

Hyosung Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

Based on a report originally issued in Korean

To the Board of Directors and Shareholders

Hyosung Corporation

We have audited the accompanying consolidated balance sheets of Hyosung Corporation (the "Parent Company") and subsidiaries (collectively, the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Hyosung Ebara Co., Ltd. and 21 other subsidiaries in 2006, and 22 other subsidiaries in 2005, which financial statements reflect 34.45 percent and 32.92 percent of total consolidated assets (before elimination of intercompany transactions) as of December 31, 2006 and 2005, respectively, and 27.33 percent and 26.97 percent of total consolidated sales (before elimination of intercompany transactions) for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Hyosung Ebara Co., Ltd. and 21 other subsidiaries in 2006 and 22 other subsidiaries in 2005, is based solely on the reports of 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyosung Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations, the changes in their shareholders' equity, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in note 1 to the consolidated financial statements, Epiplus Co., Ltd. and 6 other subsidiaries have been included in consolidation in 2006. Hyosung Deutschland GmbH has been excluded from consolidation.

KPMG Samjong Accounting Corp.

Seoul, Korea
April 20, 2007

This report is effective as of April 20, 2007, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Hyosung Corporation and Subsidiaries

Consolidated Balance Sheets

December 31, 2006 and 2005

(In millions of Won)

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents (notes 2 and 23)	₩ 247,745	133,592
Short-term financial instruments (notes 2, 3 and 23)	32,374	86,717
Accounts and notes receivable – trade, net of allowance for doubtful accounts of ₩ 49,313 million in 2006 and ₩ 73,707 million in 2005 (notes 2, 4, 9, 23 and 24)	1,149,356	915,542
Accounts and notes receivable – other, net of allowance for doubtful accounts of ₩ 2,804 million in 2006 and ₩ 45,734 million in 2005 (notes 2, 9, 10, 23 and 34)	32,762	99,553
Inventories , net of valuation loss of ₩ 9,436 million in 2006 and ₩ 12,967 million in 2005 (notes 2 and 5)	765,936	778,237
Short-term loans, net (note 23)	4,691	9,419
Current deferred tax assets (notes 2 and 28)	5,097	36,027
Other current assets (notes 6, 23 and 25)	87,936	97,710
Total current assets	2,325,897	2,156,797
Long-term financial instruments (notes 2, 3 and 23)	49,366	28,823
Available-for-sale securities (notes 2, 7, 16 and 20)	115,968	166,701
Equity method investments (notes 2 and 8)	63,277	59,195
Long-term loans, net (note 23)	2,131	406
Long-term accounts receivable – trade, net (notes 2 and 23)	207	802
Development cost of natural resource	3,351	3,723
Non-current deferred tax assets (notes 2 and 28)	8,166	37,385
Guarantee deposits (note 23)	73,182	68,944
Property, plant and equipment, at cost (notes 2, 11,12, 17 and 20)	5,217,564	4,952,147
Less accumulated depreciation	(2,468,651)	(2,149,038)
Net property, plant and equipment	2,748,913	2,803,109
Intangible assets (notes 2, 14, 17 and 24)	40,044	34,250
Other assets (notes 13 and 16)	11,930	7,134
Total assets	₩ 5,442,432	5,367,269

See accompanying notes to consolidated financial statements.

Hyosung Corporation and Subsidiaries

Consolidated Balance Sheets, Continued

December 31, 2006 and 2005

(In millions of Won, except share data)

<u>Liabilities and Shareholders' Equity</u>	<u>2006</u>	<u>2005</u>
Current liabilities:		
Accounts payable – trade (notes 9, 23 and 24)	₩ 693,044	793,671
Accounts payable – other (notes 9 and 24)	143,805	171,058
Short-term borrowings (notes 3, 17, 23 and 24)	660,448	606,792
Unearned revenue	2,565	792
Current portion of long-term debt (notes 17, 19, 20 and 24)	586,793	422,106
Accrued income taxes payable	24,623	8,036
Other current liabilities (notes 18, 23 and 25)	213,721	145,793
Total current liabilities	<u>2,324,999</u>	<u>2,148,248</u>
Debtures, net (notes 2 and 19)	1,020,192	983,228
Long-term borrowings (notes 3, 17, 20, 23 and 24)	512,213	657,439
Retirement and severance benefits (notes 2 and 21)	53,680	54,954
Long-term withholdings	70,912	73,764
Long-term payables – other	6,380	49,024
Provision for construction warranty costs (note 2)	7,953	6,367
Other long-term liabilities	5,654	626
Total liabilities	<u>4,001,983</u>	<u>3,973,650</u>
Shareholders' equity:		
Common stock of ₩ 5,000 par value		
Authorized – 200,000,000 shares		
Issued – 34,805,821 shares	174,029	174,029
Consolidated capital surplus (note 26)	1,170,306	1,384,863
Consolidated retained earnings (accumulated deficit)	61,267	(210,209)
Consolidated capital adjustments (notes 2, 7, 8, 26 and 27)		
Treasury stock	(34,204)	(34,203)
Unrealized gain on valuation of available-for-sale securities	18,071	45,332
Unrealized loss on valuation using equity method	16,625	15,672
Overseas operations translation adjustment	(44,598)	(29,956)
Others	-	-
Subtotal	<u>(44,106)</u>	<u>(3,155)</u>
Minority interests in equity of consolidated subsidiaries	78,953	48,091
Total shareholders' equity	<u>1,440,449</u>	<u>1,393,619</u>
Total liabilities and shareholders' equity	<u>₩ 5,442,432</u>	<u>5,367,269</u>

See accompanying notes to consolidated financial statements.

Hyosung Corporation and Subsidiaries

Consolidated Statements of Operations

Years ended December 31, 2006 and 2005

(In millions of Won)

	<u>2006</u>	<u>2005</u>
Sales (notes 2, 10 and 34)	₩ 5,852,889	5,642,813
Cost of sales (notes 10 and 34)	<u>(5,080,645)</u>	<u>(4,997,881)</u>
Gross profit	772,244	644,932
Selling and administrative expenses (note 37)	<u>(563,873)</u>	<u>(545,968)</u>
Operating income	<u>208,371</u>	<u>98,964</u>
Other income (expense):		
Interest income	9,231	7,048
Interest expense	(126,804)	(117,445)
Rent	239	286
Gain on foreign currency transactions, net	29,648	8,685
Gain on foreign currency translation, net	12,153	12,459
Loss on valuation of equity method investments, net	(8,947)	(1,898)
Gain (loss) on sale of available-for-sale securities, net	67,803	(464)
Gain on sale of property, plant and equipment, net	285	9,098
Gain on transactions of derivative instruments (notes 2 and 25)	415	3,347
Commissions	(36,278)	(37,121)
Loss on sale of accounts receivable	(2,966)	(3)
Loss on valuation of inventories (note 2)	-	(130)
Loss on impairment of equity method investments	(770)	(1,836)
Loss on impairment of property, plant and equipment	-	(23,520)
Restructuring costs	-	(18,525)
Loss on valuation of derivative instruments, net (notes 2 and 25)	(1,153)	(28)
Loss on impairment of available-for-sale securities, net	(1,550)	-
Provision for doubtful accounts – other (note 2)	(661)	(6,616)
Additional payment of income taxes	-	(7,702)
Others, net	24,348	17,485
	<u>(35,007)</u>	<u>(156,880)</u>
Income (loss) before income taxes and minority interests	173,364	(57,916)
Income taxes (note 28)	<u>(54,695)</u>	<u>(169)</u>
Income (loss) before minority interests	118,669	(58,085)
Minority interests in net income of consolidated subsidiaries	<u>(28,253)</u>	<u>(4,726)</u>
Net income (loss)	₩ <u>90,416</u>	<u>(62,811)</u>
Earnings (loss) per share of common stock in Won (note 29)	₩ <u>2,743</u>	<u>(1,906)</u>
Diluted earnings (loss) per share in Won (note 29)	₩ <u>2,728</u>	<u>(1,906)</u>

See accompanying notes to consolidated financial statements.

Hyosung Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2006 and 2005

(In millions of Won)

	Common stock	Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total
Balance at December 31, 2004	₩ 164,426	1,393,964	(131,728)	(37,328)	41,155	1,430,489
Exercise of stock warrants	9,603	-	-	-	-	9,603
Change in consolidated capital surplus	-	6,580	-	-	-	6,580
Cumulative effect of accounting change	-	(15,672)	-	15,672	-	-
Effect of changes in the scope of consolidation	-	(9)	-	373	-	364
Net loss	-	-	(62,811)	-	-	(62,811)
Dividends (note 30)	-	-	(13,966)	-	-	(13,966)
Other decrease in retained earnings	-	-	(1,707)	-	-	(1,707)
Change in gain or loss on valuation of available-for-sale securities, net	-	-	-	(9,788)	-	(9,788)
Changes in unrealized gain on valuation of equity method investments	-	-	-	66	-	66
Change in gain or loss on valuation of equity method investments	-	-	3	-	-	3
Overseas operations translation adjustment	-	-	-	27,850	-	27,850
Increase in minority interests	-	-	-	-	6,936	6,936
Balance at December 31, 2005	174,029	1,384,863	(210,209)	(3,155)	48,091	1,393,619
Deficit recovery	-	(210,462)	210,462	-	-	-
Change in consolidated capital surplus	-	(4,095)	-	-	-	(4,095)
Net income	-	-	90,416	-	-	90,416
Other decrease in retained earnings	-	-	(32,046)	-	-	(32,046)
Change in gain or loss on valuation of available-for-sale securities, net	-	-	-	(27,261)	-	(27,261)
Changes in unrealized gain on valuation of equity method investments	-	-	-	952	-	952
Change in gain or loss on valuation of equity method investments	-	-	2,644	-	-	2,644
Overseas operations translation adjustment	-	-	-	(14,642)	-	(14,642)
Increase in minority interests	-	-	-	-	30,862	30,862
Balance at December 31, 2006	₩ 174,029	1,170,306	61,267	(44,106)	78,953	1,440,449

See accompanying notes to consolidated financial statements.

Hyosung Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

(In millions of Won)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income (loss)	₩ 90,416	(62,811)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	324,443	379,792
Provision for retirement and severance benefits	34,509	32,058
Provision for doubtful accounts – other	661	6,616
Loss on impairment of property and equipment, net	-	23,520
Loss (gain) on sale of available-for-sale securities, net	(67,803)	464
Gain on sale of property and equipment, net	(285)	(9,098)
Loss (gain) on valuation of derivative instruments, net	1,153	(3,319)
Gain on foreign currency translation, net	(12,153)	(5,658)
Loss on valuation of equity method investments, net	8,947	1,897
Loss on impairment of equity method securities, net	770	1,838
Loss on impairment of available-for-sale securities, net	1,550	-
Minority interests in net income of consolidated subsidiaries	28,253	4,726
Other, net	4,149	(374)
Changes in operating assets and liabilities:		
Accounts and notes receivable – trade	(231,141)	70,520
Accounts and notes receivable – other	66,301	(89,331)
Inventories	12,301	(72,987)
Other current assets	8,623	10,028
Other non-current assets	(1,525)	3,062
Current deferred tax assets	30,930	(36,106)
Non-current deferred tax assets	29,218	26,798
Accounts payable – trade	(97,370)	(48,644)
Accounts payable – other	(26,572)	57,309
Advance receipts	28,406	33,147
Other current liabilities	57,881	23,979
Long-term withholdings	(2,852)	45,838
Payment of retirement and severance benefits	(41,802)	(61,946)
Other long-term liabilities	12,733	18,475
Overseas operations translation adjustments	(14,641)	20,102
Net cash provided by operating activities	<u>245,100</u>	<u>369,894</u>

See accompanying notes to consolidated financial statements.

Hyosung Corporation and Subsidiaries

Consolidated Statements of Cash Flows, Continued

Years ended December 31, 2006 and 2005

(In millions of Won)

	<u>2006</u>	<u>2005</u>
Cash flows from investing activities:		
Decrease (increase) in short-term financial instruments, net	54,343	(75,438)
Decrease (increase) in short-term loans, net	5,732	(680)
Increase in long-term financial instruments, net	(20,543)	(17,393)
Decrease (increase) in guarantee deposits, net	(4,238)	1,181
Decrease (increase) in available-for-sale securities, net	86,431	(15,813)
Decrease (increase) in equity method investments, net	(10,203)	3,538
Decrease (increase) long-term loans, net	(2,730)	4,616
Increase in other investment assets, net	(3,638)	(844)
Increase in property and equipment, net	(216,823)	(270,306)
Increase in intangible assets, net	(7,633)	(3,041)
	<u>(119,302)</u>	<u>(374,180)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from (repayment of) short-term borrowings, net	53,657	(330,513)
Issuance of deventures	459,828	429,864
Proceeds from (repayment of) other long-term liabilities	(42,744)	49,050
Increase in other capital adjustments	-	1,153
Proceeds from (repayment of) long-term borrowings, net	(94,671)	296,752
Issuance of common stock	-	16,183
Repayment of current portion of long-term debt	(422,106)	(449,349)
Payment of dividends	-	(13,966)
	<u>(46,036)</u>	<u>(826)</u>
Net cash used in financing activities		
Increase in cash and cash equivalents due to change in consolidated subsidiaries	<u>34,391</u>	<u>1,810</u>
Net increase (decrease) in cash and cash equivalents	114,153	(3,302)
Cash and cash equivalents at beginning of year	<u>133,592</u>	<u>136,894</u>
Cash and cash equivalents at end of year	<u>₩ 247,745</u>	<u>133,592</u>

See accompanying notes to consolidated financial statements.

Hyosung Corporation and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(In millions of Won)

(1) Summary of General Condition for Consolidated Financial Statements

(a) Organization and Description of Parent Company

Hyosung Corporation (the "Parent Company") was incorporated on November 3, 1966 as Tongyang Nylon Co., Ltd. and began its main operations on July 16, 1968 with the opening of its Ulsan factory. The Parent Company subsequently changed its name to Hyosung T&C., Ltd. in 1996 and again to Hyosung Corporation on September 15, 1998. The Company primarily manufactures and sells synthetic fiber products and electronic products, and is engaged in construction and other related business activities. The Parent Company's shares have been listed on the Korea Exchange since June 30, 1973. On November 30, 1998, Hyosung Living Industry Co., Ltd., Hyosung Industries Co., Ltd. and Hyosung Corporation (trading) were merged into Hyosung Corporation for the purpose of gaining operational efficiencies and synergy effects and, on February 7, 2001, the Parent Company merged Hyosung Media into itself.

As of December 31, 2006, the Parent Company's shareholders consist of the following:

Shareholder	Number of shares	Percentage of ownership(%)
Cho Seok Rae	3,580,478	10.29
Cho Hyun Joon	2,436,957	7.00
Cho Hyun Moon	2,304,380	6.62
Cho Hyun Sang	2,300,710	6.61
Song Kwang Ja	72,243	0.21
Cho Yang Rae	3,696	0.01
Others	22,258,506	63.95
Subtotal	32,956,970	94.69
Treasury stock	1,848,851	5.31
Total	34,805,821	100.00

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(1) Summary of General Condition for Consolidated Financial Statements, Continued(b) Consolidated Subsidiaries

(i) As of December 31, 2006, the consolidated subsidiaries consist of following:

Company	Location	Business	Capital	Equity ownership
< Subsidiaries included in consolidation >				
Nautilus Hyosung Inc.	Korea	Sale of computer system & information management service	4,164	43.50%
The Class Hyosung	Korea	Sale of new automobiles	4,538	84.75%
Epiplus Co., Ltd.	Korea	Manufacture & sale of Wafer and LED Chip	4,459	33.64%
Hyosung Construction Co., Ltd.	Korea	Engineering & construction work	1,700	50.59%
Hyosung Ebara Co., Ltd.	Korea	Manufacture, setup & sale of pumps	18,000	67.00%
Hyosung Ebara Engineering Co., Ltd.	Korea	Facility construction for the prevention of environment pollution	15,000	81.33%
Hyosung Innotech Inc.	Korea	Manufacture & sale of insulating materials	2,250	100.00%
Hyosung Capital Co., Ltd.	Korea	Factoring financing	20,000	100.00%
Hyosung Investment & Development Corp.	Korea	Development & construction	800	58.75%
Hyosung Trans World Co., Ltd.	Korea	Multi-transportation agency	300	100.00%
Baoding Hyosung Tianwei Transformer Co.,Ltd.	China	Manufacture & sale of transformers	5,953	60.00%
Beijing Hyosung Container Co., Ltd.	China	Manufacture & sale of PET bottles & plastic products	5,922	100.00%
Hyosung America Inc.	America	General trading business & import - export transactions	267	100.00%
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	China	Manufacture of raw polyester thread	79,346	100.00%
Hyosung Europe SRL	Italy	General trading business & import - export transactions	4,642	100.00%
Hyosung Film (jiaxing) Co., Ltd.	China	Manufacture & sale of nylon film	14,593	100.00%
Hyosung (H.K) Limited.	Hong Kong	General trading business & import - export transactions	75,921	100.00%
Hyosung Japan Co., Ltd.	Japan	General trading business & import - export transactions	11,247	100.00%

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(1) Summary of General Condition for Consolidated Financial Statements, Continued(b) Consolidated Subsidiaries, Continued

(i) As of December 31, 2006, the consolidated subsidiaries consist of the following (continued):

Company	Location	Business	Capital	Equity ownership
Hyosung Luxembourg S.A.	Luxembourg	Manufacture & sale of tire-stiffeners	16,156	100.00%
Hyosung Power Holdings Co., Ltd.	Caymans Islands	Holding company	31,245	100.00%
Nantong Yaubong Transformer Co., Ltd.	China	Manufacture of transformers	25,226	100.00%
Nantong Hyosung Transformer Co., Ltd.	China	Manufacture of transformers	4,551	100.00%
Hyosung Singapore Pte. Ltd.	Singapore	General trading business & import - export transactions	21,076	100.00%
Hyosung Spandex (Guangdong) Co., Ltd.	China	Manufacture & sale of spandex	60,406	100.00%
Hyosung Spandex (Jiaxing) Co., Ltd.	China	Manufacture & sale of spandex	55,429	100.00%
Hyosung SteelCord (Qingdao) Co., Ltd.	China	Manufacture & sale of steelcord	47,308	100.00%
Hyosung USA Inc.	America	Manufacture & sale of tire-stiffeners	46,716	100.00%
Xepix Corp.	America	LED research	347	74.93%
Zhangjigang Xiaosha Coil Service Co., Ltd.	China	Processing steel products	7,193	39.00%
<Subsidiaries excluded from consolidation (*)>				
Gumoknongsan Co., Ltd. (note1)	Korea	Cultivations of farm crops	300	75.00%
Hyosung ITX Co., Ltd. (formerly, Teleservice Co., Ltd.)	Korea	Supplies of human resource	4,349	44.44%
Hongjin Data Service Co., Ltd. (note1)	Korea	Consultation, development & supplies of software	5,037	65.52%
Hyosung Wind Power-holdings Co., Ltd.(note1)	Korea	Manufacture of wind power generators	1,200	100.00%
Beijing Hyosung Computer Technologies Co., Ltd. (note1)	China	Manufacture & sale of Computer components	156	100.00%
Beijing Hyosung Hitech Co., Ltd. (note1)	China	Sale of electronic components	365	70.00%
Beijing Hyosung Food & Beverage Co., Ltd. (note1)	China	Food & beverage business	3,664	95.00%
HICO America Sales & Tech. (note1)	America	General trading business & import - export transactions	3	100.00%

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(1) Summary of General Condition for Consolidated Financial Statements, Continued(b) Consolidated Subsidiaries, Continued

(i) As of December 31, 2006, the consolidated subsidiaries consist of the following (continued):

Company	Location	Business	Capital	Equity ownership
Hyosung Brasil Industrial & Commercial LTDA (note1)	Brazil	Manufacture & sale of tire-stiffeners	4,408	100.00%
Hyosung Deutschland GmbH (note2)	Germany	General trading business & import & export transactions	1,360	100.00%
Hyosung Resource (Australia) PTY., Ltd. (note1)	Australia	Resources Development	1,505	100.00%
Hyosung Steelcord (Nanjing) Co., Ltd. (note1)	China	Manufacture & sale of steelcord	4,746	100.00%
Lanka Synthetic Fibre Co., Ltd. (note2)	Sri Lanka	Manufacture of raw polyester thread	22,573	98.31%
OpCo GmbH (note1)	Germany	Manufacture of film	2,869	90.74%
Thai Hyosung Co., Ltd. (note2)	Thailand	General trading business & import	35	49.00%

(note 1) According to Paragraph 2-1, Article1-3 of the Act on External Audit of Corporations, the Company is excluded from consolidation in 2006 with its total assets being less than ₩7 billion at the end of prior fiscal year.

(note 2) According to Paragraph 2-2, Article1-3 of the Act on External Audit of Corporations, the company is excluded from consolidation in 2006 since it is in the process of liquidating its business or has not been in operation for a year and longer.

(ii) As of December 31, 2005, the consolidated subsidiaries consist of following:

Company	Location	Business	Capital	Equity ownership
< Subsidiaries included in consolidation >				
Nautilus Hyosung Inc.	Korea	Sale of computer system & information management service	4,164	43.50%
Hyosung Investment & Development Corp.	Korea	Development & construction	800	58.75%
Hyosung Construction Co., Ltd.	Korea	Engineering & construction work	1,700	50.59%
Hyosung Innotech Inc.	Korea	Manufacture & sale of insulating materials	2,250	100.00%
Hyosung Ebara Co., Ltd.	Korea	Manufacture, setup & sale of pumps	18,000	67.00%
Hyosung Ebara Engineering Co., Ltd.	Korea	Facility construction for the prevention of environment pollution	15,000	81.33%

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(1) Summary of General Condition for Consolidated Financial Statements, Continued(b) Consolidated Subsidiaries, Continued

(ii) As of December 31, 2005, the consolidated subsidiaries consist of the following (continued):

Company	Location	Business	Capital	Equity ownership
Hyosung Capital Co., Ltd.	Korea	Factoring financing	20,000	100.00%
Hyosung Trans World Co., Ltd.	Korea	Multi-transportation agency	300	100.00%
Hyosung America Inc.	America	General trading business & import - export transactions	150	100.00%
Hyosung Deutschland GmbH	Germany	General trading business & import - export transactions	10,468	100.00%
Hyosung Singapore PTE. Ltd.	Singapore	General trading business & import - export transactions	11,908	100.00%
Hyosung (H.K) Limited.	Hong Kong	General trading business & import - export transactions	66,841	100.00%
Hyosung Japan Co., Ltd.	Japan	General trading business & import - export transactions	11,247	100.00%
Hyosung Spandex (Jiaxing) Co., Ltd.	China	Manufacture & sale of spandex	55,429	100.00%
Zhangjigang Xiaosha Coil Service Co., Ltd.	China	Processing steel products	7,193	39.00%
Beijing Hyosung Container Co., Ltd.	China	Manufacture & sale of PET bottles and plastic products	5,922	100.00%
Xepix Corp.	America	LED research	347	74.93%
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	China	Manufacture of raw polyester thread	79,346	100.00%
Hyosung Spandex (Guangdong) Co., Ltd.	China	Manufacture and sale of spandex	60,406	100.00%
Hyosung Film (Jiaxing) Co., Ltd.	China	Manufacture & sale of nylon film	14,593	100.00%
Hyosung SteelCord (Qingdao) Co., Ltd.	China	Manufacture & sale of steel cord	37,533	100.00%
The Class Hyosung Co., Ltd.	Korea	Sale of new automobiles	4,538	84.75%
Baoding Hyosung Tianwei Transformer Co., Ltd.	China	Manufacture & sale of transformers	5,953	60.00%

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(1) Summary of General Condition for Consolidated Financial Statements, Continued(b) Consolidated Subsidiaries, Continued

(ii) As of December 31, 2005, the consolidated subsidiaries consist of the following (continued):

Company	Location	Business	Capital	Equity ownership
<Subsidiaries excluded from consolidation (note1)>				
Tele Service Co., Ltd.	Korea	Supplies of human resources	4,500	44.00%
Aegis Hyosung Co., Ltd.	Korea	Payment gateway service	2,000	90.00%
Hongjin Data Service Co., Ltd.	Korea	Consultation, development & supplies of software	5,037	65.52%
HICO America Sales & Tech.	America	General trading business & import & export transactions	3	100.00%
Beijing Hyosung Computer Technologies Co., Ltd.	China	Manufacture & sale of computer components	156	95.00%
Hyosung Resource (Australia) Pty., Ltd.	Australia	Resources development	1,505	100.00%
Beijing Hyosung Food & Beverage Co., Ltd.	China	Food & beverage business	3,664	95.00%
Thai Hyosung Co.,Ltd.	Thailand	General trading business & import - export transactions	35	49.00%
Lanka Synthetic Fibre Co., Ltd.	Sri Lanka	Manufacture of raw polyester thread	22,573	98.31%
Hyosung Europe SRL	Italy	General trading business	2,732	100.00%
Beijing Hyosung Hitech Co., Ltd.	China	Sale of electronic components	365	70.00%

(note1) According to Paragraph 2-1, Article1-3 of the Act on External Audit of Corporations, the Company is excluded from consolidation in 2005 with its total assets being less than ₩7 billion at the end of prior fiscal year.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(1) Summary of General Condition for Consolidated Financial Statements, Continued(c) Changes in Consolidated Subsidiaries

- (i) The subsidiaries first included in consolidation in 2006 for the reason as stated below are as follows:

Company	Reason
Epiplus Co., Ltd.	A new acquisition in current year and total assets exceeding ₩7,000 at the end of prior fiscal year
Hyosung Europe SRL	Total assets exceeding ₩7,000 at the end of prior fiscal year
Hyosung Luxembourg S.A.	Paid-in capital exceeding ₩7,000 at the time of incorporation
Hyosung Power Holdings Co., Ltd.	Paid-in capital exceeding ₩7,000 at the time of incorporation
Nantong Hyosung Transformer Co., Ltd.	Paid-in capital exceeding ₩7,000 at the time of incorporation
Nantong Yaubong Transformer Co., Ltd.	A new acquisition in current year and total assets exceeding ₩7,000 at the end of prior fiscal year
Hyosung USA Inc.	Paid-in capital exceeding ₩7,000 at the time of incorporation

- (ii) The subsidiary excluded from consolidation in 2006, although included in 2005, is as follows:

Company	Reason
Hyosung Deutschland GmbH	Being in the process of liquidating its business

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements(a) Basis of Presenting Financial Statements

Hyosung Corporation and subsidiaries (collectively, the "Company") maintains its accounting records in Korean Won and prepares statutory consolidated 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 consolidated financial statements are intended for use only by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements.

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

Effective January 1, 2006, the Company adopted Statement of Korea Accounting Standards "SKAS" No. 20, "Related Party Disclosures". The adoption of this standard did not have a significant impact on the accompanying consolidated financial statements. As allowed by this standard, prior year balances were not reclassified to conform to the current year's presentation.

(b) Cash Equivalents

The Company considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

(c) Financial Instruments

Short-term financial instruments are instruments handled by financial institutions which are held for short-term cash management purposes, maturing within one year. Such investments may include time deposits, installment savings deposits and restricted bank deposits.

(d) Revenue Recognition – general

The Company recognizes revenue from the sale of goods when the goods are delivered.

Revenue from other than the sale of goods is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

(e) Revenue Recognition – construction contracts

Revenue from construction contracts is recognized using the percentage-of-completion method, under which revenue is recognized as work progresses. The Company measures progress based on the ratio of actual costs incurred to estimated total costs. The estimate of total construction cost is made in a systematic, reasonable and consistent method and the Company reflects information newly obtained during the construction in such estimate. Expected losses on contracts in progress are charged to current operations.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(d) Revenue Recognition – construction contracts, continued

Revenue from sales of real properties is recognized using the percentage-of-completion method after the sales contracts for the property units are entered into.

(e) Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts to cover estimated losses on receivables, based on collection experience and analysis of the collectibility of individual outstanding receivables. If principal, interest rate or repayment period of receivables is changed unfavorably for the Company by a court imposition, such as commencement of reorganization, or by mutual agreements and if the difference between nominal value and present value is material, such difference is recorded in other expenses as provision for doubtful accounts.

(f) Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined on moving average method. The amount of any write-down of inventories to net realizable value due to obsolescence or excess inventory and other losses of inventories occurring in the normal course of business are recognized as cost of goods sold and such valuation losses are deducted from the inventories as allowance for valuation losses.

The Company recognizes interest costs and other financial charges on borrowings associated with inventories that require a long period in the acquisition, construction or production as cost of related inventories in the period in which they are incurred. However, as of December 31, 2006 and 2005 there are no financial charges recorded as part of acquisition costs.

(g) Investment Securities

Upon acquisition, the Company classifies certain debt and equity securities into one of the three categories: held-to-maturity, available-for-sale, or trading securities and such determination is reassessed at each balance sheet date. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Debt and equity securities are initially stated at their acquisition costs (fair value of considerations paid), including incidental cost incurred in connection with acquisition of the relevant securities, determined using the moving average method (the gross average method is used for The Class Hyosung and Hyosung Innotech Inc.).

Trading securities are carried at fair value, with unrealized holding gains and losses included in current income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment, net of tax. Investments in equity securities that do not have readily determinable fair values are stated at cost. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(h) Investments in Securities, Continued

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Trading securities are classified as current assets, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investments. However, available-for-sale securities whose maturity dates are due within one year from the balance sheet date or whose likelihood of being disposed of within one year from the balance sheet date is probable are classified as current assets. Likewise, held-to-maturity securities whose maturity dates are due within one year from the balance sheet date are classified as current assets.

A decline in market value of any available-for-sale or held-to-maturity securities below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value and the impairment loss is charged to current results of operations.

(i) Equity Method Investments

Investments in affiliated companies of which the Company owns 20% or more of the voting stock or over which the Company has significant management control are stated at an amount as determined using the equity method. Under the equity method of accounting, the Company's initial investment is recognized at cost and is subsequently increased or decreased to reflect the changes in the Company's share of the net assets of investee. The Company's share of the profit or loss of the investee is recognized in the Company's profit or loss and other changes in the investee's equity are recognized directly in the corresponding equity account of the Company.

Any excess in the Company's acquisition cost over the Company's share of the net fair value of the investee's identifiable net assets is considered as goodwill and amortized by the straight-line method over the estimated useful life. The amortization of such goodwill is recorded against the equity in income (losses) of affiliates. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews goodwill for any impairment.

Assets and liabilities of foreign-based companies accounted for using the equity method are translated at current rate of exchange at the balance sheet date while profit and loss items in the statement of income are translated at average rate and capital account at historical rate. The translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based companies are offset and the balance is accumulated as capital adjustment.

Prior to January 1, 2005, in accordance with generally accepted accounting principles in the Republic of Korea (Korean GAAP), the Company did not record its share of losses of investee when such losses would make the Company's investment in such entity less than zero. Effective January 1, 2005, the Company adopted SKAS No. 15, "Investments in Associates". Under this standard, if the Company holds other investments such as preferred stock or loans issued by the investee, the Company's share in the loss of the investee continues to be recorded until such other investments are reduced to zero. As allowed by this standard, the Company did not restate the prior year financial statements.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(i) Equity Method Investments, Continued

In addition, prior to January 1, 2005, bad debt expense for receivables from subsidiaries was not eliminated in the financial statements. However, effective January 1, 2005, in accordance with SKAS No. 15, bad debt expense for receivables from subsidiaries is eliminated.

Also, prior to January 1, 2005, gains and losses arising from sales by the Company to its affiliates were eliminated entirely. However, effective January 1, 2005, unrealized gains and losses are eliminated in proportion to the Company's ownership percentage accordance with SKAS No 15.

(j) Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluation made in accordance with the old Asset Revaluation Law on October 1, 1998. However, assets acquired through exchange, investment in kind or donation are recorded at their fair value. Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as listed below, in consideration of their characteristics and business in which they are used.

However, the declining balance method is used in the case of Hyosung Trans World and Hyosung Ebara Co., Ltd., except for the buildings which are depreciated using the straight-line method.

Description	Useful life (years)
Buildings	14 ~ 40
Structures	20 ~ 40
Machinery and equipment	3 ~ 10
Vehicles	3 ~ 8
Tools, furniture and fixtures	3 ~ 8

The Company capitalizes interest costs on all borrowings incurred prior to completion of the acquisitions until the related assets are placed for its intended use, as part of the cost of qualifying assets. However, such capitalized financial costs amounted to nil for the years ended at December 31, 2006 and 2005, respectively

The Company reviews the property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

The Company recognized impairment loss as other expense, which amounted to nil and ₩ 23,520 for the years ended at December 31, 2006 and 2005, respectively.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(k) Leases

A lease shall be classified as a capital lease if the lease transfers substantially all of the benefits and risks incidental to the ownership of the leased assets. Otherwise, it shall be an operating lease.

A capital lease is recorded as an asset and an obligation at an amount equal to the lower of the fair value or the present value which is computed with the interest rate implicit in the lease at the beginning of the lease term of minimum lease payments during the lease term. During the lease term, each minimum payment shall be allocated between a reduction of the obligation and interest expense so as to produce a constant periodic rate of interest on the remaining balance of the obligation. Rental on an operating lease shall be recognized on a straight-line basis over the lease term as it becomes payable.

(l) Goodwill and Negative Goodwill

Any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable net assets acquired at the date of acquisition is recognized as goodwill and amortized on a straight-line basis over five years. However, If the book value exceed the recoverable amount and the difference is material, an impairment loss should be recognized.

Any excess, at the date of acquisition, of the acquirer's interest in the fair values of the identifiable net assets acquired over the cost of the acquisition is recognized as negative goodwill. Negative goodwill is presented as a reduction of intangible assets in the balance sheet. The amount of negative goodwill not exceeding the total fair value of acquired identifiable non-monetary assets should be recognized as income on a straight-line basis over the remaining weighted average useful life of the identifiable acquired depreciable assets and the amount of negative goodwill in excess of the total fair value of the acquired identifiable non-monetary assets should be recognized as extraordinary gain at the date of acquisition.

The negative goodwill related to future losses or expenses which are indicated in the acquisition contract should be recognized as income when the future losses or expenses actually occur.

(m) Intangible Assets

Costs which meet all criteria for recognition and to which it is probable that future economic benefits are attributable, are recognized as intangible assets by the title of account "Development costs". In all other instances, those shall be recognized as the pertinent assets' costs of manufacturing or as selling, general and administrative expenses by the title of account, "Ordinary development costs". And all costs incurred during the research phase shall be recorded as selling, general and administrative expenses by the title of account, "Research costs"

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(m) Intangible Assets, Continued

Development costs, recognized as intangible assets, are amortized over 5 years from the date when the assets are available for use or the sales for relevant products are possible, on the assumption that the residual value is equal to zero. The amortization amount shall be recognized as the pertinent assets' costs of manufacturing or as selling, general and administrative expenses

Intangible assets, excluding goodwill and development costs, shall be measured at their acquisition cost, comprising the purchase price and any other directly attributable expenditure on preparing the assets for their intended use

Such intangible assets are amortized using the straight-line method over a reasonable useful life, depending on the nature of the asset, from the date when the assets are available for use, and with the residual value of "zero". They are stated at cost less accumulated amortization and impairment losses.

Description	Useful life (years)
Industrial property rights	5 ~ 10
Facility rights	10 ~ 20
Goodwill	5
Other intangibles	3 ~ 20

When the recoverable amount of the intangible assets is substantially below the carrying amount of the assets due to obsolescence and sharp decline in their market value and others, the Company reduces the carrying amount to the recoverable amount and the amount impaired is recognized as impairment loss.

(n) Contributions Received for Capital Expenditures

Contributions received for capital expenditures are reflected as a reduction of the acquisition cost of the acquired assets and, accordingly, reduce depreciation expense related to the acquired assets over their useful lives.

(o) Convertible Notes and Bonds with Warrants

When issuing convertible bonds or bonds with stock purchase warrants, the values of the conversion rights or stock warrants shall be recognized separately in other capital surplus. Considerations for conversion rights or stock warrants shall be measured by deducting the present value of ordinary or straight debt securities (redemption premium is included if applicable) from the gross proceeds of the convertible bonds or bonds with stock purchase warrants received at the date of issue. However, in the case of bonds with detachable stock warrants, considerations for such warrants shall be computed based on the fair values of the two core components - straight debt securities and detachable stock warrants.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(o) Convertible Notes and Bonds with Warrants, Continued

However, convertible securities issued prior to first adopting SKAS No.19, "Convertible Securities", are treated in accordance with the previous accounting standard and have not been restated. The Company recognizes interest expense on convertible notes and bonds with warrants as determined using the effective interest method, and amortization of redemption premium is recorded as a long-term accrued interest expense.

(p) Stock Issue Costs and Debenture Issue Costs

New stock issue costs are deducted from paid-in capital in excess of par value. Debenture issue costs are reflected in debenture-issuing price by adding its amount to discount on debentures issued, or by reducing from premium on debentures issued.

(q) Discount (Premium) on Debentures Issued

Discount (premium) on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

(r) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Company and is accordingly reflected in the accompanying consolidated financial statements as a reduction from the retirement and severance benefits liability. However, due to the new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

(s) Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term cash loans/debt and other similar transactions are stated at present value. The difference between nominal value and present value is deducted directly from the nominal value of related receivables or payables and is amortized using the effective interest method. The amount amortized is included in interest expense or interest income.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(t) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains and losses recognized in current results of operations. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩929.6 to US\$1, the rate of exchange on December 31, 2006 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at current rate of exchange at the balance sheet date while profit and loss items in the statement of income are translated at average rate and capital account at historical rate. The translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are offset and the balance is accumulated as capital adjustment.

(u) Derivatives

Derivative instruments are recorded either as an asset or a liability measured principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations. However, for derivative instruments with the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholders' equity. The deferred gain or loss will be adjusted to the related asset or liability resulting from the forecasted transaction, or adjusted to income when the forecasted transaction affects the income statement. The ineffective portion of the gain or loss is recognized in current results of operations.

(v) Income Taxes

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(v) Income taxes, Continued

Deferred taxes are recognized on the temporary differences related to unrealized gains and losses on investment securities that are reported as a separate component of capital adjustments.

(w) Provisions, Contingent Assets and Contingent Liabilities

Prior to 2005, contingent losses were generally recognized as a liability when probable and reasonably estimable. Effective January 1, 2005, the Company adopted SKAS No. 17, *Provisions, Contingent Liabilities and Contingent Assets*. In accordance with the statement, provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. As the previous policy is similar to the new standard, the adoption of this standard did not have any impact on the accompanying financial statements. Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

(x) Prior Period Adjustments

Prior period adjustments resulting from other than fundamental errors are charged or credited to net income for the current period. The fundamental errors are defined as errors with such a significant effect on the financial statements for one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. The prior period adjustments resulting from the fundamental errors are charged or credited to the beginning balance of retained earnings, and the financial statements of the prior year are restated.

(y) Earnings (Loss) Per Share

Earnings (loss) per common share are calculated by dividing net income (net loss) by the weighted-average number of shares of common stock outstanding during each period.

(z) Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to consolidated financial statements. Actual results could differ from those estimates.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(aa) Elimination of Investments and Shareholders' Equity

The investment account of a controlling company and the corresponding shareholders' equity between subsidiaries have been eliminated as of control acquisition date and minority interest in the shareholders' equity of subsidiaries in eliminating investments and shareholders' has been presented in a separate equity account. If the acquisition date is not as of the fiscal year end of the subsidiaries, the nearest fiscal year end of such subsidiaries is considered as the acquisition date. In eliminating the investment of a controlling company and the shareholders' equity of a subsidiary, the choice of the purchase method has been made and the investment elimination difference should be accounted for as goodwill or negative goodwill.

The elimination entries of the controlling Company's investments against the subsidiary shareholders' equity as of December 31, 2006 are summarized as follows:

Account	Amount	Account	Amount
Common stock	₩ 584,936	Equity method investments	₩ 498,535
Capital surplus	320,128	Minority interest	78,953
Provision for loss on valuation of equity method investments	99,563	Retained earnings	359,576
		Capital adjustment	67,563

(ab) Use of Provisional Financial Statements

Provisional financial statements were used in the valuation as audited (or reviewed) financial statements were unavailable for Hyosung Europe SRL and four other subsidiaries in 2006, of which financial statements reflect 2.75 percent of total consolidated assets (before elimination of intercompany transactions) as of December 31, 2006 and 1.28 percent of total consolidated sales (before elimination of intercompany transactions) for the year then ended.

The subsidiaries whose provisional financial statements were used are summarized as follows:

Company	Equity ownership	Assets	Liabilities	Sales
Hyosung Europe SRL	100.00%	₩ 29,402	29,177	72,155
Hyosung Luxembourg S.A.	100.00%	16,158	-	-
Hyosung Powerholdings Co., Ltd.	100.00%	30,901	-	-
Hyosung USA Inc.	100.00%	62,981	8,618	-
Xepix Corp.	74.93%	10,266	2,074	2,866
		₩ 149,708	39,869	75,021

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(3) Restricted Deposits

Financial instruments which are restricted in use, such as collateral pledged for bank overdrafts, as of December 31, 2006 and 2005 are as follows:

Account	Financial institution	2006	2005	Remark
Short-term financial instruments	Woori Bank and others	₩ -	6	Pledged for borrowings
Long-term financial instruments	Woori Bank and others	607	135	Security for maintaining checking accounts
"	Korea Development Bank and others	9	336	Pledged for borrowings
"	Korea Electric Power Research Institute	181	-	Contributions received for capital expenditures
"	Kyongnam Bank	-	600	Cash management service deposit
		₩ 797	1,077	

(4) Transfers of Accounts Receivable – Trade

Outstanding accounts and notes receivable – trade transferred to and discounted with third parties, and thus excluded from the accompanying consolidated balance sheets, as of December 31, 2006 and 2005 are summarized as follows:

		Won (millions), US dollars (thousands)	
		2006	2005
Accounts receivable – trade	₩	277,954	382,370
	USD	-	6,555
Notes receivable – trade	₩	16,250	22,469
	USD	-	6,555
	₩	294,204	404,839

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(5) Inventories

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

		2006	2005
Merchandise	₩	102,328	83,710
Finished goods		283,524	282,242
Work-in-process		43,244	35,274
Cosigned goods		5,948	7,660
Goods on consignment-in		577	583
Raw materials		114,495	117,478
Supplies		7,185	6,545
Goods-in-transit		14,755	10,213
Unfinished housing and office units		31,354	26,050
Temporary establishments for construction		67	108
Building lots		150,757	179,362
Others		11,702	29,012
	₩	<u>765,936</u>	<u>778,237</u>

(6) Other Current Assets

Other current assets as of December 31, 2006 and 2005 are summarized as follows:

		2006	2005
Accrued interest income	₩	5,164	4,996
Advance payments		63,199	57,237
Prepaid expenses		9,848	15,408
Deposits for guarantees		4,130	4,806
Others		5,595	15,263
	₩	<u>87,936</u>	<u>97,710</u>

(7) Available-for-sale Securities

Details of available-for-sale securities as of December 31, 2006 and 2005 are as follows:

(a) Equity securities:

		Cost	Net asset or fair value	Book value	
		2006	2006	2006	2005
<Marketable securities recorded at fair value>					
SK Telecom	₩	-	-	-	14,432
KTB Networks		13	14	14	16
Korea Foundation Investment Corp.		815	149	149	215
KT Freetel Co., Ltd.		7,767	29,750	29,750	74,376
Korea Petrochemical Industrial Co., Ltd.		-	-	-	13,607

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(7) Available-for-sale Securities, Continued

(a) Equity securities , Continued:

	Cost	Net asset or fair value	Book value	
	2006	2006	2006	2005
Ultra Construction & Engineering Co., Ltd.	5	2	2	2
KT Co., Ltd.	2,167	1,866	1,866	1,640
Hansin Construction Co., Ltd.	1	14	14	12
Savezone I&C	30	9	9	9
Co&Tech	407	684	684	1,209
Kumho Tire Co., Ltd.	10,000	12,600	12,600	15,850
OnMedia Corporation (note 2)	280	1,252	1,252	140
Subtotal	21,485	46,340	46,340	121,508
<Non-marketable securities recorded at cost>(note 1)				
Kangwon Ilbo	₩ 20	20	20	20
Ninex Co., Ltd. (note 2)	3,000	1,500	1,500	1,500
GM Daewoo Co., Ltd.	8	8	8	8
Namwoo Ad.(formerly, MediaSpot Co., Ltd.) (note 2)	500	250	250	250
Bum Yang Air-Conditioning Co., Ltd. (note 2)	6	-	-	-
Enterprise Network (note 2)	2,406	-	-	-
Yonhap Capital Co., Ltd.	3,000	3,000	3,000	3,000
KyongNam Shinmun	30	30	30	30
Kihyup Finance Corp.	500	500	500	500
Korea Housing Insurance Corp. (note 2)	3,511	1,373	1,373	858
Bangsol.Com (note 2)	232	116	116	116
Hankook Economic Newspaper (note 2)	1,354	677	677	677
Korea Management Association Consulting	180	180	180	180
ChemCross.Com (note 2)	222	-	-	-
Life point Inc (note 2)	1,148	-	-	-
MomusVenturesgroup (note 2)	3,242	1,621	1,621	1,621
POSCO Coil Center	518	518	518	518
Daegu Energy Environment	-	-	-	10
Pos-Thai Steel Service	1,225	1,225	1,225	1,225
PCA Clean MMF 3	-	-	-	16
Capital investments	6,713	6,118	6,118	8,350
Investment securities owned by foreign subsidiaries	8,113	8,113	8,113	3,256
Subtotal	35,928	25,249	25,249	22,135
Total	₩ 57,413	71,589	71,589	143,643

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(7) Available-for-sale Securities, Continued

(a) Equity securities (continued):

(note1) These non-marketable securities are recorded at cost since fair value is not available or readily determinable.

(note2) Impairment losses were incurred as the recoverable amounts are less than the book value.

(b) Debt securities

	<u>2006</u>	<u>2005</u>
Non-current assets:		
Subordinated debentures	₩ 26,000	10
Government and municipal bonds	8,190	7,671
Asset backed securities	<u>10,189</u>	<u>15,377</u>
	<u>₩ 44,379</u>	<u>23,058</u>

(c) Changes in unrealized holding gains (losses)

Changes in unrealized gains (losses) for the years ended December 31, 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Balance at the beginning of year	₩ 45,332	55,121
Loss on sale of securities	(29,055)	-
Changes in unrealized gain, net	1,793	7,391
Changes from tax effect	1	(17,180)
Balance at the end of year	<u>₩ 18,071</u>	<u>45,332</u>

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(8) Equity Method Investments

(a) Investments in affiliated companies accounted for using the equity method as of December 31, 2006 and 2005 are summarized as follows:

Company	Owned shares	Percentage of ownership (%)	2006		
			Cost	Net asset value(*)	Book value
Gumoknongsan Co., Ltd. (note1)	45,000	75.00	₩ 225	225	225
Capro Corp.	8,471,708	21.04	9,114	17,035	16,773
Hyosung ITX (ex. Teleservice Co., Ltd.) (note 3)	4,349,000	44.44	3,675	8,834	5,338
Hongjin Data Service (note1)	660,000	65.52	3,869	3,869	3,869
NH Tech Inc.	130,000	100.00	650	1,540	1,540
Hyosung Wind Power Holdings Co., Ltd. (note1)	239,998	100.00	1,200	1,200	1,200
Hyosung Information System	173,000	50.00	865	15,548	15,548
Hyosung CTX Co., Ltd. (note 3)	65,100	44.44	326	1,134	1,134
Beijing Hyosung Computer Technologies Co., Ltd. (note 1)	-	100.00	1,836	729	729
Beijing Hyosung Hitech Co., Ltd. (note 1)	-	70.00	255	255	255
Beijing Hyosung Food & Beverage Co., Ltd. (note 2)	-	95.00	1,499	-	-
Hico America Sales & Tech.(note 1)	20,000	100.00	1,287	1,287	1,287
Hyosung Brasil Industrial & Commercial LTDA.(note 1)	-	100.00	4,408	4,408	4,408
Hyosung Deutschland GmbH (note 2)	490,000	100.00	74,014	1,360	1,360
Hyosung Resources (Australia) PTY, Ltd. (note 1)	2,179,083	100.00	1,548	1,548	1,548
Hyosung Steelcord (Nanjing) Co., Ltd.(note1)	-	100.00	4,746	4,746	4,746
Lanka Synthetic Fibre Co., Ltd. (note 2)	148,930,000	98.31	22,447	-	-
OpCo GmbH	-	90.74	6,368	2,603	3,317
Thai Hyosung Co., Ltd. (note 2)	-	49.00	35	-	-
Total			₩ 138,367	66,321	63,277

(*) Net asset value is the Company's share of investee's identifiable net asset value as of December 31, 2006

(note 1) Although the percentage of ownership exceeds 20%, the investments are recorded at cost as the effect of the application of the equity method is immaterial.

(note 2) The equity method is no longer used as the investee is currently under a liquidation process or in a significant net equity deficiency position.

(note 3) The newly established company was spun-off from Hyosung ITX (ex. Teleservice Co., Ltd.) as of September 28, 2006.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(8) Equity Method Investments, Continued

(a) Investments in affiliated companies accounted for using the equity method as of December 31, 2006 and 2005 are summarized as follows (continued):

Company	2005				
	Owned shares	Percentage of ownership (%)	Cost	Net asset value(*)	Book value
Capro Corp.	8,471,708	21.04	₩ 9,114	30,399	29,874
Hyosung Information System	173,000	50.00	865	12,891	12,891
NH Tech Inc.	130,000	100.00	650	1,106	1,106
Aegis Hyosung	360,000	90.00	1,800	263	263
Lanka Synthetic Fibre Co., Ltd. (note2)	148,930,000	98.31	22,447	-	-
Thai Hyosung Co., Ltd. (note2)	-	49.00	35	-	-
Hyosung Resources (Australia) Pty, Ltd. (note 1)	2,164,359	100.00	1,498	1,602	1,506
Beijing Hyosung Computer Technologies Co.,Ltd. (note 2)	-	95.00	1,836	-	-
Hongjin Data Service (note1)	790,000	78.43	3,950	2,919	3,781
Teleservice Co., Ltd.	100,000	44.00	4,000	18,208	4,000
Hico America Sales & Tech. (note 1)	2,000	100.00	1,287	1,287	1,287
Beijing Hyosung Food & Beverage Co., Ltd. (note 1)	-	95.00	1,499	(169)	1,499
Hyosung Europe SRL	-	100.00	2,733	-	2,733
Beijing Hyosung Hitech Co., Ltd. (note 1)	-	70.00	255	-	255
Total			₩51,969	68,506	59,195

(*) Net asset value is the Company's share portion of investee's identifiable net asset value as of December 31, 2005

(note 1) Although the percentage of ownership exceeds 20%, the investments are recorded at cost as the effect of the equity method is immaterial.

(note 2) The equity method is no longer used as the investee is currently under a liquidation process or in a significant net equity deficiency position.

(b) Details of the difference between the acquisition cost and the Company's share of the fair value of investee's identifiable net assets as of December 31, 2006 and 2005 are as follows:

Affiliate	2006			
	Beginning balance	Increase	Amortized amount	Balance at December 31, 2006
Capro Corp.	(524)	-	(150)	(374)
Hyosung ITX (ex. Teleservice Co., Ltd.) (note 3)	-	(4,370)	(874)	(3,496)
₩	(524)	(4,370)	(1,024)	(3,870)
Affiliate	2005			
	Beginning balance	Increase	Amortized amount	Balance at December 31, 2005
Capro Corp.	₩ (674)	-	(150)	(524)

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(8) Equity Method Investments, Continued

(c) Details of the eliminated unrealized gains (losses) from inter-company transactions for the year ended December 31, 2006 are as follows:

Affiliate	Current assets	Property, plant & equipment	Total
Capro Corp.	₩ (444)	-	(444)

(d) Changes in balance of investments in affiliated companies accounted for using the equity method for the years ended December 31, 2006 and 2005 are as follows:

Affiliate	Beginning balance	Adjustment to			Balance at December 31, 2006
		Net income (loss)	Capital adjustments	Other increase (decrease) (note 2)	
Capro Corp.	29,874	(12,171)	(88)	(842)	16,773
NH Tech Inc.	1,106	434	-	-	1,540
Hongjin Data Service	3,781	87	-	1	3,869
Hyosung ITX (ex. Teleservice Co., Ltd.)	4,000	2,271	(603)	(330)	5,338
Hyosung Information System OpCo GmbH (note 1)	12,891	3,523	-	(865)	15,548
Investments under cost method (note 3)	-	(3,093)	41	6,368	3,317
	7,543	-	808	8,541	16,892
	₩ 59,195	(8,949)	158	12,873	63,277

(note 1) Audited financial statements were used in the valuation.

(note 2) Other increase (decrease) has resulted from the deduction due to receipt of dividend income, amount received as capital investments, proceeds from sale, and changes in retained earnings.

(note 3) The equity method has not been used, for its effect on investment balances is immaterial. Also, the valuation and other figures on the investees whose date of deemed acquisition is December 31, 2006 are included.

Affiliate	Beginning balance	Adjustment to			Balance at December 31, 2005
		Net income (loss)	Capital adjustments	Other increase (decrease)	
Capro Corp.	31,764	(2,005)	115	-	29,874
NH Tech Inc.	859	247	-	-	1,106
Hongjin Data Service	3,300	(169)	-	650	3,781
Aegis Hyosung	234	29	-	-	263
Investments under cost method (note1)	24,171	-	-	-	24,171
	₩ 60,328	(1,898)	115	650	59,195

(note 1) The equity method has not been used, for its effect on investment balances is immaterial.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(8) Equity Method Investments, Continued

(e) Summarized financial information of affiliates as of December 31, 2006 is as follows:

Affiliate	Total assets	Total liabilities	Sales	Net income
Capro Corp.	471,838	390,890	505,248	(60,655)
NH Tech Inc.	8,602	7,062	25,849	435
Hongjin Data Service Co., LTD.	5,248	851	4,130	676
Hyosung ITX (ex. Teleservice Co., Ltd.)	35,376	16,043	116,753	3,139
Hyosung Information System	96,122	65,025	174,558	7,046
OpCo GmbH	7,712	4,844	1,244	(3,182)
	<u>₩ 624,898</u>	<u>484,715</u>	<u>827,782</u>	<u>(52,541)</u>

(9) Transactions and Balance with Related Companies

(a) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2006 and 2005 are summarized as follows:

Consolidated company	Related company	Sales to		Purchases from		Other income	
		2006	2005	2006	2005	2006	2005
Hyosung Corporation	Capro Corp.	₩ 858	3,186	249,947	332,258	-	-
	Hyosung Information System	1	-	-	1	43	35
	NH Tech Inc.	25	16	-	11	-	-
	Infobada Co., Ltd.	9	-	-	-	-	-
	Hongjin Data Service Co., Ltd.	-	-	47	-	-	-
	HICO America Sales & Tech.	862	-	862	982	-	-
	Hyosung Deutschland GmbH	2,778	-	187	-	-	-
	Hyosung ITX (ex. Tele-service Co., Ltd.)	28	9	1,532	1,502	1	3
Nautilus Hyosung Co., Ltd.	Hongjin Data Service Co., Ltd.	86	25	20	-	-	-
	NH Tech Inc.	3,555	263	15,668	13,927	45	93
	Hyosung Information System	125	-	1,362	-	-	28
	Beijing Hyosung Computer Tech Co.	4,951	-	-	-	-	-
	Hitachi Corporation	34	177	-	-	-	-
	Aegis Hyosung	12	7	-	102	-	-
Hyosung Ebara Engineering Co., Ltd.	Ebara Corp.	-	-	-	189,818	-	-
The Class Hyosung	Hyosung ITX (ex. Teleservice Co., Ltd.)	-	-	-	56	-	-
	Walll & Vision Co., Ltd.	-	-	13	-	-	-

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies, Continued

(a) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2006 and 2005 are summarized as follows (continued):

Consolidated company	Related company	Sales to		Purchases from		Other income	
		2006	2005	2006	2005	2006	2005
Hyosung Trans World Co., Ltd.	Capro Corp.	536	-	-	-	-	-
Hyosung Ebara Co., Ltd	Ebara Corp.	505	1,314	310	2,361	328	-
	Hyosung ITX (ex. Teleservice Co., Ltd.)	86	-	94	-	-	-
Hyosung ITX (ex. Tele-service Co., Ltd.)	Hongjin Data Service Co., Ltd.	1	-	-	-	-	-
	Infobada Co., Ltd.	14	-	762	-	-	-
	Hyosung CTX Co., Ltd.	99	-	-	-	-	-
	Hyosung Information System	22	-	713	-	-	-
		<u>₩ 14,587</u>	<u>4,997</u>	<u>271,517</u>	<u>541,018</u>	<u>417</u>	<u>159</u>

(b) Account balances with related companies as of December 31, 2006 and 2005 are as follows:

Consolidated company	Related company	2006			
		Receivables		Payables	
		Accounts receivable	Other receivables	Accounts payable	Other payables
Hyosung Corporation	Capro Corp.	₩ -	17	49,328	-
	Hyosung Information Systems Co., Ltd.	-	7	-	-
	Infobada Co., Ltd.	-	3	-	-
	Hongjin Data Service	-	-	47	-
	Beijing Hyosung Computer Technologies Co.	627	-	-	-
	HICO America Sales & Tech	-	-	-	565
	Hyosung Deutschland GmbH	3,760	692	19	36
Nautilus Hyosung Co., Ltd.	Hongjin Data Service	8	-	-	2
	NH Tech Inc.	3,904	3	-	1,737
	Hyosung Information Systems Co., Ltd.	15	-	-	1,030
	Beijing Hyosung Computer Technologies Co.	4,451	-	-	-
Hyosung Ebara Engineering Co., Ltd.	Ebara Corp.	-	-	-	95
Hyosung Ebara Co., Ltd	Ebara Corp.	315	-	43	295

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies, Continued

(b) Account balances with related companies as of December 31, 2006 and 2005 are as follows (continued):

Consolidated company	Related company	2006			
		Receivables		Payables	
		Accounts receivable	Other receivables	Accounts payable	Other payables
Hyosung Trans World	Capro Corp.	10	-	-	-
Hyosung ITX (ex. Teleservice Co., Ltd.)	Hyosung Information Systems Co., Ltd.	-	-	2,521	-
	Infobada Co., Ltd.	3	-	-	560
	Hyosung CTX Co., Ltd.	85	-	-	-
		₩ 13,178	722	51,958	4,320
Consolidated Company	Related company	2005			
		Receivables		Payables	
		Accounts receivable	Other receivables	Accounts payable	Other payables
Hyosung Corporation	NH Tech Inc.	₩ -	3	-	-
	Capro Corp.	-	118	74,522	-
	Tele Service Co., Ltd	-	-	-	11
	Hyosung Information Systems Co., Ltd.	-	4	-	-
	Beijing Hyosung Computer Technologies Co.	1,704	-	-	-
Nautilus Hyosung Co., Ltd.	Tele Service Co., Ltd	-	-	-	532
	Hyosung Information Systems Co., Ltd.	4	3	21	456
	NH Tech Inc.	-	-	-	1,251
	Aegis Hyosung	252	1,173	-	582
	Hongjin Data Service Co., Ltd.	8	-	-	-
Hyosung Ebara Engineering Co.,Ltd.	Ebara Corp.	-	-	95	95
Hyosung Ebara Co., Ltd	Ebara Corp.	82	-	1,283	305
		₩ 2,050	1,301	75,921	3,232

(c) The major management personnel compensation for the year ended December 31, 2006 is ₩ 3,546 in total.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies, Continued

- (d) The guarantees the Company has provided for related companies as of December 31, 2006 and 2005 are as follows:

Guarantor	Guarantee	2006		
		Guaranteed amount	Financial institution	Object of guarantee
Hyosung Construction Co., Ltd.	Dongsung	206	-	Correction of deficiencies

Guarantor	Guarantee	2005		
		Guaranteed amount	Financial institution	Object of guarantee
Hyosung Corporation	Hyosung Europe SRL	3,039	Korea Exchange Bank	Foreign currency loan and other
Hyosung Construction Co., Ltd.	Dongsung	206	-	Correction of deficiencies

- (e) No guarantees have been provided to the Company by related companies as of December 31, 2006 and 2005.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(10) Transactions and Balances with Consolidated Companies

(a) Significant transactions which occurred in the normal course of business with consolidated companies for the years ended December 31, 2006 and 2005 are summarized as follows:

Selling company	Purchasing company	2006	
		Receivables and other	Sales and other
Hyosung Corporation	Nautilus Hyosung Co.,Ltd.	₩ 29	1,521
	Hyosung Construction Co., Ltd.	4,811	4,535
	Hyosung Ebara Co., Ltd.	1,965	17,695
	Hyosung Ebara Engineering Co., Ltd.	783	1,860
	Hyosung Innotech Inc.	2	9
	Hyosung Trans World Co., Ltd.	4	25
	Baoding Hyosung Tianwei Transformer Co.,Ltd.	10	10
	Beijing Hyosung Container Co., Ltd.	3	7
	Hyosung (H.K) Ltd.	653	25,855
	Hyosung America Inc.	446	213,547
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	2,449	11,231
	Hyosung Europe SRL	922	36,349
	Hyosung Japan Co,Ltd	4,353	141,208
	Hyosung Singapore PTE, Ltd.	1,133	51,241
	Hyosung Spandex (Guangdong) Co.,Ltd.	529	295
	Hyosung Spandex (Jiaxing) Co., Ltd.	4,379	4,448
	Hyosung SteelCord (Qingdao) Co., Ltd.	2,493	43,511
	Nantong Yaubong Transformer Co., Ltd.	-	12
	The Class Hyosung	-	1,282
	Hyosung Investment & Development Co	-	31,484
	Hyosung Film(jiaxing) Co., Ltd.	-	7,948
	Zhangjigang Xiaosha Coil Service Co., Ltd.	-	13,087
	Hyosung Capital Co., Ltd.	-	8
Nautilus Hyosung Co., Ltd.	Hyosung Corporation	2,005	16,072
Hyosung Innotech Inc.		61	509
Hyosung Construction Co., Ltd.		2,435	12,830
Hyosung Ebara Engineering Co., Ltd.		2,302	7,120
Hyosung Ebara Co., Ltd.		141	533
Hyosung Trans World Co., Ltd.		12,755	87,274
Hyosung Capital Co., Ltd.		3	31

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(10) Transactions and Balance with Consolidated Companies, Continued

(a) Significant transactions which occurred in the normal course of business with consolidated companies for the years ended December 31, 2006 and 2005 are summarized as follows (continued):

		2006	
Selling company	Purchasing company	Receivables and other	Sales and other
Hyosung (H.K) Ltd.	Hyosung Corporation	W 1,191	17,424
Hyosung America Inc.		2,253	7,483
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.		117	33,100
Hyosung Europe SRL		842	5,444
Hyosung Japan Co, Ltd.		38,266	67,143
Hyosung Singapore Pte., Ltd.		72	414
Hyosung SteelCord (Qingdao) Co., Ltd.		717	8,448
The Class Hyosung		-	14
Hyosung Film(jiaxing) Co., Ltd.		-	803
Hyosung Spandex (Jiaxing) Co., Ltd.		-	819
Xepix Corp.		-	2,863
Zhangjigang Xiaosha Coil Service Co., Ltd.		-	10
Receivables and sales between consolidated subsidiaries		16,755	89,766
		W 104,879	965,268
		2005	
Selling company	Purchasing company	Receivables and other	Sales and other
Hyosung Corporation	Nautilus Hyosung Co.,Ltd.	W 41	1,161
	Hyosung Construction Co., Ltd.	31	-
	Hyosung Ebara Co., Ltd.	1,946	16,569
	Hyosung Ebara Engineering Co., Ltd.	299	1,220
	Hyosung Innotech Inc.	3	-
	Baoding Hyosung Tianwei Transformer Co., Ltd.	5	362
	Beijing Hyosung Container Co., Ltd	2	-
	Hyosung (H.K) LIMITED	893	39,498
	Hyosung America Inc.	1,853	215,863
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	27	14,042
	Hyosung Japan Co, Ltd.	684	177,404

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(10) Transactions and Balance with Consolidated Companies, Continued

(a) Significant transactions which occurred in the normal course of business with consolidated companies for the years ended December 31, 2006 and 2005 are summarized as follows (continued):

Selling company	Purchasing company	2005	
		Receivables and other	Sales and other
Hyosung Corporation	Hyosung Singapore PTE., Ltd.	₩ 831	44,299
	Hyosung Spandex (Guangdong) Co., Ltd.	-	99
	Hyosung Spandex (Jiaxing) Co., Ltd.	4,415	4,500
	Hyosung SteelCord (Qingdao) Co., Ltd.	-	13,530
	The Class Hyosung Hyosung Investment & Development Co.	3	18
	Hyosung Trans World Co., Ltd.	4,100	9,127
	Hyosung Deutschland GmbH	55	94
	Zhangjigang Xiaosha Coil Service Co., Ltd.	2,172	58,258
		-	21,094
Nautilus Hyosung Co.,Ltd.	Hyosung Corporation	1,886	14,090
Hyosung Ebara Co., Ltd.		-	1,042
Hyosung Ebara Engineering Co., Ltd.		3,928	6,006
Hyosung Trans World Co., Ltd.		13,182	89,503
Hyosung Innotech Inc.		-	109
Hyosung Construction Co., Ltd.		4,133	10,690
Hyosung America Inc.		517	7,354
Hyosung Japan Co.,Ltd		50,800	77,853
Hyosung Singapore PTE., Ltd.		84	6,207
Hyosung Chemical Fiber (Jiaxing) Co., Ltd		-	33,186
Hyosung Deutschland GmbH		27	320
Hyosung Spandex (Jiaxing) Co., Ltd		-	1,024
Hyosung Spandex (Guangdong) Co.,Ltd.		282	1,913
Hyosung SteelCord (Qingdao) Co., Ltd.		1,058	37,466
The Class Hyosung		1,954	3,102
Hyosung (H.K) LIMITED		246	4,117
Zhangjigang Xiaosha Coil Service Co., Ltd.		116	-
Receivables and sales between consolidated subsidiaries		55,895	91,435
		₩ 151,468	1,002,555

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(10) Transactions and Balance with Consolidated Companies, Continued

- (b) The guarantees the Parent Company has provided for subsidiaries as of December 31, 2006 are as follows:

Consolidated subsidiary	Guaranteed amount		Object of guarantee
	Foreign currency (thousands)	Korean Won equivalent	
Baoding Hyosung Tianwei Transformer Co., Ltd.	USD 5,742	₩ 5,487	Facility loans and other
Beijing Hyosung Container Co., Ltd.	2,530	2,417	Facility loans and other
Hyosung America Inc.	185,821	177,554	Foreign currency loan and other
Hyosung Chemical Fiber(Jiaxing) Co., Ltd	58,373	55,776	Facility loans and other
Hyosung Europe SRL	2,919	2,789	Foreign currency loan and other
Hyosung H.K. Limited	41,834	39,973	Foreign currency loan and other
Hyosung Japan Co., Ltd.	97,049	92,731	Foreign currency loan and other
Hyosung Singapore Pte., Ltd.	14,593	13,944	Foreign currency loan and other
Hyosung Spandex (Guangdong) Co., Ltd	97,288	92,960	Facility loans and other
Hyosung Spandex (Jiaxing) Co., Ltd	43,804	41,855	Facility loans and other
Hyosung Steel Cord (Qingdao) Co., Ltd.	60,319	57,635	Facility loans and other
Nantong Yaubong Transformer Co., Ltd.	11,595	11,079	Facility loans and other
	USD <u>621,867</u>	₩ <u>594,200</u>	

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(11) Property, Plant and Equipment

(a) Changes in property, plant and equipment for the year ended December 31, 2006 are as follows:

Description	January 1, 2006	Acquisition	Disposal	Depreciation	Others(*1)	December 31, 2006
Land	₩ 730,054	8,563	(24,825)	-	18,933	732,725
Buildings	531,173	20,232	(4,882)	(18,529)	47,026	575,020
Structures	102,701	2,711	(1,968)	(3,793)	784	100,435
Machinery and equipment	1,278,572	74,601	(11,036)	(257,932)	104,352	1,188,557
Vehicles	5,179	2,380	(825)	(1,841)	383	5,276
Tools, furniture and fixtures	59,675	19,101	(397)	(27,719)	14,437	65,097
Construction-in progress	95,361	124,212	-	-	(142,446)	77,127
Machinery-in- transit	394	9,241	-	-	(4,959)	4,676
	₩ 2,803,109	261,041	(43,933)	(309,814)	38,510	2,748,913

(*1) The amount arisen due to change in the scope of the consolidation process is reflected in "Others".

(b) Changes in property, plant and equipment for the year ended December 31, 2005 are as follows:

Description	January 1, 2005	Acquisition	Disposal	Depreciation	Others(*1)	December 31, 2005
Land	₩ 744,421	38,008	(66,041)	-	13,666	730,054
Buildings	519,469	42,266	(24,316)	(17,102)	10,856	531,173
Structures	103,026	3,908	(988)	(4,848)	1,603	102,701
Machinery and equipment	1,282,349	191,348	(2,349)	(311,278)	118,502	1,278,572
Vehicles	4,681	2,528	(1,112)	(2,138)	1,220	5,179
Tools, furniture and fixtures	68,956	12,699	(4,613)	(32,677)	15,310	59,675
Construction-in progress	171,350	75,540	-	-	(151,529)	95,361
Machinery-in- transit	2,388	3,427	-	-	(5,421)	394
	₩ 2,896,640	369,724	(99,419)	(368,043)	4,207	2,803,109

(*1) The amount arisen due to change in the scope of the consolidation process is reflected in "Others".

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(11) Property, Plant and Equipment, Continued

(c) Insurance

As of December 31, 2006, buildings, machinery and equipment and others were insured for comprehensive coverage up to ₩ 3,613,652 million.

(12) Officially Declared Value of Land

The book value and standard value of land declared by the government for the purposes of taxes and land policy as of December 31, 2006 and 2005 are as follows:

	Book value		Standard value	
	2006	2005	2006	2005
Tangible assets	732,725	730,054	872,460	783,268
Investment properties	2,580	2,614	3,735	3,755
	₩ 735,305	₩ 732,668	₩ 876,195	₩ 787,023

(13) Investment Properties

Details of investment properties, which are included in other investment assets, as of December.31, 2006 and 2005 are as follows:

	Description	Location	2006	2005
Land	Non-business real estate	Daegu	₩ 2,580	₩ 2,614

(14) Intangible Assets

(a) Changes in intangible assets for the years ended December 31, 2006 and 2005 are as follows:

	2006				2005			
	Good - will	Industrial property rights	Facility rights	Others	Good -will	Industrial property rights	Facility rights	Others (*1)
Beginning balance	₩ 3,180	2,841	7,293	20,937	1,291	2,370	7,206	27,560
Increases	3,113	1,334	-	3,186	-	1,070	200	1,776
Amortization	(1,988)	(681)	(176)	(9,419)	(454)	(593)	(459)	(9,064)
Other increases	-	517	(3,584)	13,491	2,343	(6)	346	665
Ending Balance	₩ 4,305	4,011	3,533	28,195	3,180	2,841	7,293	20,937

(*1) The amount arisen due to change in the scope of the consolidation process is reflected in "Others".

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(15) Government Subsidy

The Company entered into development agreements with Korea Electric Power Research Institute and other fifteen parties related to thirty-four national projects including the electric power converter project for 100KW fuel cells.

The Company received ₩17,430 government subsidies for these projects, and as of December 31, 2006, ₩ 4,571 is included in other current liabilities and ₩ 6,280 in long-term accounts payable-other.

(16) Other Assets

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

		2006	2005
Long-term advance payments	₩	1,734	-
Long-term prepaid expenses		442	55
Other investment assets		9,754	7,079
	₩	<u>11,930</u>	<u>7,134</u>

(17) Pledged Assets and Guarantees Provided to Others

(a) The following assets were pledged as collateral for the Company's short-term borrowings and long-term debt as of December 31, 2006:

	Pledged assets	Lender	Type of borrowings	Won (millions), US Dollar and Yuan (thousands)	
				Borrowed amount	Book value
Hyosung Corporation	Available-for-sale securities	Hana Bank and other	Bank overdraft and other	35,692	7,620
	Property, plant and equipment	Korea Development Bank and other	Bank overdraft and other	207,339	1,658,882
Epiplus Co.,Ltd.	Property, plant and equipment	Korea Development Bank and other	Facility loans	8,367	7,359
	Long-term financial instruments	Woori bank	General loans	290	9
Hyosung Innotech Inc.	Property, plant and equipment, Intangible assets	Korea Development Bank	Bank overdraft and other	-	3,292
	Available-for-sale securities	Korea Specialty Contractor Financial Cooperative	Guarantee	246	61
	Accounts receivable	Kyongnam bank	Bank overdraft	-	700

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(17) Pledged Assets and Guarantees Provided to Others, Continued

(a) The following assets were pledged as collateral for the Company's short-term borrowings and long-term debt as of December 31, 2006 (continued):

	Asset	Lender	Type of borrowings	Won (millions), US Dollar and Yian (thousands)	
				Borrowed amount	Book value
Hyosung Film(jiaying) Co.,Ltd.	Property, plant and equipment, Intangible assets	China Construction Bank	Facility loans	USD 25,000	
				RMB 24,810	RMB 240,464
Hyosung Spandex (Jiaying) Co.,Ltd.	Property, plant and equipment, Intangible assets	China Construction Bank	Facility loans	RMB 141,222	RMB 847,683

(b) Guarantees provided and assets pledged as collateral for a third party as of December 31, 2006 are as follows:

Guarantor	Guarantee	Payment guarantee
Hyosung Construction Co., Ltd.	Dongsung	₩ 206
	Kunsan Regional Maritime Affairs & Fisheries Office	293
		₩ 499

(c) The guarantees provided by a third party for the Company as of December 31, 2006 are as follows:

Guarantee	Guarantor	Object of guarantee	Won (millions), US dollars (thousands)	
			Amount	
Hyosung Innotech Inc.	Seoul Guarantee Insurance Company	Payment guarantee		2,349
Hyosung Ebara Engineering Co., Ltd.	Kyongnam Bank	L/C guarantee	USD	64
	Korea Exchange Bank	Guarantee for repairing defects	USD	879
	Hana Bank	Guarantee for repairing defects	USD	1,000
	Korea Specialty construction financial cooperative	Payment guarantee		16,642
Epiplus Co., Ltd.	Seoul Guarantee Insurance Company	Payment guarantee		7,387
	SC First Bank	Payment guarantee		1,275
	Woori Bank	Payment guarantee		267
Hyosung Film(jiaying) Co., Ltd.	Chohung Bank	Payment guarantee		350
	Hyosung Chemical Fiber (Jiaying) Co., Ltd.	Corporation guarantee	USD	12,000

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(17) Pledged Assets and Guarantees Provided to Others, Continued

(c) The guarantees provided by a third party for the Company as of December 31, 2006 are as follows (continued):

Guarantee	Guarantor	Object of guarantee	Won (millions), US dollars (thousands)	
			Amount	
Hyosung Film(jiaying) Co.,Ltd.	Hyosung Spandex (Jiaying) Co., Ltd.	Corporation guarantee	USD	2,800
Hyosung Spandex (Jiaying) Co., Ltd.	Hyosung Chemical Fiber (Jiaying) Co., Ltd.	Corporation guarantee	RMB	2,000

Baoding Hyosung Tianwei Transformer Co., Ltd. was provided with a credit guarantee by Chunwi Group in connection with long-term borrowings amounting to Japanese Yen 18 million from the Chinese Industry and Commercial Bank.

(18) Other Current Liabilities

Other current liabilities as of December 31, 2006 and 2005 are summarized as follows:

		2006	2005
Advance receipts	₩	105,556	77,149
Withholding		28,472	29,213
Accrued expenses		22,385	15,365
Withholding deposits		48,864	23,305
Derivatives		-	-
Others		8,444	761
	₩	<u>213,721</u>	<u>145,793</u>

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(19) Debentures Issued

(a) Details of debentures issued as of December 31, 2006 and 2005 are as follows:

Description	Maturity date	Interest rate (%)	2006	2005
The 213th debentures	2006.02.19	5.23 ₩	-	100,000
The 214th debentures	2006.10.31	5.06	-	100,000
The 215th debentures	2008.12.26	6.08	100,000	100,000
The 216th debentures	2007.02.23	5.65	55,000	95,000
The 217th debentures	2007.05.10	5.31	70,000	100,000
The 218th debentures	2007.07.19	5.04	100,000	100,000
The 219th debentures	2007.12.22	4.65	30,000	30,000
The 220th debentures	2007.12.27	4.69	20,000	20,000
The 221st debentures	2007.12.30	4.69	20,000	20,000
The 222nd debentures	2008.04.29	4.66	100,000	100,000
The 223rd debentures	2008.07.25	4.95	100,000	100,000
The 224th debentures	2008.06.28	4.6	30,000	30,000
The 225-1st debentures	2009.01.25	6.37	150,000	-
The 225-2nd debentures	2011.01.25	7.02	30,000	-
The 226th debentures	2008.10.24	5.88	50,000	50,000
The 227th debentures	2008.10.25	5.78	70,000	70,000
The 228th debentures	2008.04.30	5.82	30,000	30,000
The 229-1st debentures	2009.07.06	5.8	70,000	-
The 229-2nd debentures	2011.07.06	6.14	30,000	-
The 230th debentures	2011.11.15	5.62	30,000	-
The 3rd debentures (note 1)	2007.07.07	6.28	3,000	3,000
The 4th debentures (note 1)	2007.09.02	6.5	5,000	-
The 4th debentures (note 2)	2006.01.29	6.24	-	15,000
The 5th debentures (note 2)	2006.05.12	5.5	-	10,000
The 6th debentures (note 2)	2006.06.28	5.8	-	15,000
The 7th debentures (note 2)	2006.08.03	6.24	-	20,000
The 8th debentures (note 2)	2006.09.20	5.5	-	20,000
The 9th debentures (note 2)	2006.10.25	5.3	-	30,000
The 10th debentures (note 2)	2007.06.18	5.65	50,000	50,000
The 11th debentures (note 2)	2007.09.05	6.3	20,000	20,000
The 12th debentures (note 2)	2007.11.16	6.58	20,000	20,000
The 13th debentures (note 2)	2007.12.21	6.45	30,000	30,000
The 14th debentures (note 2)	2008.05.22	6.3	20,000	20,000
The 15th debentures (note 2)	2008.02.11	6.1	30,000	-
The 16th debentures (note 2)	2008.05.26	5.58	30,000	-
The 17th debentures (note 2)	2008.05.30	5.42	50,000	-
The 18th debentures (note 2)	2008.08.18	5.27	20,000	-
The 19th debentures (note 2)	2008.11.27	5.16	20,000	-
The 20th debentures (note 2)	2009.09.28	5.3	30,000	-

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(19) Debentures Issued, Continued

(a) Details of debentures issued as of December 31, 2006 and 2005 are as follows, continued:

Description	Maturity date	Interest rate (%)	2006	2005
The 21th debentures (note 2)	2009.11.30	7.18	30,000	-
The 3rd debentures (note 3)	2007.10.07	6.98	1,250	-
The 5th debentures (note 3)	2009.04.17	6.92	1,000	-
The 6th debentures (note 3)	2009.10.16	6.58	1,500	-
Total			1,446,750	1,298,000
Less current portion			(424,500)	(313,000)
Less discount			(2,058)	(1,772)
Net balance			<u>₩ 1,020,192</u>	<u>983,228</u>

(note1) These debentures were issued by Nautilus Hyosung Co., Ltd., a domestic affiliate.

(note2) These debentures were issued by Hyosung Capital Co., Ltd., a domestic affiliate.

(note3) These debentures were issued by Epiplus Co., Ltd. a domestic affiliate.

(20) Long-term Borrowings

(a) Details of long-term borrowings as of December 31, 2006 and 2005 are as follows:

Lender	Type of borrowings	Interest rate (%)	2006	2005
Local currency borrowings:				
Korea Development Bank	Facility loans	3.00~6.30 ₩	127,491	115,820
Korea Housing Guarantee Co., Ltd.	Operating loan	1.00	4,400	4,800
KDB Capital Co., Ltd.	Facility loan	3.00~3.50	10,789	9,897
SC First Bank Korea	Facility loan	4.50	-	8,295
SC First Bank Korea	Facility loan	7.90	-	919
Woori Bank	Operating loan	4.69	50,000	50,000
Korea Exchange Bank	Operating loan	4.49	20,000	50,000
Others		-	700	-
			<u>213,380</u>	<u>239,731</u>
	Less current portion		<u>(121,580)</u>	<u>(64,456)</u>
			<u>₩ 91,800</u>	<u>175,275</u>

The long-term borrowings are payable either in a lumpsum upon maturity or in installments. Available-for-sale securities have been pledged for both local currency and foreign currency borrowings and property, plant and equipment have been pledged as collateral in relation to the long-term borrowings in local currency.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(20) Long-term Borrowings, Continued

(b) Details of long-term borrowings as of December 31, 2006 and 2005 are as follows, continued:

Lender	Type of borrowings	Interest rate (%)	2006	2005
Foreign currency borrowings:				
Korea Development Bank	Facility loan	6.37~8.14 ₩	121,470	33,145
Kookmin Bank	Facility loan	LIBOR+2.4	178	-
Woori Bank	Facility loan	Floating rate	1,250	6,248
The Export-Import Bank of Korea	Facility loan	6.78	16,350	57,243
China Construction Bank	Facility loan	5.38	-	16,653
Overseas affiliates' loans	Facility loan		321,878	413,525
			461,126	526,814
		Less current portion	(40,713)	(44,650)
			₩ 420,413	482,164

(b) Aggregate maturities of the Company's long-term debt as of December 31, 2006 are as follows:

Fiscal year	Bonds	Local long-term borrowings	Overseas long-term borrowings	Total
2007	₩ 424,500	121,580	40,713	586,793
2008	650,000	13,034	150,548	813,582
2009	282,500	48,937	151,820	483,257
2010	-	9,884	60,321	70,205
Thereafter	89,750	19,945	57,724	167,419
	₩ 1,446,750	213,380	461,126	2,121,256

(21) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Estimated severance accrual at beginning of year	₩ 138,981	168,869
Payments	(41,802)	(61,946)
Provision for retirement and severance benefits	34,509	32,058
Estimated retirement and severance benefits accrual at end of year	131,688	138,981
Contribution to National Pension Plan	(2,058)	(2,954)
Deposit for severance benefits trust	(75,950)	(81,073)
Net balance at end of year	₩ 53,680	54,954

The Company maintains these employees' severance benefit trust arrangements with Samsung Life Insurance Co., Ltd. and other financial institutions. Under these arrangements, the Company made deposits for an aggregate amount equal to 57.67% and 58.33% of the reserve balances of retirement and severance benefits as of December 31, 2006 and 2005, respectively. These deposits are to be used to make the required payments to the retirees and accounted for as a reduction of the reserve balances.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(22) Operating Lease

As of December 31, 2006, the Company entered into operating lease contracts with Hyundai Capital Serviced Inc. and other financial institutions, under which the minimum lease payments total ₩1,602.

(23) Assets and Liabilities Denominated in Foreign Currency

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

	2006		2005	
	Foreign currency	Won equivalent	Foreign currency	Won equivalent
Assets:				
Cash and cash equivalents	USD 27,361,770 ₩	25,436	USD 38,188,989 ₩	38,686
	EUR 5,956,973	7,281	EUR 2,307,869	2,770
	JPY 640,045,155	5,004	JPY 483,010,910	4,153
	BDT -	-	BDT 51,735	1
	CNY 219,165,655	26,074	CNY 332,419,634	41,722
	HKD 4,303,344	515	HKD 68,878,192	8,999
	MYR -	-	MYR 1,543,192	414
	SGD 2,566,952	1,555	SGD 5,095,714	3,101
	VND 340,000,000	20	VND -	-
Short-term financial instruments	CNY -	-	CNY 104,912,600	13,168
Accounts receivable - trade	USD 125,699,911	116,851	USD 138,038,676	139,833
	EUR 22,189,007	27,120	EUR 15,066,302	18,082
	JPY 3,641,525,783	28,471	JPY 3,800,106,021	32,677
	CNY 509,268,157	60,588	CNY 329,567,169	41,364
	HKD 14,966,181	1,790	HKD 56,188,330	7,341
	MYR 1,027,060	270	MYR -	-
	SGD 13,819,233	8,371	SGD -	-
Short-term loans	USD 696,150	647	USD 6,803,175	6,892
Accounts receivable-other	USD 7,291,654	6,778	USD 25,218,042	25,546
	EUR 709,006	867	EUR 27,386,471	32,868
	JPY 366,001,700	2,862	JPY 354,850,573	3,051
	CNY 41,929,551	4,988	CNY 90,577,762	11,368
	HKD 1,558,662	186	HKD 10,880,116	1,421
Derivatives valuation	USD -	-	USD 198,657	201
Long-term financial instruments	USD 45,308	42	USD 95,308	97
	EUR 35,600	44	EUR 1,600	2
	AZM -	-	AZM 11,000,000	2
	CNY 375,000	45	CNY 625,000	78
	GBP -	-	GBP 555	1
	HKD 39,000	5	HKD -	-
	IDR 105,000,000	11	IDR 35,450,000	4
	MXN 323,639	28	MXN 323,744	31
	TRY -	-	TRY 92,500	70
	VND -	-	VND 340,000,000	20

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(23) Assets and Liabilities Denominated in Foreign Currency, Continued

Assets and liabilities denominated in foreign currency as of December 31, 2006 and 2005 are summarized as follows (continued):

	2006		2005	
	Foreign currency	Won equivalent	Foreign currency	Won equivalent
Accrued income	CNY 26,692	₩ 3	CNY -	₩ -
Guarantee deposits	USD 4,759,336	4,424	USD 5,539,018	5,611
	EUR 913,581	1,117	EUR -	-
	JPY 96,662,673	756	JPY 13,618,000	117
	MYR 3,398,320	895	MYR 593,452	159
Long-term loans	JPY 3,970,000	31	JPY 2,550,000	22
Long-term accounts receivable - trade	JPY 27,123,595	212	JPY -	-
Total assets	USD 165,854,129	154,178	USD 214,081,865	216,866
	EUR 29,804,166	36,428	EUR 44,762,242	53,722
	JPY 4,775,328,907	37,335	JPY 4,654,135,504	40,020
	AZM -	-	AZM 11,000,000	2
	BDT -	-	BDT 51,735	1
	CNY 770,765,055	91,698	CNY 858,102,165	107,700
	GBP -	-	GBP 555	1
	HKD 20,867,187	2,495	HKD 135,946,638	17,761
	IDR 105,000,000	11	IDR 35,450,000	4
	MXN 323,639	28	MXN 323,744	31
	MYR 4,425,380	1,165	MYR 2,136,644	573
	SGD 16,386,185	9,926	SGD 5,095,714	3,101
	TRY -	-	TRY 92,500	70
	VND 340,000,000	20	VND 340,000,000	20
		₩ 333,284		₩ 439,872
Liabilities:				
Short-term borrowings	USD 155,614,014	₩ 144,659	USD 231,482,796	₩ 234,492
	EUR 11,807,998	14,432	EUR 6,974,427	8,370
	JPY 9,436,211,283	73,775	JPY 5,840,756,154	50,225
	CNY 270,409,890	32,171	CNY 272,681,486	34,224
	HKD 66,300,000	7,929	HKD 133,534,967	17,446
Long-term accounts payable – trade	USD 335,750,733	312,114	USD 343,227,416	347,689
	EUR 26,128,532	31,935	EUR 3,806,127	4,568
	JPY 2,875,176,939	22,479	JPY 2,336,867,960	20,096
	CHF 307,125	234	CHF 5,283	4
	CNY 285,066,419	33,914	CNY 309,277,001	38,817
	GBP -	-	GBP 43,500	76
	HKD 45,791,481	5,476	HKD 150,291,685	19,636
	MYR 92,310	24	MYR 923,103	247
	SEK -	-	SEK 327,000	42
	SGD 26,322,959	15,946	SGD 53,578,761	32,602

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(23) Assets and Liabilities Denominated in Foreign Currency, Continued

Assets and liabilities denominated in foreign currency as of December 31, 2006 and 2005 are summarized as follows (continued):

	2006		2005			
		Foreign currency	Won equivalent	Foreign currency	Won equivalent	
Accounts payable - other	USD	19,656,928	18,273	USD	19,419,408	₩ 19,672
	EUR	1,277,037	1,561	EUR	34,945,324	41,940
	JPY	617,282,157	4,826	JPY	624,786,436	5,373
	CNY	50,755,641	6,038	CNY	111,103,805	13,945
	GBP	-	-	GBP	79,862	139
	HKD	9,157,216	1,095	HKD	25,074,785	3,276
	SGD	603,601	366	SGD	1,226,231	746
Accrued expenses	USD	4,868,712	4,526	USD	3,558,035	3,604
	EUR	845,972	1,034	EUR	53,458	64
	JPY	5,023,302	39	JPY	810,402	7
	CHF	2,630	2	CHF	-	-
	CNY	25,451,331	3,028	CNY	-	-
	SGD	484,762	294	SGD	-	-
Advance receipts	USD	10,890,389	10,124	USD	4,481,793	4,540
	EUR	1,134,719	1,387	EUR	118,030	142
	JPY	274,148,343	2,143	JPY	14,430,398	124
	CNY	26,249,626	3,123	CNY	-	-
	SGD	4,863,966	2,946	SGD	-	-
Long-term borrowings	USD	147,423,800	137,045	USD	106,584,414	107,970
	JPY	31,147,538	244	JPY	-	-
	CNY	2,702,097,052	321,468	CNY	2,252,486,519	282,710
Total liabilities	USD	674,204,575	626,740	USD	708,753,863	717,967
	EUR	41,194,258	50,349	EUR	45,897,366	55,084
	JPY	13,238,989,563	103,507	JPY	8,817,651,350	75,825
	CHF	309,755	236	CHF	5,283	4
	CNY	3,360,029,959	399,742	CNY	2,945,548,811	369,696
	GBP	-	-	GBP	123,362	215
	HKD	121,248,697	14,500	HKD	308,901,436	40,358
	MYR	92,310	24	MYR	923,103	247
	SEK	-	-	SEK	327,000	42
	SGD	32,275,288	19,552	SGD	54,804,992	33,348
		₩ 1,214,650			₩ 1,292,786	

In connection with the above foreign currency translations, the ₩ 14,503 million translation gains and ₩ 2,350 translation losses are included in other income (expense) in the accompanying consolidated statements of operations.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(24) Commitments and Contingencies

As of December 31, 2006, accounts and notes receivable – trade discounted with banks on which the Parent Company remains contingently liable amount to ₩ 221,073.

The Parent Company pledged its checks and notes in the aggregate amount of ₩ 12,674 million and its 23 blank checks and 16 blank notes to Hana Bank and others as collateral for short- and long-term borrowings and other agreements.

As of December 31, 2006, the details about three notes, issued by Woori Bank, have not been confirmed. Accordingly, the Company is scheduled for a judgment to nullify those three blank notes

The Parent Company is involved as a dependent, in various lawsuits and claims for alleged damages aggregating ₩ 2,118 as of December 31, 2006, which arose in the ordinary course of business. Management is of the opinion that these lawsuits and claims will not have a material adverse effect on the Parent Company's financial position, operating results or cash flows.

There are no pledged collateral or guarantees provided for third parties other than those in note 9.

(a) Hyosung Corporation

Woori Bank and others have provided a credit limit on bank overdraft amounting to ₩263,500 for Hyosung Corporation, and Korea Development Bank and others have provided discount on trade bill and guarantee on an import credit memorandum for Hyosung Corporation.

The Korea Specialty Construction Financial Cooperative has provided guarantees up to ₩ 514,880 for Hyosung Corporation

(b) Hyosung Construction Co., Ltd.

Hyosung Capital has provided a credit limit of ₩45,000 for Hyosung Construction Co., Ltd.

(c) Hyosung Ebara Engineering Co., Ltd.

Hyosung Ebara Engineering Co., Ltd. has given to a related company, Ebara Corporation, a share of the profits on sales according to a contract for the introduction of technology entered into on March 25, 1997. The advanced royalty, recognized as intangible assets, was amortized on a straight-line basis over the period of use and was fully amortized during prior period. The royalty paid for prior period is ₩95.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(24) Commitments and Contingencies, Continued**(d) Hyosung Innotech Inc.**

Details of the commitments that financial institutions have made to Hyosung Innotech Inc. as of December 31, 2006 are as follows:

<u>Commitment</u>	<u>Limit</u>	<u>Collateral</u>	<u>Financial Institution</u>
Bank overdraft	₩ 500		Woori Bank
Loan of import L/C	300		
Bank overdraft	1,000	Accounts payable – trade	The KyongNam Bank, Ltd.
Discount of bills	3,000		Samsung Mutual Savings & Financial Co., Ltd.
Revolving facility	500		Korea Exchange Bank
Bank overdraft	1,000		
Bank overdraft	900	Land and buildings	Korea Development Bank
Guarantees	246	Capital	Korea Specialty Construction Financial Cooperative
Other agreements	676		

(e) Hyosung Investment & Development Corp.

Hyosung Investment & Development Corporation has entered into a real estate trust contract concerning a lot-solid apartment with Korea Housing Guarantee Co., Ltd. The purpose of this trust contract is for Korea Housing Guarantee Co., Ltd. to control the real estate or, when necessary, dispose of it in order to fulfill its guarantee according to the Housing Law Enforcement Ordinance.

Hyosung Investment & Development Corporation has been given guarantees amounting to ₩60 by Seoul Guarantee Insurance Company.

(f) The Class Hyosung

Woori Bank has provided discount on bills amounting to ₩9 for The Class Hyosung.

The Class Hyosung entered into lease agreements for the purpose of using the buildings in which its head office and exhibition hall are located. The Class Hyosung has made a deposit of ₩950

Seoul Guarantee Insurance Company has provided a performance bond amounting to ₩2 on payment of postage by the licensees and its gas rate.

(g) The Fair Trade Commission is conducting an investigation into a possible Polyethylene terephthalate (PET) product price collusion by the Company's Chemical Performance Group.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(25) Derivative Instruments

(a) Details of derivatives as of December 31, 2006 and 2005 are as follows:

Transaction purpose	Description		2006	2005
Sale and purchase	Insurance for variations in foreign exchange rates (\$1,000)	\$	5,775	489
Fair value hedge	Foreign currency forward (\$1,000)	\$	51,789	26,876
	Foreign currency forward (¥100)	¥	41,641,438	9,420,840
	Insurance for variations in foreign exchange rates (€1,000)	€	5,934	2,061

(b) Fair value hedge

To hedge against foreign exchange risks, the Company entered into nineteen insurance contracts and four foreign currency forwards for changes in foreign exchange rates and the related gains (losses) from valuation of derivatives are charged or credited to current operations. To hedge against foreign exchange risks of usance bills, the Company entered into a cross hedge.

(c) Details of gains from valuation of derivatives for the years ended December 31, 2006 and 2005 are as follows:

Transaction purpose	Description		2006	2005
Fair value hedge	Foreign currency forward	₩	(1,263)	(184)
	Insurance for variations in foreign exchange rates		110	156

(26) Shareholders' Equity

Transactions in the common stock accounts for the years ended December 31, 2006 and 2005 are summarized as follows:

	Number of shares		Common stock
Balance at January 1, 2005	32,885,205	₩	164,426
Exercise of detachable stock warrants	1,920,616		9,603
Balance at December 31, 2005	34,805,821		174,029
Disposition of deficit	-		-
Balance at December 31, 2006	34,805,821	₩	174,029

(a) In accordance with the Korean Assets Revaluation Act, the Company revalued certain of its property and equipment on October 1, 1998, resulting in a revaluation gain of ₩ 681,290, which was transferred to a revaluation surplus of ₩ 567,966, net of revaluation tax and foreign exchange adjustment of ₩ 113,324. Included in the capital surplus was the Company's asset revaluation surplus, including other asset revaluation surpluses of ₩ 170,334, totalling ₩ 738,300 as of December 31, 2006.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(26) Shareholders' Equity, Continued

- (b) As of December 31, 2006, 1,848,851 shares out of 34,805,821 shares owned by Hyosung Corporation lost their voting rights due to the treasury stock restriction, under the provisions of clause 2 of Article 369 of the Korea Commercial Code.

(27) Treasury Stock

Hyosung Corporation has treasury shares amounting to ₩ 34,204 as of December 31, 2006, which were acquired in the process of mergers with other companies. These treasury shares are intended to be reissued.

(28) Income Taxes

- (a) The components of income tax expense for the years ended December 31, 2006 and 2005 are summarized as follows:

		2006	2005
Current income tax expense	₩	25,669	25,437
Changes in deferred taxes		60,150	(8,206)
Income taxes directly charged to equity		(31,124)	(17,062)
	₩	<u>54,695</u>	<u>169</u>

- (b) The provision for income tax expense (benefit) calculated using the normal tax rates differs from the actual provision for the years ended December 31, 2006 and 2005 for the following reasons:

		2006	2005
Provision for income taxes at normal tax rates	₩	47,675	(15,927)
Tax effects of permanent differences		6,116	27,229
Tax credits		(3,706)	(2)
Income taxes directly charged to equity		(31,124)	(17,053)
Tax effects of unrecognized deferred tax assets, net		27,067	(5,571)
Others		8,667	11,493
Actual provision for income taxes	₩	<u>54,695</u>	<u>169</u>

- (c) The effective tax rate, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, was approximately 31.55 % in 2006.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(28) Income Taxes, Continued

- (d) The tax effects of temporary differences that result in significant portions of the deferred income tax assets and liabilities at December 31, 2006 and 2005 are presented below:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Allowance for doubtful accounts in excess of tax limit	₩ 227	29,844
Inventory valuation loss	2,456	3,530
Accumulated depreciation in excess of tax limit	5,926	5,712
Provision for equity in losses of affiliates	27,380	68,854
Other	37,348	20,105
Total deferred tax asset	<u>73,337</u>	<u>128,045</u>
Deferred tax liabilities:		
Reserve for research and human resources development	11,000	16,500
Other	49,074	38,132
Total deferred tax liabilities	<u>60,074</u>	<u>54,632</u>
Net deferred tax asset	<u>₩ 13,263</u>	<u>73,412</u>

- (e) Deferred tax assets have been recognized because it is probable that future profit will be available against which the Company can utilize the related benefit.

- (f) The deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of December 31, 2006 are as follows:

	<u>Temporary differences</u>	<u>Deferred tax assets (liabilities)</u>
Provision for income taxes at normal tax rates	₩ (150,815)	(41,474)
Unrealized gain on valuation of available-for-sale securities	37,636	10,350
	<u>₩ (113,179)</u>	<u>(31,124)</u>

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(28) Income Taxes, Continued

- (g) Under SKAS No. 16, the deferred tax amounts should be presented as a net current asset or liability and a net non-current asset or liability. In addition, the Company is required to disclose aggregate deferred tax assets (liabilities). As of December 31, 2006, details of aggregate deferred tax assets (liabilities) are as follows:

	Temporary differences at December 31, 2006	Deferred tax assets (liabilities)	
		Current	Non-current
Assets:			
Allowance for doubtful accounts	₩ 827	149	-
Inventory valuation loss	8,930	2,456	-
Accumulated depreciation in excess of tax limit	21,548	-	5,926
Provision for equity in loss of affiliates	99,563	-	27,380
Other	123,264	2,915	34,511
	<u>254,132</u>	<u>5,520</u>	<u>67,817</u>
Liabilities:			
Reserve for research and human resources development	40,000	-	11,000
Other	178,473	423	48,651
	<u>218,473</u>	<u>423</u>	<u>59,651</u>
	₩ <u>40,503</u>	<u>5,097</u>	<u>8,166</u>

(29) Earnings (Loss) Per Share

Earnings (loss) per share are calculated by dividing net income (loss) by the weighted-average number of shares of common stock outstanding.

	<u>2006</u>	<u>2005</u>
Net income (loss)	₩ 90,416	(62,811)
Weighted-average number of common shares outstanding	<u>32,956,970</u>	<u>32,956,970</u>
Earnings (loss) per share in Won	₩ <u>2,743</u>	<u>(1,906)</u>

Diluted earnings (loss) per share are calculated by dividing net income (loss), as adjusted assuming conversion of all dilutive securities by the weighted-average number of common and common equivalent shares outstanding.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(29) Earnings (Loss) Per Share, Continued

	<u>2006</u>	<u>2005</u>
Net income (loss)	₩ 90,416	(62,811)
Weighted-average number of common and common equivalent shares	<u>33,147,038</u>	<u>32,956,970</u>
Diluted earnings (loss) per share in Won	₩ <u>2,728</u>	<u>(1,906)</u>

As of December 31, 2006, all of the straight debt securities were redeemed, and the remaining detachable stock warrants could be exercised in exchange for 311,636 shares of common stock.

(30) Dividends

(a) Details of dividends for the year ended December 31, 2006 are as follows:

	<u>Cash dividend</u>
Number of shares outstanding (note1)	₩ 32,956,970
Par value per share in Won	5,000
Dividend rate per share	10.00%
Dividend per share in Won	500
Dividend amount	16,478

(note1) Number of shares issued (34,805,821 shares); treasury stock (1,848,851 shares)

(b) Dividend yield ratio for the year ended December 31, 2006 is as follows:

	<u>Cash dividend</u>
Dividend per share in Won	₩ 500
Market price as of year end (note 1) in Won	27,350
Dividend yield ratio	1.83%
Dividend amount	16,478
Net income	90,416
Dividend payout ratio	18.23%

(note1) The market price per share is the last quoted stock price of the Company's shares as of December 31, 2006.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(31) Non-cash Investing and Financing Activities

Significant non-cash investing and financing activities for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Construction-in-progress transferred to property, plant and equipment	₩ 151,529	203,076
Machinery-in-transit transferred to property, plant and equipment	5,421	5,421
Gain (loss) on valuation of available-for-sale securities	27,261	(9,789)
Change in retained earnings due to application of equity method	2,644	4
Change in capital surplus due to application of equity method	952	10,432

(32) Added Value

The components of manufacturing costs and selling, general and administrative expenses which are necessary in calculating added value at December 31, 2006 and 2005 are as follows:

	2006	2005
Salaries	₩ 310,832	296,686
Retirement allowance and severance benefits	34,509	32,058
Other employee benefits	38,287	37,157
Rent	9,451	17,948
Depreciation	309,814	368,043
Taxes and dues	30,001	22,061

(33) Employee Welfare and Contributions to Society

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund, and workmen's accident compensation insurance, unemployment insurance and medical insurance. The amounts of welfare spending for the years ended December 31, 2006 and 2005 are ₩ 38,287 and ₩ 37,157, respectively.

The Company donated ₩ 1,566 and ₩ 804 to the Korea Red Cross and others for the years ended December 31, 2006 and 2005, respectively.

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(34) Summary of Major Construction Contracts

(a) Major construction contracts as of December 31, 2006 are as follows:

Construction project	Total contract price	Total estimated construction costs	Accumulated construction revenue	Accumulated construction cost
Shinan Sungsin Seongnam T/L	₩ 4,763	3,980	4,763	3,980
Construction of road bypassing Sachun	5,668	5,189	5,668	5,189
Construction of Waekwon-Daegu highway	12,859	12,313	9,747	9,333
Construction of Umsung-Saengguk highway	17,302	16,799	16,571	16,089
Biryong agricultural water development	3,932	3,721	1,306	1,236
Establishment of a road bypassing KwangReung Forest	10,577	10,042	6,484	6,156
FED Traffic control management facility	8,665	8,273	8,665	8,273
FED Osan Sewer pipe pump facility	5,278	5,021	5,278	5,021
Incheon Nonhyun KNHC APT	10,790	10,785	10,488	10,483
Yangju Dukjung Section 1 KNHC APT	9,823	9,818	9,535	9,530
Construction of North Injae-Yongdae road	8,030	7,996	1,292	1,287
Construction of Shinryunggono Road	5,762	5,742	231	230
HEEC Service Sales	818	825	818	825
Yangsan Mulgum waterworks	4,777	4,476	2,883	2,702
Treatment of food garbage of Gwang Myeong	2,227	2,191	2,227	2,191
Seoul S.W. Water Treatment	640	631	581	572
Construction of Bangchunri Sanitary facilities	7,018	7,029	7,018	7,029
Equipment of buff undercurrent Jinju sangpyung	1,574	1,375	1,509	1,318
Maintenance & management of the New Airport incineration facility 2	2,520	2,511	1,172	1,168
Kimhae Hwamok Sewage Purification Plant	5,374	5,316	1,597	1,580
Chunan Food Waste Treatment	1,935	1,930	1,149	1,146
Jecheon Sewage Steam Supply and Power Generation Facility	192	191	87	103
Construction of Banpo Building Site	3,953	3,488	3,953	3,488
Daegu Maehodong APT	48,633	40,309	48,633	40,309

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(34) Summary of Major Construction Contracts, Continued

(a) Major construction contracts as of December 31, 2006 are as follows (continued):

Construction project	Total contract price	Total estimated construction costs	Accumulated construction revenue	Accumulated construction cost
Jongro Iniedong residential and working complex	₩ 96,574	84,058	88,317	76,871
Daegu Shinmaedong Hyosung APT	23,890	20,520	23,890	20,520
Daegu Bumaudong Hyosung APT	21,961	19,722	19,680	17,673
Daegu Hyosung residential and working complex	154,509	135,972	46,624	41,030
Mapo Ahyun Officetel	31,689	26,110	31,689	26,110
Construction of Banpo Hyosung Villa	4,482	4,158	4,482	4,158
TongYang Technical College Remodelling	6,319	4,850	6,319	4,850
Seocho Main Workshop	2,082	1,854	2,082	1,854
Construction of Wonju Hanggudong Hyosung APT	115,200	99,232	3,884	3,345
Reconstruction of Daegu Bongduk	71,664	67,779	1,292	1,222
Reconstruction of Daegu Bumaudong Samo APT	26,952	25,512	140	133
Construction of Banpo Building	6,457	6,232	403	389
Construction & Sale of Daegu	219,178	153,258	68,674	48,020
	₩ 964,067	819,208	449,131	385,413

(b) Changes in the construction log for the years ended December 31, 2006 and 2005 are as follows:

Description		2006	2005
Outstanding contracts at the beginning of year	₩	643,581	462,907
New contracts		349,777	400,466
Total		993,358	863,373
Revenue recognized in current year		(328,997)	(219,792)
Outstanding contracts at the end of year	₩	664,361	643,581

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(34) Summary of Major Construction Contracts, Continued

(c) Billings and collection of construction contract prices are summarized as follows:

Construction project	Advance receipts	Accounts receivable-other	
		Billed	Unbilled
Construction of Waekwon-Daegu Highway	₩ 1,518	-	-
Construction of Umsung-Saengguk Highway	731	-	-
Biryong agricultural water development	248	-	-
Establishment of a road bypassing KwangReung Forest	132	-	-
Incheon Nonhyun KNHC APT	183	-	-
Yangju Dukjung Section 1 KNHC APT	24	-	-
Construction of North Injae-Yongdae Highway	-	-	243
Construction of Shinryunggono Road	-	-	190
Yangsan Mulgum waterworks	311	-	-
Treatment of food garbage of Gwang Myeong	-	255	-
Seoul S.W. Water Treatment	-	-	27
Equipment of buff undercurrent Jinju sangpyung	62	-	-
Maintenance & management of the New Airport incineration facility 2	82	-	-
Kimhae hwamok sewage purification plant	-	-	35
Chunan Food Waste Treatment	49	-	-
Jecheon Sewage Steam Supply and Power Generation Facility	69	-	-
Construction of Banpo Building Site	-	3,360	-
Jongro Iniedong residing and working complex	-	24,350	(8,257)
Daegu Shinmaedong Hyosung APT	-	7,764	-
Daegu Bumaedong Hyosung APT	-	3,090	2,950
Daegu Hyosung residing and working complex	1,788	-	-
Mapo Ahyun Officetel	-	3,581	(322)
Construction of Banpo Hyosung Villa	-	43	-
Construction of Wonju Hanggudong Hyosung APT	-	4,186	-
Reconstruction of Daegu Bongduk	-	-	1,292
Reconstruction of Daegu Bumaedong Samo APT	-	-	140
Construction of Gwangjangdong Officetel	-	32	59
Construction of Banpo Building	-	403	-
Construction & Sale of Daegu	44	-	-
Construction of Hyosung Chungdam complex	-	2,286	-
Construction of Bucheon sewage sludge incineration facility	-	2,448	-
Machang sewage purification plant	-	1,255	-
Maintenance & management service of the New Airport incineration facility	-	351	-
City planning service of Hwasung-shi conurbation	-	350	-

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(34) Summary of Major Construction Contracts, Continued

(c) Billings and collection of construction contract prices are summarized as follows (continued):

Construction project	Advance receipts	Accounts receivable-other	
		Billed	Unbilled
Construction of N. Jeju main treatment equipment	-	251	-
North Jeju E. sewage purification plant	-	237	-
Supply for advanced treatment facility	-	175	-
Advanced treatment equipment and pipe materials	-	83	-
Consignment management of S.W. Water Treatment	-	55	-
	₩ 5,241	54,555	(3,643)

(35) Segment Information

(a) Consolidated Balance Sheet by Business Category

The following table provides information of consolidated balance sheets by business category as of December 31, 2006 and 2005:

	Non-financial		Financial	
	2006	2005	2006	2005
Assets				
Current assets:	₩ 1,726,515	1,652,630	599,382	504,247
Non-current assets:	2,996,284	3,114,203	120,251	97,294
Investment assets	288,918	356,256	38,660	17,981
Tangible assets	2,667,550	2,724,027	81,363	79,083
Intangible assets	39,816	33,920	228	330
Total Assets	₩ 4,722,799	4,766,833	719,633	601,541
Liabilities				
Current liabilities	₩ 1,975,204	1,819,627	349,795	328,701
Non-current liabilities	1,375,639	1,612,731	301,346	213,696
Total Liabilities	3,350,843	3,432,358	651,141	542,397
Shareholders' equity				
Common stock	154,029	154,029	20,000	20,000
Capital surplus	1,170,306	1,384,825	-	-
Retained earnings (Accumulated deficit)	12,775	(249,353)	48,492	39,144
Capital adjustments	(44,107)	(3,117)	-	-
Minority interests	78,953	48,091	-	-
Total shareholders' equity	1,371,956	1,334,475	68,492	59,144
Total liabilities and shareholders' equity	₩ 4,722,799	4,766,833	719,633	601,541

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(35) Segment Information, Continued

(b) Consolidated Income Statement by Business Category

The following table provides information of consolidated income statements by business category for the years ended December 31, 2005 and 2004:

		Non-financial		Financial	
		2006	2005	2006	2005
Sales	₩	5,770,616	5,584,527	82,273	58,286
Cost of sales		5,025,936	4,978,251	54,709	19,630
Selling and administrative expenses		549,274	515,622	14,599	30,346
Operating income		195,406	87,654	12,965	11,310
Other income		208,237	143,437	11	15
Other expenses		243,253	300,330	2	2
Income (loss) before income taxes and minority interests		160,390	(69,239)	12,974	11,323
Income taxes		51,069	(2,978)	3,626	3,147
Income (loss) before minority interests		109,321	(66,261)	9,348	8,176
Minority interests in income of consolidated subsidiaries		28,253	4,727	-	-
Net income	₩	81,068	(62,811)	9,348	-

(c) The following table provides information of each operating segment as of and for the years ended December 31, 2006 and 2005:

Description		2006						Consolidation adjustment	Total
		Fabric PG	Industrial materials PG	Chemical PG	Heavy Industries PG	Trading PG	Others		
Sales:									
External sales	₩	964,567	637,685	807,720	1,209,054	1,698,831	535,033	-	5,852,889
Intercompany sales		49,779	58,043	8,752	18,222	632,035	196,430	-	963,261
Total	₩	1,014,346	695,728	816,472	1,227,275	2,330,866	731,463	-	6,816,150
Operating income (loss)	₩	(33,648)	9,862	45,694	98,832	(66)	89,044	(1,346)	208,371
Business category assets	₩	398,171	250,754	118,985	125,349	12,493	284,692	(1,888)	1,188,556
Common assets		713,234	669,280	359,988	984,774	320,872	1,830,431	(624,702)	4,253,877
Total Assets	₩	1,111,405	920,034	478,972	1,110,123	333,365	2,115,122	(626,589)	5,442,432

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(35) Segment Information, Continued

(c) The following table provides information of each operating segment as of and for the years ended December 31, 2006 and 2005 (continued):

Description	2005							Total
	Fabric PG	Industrial materials PG	Chemical PG	Heavy Industries PG	Trading PG	Others	Consolidation adjustment	
Sales:								
External sales	₩ 893,538	694,785	735,873	1,132,371	1,824,296	361,951	-	5,642,814
Intercompany sales	54,763	50,995	12,203	17,973	703,723	170,387	-	1,010,044
Total	₩ 948,301	745,780	748,076	1,150,344	2,528,019	532,338	-	6,652,858
Operating income (loss)	₩ (66,651)	49,293	17,745	51,407	21,454	30,364	(4,648)	98,964
Business category assets	₩ 425,050	258,138	136,400	120,439	14,503	325,402	(1,360)	1,278,572
Common assets	786,720	646,339	339,319	828,520	420,459	1,591,564	(524,224)	4,088,697
Total assets	₩ 1,211,771	904,477	475,719	948,959	434,961	1,916,966	(525,584)	5,367,269

(d) The Company conducts business globally and is managed geographically. The following table provides information by geographical segment as of and for the years ended December 31, 2006 and 2005:

	2006						Total
	Domestic	Northern and Central America	Asia	Europe	Consolidation Adjustment		
Sales:							
External sales	₩ 4,822,243	331,943	632,337	66,367	-	-	5,852,889
Intercompany sales	759,872	11,945	185,656	5,788	-	-	963,261
Total	₩ 5,582,115	343,888	817,992	72,155	-	-	6,816,151
Operating income (loss)	₩ 203,717	10,128	(4,204)	77	(1,347)		208,371
Business category assets	₩ 777,613	35,342	377,488	-	(1,888)		1,188,556
Common assets	4,254,993	212,148	365,878	45,560	(624,702)		4,253,877
Total assets	₩ 5,032,606	247,490	743,366	45,560	(626,589)		5,442,432

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(35) Segment Information, Continued

(d) The Company conducts business globally and is managed geographically. The following table provides information by geographical segment as of and for the years ended December 31, 2006 and 2005, continued:

		2005					
		Domestic	Northern and Central America	Asia	Europe	Consolidation Adjustment	Total
Sales:							
External sales	₩	5,430,099	338,679	804,972	79,110	(1,010,047)	5,642,813
Intercompany sales		476,973	-	-	-	-	476,973
Total	₩	<u>5,907,072</u>	<u>338,679</u>	<u>804,972</u>	<u>79,110</u>	<u>(1,010,047)</u>	<u>6,119,786</u>
Operating income (loss)							
	₩	<u>119,253</u>	<u>9,871</u>	<u>(23,908)</u>	<u>(1,606)</u>	<u>(4,646)</u>	<u>98,964</u>
Business category assets							
	₩	<u>2,819,001</u>	<u>20,567</u>	<u>407,642</u>	<u>-</u>	<u>(122,720)</u>	<u>3,124,490</u>
Common assets							
		<u>2,063,145</u>	<u>188,017</u>	<u>341,352</u>	<u>53,129</u>	<u>(402,864)</u>	<u>2,242,779</u>
Total Assets	₩	<u>4,882,146</u>	<u>208,584</u>	<u>748,994</u>	<u>53,129</u>	<u>(525,584)</u>	<u>5,367,269</u>

(36) Prior Period Adjustments

- (a) The Company has corrected, with a voluntary disclosure, the past accounting errors relative to four affiliates, Hyosung America Inc., Hyosung H.K. Ltd., Hyosung Singapore PTE Ltd. and Hyosung Deutschland GmbH, all of which are accounted for under the equity method.
- (b) The Company understated deferred tax liabilities by ₩15,767 before 2004, and the financial statements as of and for the year ended December 31, 2004, previously presented for comparative purposes, have been restated to reflect the changes in retained earnings brought about as a result of correcting an accounting error. Change in the amounts of income taxes and deferred tax liabilities for each of the following three periods prior to January 1, 2005 are as follows:

		2004	2003	Before 2002
Increase in income taxes	₩	3,276	103	12,388
Increase in deferred tax liabilities		15,767	12,491	12,388

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(36) Prior Period Adjustments, Continued

(c) The effects of correction of accounting errors on the financial statements that are mentioned above are summarized as follows (the accounting error occurred prior to 2002 has been accounted for as a loss for the year ended December 31, 2001):

	2004		2003	
	Before adjustment (*)	After adjustment	Before adjustment (*)	After adjustment
Deferred tax assets (liabilities)	₩ (9,886)	58,825	(17,264)	67,319
Equity method investments	558,383	385,506	507,154	285,224
Total assets	4,320,363	4,206,312	4,394,084	4,239,473
Provision for equity in losses of affiliates	-	249,861	-	284,793
Total liabilities	2,549,623	2,789,597	2,575,507	2,843,035
Retained earnings (deficit)	295,633	(135,593)	249,183	(155,689)
Unrealized gains (losses) from valuation of equity method investments	(76,549)	652	47,044	29,778
Total shareholders' equity	1,770,741	1,416,715	1,818,577	1,396,439
Gain (loss) on valuation of equity method investment	(30,306)	(2,709)	10,507	9,839
Income (loss) before income taxes	88,319	115,916	84,537	83,869
Income taxes (benefit)	27,931	27,931	46,661	46,764
Net income (loss)	₩ 60,388	87,985	37,773	37,105
Earnings (loss) per share	₩ 1,946	2,835	1,220	1,198
Diluted earnings (loss) per share	₩ 1,912	2,785	1,194	1,173

	2002		2001	
	Before adjustment (*)	After adjustment	Before adjustment (*)	Before adjustment (*)
Deferred tax assets (liabilities)	₩ (3,791)	93,350	3,905	112,180
Equity method investments	421,251	255,138	330,901	203,757
Total assets	4,588,749	4,515,985	4,743,062	4,724,193
Provision for equity in losses of affiliates	-	327,071	-	364,563
Total liabilities	2,781,186	3,104,467	2,924,259	3,288,822
Retained earnings (deficit)	211,526	(166,292)	167,973	(199,528)
Unrealized gains (losses) from valuation of equity method investments	40,211	30,575	59,799	43,867
Total shareholders' equity	1,807,562	1,411,518	1,818,803	1,435,371

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(36) Prior Period Adjustments, Continued

(c) The effects of correction of accounting errors on the financial statements that are mentioned above are summarized as follows (the accounting error occurred prior to 2002 has been accounted for as a loss for the year ended December 31, 2001) (continued):

	2002		2001	
	Before adjustment (*)	After adjustment	Before adjustment (*)	Before adjustment (*)
Transfer to provision for equity in loss of affiliates	-	-	-	364,563
Income (loss) before income taxes	₩ 79,191	81,931	71,758	(404,018)
Income taxes (benefit)	28,411	28,411	17,016	(91,259)
Net income (loss)	₩ 50,782	53,520	54,742	(312,759)
Earnings (loss) per share	₩ 1,779	1,875	2,059	(11,764)
Diluted earnings (loss) per share	₩ 1,567	1,652	1,865	(11,764)

(*) The amounts before adjustments are those amounts included in the Company's third quarter, in the 2005 business report.

(37) Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Salaries	₩ 103,324	85,117
Provision for retirement and severance benefits	9,926	7,954
Other employee benefits	11,310	9,364
Training	2,213	2,199
Travel	11,435	10,675
Vehicle maintenance	2,959	2,653
Communications	4,309	4,073
Publications and printing	1,035	978
Taxes and dues	6,248	6,158
Insurance	1,898	2,086
Rent	11,915	9,104
Depreciation	44,028	31,705
Amortization	10,597	10,128
Repairs	466	771
Supplies	1,240	1,051
Branch maintenance	12,338	12,822

Notes to Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(37) Selling, General and Administrative Expenses, Continued

Details of selling, general and administrative expenses for the years ended December 31, 2006 and 2005 are summarized as follows, continued:

	2006	2005
Utilities	560	658
Advertising	15,872	12,861
Samples	2,539	3,763
Freight	32,760	29,679
Commissions	35,453	27,049
Exporting	130,387	130,664
Entertainment	7,670	6,415
Research and development	62,185	50,981
Bad debts	12,899	50,161
Services	8,879	5,734
Sales promotion	3,416	3,051
Other	16,012	28,114
	<u>₩ 563,873</u>	<u>545,968</u>

(38) Subsequent Events

On March 23, 2007, the board of directors of Hyosung Corporation resolved to merge into itself Hyosung Innotech Inc. with the merger ratio of 1:0 on June 1, 2007.

