities)	₩ 6,467,508	₩ (4,075,054)
Increase in deferred income tax liabilities from merger	(2,339,783)	
Decrease in deferred income tax liabilities from spin-off	-	297,172
Deferred income tax assets (liabilities)	<u>(3,500,501)</u>	<u>13,129,516</u>
Changes in deferred income taxes due to temporary differences	<u>₩ (12,307,792)</u>	<u>₩ 16,907,398</u>

As a result of the tax adjustments subsequent to the closing of the book, difference between the deferred tax liabilities at beginning of 2005 amounting to ₩(3,500,501) and at end of 2004 amounting to ₩(4,075,054) was incurred.

(2) Tax reconciling items between financial accounting income and taxable income for the years ended December 31, 2005 and 2004 are as follows:

	Korean Won	
	2005	2004
	(In thousands)	
Income before tax	₩ 85,969,284	₩ 100,600,579
Temporary differences	(9,225,977)	(58,244,400)
Others	(572,940)	950,315
Taxable income	<u>₩ 76,170,367</u>	<u>₩ 43,306,494</u>

(3) Deferred income taxes as of December 31, 2005 and 2004 are computed as follows:

	Korean Won	
	2005	2004
	(In thousands)	
Accumulated temporary differences, net	₩ 14,150,876	₩(14,818,378)
Adjustments	<u>9,367,335</u>	<u>-</u>
	23,518,211	(14,818,378)
Statutory tax rate	x 27.5%	x 27.5%
Deferred income tax assets (liabilities)	<u>₩ 6,467,508</u>	<u>₩ (4,075,054)</u>

(4) The deferred income tax assets and liabilities as of December 31, 2005 are as follows:

	Korean Won		
	Current	Non-current	Total
	(In thousands)		
Deferred income tax assets	₩ 40,218,017	₩ 7,182,324	₩ 47,400,341
Deferred income tax liabilities	<u>(37,935,897)</u>	<u>(2,996,936)</u>	<u>(40,932,833)</u>
Net	<u>₩ 2,282,120</u>	<u>₩ 4,185,388</u>	<u>₩ 6,467,508</u>

(5) Effective tax rate for the years ended December 31, 2005 and 2004 is computed as follows:

	Korean Won	
	2005	2004
	(In thousands)	
Income tax	₩ 25,080,684	₩ 29,580,188
Income before tax	85,969,284	100,600,578
Effective tax rates	29.2%	29.4%

21. OPERATIONAL RESULT OF THE 4TH QUARTER OF 2005 AND 2004:

Significant result of the operation in the 4th quarter of 2005 and 2004 (Unaudited) are summarized as follows:

	Korean Won	
	2005	2004
	(In thousands, except per share amounts)	
Sales	₩ 269,137,805	₩ 191,432,714
Gross profit	173,288,927	109,620,359
Operating income	34,037,937	54,835,696
Ordinary income	25,224,637	50,338,611
Net income	15,330,737	39,860,036
Net income (ordinary income) per share	214	815

22. RELATED PARTY TRANSACTIONS:

(1) Significant transactions with related parties for the years ended December 31, 2005 and 2004 are as follows:

Related parties	Description	Korean Won	
		2005	2004
		(In thousands)	
Woongjin Thinkbig Co., Ltd.	Sales	₩ 392,388	₩ 374,515
	Selling and administrative expenses	505,328	150,367
	Disposal of plant	-	3,200,000
Woongjin Foods Co., Ltd.	Sales	13,199	2,105
	Purchases	342,007	219,961
	Selling and administrative expenses	2,911,140	2,859,167
Woongjin ST (*)	Rent income	7,300	29,820
	Selling and administrative expenses	5,068,309	2,169,830
Platinum Media Co., Ltd.	Sales	1,195	348,483
	Selling and administrative expenses	1,807,932	2,610
Woongjin Happyall Co., Ltd.	Sales of services	473,869	219,784
	Service fees	94,414,227	81,446,828
	Selling and administrative expenses	-	128,942
Woongjin Cuchen Co., Ltd.	Sales	7,110,035	-
	Rent income	26,726	20,045
	Transfer of business	11,061,052	-
	Penalty for the return of goods	1,304,685	1,536,959
	Purchases	72,335,025	15,510,598
	Selling and administrative expenses	77,367	-
Rexfield Country Club	Sales	22,688	-
	Selling and administrative expenses	213,804	29,040
	Return of membership	-	8,800,000
Booxen Co., Ltd.	Sales	5,227	-
	Commission	15,234,173	-
Woongjin Coway (Thailand) Co., Ltd.	Sales	1,091,109	-
Woongjin Japan Co., Ltd.	Sales	1,185,500	-
Woongjin Cosmetic Co., Ltd.	Sales	7,573	-
Woongjin Construction Co., Ltd.	Sales	395,024	-
	Penalty for the return of goods	145,244	-
	Purchases	6,144	-
	Commission	2,364,360	-
Mco Digital Co., Ltd	Sales	124,139	616,849
	Commission	1,500,974	1,627,720
	Penalty for the return of goods	6,693	29,331

(*)In 2005, Woongjin ST has been merged with Platinum Media Co., Ltd. Therefore, the above transaction is related to the transaction with Woongjin ST prior to the merger.

(2) Significant balances with related companies as of December 31, 2005 and 2004 are summarized below.

Related parties	Description	Korean Won	
		2005	2004
		(In thousands)	
Woongjin Thinkbig Co., Ltd.	Trade accounts and notes receivable	-	129,135
	Accounts payable-other	80,487	35,360
Woongjin Foods Co., Ltd.	Trade accounts and notes payable	-	13,179
	Accounts payable-other	296,071	233,453
Platinum Media Co., Ltd.	Accounts payable-other	-	235,852
Woongjin ST	Advanced payments	2,823,205	-
	Accounts payable-other	505,762	672
Booxen Co., Ltd.	Accounts payable-other	1,586,174	-
Woongjin Happyall Co., Ltd.	Trade accounts and notes receivable	122,682	-
	Accounts receivable - other	131	12,619
	Accounts payable-other	10,281,547	8,317,440
Woongjin Cuchen Co., Ltd.	Trade accounts and notes receivable	169,128	-
	Accounts receivable - other	21,827,717	2,019,732
	Trade accounts and notes payable	9,782,020	6,688,083
	Accounts payable-other	1,042,541	7,408
Mco Digital Co., Ltd.	Trade accounts and notes receivable	-	19,652
	Trade accounts and notes payable	-	621
	Accounts payable-other	-	386,894
Rexfield Country Club	Trade accounts and notes receivable	1,637	-
	Accounts payable-other	27,500	6,600
Woongjin Construction Co., Ltd.	Trade accounts and notes receivable	203,674	-
	Trade accounts and notes payable	20,909	-
	Leasehold deposits	10,000	-
Woongjin Coway (Thailand) Co., Ltd.	Trade accounts and notes receivable	1,793,098	-
	Advanced payments	16,320	-
	Accounts receivable-other	3,556	-
Woongjin Japan Co., Ltd.	Trade accounts and notes receivable	1,943,706	27,344
Woong Jin Cosmetic Co., Ltd.	Trade accounts and notes receivable	220,341	-

(3) Short-term loans provided to employees as of December 31, 2005 and 2004 amount to ₩ 65,222 thousand and ₩52,431 thousand, respectively.

(4) Guarantee provided on behalf of its related parties and others as of December 31, 2005 are as follows
(Korean Won : In thousands):

Provided to	Creditors	Types of payable	Borrowing limit	
Woongjin Cuchen Co., Ltd.	Hana Bank and others	Privately offered bond and others	₩	82,700,000
Woongjin Construction Co., Ltd.	Hana Bank	General loan		3,250,000
Platinum Media Co., Ltd.	Hana Bank and others	General loan		2,450,000
Woong Jin Japan	Hana Bank	General loan	JPY	650,000,000
Woong Jin Coway (Thailand) Co., Ltd.	Citibank	General loan	US \$	1,000,000
Woong Jin Cosmetic Co., Ltd.	Hana Bank	General loan	US \$	10,000
			CNY	3,120,000
			₩	88,400,000
			US \$	1,010,000
			JPY	650,000,000
			CNY	3,120,000

23. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2005, the Company has borrowing agreements with various financial institutions as follows (Korean Won: In thousands):

<u>Types of borrowing</u>	<u>Financial institutions</u>	<u>Borrowing limits</u>
Bank overdraft	Hana Bank and others	₩ 18,000,000
Loan provided in line with the purchase	Shinhan Bank and others	200,000,000
Discount of notes receivable	Korean French Banking Corp	5,000,000
General loan	Hana Bank and others	25,000,000
Issuance of electronic notes payable	Korean Exchange Bank	10,000,000
Borrowings backed by trade receivables	Korean Exchange Bank	40,000
Borrowings related with import	Woori Bank and others	US\$ 5,000,000

Other than the guarantees above, the Company has provided payment guarantee of ₩468,711 thousand to Hana Bank on behalf of the borrowings of Employee Stock Ownership Plan.

(2) As of December 31, 2005, Seoul Guarantee Insurance Co., Ltd. has provided guarantee of execution of contract of ₩286,930 thousand on behalf of the Company.

(3) As of December 31, 2005, the Company is involved with 9 lawsuits regarding the refund of sales commission amounting to ₩ 1,110,468 thousand. The Company estimates the result of the above lawsuit cases as immaterial.

24. SELLING AND ADMINISTRATIVE EXPENSES:

The details of selling and administrative expenses for the years ended December 31, 2005 and 2004 are as follows:

	<u>Korean Won</u>	
	<u>2005</u>	<u>2004</u>
	(In thousands)	
Salary related expenses	₩ 109,959,874	₩ 81,541,548
Travel	1,896,493	1,264,055
Communications	7,207,494	8,450,200
Entertainment	672,776	506,933
Education and training	9,225,008	8,652,813
Supplies	17,591,636	15,611,200
Books and publishing	828,053	895,875
Advertisements	32,380,682	22,180,856
Rent	25,062,838	19,005,246
Taxes and dues	896,828	553,364
Insurance	626,231	96,980
Transportation	1,413,831	1,014,841
Sales promotion	5,836,299	2,109,088
Sales warranties	113,573	120,768
Sales commissions	200,642,426	167,496,268
Fees and commissions	36,261,307	29,487,091
Repairs and maintenance	2,434,164	2,005,961
Ordinary research and development	2,860,954	2,204,090
Depreciation	8,622,389	6,981,591
Amortization	3,648,282	756,174
Bad debt	21,272,877	12,964,704
Loss on returned goods	6,066,592	1,369,986
Loss on impairment loss of rental assets	50,428,831	26,265,386
Other	1,586,953	918,896
	<u>₩ 547,536,391</u>	<u>₩ 412,453,914</u>

25. SPIN-OFF:

Effective September 30, 2004, the Company spun off its Bidet Manufacturing division of Pocheon factory and PLYZEN division, an entertainment business division, with the details below.

- 1) The Spun-off company
 Name: Woongjin Cuchen Co., Ltd.
 CEO: Woo, Jung-Min
 Principal business: Manufacturing and sales
- 2) Spin-off schedule
 Shareholders' meeting held for the approval of spin-off plan: August 27, 2004
 Spin-off date: September 30, 2004
 Spin-off ratio: 1: 0.01212
 Number of shares decreased by the Company as result of spin-off: 600,000 shares
 Number of shares increased by Woongjin Cuchen Co., Ltd. as result of spin-off: 600,000 shares
- 3) Financial information of the spun-off company

<u>Accounts</u>	<u>Korean Won (In thousands)</u>
Current assets	₩ 18,773,079
Non-current assets	<u>30,901,925</u>
Assets	<u>49,675,004</u>
Current liabilities	23,060,161
Non-current liabilities	<u>24,404,197</u>
Liabilities	<u>47,464,358</u>
Net asset value	2,210,646
Decrease in capital stock	<u>300,000</u>
Loss on capital reduction	<u>₩ 1,910,646</u>

The Company valued its transferred assets and liabilities at book value as of the spin-off date, and accounted for the difference between the net asset value and the capital stock as loss on capital reduction. As a result, the Company's shares decreased by 600,000 shares amounting to ₩300,000 thousand and incurred loss on capital reduction amounting to ₩1,910,646 thousand.

- 4) Condensed financial information of the spun-off division

<u>Accounts</u>	<u>Korean Won</u>	
	<u>Sep. 30, 2004</u>	<u>Dec. 31, 2003</u>
	(In thousands)	
Assets	₩ 49,675,004	₩ 42,216,000
Liabilities	<u>47,464,358</u>	<u>41,027,000</u>
Net asset value	<u>₩ 2,210,646</u>	<u>₩ 1,189,000</u>

5) Condensed financial result of the spun-off division

	Korean Won (In thousands)	
	Sep. 30, 2004	Dec. 31, 2003
Sales	₩ 6,625,464	₩ 9,284,964
Cost of sales	<u>5,904,089</u>	<u>7,448,993</u>
Gross profit	721,375	1,835,971
Selling and administrative expenses	<u>2,190,356</u>	<u>1,508,221</u>
Operating income (loss)	(1,468,981)	327,750
Non-operating income	-	-
Non-operating expenses	<u>55,685</u>	<u>-</u>
Ordinary income (loss)	(1,524,666)	327,750
Extraordinary item	<u>-</u>	<u>-</u>
Income (loss) before income tax	(1,524,666)	327,750
Income tax expense	<u>-</u>	<u>-</u>
Net income (loss)	<u>₩ (1,524,666)</u>	<u>₩ 327,750</u>

26. TRANSFER OF BUSINESS:

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

1) The acquiree
 Name: Woongjin Cuchen Co., Ltd.
 CEO: Moon, Mu-Kyung
 Principal business: bidet and others

2) Condensed financial information of the transferred division

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

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

(2) Effective on January 1, 2004, the Company transferred the A/S division to Woongjin Happyall Co., Ltd., a related party, in order to focus on its principal business of rental business. As a result, the Company transferred its assets and liabilities at fair value, and incurred gain on transfer of business amounting to ₩231,354 thousands. Details are as follows:

1) The transferee
 Name: Woongjin Happyall Co., Ltd.
 CEO: Kim, Jung-Sik
 Principal business: Installing purifier, A/S service and call center

2) Condensed financial information of the transferred division

	Korean Won (In thousands)
Accounts receivable-others	₩ 1,339,566
Guarantee deposit receivables	2,324,234
Properties	<u>2,358,977</u>
Assets	<u>6,022,777</u>
Liabilities	<u>6,022,777</u>
Net asset value	<u>₩ -</u>

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

27. MERGER:

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

(1) The acquiree

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

(2) Merger schedule

Shareholders' meeting held for the approval of merger plan: March 22, 2005
Merger date: May 2, 2005
Merger ratio: 1:1.060266
Number of shares distributed as a result of merger: 51,840,646 shares
Ownership ratio attributable to the acquiree after merger: 70.94%

(3) Accounting for merger

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

(4) Calculation of purchase cost

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

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

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

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

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

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

The above goodwill is amortized over 5 years using the straight line method, and ₩385,630 thousand was amortized in 2005.

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

	<u>Condensed balance sheets</u>	
	<u>Korean Won</u>	
	<u>May. 2, 2005</u>	<u>Dec. 31, 2004</u>
	(In thousands)	
Current assets	₩ 128,391,288	₩ 105,153,591
Non-current assets	<u>69,445,228</u>	<u>71,524,933</u>
Total assets	<u>₩ 197,836,516</u>	<u>₩ 176,678,524</u>
Current liabilities	₩ 118,937,009	₩ 94,219,420
Non-current liabilities	<u>7,017,004</u>	<u>6,820,503</u>
Total liabilities	<u>125,954,013</u>	<u>101,039,923</u>
Total shareholders' equity	<u>71,882,503</u>	<u>75,638,601</u>
Total liabilities and shareholders' equity	<u>₩ 197,836,516</u>	<u>₩ 176,678,524</u>
	<u>Condensed income statements</u>	
	<u>Korean Won</u>	
	<u>May 2, 2005</u>	<u>Dec. 31, 2004</u>
	(In thousands)	
Sales	₩ 100,958,762	₩ 308,707,990
Cost of sales	<u>67,221,619</u>	<u>192,674,431</u>
Gross profit	33,737,143	116,033,559
Selling and administrative expenses	<u>25,648,432</u>	<u>82,765,294</u>
Operating income	8,088,711	33,268,265
Non-operating income	669,250	2,852,763
Non-operating expenses	<u>4,726,326</u>	<u>17,964,459</u>
Ordinary income	4,031,635	18,156,569
Extraordinary item	-	-
Income before income tax	4,031,635	18,156,569
Income tax expense	<u>816,858</u>	<u>3,732,356</u>
Net income	<u>₩ 3,214,777</u>	<u>₩ 14,424,213</u>

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

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

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

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

28. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE:

- (1) On January 5, 2006, based on the resolution at the board of directors' meeting, the Company will sell its factories and related lands located in Incheon for ₩9,101,618 thousand to Woongjin Cuchen Co., Ltd., a related party, in order to distribute its available resources to construct a unique revenue model.
- (2) On January 5, 2006, based on the resolution at the board of directors' meeting, the Company will purchase factories and related lands located in Kumcheon, Seoul for ₩8,187,055 thousand from Woongjin Cuchen Co., Ltd., a related party, in order to distribute its available resources to construct a unique revenue model.
- (3) On January 5, 2006, based on the resolution at the board of directors' meeting, the Company will invest in Woong Jin Cosmetic Co., Ltd., as overseas affiliate, amounting to ₩5,257,675 thousand to achieve shareholding ratio of 93% with accumulated capital investment of ₩9,896,800 thousand.

29. SEGMENT INFORMATION:

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

Details of business segment information for the years ended December 31, 2005 and 2004 are as follows:

	Korean Won					
	2005			2004		
	<u>Sales</u>	<u>Cost of sales</u>	<u>Gross profit</u>	<u>Sales</u>	<u>Cost of sales</u>	<u>Gross profit</u>
	(In millions)					
Rental	₩830,762	₩290,125	₩ 540,637	₩716,216	₩271,252	₩ 444,964
Membership	72,621	25,947	46,674	54,827	9,641	45,185
Lump sum payment	45,371	18,309	27,062	29,916	11,033	18,883
Others	59,326	29,319	30,007	26,814	11,911	14,904
Total	<u>₩1,008,080</u>	<u>₩ 363,700</u>	<u>₩ 644,380</u>	<u>₩827,773</u>	<u>₩303,837</u>	<u>₩ 523,936</u>

Internal Accounting Control System Review Report

English translation of a Report Originally Issued in Korean

To the Chief Executive Officer of
Woongjin Coway Co., Ltd.:

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

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

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS becomes effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

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

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

February 17, 2006

Notice to Readers

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