

HYOSUNG CORPORATION

Non-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 non-consolidated balance sheets of Hyosung Corporation (the "Company") as of December 31, 2006 and 2005, and the related non-consolidated statements of operations, appropriation (disposition) of retained earnings (accumulated deficit) and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyosung Corporation as of December 31, 2006 and 2005, and the results of its operations, the appropriation of its retained earnings and its 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:

(1) Transactions with Related Parties

As discussed in note 9 to the non-consolidated financial statements, the Company has significant transactions and account balances with related parties in the ordinary course of business. In addition, the Company has provided guarantees for its foreign subsidiaries.

As discussed in note 2(a) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, result of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

Seoul, Korea
February 2, 2007

This report is effective as of February 2, 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 non-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

Non-Consolidated Balance Sheets

December 31, 2006 and 2005

(In millions of Won, except share data)

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Currents assets:		
Cash and cash equivalents (notes 20 and 30)	₩ 64,253	28,458
Short-term financial instruments	84	72,208
Accounts and notes receivable – trade, net of allowance for doubtful accounts of ₩37,113 million in 2006 and ₩67,247 million in 2005 (notes 4, 9, 20 and 33)	356,771	313,610
Inventories – net of allowance for valuation loss of ₩8,930 million in 2006 and ₩12,837 million in 2005 (notes 5 and 30)	496,928	561,823
Short-term loans	2,685	2,329
Accounts and notes receivable – other, net of allowance for doubtful accounts of ₩2,711 million in 2006 and ₩45,529 million in 2005 (notes 9 and 20)	21,640	34,195
Deferred tax assets (note 27)	3,917	34,400
Other current assets (notes 6, 20 and 22)	<u>49,596</u>	<u>66,149</u>
Total current assets	995,874	1,113,172
Available-for-sale securities (notes 2, 7 and 15)	70,586	144,014
Equity method investments (notes 8, 19 and 26)	528,803	396,295
Guarantee deposits (note 20)	48,902	43,674
Deferred tax assets (notes 27 and 35)	7,424	31,300
Long-term loans	1,678	1,437
Other investment assets	4,006	3,999
Property, plant and equipment at cost (notes 10, 11, 15 and 30)	4,323,168	4,170,841
Less accumulated depreciation	<u>(2,209,756)</u>	<u>(1,975,118)</u>
Net property, plant and equipment	2,113,412	2,195,723
Intangible assets (note 12)	12,167	18,753
Other assets (notes 13 and 20)	<u>3,351</u>	<u>4,327</u>
Total assets	<u>₩ 3,786,203</u>	<u>3,952,694</u>

See accompanying notes to the non-consolidated financial statements.

HYOSUNG CORPORATION

Non-Consolidated Balance Sheets, Continued

December 31, 2006 and 2005

(In millions of Won, except share data)

	<u>2006</u>	<u>2005</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts and notes payable – trade (notes 9 and 20)	₩ 587,712	554,295
Short-term borrowings (notes 15 and 20)	146,301	156,167
Accounts and notes payable – other (notes 9 and 20)	106,704	103,028
Income taxes payable	4,858	3,027
Current portion of debentures and long-term debt (notes 17, 18 and 20)	454,119	290,212
Other current liabilities (notes 14, 16 and 20)	<u>88,768</u>	<u>104,561</u>
Total current liabilities	1,388,462	1,211,290
Debentures, net (note 17)	788,349	843,455
Long-term debt (notes 15, 18 and 20)	89,101	247,346
Allowance for loss on valuation of equity method investments (note 35)	99,563	250,378
Allowance for warranty costs	7,166	6,267
Accrual for retirement and severance benefits (notes 2 and 19)	45,155	48,019
Long-term accounts and notes payable – other (note 14)	<u>6,280</u>	<u>-</u>
Total liabilities	<u>2,424,076</u>	<u>2,606,755</u>
Shareholders' equity		
Common stock of ₩ 5,000 par value (note 23)	174,029	174,029
Authorized – 200,000,000 shares		
Issued and outstanding – 34,805,821 shares		
Capital surplus	1,164,013	1,374,475
Retained earnings (accumulated deficit) (note 35)	58,361	(210,462)
Capital adjustments (notes 7, 8, 25 and 35)	<u>(34,276)</u>	<u>7,897</u>
Total shareholders' equity	1,362,127	1,345,939
Commitments and contingencies (note 21)		
Total liabilities and shareholders' equity	₩ <u><u>3,786,203</u></u>	<u><u>3,952,694</u></u>

See accompanying notes to the non-consolidated financial statements.

HYOSUNG CORPORATION

Non-consolidated Statements of Operations

Years ended December 31, 2006 and 2005

(In millions of Won, except for earnings per share)

	2006	2005
Sales (note 9)	₩ 4,784,272	4,858,777
Cost of goods sold (note 9)	4,272,276	4,352,666
Gross profit	511,996	506,111
Selling, general and administrative expenses (notes 26, 31 and 32)	400,411	421,240
Operating income	111,585	84,871
Other income (expense)		
Interest income	4,282	4,465
Interest expense	(88,352)	(83,959)
Foreign currency transactions gain, net	21,545	3,711
Foreign currency translation gain, net (note 20)	6,614	7,629
Gain (loss) on valuation of equity method investments, net (note 8)	8,116	(18,071)
Loss on impairment of equity method investments, net (note 8)	(770)	(1,836)
Restructuring costs	-	(18,525)
Dividend income	4,024	4,152
Commissions	(35,748)	(34,831)
Gain (loss) on sale of other assets, net	66,779	(2,764)
Gain (loss) on sale of property, plant and equipment, net	(187)	9,152
Loss on impairment of property, plant and equipment (notes 10)	-	(23,519)
Other, net	14,840	34
	1,143	(154,362)
Income (loss) before income taxes (benefit)	112,728	(69,491)
Income tax expense (benefit) (note 27)	29,178	(9,222)
Net income (loss)	₩ 83,550	(60,269)
Earnings (loss) per share of common stock in Won (note 28)	₩ 2,535	(1,829)
Diluted earnings (loss) per share of common stock in Won (note 28)	₩ 2,521	(1,829)

See accompanying notes to the non-consolidated financial statements.

HYOSUNG CORPORATION

**Non-consolidated Statements of Appropriation (Disposition) of
Retained Earnings (Accumulated Deficit)**

Years ended December 31, 2006 and 2005

Date of Appropriation for 2006: March 16, 2007

Date of Disposition for 2005: March 17, 2006

(In millions of Won, except for earnings per share)

	<u>2006</u>	<u>2005</u>
Unappropriated (undisposed) retained earnings (accumulated deficit):		
Balance at beginning of year	₩ -	(445,325)
Changes in retained earnings of subsidiaries	2,644	4
Other changes in retained earnings	(27,833)	(637)
Net income (loss) (note 35)	<u>83,550</u>	<u>(60,269)</u>
Unappropriated (undisposed) retained earnings (accumulated deficit)	<u>58,361</u>	<u>(506,227)</u>
Appropriation of retained earnings:		
Legal reserve	1,648	-
Reserve for research and human resource development	40,000	-
Dividends – 10% on par value at ₩ 500 per share in 2006 (note 29)	<u>16,479</u>	<u>-</u>
	<u>58,127</u>	<u>-</u>
Disposition of accumulated deficit :		
Reserve for investment in equipment	-	210,000
Reserve for research and human resource development	-	76,666
Legal reserve	-	9,099
Capital surplus	<u>-</u>	<u>210,462</u>
	<u>-</u>	<u>506,227</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ <u>234</u>	<u>-</u>

See accompanying notes to the non-consolidated financial statements.

HYOSUNG CORPORATION

Non-consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

(In millions of Won)

	2006	2005
Cash flows from operating activities:		
Net income (loss)	₩ 83,550	(60,269)
Adjustments to reconcile net income (loss) to net cash provided by operating activities :		
Depreciation	254,034	303,819
Amortization	7,952	7,865
Amortization of discounts on bonds issued	1,082	1,422
Provision for retirement and severance benefits	27,883	26,628
Amortization of present value discounts	-	(377)
Loss on sale of other investment assets	2	2,764
Loss (gain) on sale of property, plant and equipment, net	187	(9,152)
Loss on impairment of property, plant and equipment	-	23,519
Loss (gain) on valuation of equity method investments, net	(8,116)	18,071
Loss on impairment of equity method investments, net	770	1,836
Foreign currency transaction and translation gain, net	(6,614)	(5,659)
Increase in overseas operations translation debit	(49)	(118)
Other, net	(59,539)	10,394
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable-trade	(46,764)	146,024
Decrease (increase) in inventories	46,789	(32,431)
Decrease (increase) in accounts receivable - other	11,720	(11,803)
Decrease (increase) in deferred tax assets	19,329	(23,913)
Decrease in other current assets	7,202	23,556
Decrease in other assets	604	2,479
Increase in accounts and notes payable - trade	34,504	8,549
Increase in accounts and notes payable - other	3,960	1,158
Increase in income tax payables	1,830	3,027
Increase (decrease) in other current liabilities	(8,886)	18,183
Decrease in deposits for retirement and severance benefits	6,807	14,038
Payment of retirement and severance benefits	(38,435)	(56,933)
Transfer of retirement and severance benefits from affiliates	44	76
Transfer to the National Pension Fund	836	1,691
Decrease in other liabilities	(2,369)	(3,002)
Net cash provided by operating activities	₩ 338,313	411,442

See accompanying notes to the non-consolidated financial statements.

HYOSUNG CORPORATION

Non-consolidated Statements of Cash Flows, Continued

Years ended December 31, 2006 and 2005

(In millions of Won)

	2006	2005
Cash flows from investing activities:		
Decrease (increase) in short-term financial investments, net	₩ 72,124	(70,433)
Decrease (increase) in short-term loans, net	(356)	3,105
Decrease (increase) in available-for-sale securities, net	101,708	(1,114)
Increase in equity method investments, net	(269,107)	(35,942)
Decrease (increase) in guarantee deposits, net	(6,650)	4,198
Proceeds from sale of property, plant and equipment	34,469	85,658
Acquisition of property, plant and equipment	(178,454)	(198,751)
Increase in intangible assets, net	(1,366)	(1,164)
Decrease (increase) in other assets, net	(734)	5,699
	(248,366)	(208,744)
Net cash used in investing activities		
Cash flows from financing activities:		
Repayment of short-term borrowings, net	(7,064)	(187,642)
Proceeds from issuance of debentures	308,811	379,195
Proceeds from long-term debt, net	44,395	53,446
Proceeds from issuance of common stock	-	16,183
Repayment of current portion of long-term debt	(400,294)	(437,280)
Redemption of debentures	-	(5,000)
Payment of dividends	-	(13,966)
	(54,152)	(195,064)
Net cash used in financing activities		
Net increase in cash and cash equivalents	35,795	7,634
Cash and cash equivalents at beginning of year	28,458	20,824
Cash and cash equivalents at end of year	₩ 64,253	28,458

See accompanying notes to the non-consolidated financial statements.

HYOSUNG CORPORATION

Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

(In millions of Won)

(1) Organization and Description of Business

Hyosung Corporation (the "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 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 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 Company merged Hyosung Media.

As of December 31, 2006, the Company's major 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
Others	22,334,445	64.17
Sub-total	32,956,970	94.69
Treasury stock	1,848,851	5.31
Total	34,805,821	100.00

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

(a) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use only by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

Notes to Non-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(a) Basis of Presenting Financial Statements, Continued

The accompanying non-consolidated financial statements include only the accounts of the Company, and do not include the accounts of any of its subsidiaries.

Effective January 1, 2006, the Company adopted Statement of Korea Accounting Standards No. 20 (*Related Party Disclosures*). The adoption of this standard did not have a significant impact on the accompanying financial statements.

(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 – sales of goods

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

(f) 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.

Notes to Non-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(g) 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.

(h) 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.

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.

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.

Notes to Non-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

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 security 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 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 principle 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 Non-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. Effective January 1, 2005, according to 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. 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 follows:

Description	Useful life (years)
Buildings	40
Structures	40
Machinery and equipment	5 ~ 10
Vehicles	5
Tools, furniture and fixtures	5

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, as of December 31, 2006 there were no capitalized interest costs.

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 an impairment loss as other expense amounting to none and ₩ 23,520 for the years ended at December 31, 2006 and 2005, respectively.

Notes to Non-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) Intangible assets

Intangible assets are stated at cost, less amortization computed using the straight-line method over their useful lives (5~25 years).

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

(l) 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.

(m) 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.

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.

(n) Discount (Premium) on Debentures

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.

(o) 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.

Notes to Non-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) Retirement and Severance Benefits, continued

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 non-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 non-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 non-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.

(p) 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.

(q) 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 W929.6 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 at the date of the transaction.

Notes to Non-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(r) 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 operations.

(s) 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.

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.

(t) 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.

Notes to Non-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) Provisions, Contingent Assets and Contingent Liabilities, continued

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.

(u) 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.

(v) Earnings (Loss) Per Share

Earnings 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.

(w) Use of Estimates

The preparation of the non-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 non-consolidated financial statements and related notes to the non-consolidated financial statements. Actual results could differ from those estimates.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(3) Restricted Deposits

Financial instruments which are restricted in use either as deposit for employees' retirement and severance benefits or collateral pledged for bank overdrafts as of December 31, 2006 and 2005 are as follows:

Account	Financial institution	2006	2005
Long-term financial instruments	Woori Bank and other	₩ 50	44
Deposits for severance benefits	Samsung Life Insurance and other	65,755	72,562
		₩ <u>65,805</u>	<u>72,606</u>

(4) Transfer of Accounts Receivable – Trade

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

	2006	2005
Accounts receivable – trade	₩ 320,357	382,370
Notes receivable – trade	18,495	22,029
	₩ <u>338,852</u>	<u>404,399</u>

(5) Inventories

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

	2006	2005
Merchandise	₩ 23,486	14,382
Finished goods	231,609	241,802
Work-in-process	20,539	19,846
Cosigned goods	5,948	7,660
Goods on consignment-in	577	583
Raw materials	66,478	89,918
Supplies	3,735	3,660
Goods-in-transit	13,749	9,082
Unfinished housing and office units	20,958	24,784
Temporary establishments for construction	67	108
Finished housing units	15,323	27,231
Building lots	103,389	135,604
	505,858	574,660
Less allowance for valuation loss	(8,930)	(12,837)
Balance	₩ <u>496,928</u>	<u>561,823</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(6) Other Current Assets

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

	<u>2006</u>	<u>2005</u>
Accrued interest income	₩ 429	1,012
Advance payments	40,722	51,855
Prepaid expenses	3,605	8,925
Deposits for guarantees	3,962	3,923
Derivatives	<u>878</u>	<u>434</u>
	₩ <u>49,596</u>	<u>66,149</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:

<u>Marketable securities recorded at fair value</u>	<u>Cost</u>	<u>Net asset</u>	<u>Book value</u>	
	<u>2006</u>	<u>2006</u>	<u>2006</u>	<u>2005</u>
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
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 (formerly, Ures Co., Ltd.)	30	9	9	9
Co&Tech	407	684	684	1,209
Kumho Tire Co., Inc.	10,000	12,600	12,600	15,850
OnMedia Corporation	<u>280</u>	<u>1,252</u>	<u>1,252</u>	<u>-</u>
	₩ <u>21,485</u>	<u>46,340</u>	<u>46,340</u>	<u>121,368</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(7) Available-for-sale Securities, Continued

(a) Equity securities, Continued:

Non-Marketable securities	Cost	Net asset or fair value	Book value	
	2006	2006	2006	2005
Kangwon Ilbo (note 1)	₩ 20	20	20	20
Ninex Co., Ltd. (note 2)	3,000	1,500	1,500	1,500
GM Daewoo Co., Ltd. (note 1)	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. (note 1)	3,000	3,000	3,000	3,000
KyongNam Shinmun (note 1)	30	30	30	30
Kihyup Finance Corp. (note 1)	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
OnMedia Corporation (note 1)	-	-	-	140
Hankook Economic Newspaper (note 2)	1,354	677	677	677
Korea Management Association Consulting (note 1)	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 (note 1)	518	518	518	518
Daegu Energy Environment (note 1)	-	-	-	10
Pos-Thai Steel Service (note 1)	1,225	1,225	1,225	1,225
	<u>21,102</u>	<u>11,018</u>	<u>11,018</u>	<u>10,653</u>
	42,587	57,358	57,358	132,021
Capital investments	<u>6,713</u>	<u>6,119</u>	<u>6,119</u>	<u>5,117</u>
	<u>₩ 49,300</u>	<u>63,477</u>	<u>63,477</u>	<u>137,138</u>

(note 1) These non-marketable securities are recorded at cost since fair value is not available or readily determinable.

(note 2) Impairment losses were incurred as the recoverable amounts are less than the book value.

(b) Debt securities

	2006	2005
Non-current assets:		
Subordinated debentures	₩ -	10
Government and municipal bonds	<u>7,109</u>	<u>6,866</u>
	<u>₩ 7,109</u>	<u>6,876</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(7) Available-for-sale Securities, Continued

(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:

	2006	2005
Balance at the beginning of year	₩ 45,292	55,042
Realized loss on sale of securities	(29,055)	-
Changes in unrealized gain (loss), net	1,781	7,430
Changes from tax effect	1	(17,180)
Balance at the end of year	₩ 18,019	45,292

(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			2006		
	Owned shares	Percentage of ownership(%)	Cost	Net asset value (*)	Book value
Gumoknongsan Co., Ltd. (note1)	45,000	75.00	₩ 225	225	225
Nautilus Hyosung Co., Ltd.	362,241	43.50	1,737	27,397	27,394
The Class Hyosung	769,230	84.75	5,200	4,492	4,492
Epiplus Co., Ltd.	3,000,000	33.64	6,019	6,019	6,019
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	3,300	3,300	3,300
Hyosung Construction Co., Ltd.	172,000	50.59	860	3,269	3,269
Hyosung Ebara	1,206,000	67.00	12,060	23,522	23,147
Hyosung Ebara Environment	1,220,000	81.33	12,200	11,271	11,536
Hyosung Wind Power Holdings Co., Ltd. (note1)	239,998	100.00	1,200	1,200	1,200
Hyosung Innotech Inc.	225,000	100.00	2,250	6,240	6,240
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
Hyosung Capital	4,000,000	100.00	20,000	68,492	68,492
Hyosung Investment & Development Corp.	94,000	58.75	470	15,328	14,698
Hyosung Trans World	60,000	100.00	300	9,152	9,152
Baoding Hyosung Tianwei Transformer Co., Ltd.	-	60.00	2,088	2,404	915
Beijing Hyosung Computer Technologies Co., Ltd. (note 2)	-	100.00	1,836	729	729
Beijing Hyosung Container Co., Ltd.	-	100.00	5,574	12,715	12,715
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 America Inc.	250,000	100.00	270,344	(78,947)	-

Notes to Non-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	2006				
	Owned shares	Percentage of ownership(%)	Cost	Net asset value (*)	Book value
Hyosung Brasil Industrial & Commercial LTDA	-	100.00	4,408	4,408	4,408
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	-	100.00	67,951	64,996	54,415
Hyosung Deutschland GmbH	490,000	100.00	74,014	1,360	1,360
Hyosung Europe S.R.L.	-	100.00	4,642	-	-
Hyosung Film (Jiaxing) Co., Ltd.	-	100.00	14,593	3,413	2,496
Hyosung H.K Ltd.	528,060	100.00	76,025	(10,671)	-
Hyosung Japan Co., Ltd.	490,000	100.00	17,420	2,795	1,900
Hyosung Lux embourg S.A	-	100.00	16,156	16,156	16,156
Hyosung Power Holdings Co., Ltd (note 1)	-	100.00	31,914	30,901	31,293
Hyosung Resources (Australia) Pty, Ltd. (note 1)	2,179,083	100.00	1,548	1,548	1,548
Hyosung Singapore Pte Ltd.	66,000	100.00	11,908	(9,945)	-
Hyosung Spandex (Guangdong) Co., Ltd.	45,305	100.00	45,352	36,793	21,091
Hyosung Spandex (Jiaxing) Co., Ltd.	-	100.00	52,658	50,864	54,862
Hyosung Steelcord (Nanjing) Co., Ltd.(note1)	-	100.00	4,746	4,746	4,746
Hyosung Steelcord(Qingdao) Co., Ltd.	-	100.00	47,321	29,697	29,165
Hyosung USA inc.	-	100.00	57,046	57,046	57,046
Lanka Synthetic Fibre Co., Ltd. (note 2)	148,930,000	98.31	22,447	-	-
OpCo GmbH (note1)	-	90.74	6,368	2,603	3,317
Thai Hyosung Co., Ltd. (note2)	-	49.00	35	-	-
Xepix Corp.	2,391,667	74.93	29,506	8,192	6,979
Zhangjiagang Xiaosha Coil Service Co., Ltd.	-	39.00	2,805	4,501	4,163
Total			<u>₩ 951,547</u>	<u>460,304</u>	<u>528,803</u>

(*) 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 deficiency position.

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

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HYOSUNG CORPORATION

Notes to Non-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	Owned shares	Percentage of ownership(%)	2005		
			Cost	Net asset value(*)	Book value
Nautilus Hyosung Co., Ltd.	362,241	43.50	₩ 1,737	11,595	11,591
The Class Hyosung	769,231	84.75	5,200	3,363	3,363
Aegis Hyosung	360,000	90.00	1,800	263	263
Capro Corp.	8,471,708	21.04	9,114	30,399	29,874
Hyosung ITX (ex. Teleservice Co., Ltd.) (note 3)	100,000	44.00	4,000	18,208	4,000
Hongjin Data Service (note1)	660,000	65.52	3,300	2,438	3,300
Hyosung Construction Co., Ltd.	172,000	50.59	860	4,343	4,343
Hyosung Ebara	1,206,000	67.00	12,060	19,711	19,711
Hyosung Ebara Environment	1,220,000	81.33	12,200	10,559	10,956
Hyosung Innotech Inc.	175,000	100.00	1,750	6,726	6,726
Hyosung Information System	173,000	50.00	865	12,891	12,891
Hyosung Capital	4,000,000	100.00	20,000	59,143	59,143
Hyosung Investment & Development Corp.	94,000	58.75	470	6,371	6,371
Hyosung Trans World	60,000	100.00	300	7,884	7,884
Baoding Hyosung Tianwei Transformer Co., Ltd.	-	60.00	2,084	1,328	1,328
Beijing Hyosung Computer Technologies Co.,Ltd. (note 2)	-	95.00	1,836	-	-
Beijing Hyosung Container Co., Ltd.	-	100.00	5,571	12,970	12,970
Beijing Hyosung Hitech Co., Ltd. (note 1)	-	70.00	255	-	255
Beijing Hyosung Food & Beverage Co., Ltd.(note 1)	-	95.00	1,499	(169)	1,499
Hico America Sales & Tech.(note 1)	2,000	100.00	1,287	1,287	1,287
Hyosung America Inc.	130,000	100.00	150,430	(207,726)	-
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	-	100.00	67,951	66,694	56,113
Hyosung Deutschland GmbH	490,000	100.00	74,008	1,360	1,360
Hyosung Europe S.R.L.	-	100.00	2,733	-	2,733
Hyosung Film (Jiaxing) Co., Ltd.	-	100.00	14,593	7,232	7,232
Hyosung H.K Ltd.	453,960	100.00	66,841	(20,041)	-
Hyosung Japan Co.,Ltd.	490,000	100.00	17,248	3,853	3,853
Hyosung Resources (Australia) Pty, Ltd. (note 1)	2,164,359	100.00	1,498	1,602	1,506
Hyosung Singapore Pte Ltd.	400	100.00	11,908	(20,611)	-
Hyosung Spandex (Guangdong) Co., Ltd.	45,305	100.00	45,305	38,133	23,031

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HYOSUNG CORPORATION

Notes to Non-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 (continued)				
	Owned shares	Percentage of ownership(%)	Cost	Asset value(*)	Book value
Hyosung Spandex (Jiaxing) Co., Ltd.	-	100.00	52,658	62,706	62,706
Hyosung Steelcord(Qingdao) Co., Ltd.	-	100.00	37,546	26,726	26,726
Lanka Synthetic Fibre Co., Ltd. (note 2)	148,930,000	98.31	22,447	-	-
Thai Hyosung Co., Ltd. (note2)	-	49.00	35	-	-
Xepix Corp.	2,391,667	74.93	27,213	6,608	8,886
Zhangjiagang Xiaosha Coil Service Co., Ltd.	-	39.00	2,805	4,394	4,394
Total			<u>₩ 681,407</u>	<u>180,240</u>	<u>396,295</u>

(*) 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 deficiency position.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(8) Equity Method Investments , Continued

(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
Nautilus Hyosung	₩ (5)	-	(2)	(3)
Capro Corp.	(524)	-	(150)	(374)
Hyosung ITX (ex. Teleservice Co., Ltd.) (note 3)	-	(4,370)	(874)	(3,496)
Hyosung Ebara Environment	398	-	132	266
Hyosung Power Holdings Co., Ltd	-	489	98	391
OpCo GmbH	-	1,028	206	822
Xepix Corp.	2,277	-	1,437	840
₩	<u>2,146</u>	<u>(2,853)</u>	<u>847</u>	<u>(1,554)</u>

Affiliate	2005			
	Beginning balance	Increase	Amortized amount	Balance at December 31, 2005
Nautilus Hyosung	₩ 6	-	(11)	(5)
Capro Corp.	(674)	-	150	(524)
Hyosung Ebara Environment	530	-	(132)	398
Xepix Corp.	3,715	-	(1,438)	2,277
₩	<u>3,577</u>	<u>-</u>	<u>(1,431)</u>	<u>2,146</u>

Notes to Non-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)
Hyosung Ebara	(359)	-	(359)
Hyosung Innotech Inc.	(2)	-	(2)
Hyosung Investment & Development Co.	762	-	762
Hyosung Film (Jiaxing) Co., Ltd.	(21)	(98)	(119)
Hyosung Japan Co., Ltd.	111	-	111
Hyosung Spandex (Guangdong) Co., Ltd.	(7)	(66)	(73)
Hyosung Spandex (Jiaxing) Co., Ltd.	(5)	-	(5)
Hyosung Steelcord (Qingdao) Co., Ltd.	1,257	(41)	1,216
Zhangjiagang Xiaosha Coil Service Co., Ltd.	114	-	114
	₩ <u>1,406</u>	<u>(205)</u>	<u>1,201</u>

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

Affiliate	Beginning balance	Adjustment to			Balance at December 31, 2006
		Net income (loss)	Capital adjustments	Other increase (decrease)	
Nautilus Hyosung Co., Ltd. (note 4)	₩ 11,591	15,804	-	-	27,395
The Class Hyosung (note 1)	3,363	1,129	38	(38)	4,492
Aegis Hyosung	263	-	-	(263)	-
Capro Corp. (note 4)	29,874	(12,171)	(88)	(842)	16,773
Hyosung ITX (ex. Teleservice Co., Ltd.)(note 4)	4,000	2,271	(603)	(330)	5,338
Hyosung Construction Co., Ltd. (note 1)	4,343	(1,075)	-	-	3,268
Hyosung Ebara (note 1)	19,711	4,400	-	(965)	23,146
Hyosung Ebara Environment (note 1)	10,956	568	11	-	11,535
Hyosung Innotech Inc. (note 4)	6,726	(486)	(3,182)	3,182	6,240
Hyosung Information System (note 4)	12,891	3,523	-	(865)	15,549
Hyosung Capital (note 1)	59,143	9,348	-	-	68,491
Hyosung Investment & Development (note 1)	6,371	8,328	-	-	14,699
Hyosung Trans World (note 4)	7,884	1,268	-	-	9,152
Baoding Hyosung Tianwei Transformer Co.,Ltd(note 1)	1,328	(267)	(145)	-	916
Beijing Hyosung Containers Co., Ltd. (note 1)	12,970	405	(660)	-	12,715

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(8) Equity Method Investments, Continued

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

Affiliate	Beginning balance	Adjustment to			Balance at December 31, 2006
		Net income (loss)	Capital adjustments	Other increase (decrease)	
Hyosung America Inc. (note 5)	₩ -	-	-	-	-
Hyosung Chemical Fiber (Jiaxing)Co., Ltd. (note 1)	56,113	1,790	(3,488)	-	54,415
Hyosung Deutschland GmbH (note 4)	1,360	-	-	-	1,360
Hyosung Europe S.R.L. (note 5)	2,732	(4,642)	-	1,910	-
Hyosung Film(Jiaxing) Co., Ltd. (note 1)	7,232	(4,336)	(400)	-	2,496
Hyosung H.K Limited (notes 1,5)	-	-	-	-	-
Hyosung Japan Co., Ltd. (note 1)	3,853	(1,605)	(349)	-	1,899
Hyosung Power Holdings Co., Ltd (note 1)	-	(1,300)	679	31,914	31,293
Hyosung Singapore Pte Ltd. (note 5)	-	-	-	-	-
Hyosung Spandex(GuangDong) Co., Ltd. (note 1)	23,031	82	(2,022)	-	21,091
Hyosung Spandex (Jiaxing) Co., Ltd. (note 1)	62,706	(4,676)	(3,168)	-	54,862
Hyosung Steel Cord(Qingdao) Co.,Ltd. (note 1)	26,726	(5,800)	(1,536)	9,775	29,165
OpCo GmbH (note 1)	-	(3,093)	41	6,368	3,316
Xepix Corp. (note 4)	8,886	(1,361)	(546)	-	6,979
Zhangjiagang Xiaosha Coil Service Co., Ltd.(note 1)	4,394	11	(241)	-	4,163
Investments under cost method (note 3)	7,848	-	808	89,399	98,055
	₩ <u>396,295</u>	<u>8,115</u>	<u>(14,851)</u>	<u>139,245</u>	<u>528,803</u>

(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. Meanwhile, the valuation and others about the investee whose date of deemed acquisition is on December 31, 2006, is included

(note 4) Unaudited financial statements were used in the valuation as audited (or reviewed) financial statements were unavailable. The Company has performed verification procedures on the reliability of the unaudited financial statements.

(note 5) The equity method is no longer used as investments in investees have decreased to none. The unrecognized changes in equity for 2006 and prior thereto are ₩ 99,563 and ₩ 250,378, respectively.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(8) Equity Method Investments, Continued

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

Affiliate	Beginning balance	Adjustment to			Balance at December 31, 2005
		Net income (loss)	Capital adjustments	Other increase (decrease)	
Nautilus Hyosung Co., Ltd. (note 5)	₩ 8,949	2,547	95	-	11,591
The Class Hyosung (note 2)	2,200	(1,790)	(47)	3,000	3,363
Aegis Hyosung (note 2)	234	29	-	-	263
Capro Corp. (note 5)	31,764	(2,005)	115	-	29,874
Hyosung Construction Co., Ltd. (note 2)	5,277	(934)	-	-	4,343
Hyosung Ebara (note 5)	18,364	2,071	-	(724)	19,711
Hyosung Ebara Environment (notes 2,3)	10,298	669	(11)	-	10,956
Hyosung Innotech Inc. (note 2)	5,397	1,329	-	-	6,726
Hyosung Information System (notes 2,3)	10,059	3,417	65	(650)	12,891
Hyosung Capital (note 2)	51,049	8,094	-	-	59,143
Hyosung Investment & Development (note 2)	3,618	2,753	-	-	6,371
Hyosung Trans World (note 5)	6,241	1,643	-	-	7,884
Baoding Hyosung Tianwei Transformer Co., Ltd.(note 2)	2,084	(330)	(426)	-	1,328
Beijing Hyosung Containers Co., Ltd. (note 2)	12,086	936	(52)	-	12,970
Hyosung America Inc. (notes 1,3,5,6)	-	272	-	(272)	-
Hyosung Chemical Fiber (Jiaxing)Co., Ltd. (notes 2,3)	43,386	811	(506)	12,422	56,113
Hyosung Deutschland GmbH (notes 1,2)	1,563	45	(248)	-	1,360
Hyosung Film(Jiaxing) Co., Ltd. (notes 2,3)	11,960	(4,649)	(79)	-	7,232
Hyosung H.K Limited (notes 1,5,6)	-	-	-	-	-
Hyosung Japan Co., Ltd. (note 2)	5,173	(759)	(561)	-	3,853
Hyosung Singapore Pte Ltd. (notes 1,3,5,6)	-	(8)	-	8	-

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(8) Equity Method Investments, Continued

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

Affiliate	Beginning balance	Adjustment to			Balance at December 31, 2005
		Net income (loss)	Capital adjustments	Other increase (decrease)	
Hyosung Spandex(GuangDong) Co., Ltd. (notes 2,3)	36,745	(13,802)	88	-	23,031
Hyosung Spandex (Jiaying) Co., Ltd. (note 2)	67,790	(4,651)	(433)	-	62,706
Hyosung Steel Cord(Qingdao) Co.,Ltd. (notes 2,3)	17,045	(6,889)	(573)	17,143	26,726
Hyosung Vina Co., Ltd. (note 3)	4,062	-	-	(4,062)	-
Xepix Corp. (note 2)	15,709	(6,742)	(81)	-	8,886
Zhangjiagang Xiaosha Coil Service Co., Ltd.(note 2)	4,543	(128)	(21)	-	4,394
Investments under cost method (note 4)	9,910	-	-	4,670	14,580
	<u>₩ 385,506</u>	<u>(18,071)</u>	<u>(2,675)</u>	<u>31,535</u>	<u>396,295</u>

(note 1) The beginning balance has been adjusted to reflect the correction of errors in prior periods' accounting treatments

(note 2) Audited financial statements were used in the valuation.

(note 3) 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 4) The equity method has not been used, for its effect on investment balances is immaterial.

(note 5) Unaudited financial statements were used in the valuation as audited (or reviewed) financial statements were unavailable. The Company has performed verification procedures on the reliability of the unaudited financial statements.

(note 6) The equity method is no longer used as investments in the investees have decreased to none. The unrecognized changes in equity for 2005 and prior thereto are ₩ 250,378 and ₩ 249,861, respectively.

Notes to Non-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
Nautilus Hyosung Co., Ltd.	₩ 229,161	166,181	273,350	36,325
The Class Hyosung	15,214	9,913	103,795	1,332
Capro Corp.	471,838	390,890	505,248	(60,655)
Hyosung ITX (ex. Teleservice Co., Ltd.)	35,376	16,043	116,753	3,139
Hyosung Construction Co., Ltd.	51,539	45,078	13,591	(2,125)
Hyosung Ebara	78,731	43,623	105,395	6,031
Hyosung Ebara Environment	24,728	10,870	48,886	862
Hyosung Innotech Inc.	12,076	5,835	20,977	(488)
Hyosung Information System	96,122	65,025	174,558	7,046
Hyosung Capital	719,633	651,141	82,273	9,348
Hyosung Investment & Development	73,200	47,110	55,450	15,472
Hyosung Trans World	22,007	12,856	94,126	1,268
Baoding Hyosung Tianwei Transformer Co., Ltd	17,123	13,117	14,410	(446)
Beijing Hyosung Container Co., Ltd.	16,451	3,736	10,981	405
Hyosung America Inc.	143,342	222,289	341,022	127
Hyosung Chemical Fiber (Jiaxing)Co., Ltd.	171,080	106,083	85,583	1,790
Hyosung Europe S.R.L.	29,451	29,076	67,482	213
Hyosung Film (Jiaxing) Co., Ltd	29,489	26,076	10,195	(4,455)
Hyosung H.K Limited	3,973	14,644	77,619	660
Hyosung Japan Co., Ltd.	47,454	44,659	262,158	(1,494)
Hyosung Power Holdings Co., Ltd	30,901	-	-	(1,203)
Hyosung Singapore Pte Ltd.	10,536	20,481	115,618	1,322
Hyosung Spandex (GuangDong) Co., Ltd	134,695	97,902	79,258	9
Hyosung Spandex (Jiaxing) Co., Ltd.	119,181	68,317	73,151	(4,532)
Hyosung Steel Cord (Qingdao) Co., Ltd	114,300	84,603	31,967	(4,584)
OpCo GmbH	7,712	4,844	1,244	(3,182)
Xepix Corp.	10,266	2,074	2,867	102
Zhangjiagang Coil Service Co., Ltd.	18,917	7,376	28,769	321
	₩ 2,734,496	2,209,842	2,796,726	2,608

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies

(a) Details of parent and subsidiary relationships as of December 31, 2006 are as follows:

Controlled subsidiary	Location	Percentage of ownership (%)
Gumoknongsan Co., Ltd.	South Korea	75.00
Nautilus Hyosung Co., Ltd.	South Korea	43.50
The Class Hyosung	South Korea	84.75
Epiplus Co., Ltd.	South Korea	33.64
Aegis Hyosung	South Korea	90.00
Hyosung ITX (ex. Teleservice Co., Ltd.)	South Korea	44.44
Hongjin Data Service	South Korea	65.52
Hyosung Construction Co., Ltd.	South Korea	50.59
Hyosung CTX Co., Ltd.	South Korea	44.44
Hyosung Ebara	South Korea	67.00
Hyosung Ebara Environment	South Korea	81.33
Hyosung Wind Power Holdings Co., Ltd.	South Korea	100.00
Hyosung Innotech Inc.	South Korea	100.00
Hyosung Capital	South Korea	100.00
Hyosung Investment & Development Corp.	South Korea	58.75
Hyosung Trans World	South Korea	100.00
Baoding Hyosung Tianwei Transformer Co., Ltd.	China	60.00
Beijing Hyosung Computer Technologies Co., Ltd.	China	100.00
Beijing Hyosung Container Co., Ltd.	China	100.00
Beijing Hyosung Hitech Co., Ltd.	China	70.00
Beijing Hyosung Food & Beverage Co., Ltd.	China	95.00
HICO America Sales & Tech.	USA	100.00
Hyosung America Inc.	USA	100.00
Hyosung Brasil Industrial & Commercial LTDA	Brasil	100.00
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	China	100.00
Hyosung Deutschland GmbH	Germany	100.00
Hyosung Europe S.R.L.	Italy	100.00
Hyosung Film (Jiaxing) Co., Ltd.	China	100.00
Hyosung H.K Ltd.	China	100.00
Hyosung Japan Co., Ltd.	Japan	100.00
Hyosung Lux embourg S.A	Luxemburg	100.00
Hyosung Power Holdings Co., Ltd	Cayman Islands	100.00
Hyosung Resources (Australia) Pty, Ltd.	Australia	100.00
Hyosung Singapore Pte Ltd.	Singapore	100.00
Hyosung Spandex (Guangdong) Co., Ltd.	China	100.00
Hyosung Spandex (Jiaxing) Co., Ltd.	China	100.00
Hyosung Steelcord (Nanjing) Co., Ltd.	China	100.00
Hyosung Steelcord (Qingdao) Co., Ltd.	China	100.00
Hyosung USA inc.	USA	100.00
Lanka Synthetic Fibre Co., Ltd.	Sri Lanka	98.31
OpCo GmbH	Germany	90.74
Thai Hyosung Co., Ltd.	Thailand	49.00
Xepix Corp.	USA	74.93
Zhangjiagang Xiaosha Coil Service Co., Ltd.	China	39.00

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies, Continued

(b) 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:

Related company	Sales to		Purchases from		Other income	
	2006	2005	2006	2005	2006	2005
Nautilus Hyosung Co., Ltd.	₩ 1,242	1,161	16,072	13,974	279	238
The Class Hyosung	1,278	3,102	14	27	5	-
Aegis Hyosung	3	-	26	-	-	-
Hyosung ITX (ex. Teleservice Co., Ltd.)	28	9	1,532	1,502	1	3
Hongjin Data Service	-	-	47	-	-	-
Hyosung Construction Co., Ltd.	3,967	-	12,830	10,690	568	378
Hyosung Ebara	17,356	16,580	533	430	339	481
Hyosung Ebara Environment	1,799	1,220	7,120	6,840	62	364
Hyosung Innotech Inc.	-	-	509	240	9	11
Hyosung Capital	-	-	31	-	8	-
Hyosung Investment & Development Corp.	31,484	12,642	-	-	-	-
Hyosung Trans World	-	90	87,274	89,283	25	4
Baoding Hyosung Tianwei Transformer Co., Ltd.	-	362	-	-	10	8
Beijing Hyosung Container Co., Ltd.	-	-	-	-	7	13
HICO America Sales & Tech.	862	-	862	982	-	-
Hyosung America Inc.	213,487	215,863	7,483	7,354	61	-
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	11,108	17,815	33,100	41,898	123	27
Hyosung Deutschland GmbH	2,778	58,258	187	320	-	-
Hyosung Europe S.R.L.	36,349	5,007	5,444	21	-	-
Hyosung Film (Jiaxing) Co., Ltd.	7,948	4,076	803	-	-	62
Hyosung H.K Ltd.	25,855	39,498	17,424	4,117	-	-
Hyosung Japan Co., Ltd.	141,192	177,404	67,143	77,853	16	10
Hyosung Singapore Pte Ltd.	51,241	44,299	414	6,207	-	2
Hyosung Spandex (Guangdong) Co., Ltd.	19	99	-	1,913	275	282
Hyosung Spandex (Jiaxing) Co., Ltd.	4,420	4,500	819	1,024	28	-
Hyosung Steelcord(Qingdao) Co., Ltd.	43,331	13,530	8,448	37,466	179	42
OpCo GmbH	-	-	235	-	4	-
Xepix Corp.	-	-	2,863	-	-	-
Zhangjiagang Xiaosha Coil Service Co., Ltd.	13,087	21,094	10	-	-	-
Capro Corp.	858	3,186	249,947	332,258	-	-
Hyosung Information System	1	-	-	1	43	35
Nautilus Hyosung Tech INC.	25	16	-	11	-	-
Infobada Co., Ltd.	9	-	-	-	-	-
Nantong Yaubong Transformer Co., Ltd.	-	-	-	-	12	-
	₩ 609,727	639,811	521,170	634,411	2,054	1,960

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies, Continued

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

Related company	2006			
	Receivables		Payables	
	Accounts receivable	Other receivables	Accounts payable	Other payables
Nautilus Hyosung Co., Ltd.	₩ -	29	1,726	278
The Class Hyosung	-	-	-	-
Hyosung ITX (ex. Teleservice Co., Ltd.)	7	-	-	8
Hongjin Data Service	-	-	47	-
Hyosung Construction Co., Ltd.	4,186	56	2,376	59
Hyosung Ebara	1,925	40	117	24
Hyosung Ebara Environment	-	783	2,299	3
Hyosung Innotech Inc.	-	2	61	-
Hyosung Capital	-	-	-	3
Hyosung Trans World	-	4	105	12,650
Baoding Hyosung Tianwei Transformer Co., Ltd.	-	10	-	-
Beijing Hyosung Computer Technologies Co.,Ltd.	627	-	-	-
Beijing Hyosung Container Co., Ltd.	-	3	-	-
HICO America Sales & Tech.	-	-	-	565
Hyosung America Inc.	368	78	232	2,021
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	2,356	92	117	-
Hyosung Deutschland GmbH	3,760	692	19	36
Hyosung Europe S.R.L.	755	167	-	842
Hyosung H.K Ltd.	103	550	956	235
Hyosung Japan Co.,Ltd.	2,305	9	38,157	28
Hyosung Singapore Pte Ltd.	169	964	1	71
Hyosung Spandex (Guangdong) Co., Ltd.	4	525	-	-
Hyosung Spandex (Jiaxing) Co., Ltd.	4,368	11	-	-
Hyosung Steelcord(Qingdao) Co., Ltd.	2,279	214	717	-
OpCo GmbH	-	2	-	-
Capro Corp.	-	17	49,328	-
Hyosung Information System	-	7	-	-
Nantong Yaubong Transformer Co., Ltd.	-	12	-	-
Infobada Co., Ltd.	-	3	-	-
	₩ <u>23,212</u>	<u>4,270</u>	<u>96,258</u>	<u>16,823</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies, Continued

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

Related company	2005				
	Receivables		Payables		
	Accounts receivable	Other receivables	Accounts payable	Other payables	
Nautilus Hyosung Co., Ltd.	₩ -	13	1,798	89	
The Class Hyosung	1,954	-	-	3	
Hyosung ITX (ex. Teleservice Co., Ltd.)	-	-	-	11	
Hyosung Construction Co., Ltd.	-	31	3,682	468	
Hyosung Ebara	2,171	37	237	26	
Hyosung Ebara Environment	178	96	3,825	102	
Hyosung Innotech Inc.	-	1	-	99	
Hyosung Investment & Development Corp.	6,598	-	-	-	
Hyosung Trans World	-	1	-	13,062	
Baoding Hyosung Tianwei Transformer Co., Ltd.	-	5	-	-	
Beijing Hyosung Computer Technologies Co.,Ltd.	1,704	-	-	-	
Beijing Hyosung Container Co., Ltd.	-	2	-	-	
Hyosung America Inc.	1,643	210	116	400	
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	2,496	27	-	-	
Hyosung Deutschland GmbH	1,401	38	27	733	
Hyosung Europe S.R.L.	-	52	21	593	
Hyosung H.K Ltd.	112	781	-	246	
Hyosung Japan Co.,Ltd.	673	12	50,791	9	
Hyosung Singapore Pte Ltd.	194	637	1	83	
Hyosung Spandex (Guangdong) Co., Ltd.	-	282	-	-	
Hyosung Spandex (Jiaxing) Co., Ltd.	4,415	-	-	-	
Hyosung Steelcord(Qingdao) Co., Ltd.	-	-	1,058	-	
Zhangjiagang Xiaosha Coil Service Co., Ltd.	-	-	-	116	
Capro Corp.	-	118	74,522	-	
Hyosung Information System	-	4	-	-	
Nautilus Hyosung Tech INC.	-	3	-	-	
	₩	<u>23,539</u>	<u>2,350</u>	<u>136,078</u>	<u>16,040</u>

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

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies, Continued

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

Related company	2006		Type of loan
	Guaranteed amount	Financial institution	
Baoding Hyosung Tianwei Transformer Co., Ltd.	₩ 5,487	Woori Bank and other	Facility loans and other
Beijing Hyosung Container Co., Ltd.	2,417	Woori Bank	Facility loans and other
Hyosung America Inc.	177,554	Woori Bank and other	Foreign currency loan and other
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	55,776	The Export-Import Bank of Korea and other	Facility loans and other
Hyosung Europe S.R.L.	2,789	Korea Exchange Bank	Foreign currency loan and other
Hyosung H.K Ltd.	39,973	The Export-Import Bank of Korea and other	Foreign currency loan and other
Hyosung Japan Co.,Ltd.	92,731	Woori Bank and other	Foreign currency loan and other
Hyosung Singapore Pte Ltd.	13,944	Hana Bank and other	Foreign currency loan and other
Hyosung Spandex (Guangdong) Co., Ltd.	92,960	The Export-Import Bank of Korea and other	Facility loans and other
Hyosung Spandex (Jiaxing) Co., Ltd.	41,855	Bank of China	Facility loans and other
Hyosung Steelcord(Qingdao) Co., Ltd.	57,635	Woori Bank and other	Facility loans and other
OpCo GmbH	5,844	Woori Bank	Foreign currency loan and other
Nantong Yaubong Transformer Co., Ltd.	11,079	Woori Bank and other	Facility loans and other
	₩ <u>600,044</u>		

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(9) Transactions and Balance with Related Companies, Continued

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

Related company	2005		
	Guaranteed amount	Financial institutions	Type of loan
Baoding Hyosung Tianwei Transformer Co., Ltd.	₩ 3,257	Woori Bank and other	Facility loans and other
Beijing Hyosung Container Co., Ltd.	2,633	Woori Bank	Facility loans and other
Hyosung America Inc.	318,082	Woori Bank and other	Foreign currency loan and other
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	41,533	The Export-Import Bank of Korea and other	Facility loans and other
Hyosung Deutschland GmbH	7,091	Chohung Bank and other	Foreign currency loan and other
Hyosung Europe S.R.L.	3,039	Korea Exchange Bank	Foreign currency loan and other
Hyosung H.K Ltd.	52,676	The Export-Import Bank of Korea and other	Foreign currency loan and other
Hyosung Japan Co.,Ltd.	102,437	Woori Bank and other	Foreign currency loan and other
Hyosung Singapore Pte Ltd.	15,195	Hana Bank and other	Foreign currency loan and other
Hyosung Spandex (Guangdong) Co., Ltd.	101,300	The Export-Import Bank of Korea and other	Facility loans and other
Hyosung Spandex (Jiaxing) Co., Ltd.	42,401	Bank of China	Facility loans and other
Hyosung Steelcord(Qingdao) Co., Ltd.	62,806	Woori Bank and other	Facility loans and other
	₩ <u>752,450</u>		

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(10) Property, Plant and Equipment

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

Description		Net book value as of January 1, 2006	Acquisition	Disposal	Depreciation	Others	Net book value as of December 31, 2006
Land	₩	718,038	8,257	24,825	-	17,992	719,462
Buildings		462,114	13,492	4,668	15,129	43,159	498,968
Structures		92,917	1,449	-	3,133	289	91,522
Machinery and equipment		835,944	48,141	5,054	219,639	24,707	684,099
Construction-in- progress		51,548	87,920	-	-	(65,059)	74,409
Other plant assets		35,162	19,195	109	16,133	6,837	44,952
	₩	<u>2,195,723</u>	<u>178,454</u>	<u>34,656</u>	<u>254,034</u>	<u>27,925</u>	<u>2,113,412</u>

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

Description		Net book value as of January 1, 2005	Acquisition	Disposal	Depreciation	Others	Net book value as of December 31, 2005
Land	₩	728,983	38,007	48,952	-	-	718,038
Buildings		463,585	28,618	18,274	14,182	2,367	462,114
Structures		96,414	1,367	2,014	3,109	259	92,917
Machinery and equipment		1,008,750	84,791	27,999	268,057	38,459	835,944
Construction-in- progress		24,127	36,256	-	-	(8,835)	51,548
Other plant assets		47,005	9,710	33	18,471	(3,049)	35,162
	₩	<u>2,368,864</u>	<u>198,749</u>	<u>97,272</u>	<u>303,819</u>	<u>29,201</u>	<u>2,195,723</u>

(c) Insurance

As of December 31, 2006, buildings, machinery and equipment and others were insured for comprehensive coverage up to ₩ 3,521,944.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(11) Officially declared value of Land

The officially declared value of land, as announced by the Minister of Construction and Transportation, as of December 31, 2006 and 2005 are as follows:

Account	Book value		Standard value	
	2006	2005	2006	2005
Land	₩ 719,462	718,038	₩ 862,686	776,047

(12) Intangible Assets

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

	2006			2005		
	Industrial property rights	Facility rights	Other intangibles	Industrial property rights	Facility rights	Other intangibles
Beginning balance	₩ 2,625	275	15,853	2,344	389	22,723
Increases	1334	-	32	856	-	313
Amortization	(656)	(113)	(7,183)	(568)	(114)	(7,183)
Other decreases	-	-	-	(7)	-	-
Ending Balance	₩ 3,303	162	8,702	2,625	275	15,853

(13) Other Assets

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

	2006	2005
Long-term accounts receivable-trade, net	₩	604
Development cost for natural resources	3,351	3,723
	₩ 3,351	4,327

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(14) Government subsidy

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

The Company received ₩ 16,382 government subsidies for these projects, and as of December 31, 2006, ₩ 4,571 is included in other current liabilities and ₩ 6,280 is in long-term account payable-other.

(15) Pledged Assets and Guarantees Provided to Others

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

Asset	Lender	Type of borrowings	Borrowed amount	Book value	Collateralized amount
Available-for-sale securities	Hana Bank and other	Bank overdraft and other	₩ 35,692	7,620	7,620
Property, plant and equipment	Korea Development Bank and other	General loans	207,339	1,658,882	1,658,882
			₩ <u>243,031</u>	<u>1,666,502</u>	<u>1,666,502</u>

(16) Other Current Liabilities

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

	<u>2006</u>	<u>2005</u>
Advance receipts	₩ 42,124	57,964
Withholdings	7,816	13,750
Accrued expenses	12,888	11,713
Withholding deposits	<u>25,940</u>	<u>21,134</u>
	₩ <u>88,768</u>	<u>104,561</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(17) Debentures

(a) Details of debentures 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	4.60	30,000	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 225-1th debentures	2009.01.25	6.37	150,000	-
The 225-2th debentures	2011.01.25	7.02	30,000	-
The 229-1st debentures	2009.07.06	5.80	70,000	-
The 229-2th debentures	2011.07.06	6.14	30,000	-
The 230th debentures	2011.11.15	5.62	30,000	-
Total			1,085,000	1,045,000
Less current portion			(295,000)	(200,000)
Less discount			(1,651)	(1,545)
Net balance			₩ 788,349	843,455

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(18) Long-Term Debt

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

Lender	Type of debt	Interest rate	2006	2005
Local currency debt:				
Korea Development Bank	Facility and operating loans	3.50% ~ 6.20%	₩ 124,701	115,820
KDB Capital Co., Ltd	Facility loan	3.00%~3.50%	10,789	9,897
Korea Housing Guarantee Co., Ltd.	Operating loan	1.00%	4,400	4,800
Woori Bank	Operating loan	4.69%	50,000	50,000
Korea Exchange Bank	Operating loan	4.49%	20,000	50,000
			<u>209,890</u>	<u>230,517</u>
Foreign currency debt:				
Korea Development Bank	Facility loan	6.37% ~ 8.14%	21,980	33,145
The Export-Import Bank of Korea	Facility loan	6.78%	16,350	57,243
China Construction Bank	Facility loan	-	-	16,653
			<u>38,330</u>	<u>107,041</u>
			248,220	337,558
	Less current portion		(159,119)	(90,212)
			<u>₩ 89,101</u>	<u>247,346</u>

The long-term debt are payable either in lump-sum upon maturity or in installments.

Available-for-sale securities have been pledged for both local currency and foreign currency debt and property, plant and equipment have been pledged as collateral in relation to the long-term debt in local currency (note 15).

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

Fiscal year	Debentures	Local currency debt	Foreign currency debt	Total
2007	₩ 295,000	120,789	38,330	454,119
2008	480,000	12,589	-	492,589
2009	220,000	48,242	-	268,242
2010	-	9,075	-	9,075
Thereafter	90,000	19,195	-	109,195
	<u>₩ 1,085,000</u>	<u>209,890</u>	<u>38,330</u>	<u>1,333,220</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(19) Retirement and Severance Benefits

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

Fiscal year		2006	2005
Estimated severance accrual at beginning of year	₩	123,176	153,404
Payments		(38,435)	(56,933)
Transfer of severance accrual from an affiliate		44	76
Provision for retirement and severance benefits		27,883	26,628
Estimated severance accrual at end of year		112,668	123,175
Transfer to National Pension Fund		(1,758)	(2,594)
Deposit for severance benefit trust		(65,755)	(72,562)
Net balance at end of year	₩	45,155	48,019

The Company maintains these employees' severance benefit trust arrangement with Samsung Life Insurance Co. and other financial institutions. Under these arrangements, the Company made a deposit for an amount equal to 58.36% and 58.91% of the reserve balances of retirement and severance benefits as of December 31, 2006 and 2005, respectively. These deposits are to be used to guarantee the required payments to the retirees and accounted for as a reduction of the reserve balances.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(20) 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	
Cash and cash equivalents	USD	14,050,586	₩ 13,061	USD	18,804,340	₩ 19,049
	EUR	4,289,042	5,242	EUR	749,572	900
	JPY	394,788,173	3,087	JPY	146,061,862	1,256
	MYR	-	-	MYR	1,543,192	414
	BDT	-	-	BDT	51,735	1
Accounts receivable - trade	USD	54,070,325	50,264	USD	61,435,209	62,234
	EUR	4,246,544	5,190	EUR	6,511,570	7,815
	JPY	328,015,030	2,565	JPY	110,142,354	947
	MYR	1,027,060	270	MYR	-	-
Accounts receivable - other	USD	3,174,831	2,951	USD	1,908,960	1,934
	EUR	622,425	761	EUR	53,617	64
	JPY	2,578,205	20	JPY	2,246,742	19
Guarantee deposits	USD	4,759,336	4,424	USD	5,539,018	5,611
	EUR	913,581	1,117	EUR	-	-
	JPY	12,073,000	94	JPY	13,618,000	117
	MYR	3,398,320	895	MYR	593,452	159
Total assets	USD	76,055,078	₩ 70,700	USD	87,687,527	₩ 88,828
	EUR	10,071,592	12,309	EUR	7,314,759	8,779
	JPY	737,454,408	5,767	JPY	272,068,958	2,339
	MYR	4,425,380	1,165	MYR	2,136,644	573
	BDT	-	-	BDT	51,735	1
Accounts payable-trade	USD	218,329,194	₩ 202,958	USD	202,386,162	₩ 205,017
	EUR	2,232,677	2,728	EUR	3,456,961	4,149
	JPY	882,202,605	6,899	JPY	948,674,984	8,159
	CHF	307,125	234	CHF	5,283	4
	MYR	92,310	24	MYR	923,103	247
	SEK	-	-	SEK	327,000	42
	GBP	-	-	GBP	43,500	76
Accounts payable-other	USD	17,398,073	16,188	USD	17,603,883	17,833
	EUR	1,245,276	1,522	EUR	853,941	1,025
	JPY	75,145,246	588	JPY	169,435,196	1,457
Short-term borrowings	USD	133,750,592	124,335	USD	103,248,598	104,591
	EUR	8,936,089	10,922	EUR	6,974,427	8,370
	JPY	64,258,000	502	JPY	372,713,300	3,205
	CHF	712,500	542	CHF	-	-
Accrued expenses	USD	3,571,134	3,320	USD	3,558,035	3,604
	EUR	97,573	119	EUR	53,458	64
	JPY	90,358	1	JPY	810,402	7
	CHF	2,630	2	CHF	-	-
Advance receipts	USD	10,890,389	10,123	USD	4,481,793	4,540
	EUR	1,134,721	1,387	EUR	118,030	142
	JPY	9,658,563	76	JPY	14,430,398	124
Long-term debt	USD	41,232,800	38,330	USD	105,667,300	107,041

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(20) 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
Total liabilities	USD 425,172,182	₩ 395,254	USD 436,945,771	₩ 442,626
	EUR 13,646,336	16,679	EUR 11,456,817	13,750
	JPY 1,031,354,772	8,065	JPY 1,506,064,280	12,952
	CHF 1,022,255	778	CHF 5,283	4
	MYR 92,310	24	MYR 923,103	247
	SEK -	-	SEK 327,000	42
	GBP -	-	GBP 43,500	76

In connection with the above foreign currency translations, the ₩ 8,447 translation gains and ₩ 1,833 translation losses are included in other income (expense) in the accompanying non-consolidated statements of operations.

(21) Commitments and Contingencies

- (a) As of December 31, 2006, notes discounted with banks for which the Company remains contingently liable amount to ₩ 236,138 and ₩ 18,495, respectively, and the Company's remaining factoring payables amount to ₩ 10,744.
- (b) As of December 31, 2006, the Company pledged 8 notes in the aggregate amount of ₩ 12,042 to Samsung Corporation, and 6 blank checks and 8 blank notes have been provided to Korea Petrochemical Industrial Co., Ltd and others for the Company's certain debt and agreements as collateral
- (c) 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.
- (d) The Company is involved in various lawsuits and claims for alleged damages aggregating ₩1,829 as of December 31, 2006 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 Company's financial position, operating results or cash flows.
- (e) There are no pledged collateral or guarantees provided for third parties other than those in note 9.
- (f) The Company has overdraft facilities arrangements (within the limits of ₩ 263,500) with Woori Bank and others, and the Company also has trade bill discount and letter of credit payment guarantee agreements with The Korea Development Bank and other. Additionally, Korea Construction Financial Cooperative pledges its guarantee (within the limits of ₩ 514,880) for the construction performance by the Company.
- (g) Fair Trade Commission is conducting an investigation as to the PET products price collusion of the Company's chemical performance group.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(22) Derivative Instruments

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

Transaction purpose	Description		2006	2005
	Foreign currency forward (thousand USD)	USD	5,775	-
Fair value hedge	Insurance for variations in foreign exchange rates (thousand EUR)	EUR	5,934	2,061
	Insurance for variations in foreign exchange rates (thousand USD)	USD	14,582	-

(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.

(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
	Foreign currency forward	₩	768	-
Fair value hedge	Insurance for variations in foreign exchange rates		110	453
		₩	878	453

(23) Shareholders' Equity

Transactions in the shareholders' equity accounts, except accumulated deficit and capital adjustments, for the years ended December 31, 2006 and 2005 are summarized as follows:

	Number of shares	Common stock	Capital surplus
Balance at January 1, 2005	32,885,205 ₩	164,426	1,367,895
Exercise of detachable stock warrants	1,920,616	9,603	6,580
Balance at December 31, 2005	34,805,821	174,029	1,374,475
Disposition of deficit	-	-	(210,462)
Balance at December 31, 2006	34,805,821 ₩	174,029	1,164,013

(a) In accordance with the Korean Assets Revaluation Act, the Company revalued certain of its property and equipment as of 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 Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(23) Shareholders' Equity, Continued

- (b) As of December 31, 2006, 1,848,851 shares out of 34,805,821 shares owned by Hyosung Corporation lost its voting rights due to the treasury stock restriction, as stated in clause 3 of Article 369 of the Korea Commercial Code.

(24) Accumulated Deficit

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

	2006	2005
Legal reserve	₩ -	9,099
Reserve for research and human resource development	-	76,666
Reserve for acquisition of equipment	-	210,000
Additional Paid-in and Other Capital	-	210,462
	₩ -	506,227

(a) Legal reserve

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or transferred to common stock in connection with a free issue of shares.

(b) Reserve established for tax purposes

Under the Special Tax Treatment Control Law, the Company is allowed to make certain deduction from taxable income. The Company, however, is required to establish a reserve for research and human resource development by appropriating the amount of deductions from retained earnings.

(25) Capital Adjustments

Details of capital adjustments as of December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Treasury stock	₩ (34,204)	(34,204)
Unrealized gain on valuation of available-for-sale securities	18,019	45,292
Gain on valuation of investments in affiliates using equity method	29,027	31,660
Loss on valuation of investments in affiliates using equity method	(45,449)	(33,231)
Overseas operations translation adjustments	(1,669)	(1,620)
	₩ (34,276)	(7,897)

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(26) 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	₩ 43,767	39,272
Bonuses	23,533	19,585
Provision for retirement and severance benefits	7,360	6,200
Other employee benefits	5,712	5,442
Training	1,733	1,814
Travel	8,371	8,224
Vehicle maintenance	1,817	1,738
Communications	2,906	3,040
Publications and printing	810	761
Taxes and dues	4,894	5,132
Insurance	1,125	1,249
Rent	6,099	4,427
Depreciation	12,394	11,387
Amortization	7,490	7,477
Repairs	195	432
Supplies	462	506
Branch maintenance	12,161	12,674
Utilities	204	362
Advertising	11,059	10,578
Samples	1,877	3,112
Freight	25,907	25,808
Commissions	17,563	15,883
Exporting	127,687	128,422
Entertainment	4,194	3,884
Research and development	49,638	41,021
Bad debts	5,954	46,017
Services	4,573	4,211
Sales promotion	2,912	2,798
Other	8,014	9,784
	₩ <u>400,411</u>	<u>421,240</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(27) Income taxes

- (a) The Company is subject to a number of income taxes on taxable income at the following normal tax rates:

<u>Taxable income</u>	<u>Prior to 2005</u>	<u>Thereafter</u>
Up to ₩100 million	16.5%	14.3%
Over ₩100 million	29.7%	27.5%

In December 2003, the Korean government reduced the corporate income tax rate (including resident tax) beginning in 2005. Effective January 1, 2005, the income tax rate was reduced from 29.7% to 27.5%.

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

	2006	2005
Current income tax expense	₩ 5,947	14,690
Changes in deferred taxes	54,360	(6,875)
Income taxes directly charged to equity	(31,129)	(17,037)
	₩ 29,178	(9,222)

- (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 (benefit) for income taxes at normal tax rates	₩ 30,987	(19,097)
Tax effects of permanent differences	5,316	26,692
Tax credits	(4,521)	(2,399)
Income taxes directly charged to equity	(31,129)	(17,037)
Tax effects of unrecognized deferred income tax assets, net	(435)	(5,571)
Other	28,960	8,190
Actual provision (benefit) for income taxes	₩ 29,178	(9,222)

- (c) The effective tax rate, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, was approximately 25.88 % in 2006.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(27) 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 ₩	-	29,595
Inventory valuation loss	2,456	3,530
Impairment loss on investments	4,661	4,712
Accumulated depreciation in excess of tax limit	5,712	5,712
Provision for equity in loss of affiliates	27,380	68,854
Other	<u>26,601</u>	<u>1,571</u>
Total deferred tax asset	<u>66,810</u>	<u>113,974</u>
Deferred tax liabilities:		
Reserve for research and human resource development	11,000	16,500
Other	<u>47,723</u>	<u>31,774</u>
Total deferred tax liabilities	<u>58,723</u>	<u>48,274</u>
Carryover of deficit	<u>3,254</u>	-
Net deferred tax asset	<u>₩ 11,341</u>	<u>65,700</u>

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.

- (e) 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	<u>37,617</u>	<u>10,345</u>
	<u>₩ (113,198)</u>	<u>(31,129)</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(27) Income taxes, Continued

- (f) 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	Won	
		Deferred tax assets (liabilities)	
		Current	Non-current
Assets:			
Allowance for doubtful accounts	₩ -	-	-
Inventory valuation loss	8,930	2,456	-
Impairment loss on investments	16,949	-	4,661
Accumulated depreciation in excess of tax limit	20,770	-	5,712
Provision for equity in loss of affiliates	99,563	-	27,380
Other	<u>96,733</u>	<u>1,820</u>	<u>24,781</u>
	<u>242,945</u>	<u>4,276</u>	<u>62,534</u>
Liabilities:			
Reserve for research and human resource development	40,000	-	11,000
Other	<u>173,543</u>	<u>359</u>	<u>47,365</u>
	<u>213,543</u>	<u>359</u>	<u>58,365</u>
Carryover of deficit	<u>2,958</u>	<u>-</u>	<u>3,255</u>
Net	₩ <u>32,360</u>	<u>3,917</u>	<u>7,424</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(28) 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.

	Won	
	2006	2005
Net income (loss)	₩ 83,550	(60,269)
Weighted-average number of common shares outstanding	<u>32,956,970</u>	<u>32,956,970</u>
Earnings (loss) per share in Won	<u>₩ 2,535</u>	<u>(1,829)</u>

Diluted earnings (loss) per share are calculated by dividing diluted net income (loss) by the weighted-average number of common and common equivalent stock outstanding.

	Won	
	2006	2005
Net income (loss)	₩ 83,550	(60,269)
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>₩ 2,521</u>	<u>(1,829)</u>

As of December 31, 2006, all of the bonds warranted were redeemed, and detachable warrants related to the Company's debentures will be exercised in exchange for 311,636 shares of common stock.

(29) Dividends

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

	Cash dividend
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	16,479

(note 1) 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:

	Cash dividend
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	83,550
Dividend payout ratio	19.72%

(note 1) The market price per share is the last quoted stock price of the Company's shares as of December 31, 2006.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(30) 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	₩ 70,776	45,034
Machinery-in-transit transferred to property, plant and equipment	4,959	5,421
Inventory transferred to construction-in-progress	-	35,907
Inventory transferred to property, plant and equipment	18,106	-
Gain (loss) on valuation of available-for-sale securities	(27,273)	(9,750)
Change in retained earnings due to application of equity method	(38)	4
Change in capital surplus due to application of equity method	₩ (14,851)	(5,421)

(31) 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	₩ 253,519	246,927
Retirement allowance and severance benefits	27,883	26,627
Other employee benefits	29,734	28,567
Rent	10,507	8,957
Depreciation	254,034	303,819
Amortization	7,952	7,865
Taxes and dues	₩ 25,734	19,676

(32) 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, unemployment and medical insurances. The amounts of welfare spending for the years ended December 31, 2006 and 2005 are ₩ 29,734 and ₩ 28,567, respectively.

The Company donated ₩ 1,520 and ₩ 749 to the Korea Red Cross and others for the years ended December 31, 2006 and 2005, respectively.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(33) 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
Yangsang 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 Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(33) 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 residing 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 residing 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
Secho 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
	<u>₩ 744,889</u>	<u>665,950</u>	<u>380,457</u>	<u>337,393</u>

(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	₩	422,901	458,117
New contracts		268,623	158,046
Total		691,524	616,163
Revenues recognized in current year		(228,047)	(193,262)
Outstanding contracts at the end of year	₩	<u>463,477</u>	<u>422,901</u>

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(33) 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 Bumaudong 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 Bumaudong Samo APT	-	-	140
Construction of Gwangjangdong Officetel	-	32	59
Construction of Banpo building	-	403	-
	₩ 5,197	47,064	(3,643)

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(34) Segment Information

(a) The Company has six reportable operating segments – Fabric Department, Industrial Materials Department, Chemical Department, Heavy Industries Department, Trading Department, and Other. The major products and services controlled by each Performance Group are as follows:

- a. Fabric PG: Nylon yarn fabric, spandex, pet yarn fabric, tire cord paper, technical yarn, bead wire, steel cord, medical/latticed fabrics, carpet, carmat and other
- b. Industrial Materials PG: Tire&industrial reinforcement, technical yarn, interior
- c. Chemical PG: Poly-propylene, pet bottle, nylon(pet) film and terephthalene
- d. Heavy Industries PG: Transformer, circuit breaker, power tower, motor, generator, decelerator and construction (housing and plant)
- e. Trading PG: Chemicals, machinery, steel, textile and lumber
- f. Other: Construction, leasing and other

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

Description	2,006						Total
	Fabric PG	Industrial Materials PG	Chemical PG	Heavy Industries PG	Trading PG	Other	
Sales:							
Sales to outside party	₩ 776,354	663,761	795,296	1,079,188	1,433,525	36,148	4,784,272
Inter-company sales between PGs	244,719	45,195	129,481	25,052	12,203	-	456,650
Total	₩ 1,021,073	708,956	924,777	1,104,240	1,445,728	36,148	5,240,922
Operating income	₩ (34,597)	13,079	49,294	92,426	(12,774)	4,157	111,585
Assets:	₩ 681,006	726,595	433,033	928,643	79,692	937,234	3,786,203
Current assets	189,666	141,409	82,294	482,996	66,057	33,453	995,875
Property, plant and equipment	491,340	585,186	350,739	445,647	13,635	903,781	2,790,328
Depreciation	108,440	72,372	43,104	14,833	539	22,698	261,986

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(34) Segment Information, Continued

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

Description	2,005						Total
	Fabric PG	Industrial Materials PG	Chemical PG	Heavy Industries PG	Trading PG	Other	
Sales:							
Sales to outside party	₩ 791,879	724,952	729,010	1,051,843	1,514,712	46,382	4,858,778
Inter-company sales between PGs	255,488	59,853	135,163	8,205	18,264	-	476,973
Total	₩ 1,047,367	784,805	864,173	1,060,048	1,532,976	46,382	5,335,751
Operating income	₩ (51,561)	56,624	21,898	46,305	5,856	5,749	84,871
Assets:	₩ 752,117	796,467	422,405	869,388	71,420	1,040,897	3,952,694
Current assets	222,942	166,219	101,913	517,317	60,541	44,239	1,113,171
Property, plant and equipment	529,175	630,248	320,492	352,071	10,879	996,658	2,839,523
Depreciation	138,788	76,234	60,943	14,499	386	20,833	311,683

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

Region	2006	2005
Northern and Central America	₩ 334,174	338,566
Asia	1,940,426	1,863,336
Europe	306,605	216,211
Other	114,385	109,776
Total	₩ 2,695,590	2,527,889

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(35) 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., Hyosung Deutschland GmbH, which are accounted for under the equity method.
- (b) The Company understated deferred tax liabilities of ₩15,767 before 2004, and the financial statements as of and for the year ended December 31, 2004 presented for comparative purposes have been restated to reflect the changes in retained earnings brought about as a result of correcting an accounting error. The yearly amounts of income taxes and deferred tax liability are summarized as follows:

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

- (c) The effects of correction of an accounting error 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 loss 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)	₩	30,388	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

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(In millions of Won)

(35) Prior Period Adjustments, Continued

(d) The effects of correction of an accounting error 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 (*)	After 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 loss 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
Gain (loss) on valuation of equity method investment	6,159	8,899	7,234	(103,979)
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)	₩ 50,781	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, 2005 business report.

Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the President of
Hyosung Corporation:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Hyosung Corporation (the "Company") as of December 31, 2006. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework (name of other standard, if used) issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2006 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2006. We did not review the Company's IACS subsequent to December 31, 2006. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Seoul, Korea
February 2, 2007

Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2006 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.