

Hyosung Corporation and Subsidiaries

**Consolidated Financial Statements
December 31, 2008**

Samil PricewaterhouseCoopers

Hyosung Corporation and Subsidiaries
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December 31, 2008

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Report of Independent Auditors

To the Shareholders and Board of Directors of
Hyosung Corporation

We have audited the accompanying consolidated balance sheet of Hyosung Corporation and subsidiaries as of December 31, 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended December 31, 2008, expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements for the year ended December 31, 2007, were audited by other auditors whose report dated March 21, 2008, expressed an unqualified opinion in those statements. We did not audit the financial statements of Nautilus Hyosung Inc. and certain other consolidated subsidiaries, whose financial statements represent 25.2% of the Company's consolidated total assets, before elimination of intercompany transactions, as of December 31, 2008, and 15.99% of the Company's consolidated total sales, before elimination of intercompany transactions, for the year then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for Nautilus Hyosung Inc. and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

We conducted our audit 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 audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyosung Corporation and subsidiaries as of December 31, 2008, and the results of their operations, the changes in its shareholders' equity and their cash flows for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the Republic of Korea.

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Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 1 to the consolidated financial statements, the subsidiaries newly included in the scope of consolidation in 2008 are Chin Hung International Inc. and eight other subsidiaries. NH Tech Inc. and two other subsidiaries are excluded from consolidation in 2008.

As discussed in Note 10 to the consolidated financial statements, the Company, in accordance with revised Statements of Korean Financial Accounting Standards No. 5, *Property, Plant and Equipment*, early adopted the new accounting policy and revalued its land. However, the prior year financial statements, presented herein for comparative purposes, have not been restated to reflect this change.

As discussed in Note 24 to the consolidated financial statements, the Company applied Financial Supervisory Service's Accounting Implementation Guide [2009-2], *Guidance criteria for designation of non-derivative instruments as foreign currency hedged item for cash flow hedge*.

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

Seoul, Korea
March 30, 2009

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| <p>This report is effective as of March 30, 2009, 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 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.</p> |
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Hyosung Corporation and Subsidiaries
Consolidated Balance Sheets
December 31, 2008 and 2007

(in millions of Korean won)

| | 2008 | 2007 |
|--|--------------|-------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Notes 3, 22 and 33) | ₩ 479,378 | ₩ 201,489 |
| Short-term financial instruments (Notes 3, 16 and 22) | 14,089 | 64,445 |
| Short-term loans receivable (Note 22) | 196,385 | 14,656 |
| Trade accounts receivable, net (Notes 4, 8, 9, 22, 23 and 35) | 1,309,232 | 806,722 |
| Other accounts receivable, net (Notes 8, 9 and 22) | 152,434 | 27,870 |
| Accrued income (Note 22) | 21,464 | 12,328 |
| Advance payments (Note 22) | 135,491 | 100,817 |
| Prepaid expenses | 33,794 | 16,227 |
| Derivatives (Note 24) | 15,121 | - |
| Current deferred income tax assets (Note 28) | 101,171 | 15,481 |
| Other current assets | 55,236 | 18,120 |
| Inventories, net (Notes 5, 8, 9 and 16) | 1,216,846 | 747,026 |
| Total current assets | 3,730,641 | 2,025,181 |
| Long-term financial instruments (Notes 3 and 22) | 72,926 | 54,041 |
| Available-for-sale securities (Notes 6 and 22) | 222,542 | 102,612 |
| Equity-method investments (Notes 7 and 16) | 82,409 | 77,566 |
| Long-term loans receivable | 4,472 | 3,223 |
| Investments in development | 973 | 1,300 |
| Property, plant and equipment, net (Notes 10, 15, 16 and 33) | 4,365,837 | 2,848,476 |
| Intangible assets, net (Notes 12 and 13) | 167,899 | 196,995 |
| Guarantee deposits (Note 22) | 137,406 | 82,977 |
| Deferred tax assets (Note 28) | 9,846 | 1,255 |
| Other non-current assets (Notes 11 and 22) | 12,305 | 4,559 |
| Other financial business assets (Notes 14 and 22) | 1,271,182 | 1,285,790 |
| Total assets | ₩ 10,078,438 | ₩ 6,683,975 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Trade accounts payable (Notes 8, 9, 16, 22 and 23) | ₩ 1,230,689 | ₩ 686,195 |
| Short-term borrowings (Notes 3, 9, 16, 22 and 23) | 1,747,495 | 1,115,235 |
| Current portion of long-term borrowings (Notes 9, 16, 17, 18, 22 and 23) | 902,191 | 503,849 |
| Other accounts payable (Notes 8, 9, 16, 22 and 23) | 224,431 | 147,411 |
| Income taxes payable (Notes 22 and 28) | 18,518 | 57,929 |
| Accrued expenses (Note 22) | 86,887 | 51,331 |
| Advance from customers (Notes 22 and 35) | 259,188 | 125,395 |
| Withholdings (Note 15) | 59,164 | 23,485 |
| Deposits received | 103,609 | 150,150 |
| Derivatives payable (Note 24) | 52,505 | - |
| Current deferred tax liabilities (Note 28) | 45 | 97 |
| Other current liabilities | 8,061 | 3,210 |
| Total current liabilities | 4,692,783 | 2,864,287 |
| Debentures, net (Notes 17 and 18) | 1,086,466 | 1,128,286 |
| Long-term borrowings, net (Notes 9, 16, 18, 22 and 23) | 1,164,001 | 836,547 |
| Long-term other accounts payable (Notes 15 and 22) | 8,331 | 6,140 |
| Long-term guarantee deposits received | 81,371 | 92,101 |
| Accrued severance benefits, net (Note 19) | 58,563 | 52,675 |
| Provision for construction warranties (Note 20) | 20,857 | 10,288 |
| Reserve for loss from equity-method investments | 545 | - |
| Deferred tax liabilities (Note 28) | 255,692 | 24,545 |
| Other non-current liabilities | 1,496 | 7,420 |
| Total liabilities | 7,370,105 | 5,022,289 |
| Commitments and contingencies (Note 23) | | |

Hyosung Corporation and Subsidiaries
Consolidated Balance Sheets
December 31, 2008 and 2007

| <i>(in millions of Korean won)</i> | 2008 | 2007 |
|---|---------------------|--------------------|
| Shareholders' equity (Note 25) | | |
| Capital stock | | |
| Common stock | ₩ 175,587 | ₩ 175,587 |
| Capital surplus (Note 27) | 1,175,272 | 1,174,078 |
| Capital adjustments | | |
| Treasury stock (Note 26) | (34,204) | (34,204) |
| Accumulated other comprehensive income and expense | | |
| Gain on valuation of available-for-sale securities (Notes 6 and 32) | 14,472 | 15,412 |
| Loss on valuation of available-for-sale securities (Notes 6 and 32) | (7,683) | - |
| Change in equity from equity-method (Notes 7 and 28) | 18,444 | 8,219 |
| Translation of foreign currency financial statements (Note 32) | 186,875 | (11,945) |
| Loss (Gain) on valuation of derivatives (Notes 24 and 28) | (34,895) | 184 |
| Surplus from revaluation (Note 32) | 676,614 | - |
| Retained earnings | 269,368 | 208,738 |
| Controlling interest in consolidated company | 2,439,850 | 1,536,069 |
| Minority interest in consolidated subsidiaries | 268,483 | 125,617 |
| Total shareholders' equity | <u>2,708,333</u> | <u>1,661,686</u> |
| Total liabilities and shareholders' equity | <u>₩ 10,078,438</u> | <u>₩ 6,683,975</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Hyosung Corporation and Subsidiaries
Consolidated Statements of Income
Years ended December 31, 2008 and 2007

(in millions of Korean won, except per share amounts)

| | 2008 | | 2007 | |
|--|-------------|-----------|-------------|-----------|
| Sales (Notes 8, 9, 35 and 36) | ₩ | 9,600,102 | ₩ | 7,130,717 |
| Cost of sales (Notes 8, 9, 35 and 36) | | 8,231,321 | | 6,019,742 |
| Gross profit | | 1,368,781 | | 1,110,975 |
| Selling and administrative expenses (Notes 8, 10, 12, 13, 19, 21,31 and 34) | | 884,949 | | 662,877 |
| Operating income | | 483,832 | | 448,098 |
| Non-operating income | | | | |
| Interest income | | 24,051 | | 13,971 |
| Dividend income | | 890 | | 1,229 |
| Rental income | | 616 | | 275 |
| Gain on foreign currency transactions | | 121,682 | | 37,472 |
| Gain on foreign currency translation (Note 22) | | 69,163 | | 5,627 |
| Gain on valuation of equity-method investments (Note 7) | | 4,339 | | 7,365 |
| Gain on disposal of investment assets | | 744 | | 13,846 |
| Gain on disposal of property, plant and equipment | | 3,285 | | 3,877 |
| Gain on derivative transactions (Note 24) | | 5,655 | | 1,433 |
| Gain on valuation of derivatives (Note 24) | | 11,507 | | 713 |
| Reversal of loss on investment assets | | 566 | | 14 |
| Reversal of allowance for doubtful accounts | | 15,613 | | - |
| Amortization of negative goodwill (Note 12) | | 6,459 | | - |
| Others | | 74,132 | | 30,868 |
| | | 338,702 | | 116,691 |
| Non-operating expenses | | | | |
| Interest expenses | | 186,657 | | 126,516 |
| Loss on disposal of trade accounts receivable | | 4,268 | | 3,654 |
| Loss on valuation of inventories | | 127 | | 42 |
| Loss on foreign currency transactions | | 208,209 | | 28,073 |
| Loss on foreign currency translation (Note 22) | | 109,508 | | 9,487 |
| Loss on disposal of investment assets | | 1,339 | | 22 |
| Loss on valuation of investment assets | | 514 | | 9,699 |
| Loss on disposal of property, plant and equipment | | 3,921 | | 6,027 |
| Impairment of property, plant and equipment | | 2,303 | | 3,457 |
| Donations | | 1,836 | | 1,293 |
| Commissions | | 45,398 | | 35,966 |
| Sales promotion | | 141 | | 128 |
| Loss on valuation of equity-method investments (Note 7) | | 7,609 | | 3,145 |
| Bad debts expense for other accounts receivable | | 13,219 | | 4,046 |
| Loss on valuation of derivatives (Note 24) | | 51,760 | | 1,873 |
| Loss on derivative transactions (Note 24) | | 72,668 | | 993 |
| Loss on impairment of goodwill (Note 12) | | 552 | | - |
| Loss on retirement of bonds | | 898 | | - |
| Others | | 23,081 | | 31,879 |
| | | 734,008 | | 266,300 |
| Income before income tax (benefit) | | 88,526 | | 298,489 |
| Income before the date of the acquisition of subsidiary | | - | | 10,413 |
| Income tax expense(benefit) (Note 28) | | (53,019) | | 89,885 |
| Net income | ₩ | 141,545 | ₩ | 198,191 |
| Parent interest in net income | ₩ | 118,487 | ₩ | 166,175 |
| Minority interest in net income | | 23,058 | | 32,016 |
| Basic earnings per share (Note 29) | ₩ | 3,561 | ₩ | 4,995 |
| Diluted earnings per share (Note 29) | ₩ | 3,561 | ₩ | 4,995 |

The accompanying notes are an integral part of these consolidated financial statements.

Hyosung Corporation and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
Years ended December 31, 2008 and 2007

(Dates of Appropriations : March 20, 2009 and March 14, 2008, for the years ended December 31, 2008 and 2007, respectively)

| | Capital stock | Capital surplus | Capital adjustments | Accumulated other comprehensive income and expense | Retained earnings | Minority interest | Total |
|--|------------------|--------------------|------------------------|--|----------------------|----------------------|-------------|
| <i>(in millions of Korean won)</i> | | | | | | | |
| Balances as of January 1, 2007 | ₩ 174,029 | ₩ 1,170,306 | ₩ (34,204) | ₩ (9,903) | ₩ 61,267 | ₩ 78,953 | ₩ 1,440,448 |
| Cash dividends | - | - | - | - | (16,478) | - | (16,478) |
| Retained earnings after appropriation | 174,029 | | | | 44,789 | 78,953 | 1,423,970 |
| Exercise of stock warrants | 1,558 | 604 | - | - | - | - | 2,162 |
| Change in consolidated capital surplus | - | 3,168 | - | - | - | - | 3,168 |
| Change in retained earnings from equity-method | - | - | - | - | 6,354 | - | 6,354 |
| Change in retained earnings - others | - | - | - | - | (8,580) | - | (8,580) |
| Net Income | - | - | - | - | 166,175 | - | 166,175 |
| Gain on valuation of available-for-sale securities | - | - | - | (2,659) | - | - | (2,659) |
| Gain on fair valuation of derivatives | - | - | - | 184 | - | - | 184 |
| Gain on valuation of equity-method | - | - | - | (6,420) | - | - | (6,420) |
| Loss on valuation of equity-method | - | - | - | (1,986) | - | - | (1,986) |
| Translation of foreign currency financial statements | - | - | - | 32,654 | - | - | 32,654 |
| Increase in minority interest | - | - | - | - | - | 46,664 | 46,664 |
| Balances as of December 31, 2007 | ₩ 175,587 | ₩ 1,174,078 | ₩ (34,204) | ₩ 11,870 | ₩ 208,738 | ₩ 125,617 | ₩ 1,661,686 |
| Balances as of January 1, 2008 | ₩ 175,587 | ₩ 1,174,078 | ₩ (34,204) | ₩ 11,870 | ₩ 208,738 | ₩ 125,617 | ₩ 1,661,686 |
| Cumulative effect in accounting change | - | - | - | - | 2,163 | - | 2,163 |
| Adjusted retained earnings | 175,587 | 1,174,078 | (34,204) | 11,870 | 210,901 | 125,617 | 1,663,849 |
| Cash dividends | - | - | - | - | (24,951) | - | (24,951) |
| Retained earnings after appropriation | 175,587 | 1,174,078 | (34,204) | 11,870 | 185,950 | 125,617 | 1,638,898 |
| Change in capital surplus from equity-method | - | 925 | - | - | - | - | 925 |
| Change in retained earnings from equity-method | - | - | - | - | (36,675) | - | (36,675) |
| Change in retained earnings - others | - | - | - | - | 1,606 | - | 1,606 |
| Net income | - | - | - | - | 118,487 | - | 118,487 |
| Gain on valuation of available-for-sale securities | - | - | - | (8,623) | - | - | (8,623) |
| Loss on valuation of derivatives | - | - | - | (35,080) | - | - | (35,080) |
| Gain on valuation of equity-method | - | 269 | - | 10,980 | - | - | 11,249 |
| Loss on valuation of equity-method | - | - | - | (755) | - | - | (755) |
| Reserve for revaluation | - | - | - | 676,614 | - | - | 676,614 |
| Translation of foreign currency financial statements | - | - | - | 198,821 | - | - | 198,821 |
| Increase in minority interest | - | - | - | - | - | 142,866 | 142,866 |
| Balances as of December 31, 2008 | ₩ 175,587 | ₩ 1,175,272 | ₩ (34,204) | ₩ 853,827 | ₩ 269,368 | ₩ 268,483 | ₩ 2,708,333 |

The accompanying notes are an integral part of these consolidated financial statements.

Hyosung Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2008 and 2007

(in millions of Korean won)

| | 2008 | | 2007 | |
|--|------|------------------|------|------------------|
| Cash flows from operating activities | | | | |
| Net income | ₩ | 141,545 | ₩ | 198,191 |
| Adjustments to reconcile net income | | | | |
| to net cash provided by operating activities | | | | |
| Provision for severance benefits | | 46,323 | | 44,883 |
| Depreciation | | 326,819 | | 309,447 |
| Amortization | | 43,839 | | 29,533 |
| Bad debts expense | | 12,424 | | 3,778 |
| Loss on disposal of trade accounts receivable | | 4,268 | | 3,654 |
| Loss on foreign currency translation | | 109,508 | | 9,487 |
| Loss on valuation of inventories | | 127 | | 42 |
| Loss on disposal of investment assets | | 1,339 | | 22 |
| Impairment loss on investment assets | | 514 | | 9,699 |
| Loss on disposal of property, plant and equipment | | 3,921 | | 6,027 |
| Impairment loss on property, plant and equipment | | 2,303 | | 3,457 |
| Loss on valuation of equity-method investments | | 7,609 | | 3,145 |
| Bad debts expense for other accounts receivable | | 13,219 | | 4,046 |
| Loss on valuation of derivatives | | 51,760 | | 1,873 |
| Amortization of discounts on issuance of debentures | | 1,140 | | 1,040 |
| Loss on retirement of bonds | | 898 | | - |
| Amortization of investments in development | | 327 | | 753 |
| Warranty expense for construction | | 9,436 | | 3,247 |
| Loss on impairment of goodwill | | 552 | | - |
| Gain on foreign currency translation | | (69,163) | | (5,627) |
| Gain on disposal of investment assets | | (744) | | (13,846) |
| Gain on disposal of property, plant and equipment | | (3,285) | | (3,877) |
| Reversal of impairment loss on investment assets | | (566) | | (14) |
| Gain on valuation of equity-method investments | | (4,339) | | (7,365) |
| Reversal of allowance for doubtful accounts | | (15,613) | | - |
| Amortization of negative goodwill | | (6,459) | | - |
| Gain on valuation of derivatives | | (11,507) | | (713) |
| | | <u>524,650</u> | | <u>402,691</u> |
| | | | | |
| Changes in operating assets and liabilities | | | | |
| Increase in trade accounts receivable | | (29,304) | | (242,705) |
| Increase (decrease) in other accounts receivable | | (58,996) | | 4,160 |
| Decrease (Increase) in accrued income | | 1,304 | | (832) |
| Increase in advance payments | | (20,124) | | (36,775) |
| Increase in prepaid expenses | | (15,998) | | (6,202) |
| Increase in other current assets | | (42,869) | | (13,129) |
| Increase (decrease) in inventories | | (338,731) | | 21,534 |
| Decrease in other financial business assets | | 14,608 | | (195,347) |
| Increase in deferred tax assets | | (88,705) | | (201) |
| Decrease in translation of foreign currency financial statements | | 195,758 | | 31,711 |
| Increase (decrease) in trade accounts payable | | 147,600 | | (19,211) |
| Increase in other accounts payable | | 161,978 | | 3,313 |
| Increase in advance from customers | | 86,532 | | 13,245 |
| Increase (Decrease) in withholdings | | 8,008 | | (5,228) |
| Increase in accrued expenses | | 22,551 | | 23,652 |
| Decrease (increase) in income taxes payable | | (42,225) | | 33,068 |
| Decrease (Increase) in deposits received | | (59,427) | | 46,520 |
| Increase (Decrease) in other current liabilities | | 2,516 | | (8,809) |
| Payment of severance benefits | | (28,410) | | (26,843) |
| Decrease in severance benefits deposits | | (16,178) | | (20,621) |
| Decrease in contribution to National Pension Fund | | 247 | | 254 |
| Decrease in provision for construction warranties | | (9,504) | | (912) |
| Increase in deferred tax liabilities | | 19,449 | | 34,283 |
| Decrease (Increase) in other non-current liabilities | | (22,893) | | 3,251 |
| | | <u>(112,813)</u> | | <u>(361,824)</u> |
| Net cash provided by operating activities | | <u>553,382</u> | | <u>239,058</u> |

Hyosung Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2008 and 2007

(in millions of Korean won)

| | 2008 | 2007 |
|--|------------------|------------------|
| Cash flows from investing activities | | |
| Proceeds from disposal of short-term financial instruments | ₩ 151,079 | ₩ - |
| Decrease in short-term loans receivable | 225,382 | - |
| Proceeds from disposal of long-term financial instruments | 540 | - |
| Proceeds from disposal of available-for-sale securities | 34,947 | 37,941 |
| Proceeds from disposal of equity-method investments | 1,057 | - |
| Decrease in long-term loans receivable | 1,456 | 435 |
| Proceeds from disposal of land | 10,740 | 10,375 |
| Proceeds from disposal of buildings | 9,530 | 15,553 |
| Proceeds from disposal of structures | - | 11 |
| Proceeds from disposal of machinery | 7,217 | 7,809 |
| Proceeds from disposal of vehicles | 1,105 | 635 |
| Proceeds from disposal of tools | 1,069 | 192 |
| Decrease in guarantee deposits | 15,886 | 23,520 |
| Proceeds from disposal of other investment assets | 902 | 6,678 |
| Proceeds from disposal of short-term financial instruments | (96,455) | (32,071) |
| Increase in short-term loans receivable | (174,202) | (9,953) |
| Acquisition of long-term financial instruments | (18,663) | (4,684) |
| Acquisition of available-for-sale securities | (114,227) | (10,100) |
| Acquisition of equity-method investments | (7,703) | (13,532) |
| Increase in long-term loans receivable | (2,889) | (1,526) |
| Acquisition of land | (18,120) | (19,760) |
| Acquisition of buildings | (150,820) | (21,499) |
| Acquisition of structures | (9,371) | (2,528) |
| Acquisition of machinery | (284,350) | (125,202) |
| Acquisition of vehicles | (4,539) | (3,038) |
| Acquisition of tools | (37,142) | (16,434) |
| Acquisition of construction in progress | (376,674) | (134,624) |
| Acquisition of machinery in transit | (11,013) | (28,616) |
| Acquisition of industrial property | (2,712) | (1,709) |
| Increase in goodwill | - | (25,961) |
| Acquisition of other intangible assets | (14,268) | (10,135) |
| Acquisition of guarantee deposits | (61,408) | (27,657) |
| Acquisition of other investment assets | (5,577) | - |
| Net cash used in investing activities | <u>(929,223)</u> | <u>(385,880)</u> |
| Cash flows from financing activities | | |
| Proceeds from short-term borrowings | 8,383,343 | 5,024,763 |
| Proceeds from issuance of debentures | 821,335 | 429,225 |
| Proceeds from long-term borrowings | 512,025 | 297,318 |
| Proceeds from issuance of common shares | - | 2,162 |
| Repayment of short-term borrowings | (8,279,983) | (5,081,517) |
| Payment of cash dividends | (24,951) | (16,478) |
| Repayment of current portion of long-term loans | (520,417) | (586,793) |
| Repayment of debentures | (278,947) | - |
| Repayment of long-term borrowings | (41,432) | - |
| Net cash provided by financing activities | <u>570,973</u> | <u>68,680</u> |
| Net increase in cash due to changes in subsidiaries | <u>82,757</u> | <u>31,887</u> |
| Net increase (decrease) in cash and cash equivalents | 277,889 | (46,255) |
| Cash and cash equivalents | | |
| Beginning of the year | <u>201,489</u> | <u>247,744</u> |
| End of the year | <u>₩ 479,378</u> | <u>₩ 201,489</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Hyosung Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

1. The Consolidated Company

The Controlling Company

Hyosung Corporation (the "Controlling Company") was established on November 3, 1966, as Tongyang Nylon Co., Ltd. and began its main operations on July 16, 1968. The Controlling Company subsequently changed its name to Hyosung T&C Co., Ltd. in 1996 and to Hyosung Corporation on September 15, 1998. The Controlling Company primarily manufactures and sells synthetic fiber products and electronic products, and is engaged in construction and other related business activities.

The Controlling Company has been listed on the Korea Stock 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. On February 7, 2001, the Controlling Company merged with Hyosung Media and on June 1, 2007, the Company merged with Hyosung Innotech Inc.

As of December 31, 2008, the Controlling Company's major stockholders are Cho Seok Rae (10.20%), Cho Hyun Joon (6.94%), Cho Hyun Moon (6.99%) and Cho Hyun Sang (6.73%).

Consolidated Subsidiaries

The consolidated financial statements include the accounts of Hyosung Corporation and its controlled subsidiaries (collectively the "Company").

The following table sets forth certain investment information with regard to consolidated subsidiaries as of December 31, 2008:

| <i>(in millions of Korean won)</i> | Location | Industry | Closing date | Capital | Percentage of ownership |
|---|----------|--|--------------|-----------|-------------------------|
| Subsidiaries included in consolidation | | | | | |
| Nautilus Hyosung Inc. | Korea | Computer system development | December 31 | ₩ 128,004 | 43.50% |
| The Class Hyosung Co., Ltd. | Korea | Sales of new motor vehicles | December 31 | 10,001 | 58.02% |
| StarLease Co., Ltd. | Korea | Financial Leasing | December 31 | 175,853 | 94.90% |
| Epiplus Inc. | Korea | Manufacture and sales of wafer and LED chip | December 31 | 5,636 | 52.41% |
| Chin Hung International Inc. | Korea | Construction | December 31 | 244,459 | 50.00% |
| Hyosung Construction Co., Ltd. | Korea | Construction | December 31 | 167 | 50.59% |
| Hyosung Ebara Co., Ltd. | Korea | Manufacture of liquid pumps | December 31 | 51,360 | 67.00% |
| Hyosung Ebara Engineering Co., Ltd. | Korea | Installation of environmental hygiene treatment appliances | December 31 | 17,947 | 81.33% |

Hyosung Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007

| | | | | | |
|---|----------------|---|-------------|----------|---------|
| Hyosung Capital Co., Ltd. | Korea | Factoring finance | December 31 | 97,675 | 100.00% |
| Hyosung Investment & Development Corp. | Korea | Development of real estate | December 31 | 55,483 | 58.75% |
| Hyosung Trans World Co., Ltd. | Korea | Transportation | December 31 | 12,774 | 100.00% |
| Baoding Hyosung Tianwei Transformer Co., Ltd. | China | Manufacture and sales of transformers | December 31 | 13,539 | 80.00% |
| Beijing Hyosung Container Co., Ltd. | China | Manufacture and sales of other plastic products | December 31 | 22,803 | 100.00% |
| Hyosung Holdings USA, Inc. | USA | Holding company | December 31 | 17,385 | 100.00% |
| Hyosung USA Inc. | USA | Manufacture and sales of tire cords | December 31 | 70,018 | 100.00% |
| HICO America Sales & Tech. | USA | General trading | December 31 | 19,639 | 100.00% |
| Hyosung America Inc. | USA | General trading | December 31 | (72,521) | 100.00% |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd. | China | Manufacture of polyester | December 31 | 163,281 | 100.00% |
| Hyosung Europe SRL | Italy | General trading | December 31 | 4,068 | 100.00% |
| Hyosung International Trade (Jiaxing) Co., Ltd. | China | General trading | December 31 | 1,560 | 100.00% |
| Hyosung Istanbul Tekstil Ltd.STI | Turkey | Manufacture and sales of spandex | December 31 | 19,300 | 100.00% |
| Hyosung Japan Co., Ltd. | Japan | General trading | December 31 | 7,156 | 100.00% |
| Hyosung Luxembourg S.A | Luxemburg | Manufacture and sales of tire cords | December 31 | 21,163 | 100.00% |
| Hyosung Participacoes Brasil Ltd. | Brazil | Manufacture and sales of tire cords | December 31 | 6,462 | 100.00% |
| Hyosung Power Holdings Co., Ltd. | Cayman Islands | Holding Company | December 31 | 64,920 | 100.00% |
| Hyosung Spandex (Guangdong) Co., Ltd. | China | Manufacture and sales of spandex | December 31 | 137,953 | 100.00% |
| Hyosung Spandex (Jiaxing) Co., Ltd. | China | Manufacture and sales of spandex | December 31 | 148,104 | 100.00% |
| Hyosung Spandex (Zhuhai) Co., Ltd. | China | Manufacture and sales of spandex | December 31 | 28,793 | 75.00% |
| Hyosung Steel Cord (Qingdao) Co., Ltd. | China | Manufacture and sales of steel cords | December 31 | 49,431 | 100.00% |
| Hyosung Vietnam Co., Ltd. | Vietnam | Manufacture and sales of tire cords | December 31 | 62,026 | 100.00% |
| Nantong Hyosung Transformer Co., Ltd. | China | Manufacture and sales of transformers | December 31 | 57,866 | 100.00% |
| Nantong Yaubong Transformer Co., Ltd. | China | Manufacture and sales of transformers | December 31 | 3,764 | 100.00% |
| Hyosung Steel Cord (Nanjing) Co., Ltd. | China | Manufacture and sales of steel cords | December 31 | 8,773 | 100.00% |
| OpCo GmbH | Germany | Manufacture of film | December 31 | (688) | 98.85% |
| Zhangjiagang Xiaosha Coil Service Co., Ltd. | China | Manufacture of steel products | December 31 | 17,744 | 39.00% |

Hyosung Corporation and Subsidiaries

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| | | | | | |
|--|-----------|--|-------------|-------|---------|
| Hyosung FMS Inc. | Korea | System and application software development and supply | December 31 | 2,819 | 100.00% |
| Beijing Hyosung Computer Technologies Co., Ltd. | China | Manufacture and sales of computer components | December 31 | 3,715 | 100.00% |
| Taeuk Construction Co., Ltd. | Korea | Construction | December 31 | 9,787 | 100.00% |
| Subsidiaries excluded from consolidation | | | | | |
| Gumoknongsan Co., Ltd. ¹ | Korea | Growing of other Crops | December 31 | 27 | 75.00% |
| Taeon Solar Farm Co., Ltd. ¹ | Korea | Photovoltaic power generation | December 31 | 2,196 | 100.00% |
| Hong Jin Data service Co. ¹ | Korea | Software development and supply | December 31 | 5,766 | 78.42% |
| Hyosung Wind Power Holdings Ltd. ¹ | Korea | Wind power generation | December 31 | 1,399 | 100.00% |
| Beijing Hyosung Food & Beverage Co., Ltd. ¹ | China | Restaurant business | December 31 | (382) | 95.00% |
| Hyosung Deutschland GmbH ² | Germany | General trading | December 31 | - | 100.00% |
| Hyosung (H.K) Ltd. ¹ | China | General trading | December 31 | 1,508 | 100.00% |
| Hyosung Resource (Australia) Pty Ltd. ¹ | Australia | Resources development | December 31 | 1,841 | 100.00% |
| Hyosung Singapore Pte Ltd. ¹ | Singapore | General trading | December 31 | (545) | 100.00% |
| Lanka Synthetic Fibre Co., Ltd. ² | Srilanka | Manufacture of polyester | December 31 | - | 98.31% |
| Thai Hyosung Co., Ltd. ² | Thailand | General trading | December 31 | - | 49.00% |
| Xepix Corp. ¹ | USA | LED research | December 31 | 4,925 | 74.93% |
| NH Tech Inc. ¹ | Korea | Management of computer facility | December 31 | 2,873 | 100.00% |
| KIS-BANK Inc. ¹ | Korea | System software development and supply | December 31 | 850 | 53.11% |
| Nautilus Hyosung America Inc. ¹ | USA | Sales of automated teller machines | December 31 | 4,620 | 100.00% |

¹ According to Paragraph 2-1, Article 1-3 of the Act on External Audit of Corporations, the subsidiary is excluded from consolidation in 2008 if its total assets are less than ₩ 7 billion at the end of prior fiscal year.

² According to Paragraph 2-2, Article 1-3 of the Act on External Audit of Corporations, the subsidiary is excluded from consolidation in 2008 if it is under liquidation or has not been in operation for a year and longer.

Hyosung Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

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The following table sets forth certain investment information with regard to consolidated subsidiaries as of December 31, 2007:

| <i>(in millions of Korean won)</i> | Location | Industry | Closing date | Capital | Percentage of ownership |
|---|----------------|--|--------------|-----------|-------------------------|
| Subsidiaries included in consolidation | | | | | |
| Nautilus Hyosung Inc. | Korea | Computer system development | December 31 | ₩ 106,439 | 43.50% |
| The Class Hyosung Co., Ltd. | Korea | Sales of new motor vehicles | December 31 | 9,076 | 58.02% |
| StarLease Co., Ltd. | Korea | Financial Leasing | March 31 | 165,111 | 94.90% |
| Epiplus Inc. | Korea | Manufacture and sales of wafer and LED chip | December 31 | 534 | 33.64% |
| NH Tech Inc. | Korea | Management of computer facility | December 31 | 2,147 | 43.50% |
| Hyosung Construction Co., Ltd. | Korea | Construction | December 31 | 3,910 | 50.59% |
| Hyosung Ebara Co., Ltd. | Korea | Manufacture of liquid pumps | December 31 | 42,085 | 67.00% |
| Hyosung Ebara Engineering Co., Ltd. | Korea | Installation of environmental hygiene treatment appliances | December 31 | 15,260 | 81.33% |
| Hyosung Capital Co., Ltd. | Korea | Factoring finance | December 31 | 87,245 | 100.00% |
| Hyosung Investment & Development Corp. | Korea | Development of real estate | December 31 | 44,966 | 58.75% |
| Hyosung Trans World Co., Ltd. | Korea | Transportation | December 31 | 10,592 | 100.00% |
| Baoding Hyosung Tianwei Transformer Co., Ltd. | China | Manufacture and sales of transformers | December 31 | 9,187 | 80.00% |
| Beijing Hyosung Container Co., Ltd. | China | Manufacture and sales of other plastic products | December 31 | 14,630 | 100.00% |
| Hyosung America Inc. | USA | General trading | December 31 | (104,457) | 100.00% |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd. | China | Manufacture of polyester | December 31 | 98,543 | 100.00% |
| Hyosung Europe SRL | Italy | General trading | December 31 | 2,733 | 100.00% |
| Hyosung Istanbul Tekstil Ltd. STI | Turkey | Manufacture and sales of spandex | December 31 | 9,354 | 100.00% |
| Hyosung Japan Co., Ltd. | Japan | General trading | December 31 | 3,183 | 100.00% |
| Hyosung Luxembourg S.A | Luxemburg | Manufacture and sales of tire cords | December 31 | 16,681 | 100.00% |
| Hyosung Power Holdings Co., Ltd. | Cayman Islands | Manufacture of transformers | December 31 | 29,673 | 100.00% |
| Hyosung Singapore Pte Ltd. | Singapore | General trading | December 31 | 9,813 | 100.00% |
| Hyosung Spandex (GuangDong) Co., Ltd. | China | Manufacture and sales of spandex | December 31 | 90,769 | 100.00% |
| Hyosung Spandex (Jiaxing) Co., Ltd. | China | Manufacture and sales of spandex | December 31 | 99,534 | 100.00% |

Hyosung Corporation and Subsidiaries
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| | | | | | |
|--|-----------|--|-------------|--------|---------|
| Hyosung Spandex (Zhuhai) Co., Ltd. | China | Manufacture and sales of spandex | December 31 | 22,374 | 75.00% |
| Hyosung Steel Cord (Qingdao) Co., Ltd. | China | Manufacture and sales of steel cords | December 31 | 33,057 | 100.00% |
| Hyosung USA Inc. | USA | Manufacture and sales of tire cords | December 31 | 76,928 | 100.00% |
| Hyosung Vietnam Co., Ltd. | Vietnam | Manufacture and sales of tire cords | December 31 | 25,341 | 82.32% |
| Nantong Hyosung Transformer Co., Ltd. | China | Manufacture and sales of transformers | December 31 | 24,192 | 100.00% |
| Nantong Yaubong Transformer Co., Ltd. | China | Manufacture and sales of transformers | December 31 | 4,604 | 100.00% |
| OpCo GmbH | Germany | Manufacture of film | December 31 | 1,827 | 98.19% |
| Xepix Corp. | USA | LED Research | December 31 | 3,676 | 74.93% |
| Zhangjiagang Xiaosha Coil Service Co., Ltd. | China | Manufacture of steel products | December 31 | 12,285 | 39.00% |
| Subsidiaries excluded from consolidation | | | | | |
| Gumoknongsan Co., Ltd. ¹ | Korea | Growing of other crops | December 31 | 125 | 75.00% |
| Hong Jin Data service Co. ¹ | Korea | Software development and supply | December 31 | 5,125 | 65.52% |
| Gangreng Wind Power ¹ | Korea | Development, construction and management of wind turbine plant | December 31 | 1,325 | 100.00% |
| Beijing Hyosung Hitech Co. ¹ | China | Manufacture of electronic components | December 31 | 12 | 70.00% |
| Beijing Hyosung Food & Beverage Co., Ltd. ¹ | China | Restaurant business | December 31 | - | 95.00% |
| HICO America Sales & Tech. ¹ | USA | General trading | December 31 | 788 | 100.00% |
| Hyosung Deutschland GmbH ² | Germany | General trading | December 31 | - | 100.00% |
| Hyosung (H.K) Ltd. ¹ | China | General trading | December 31 | 1,115 | 100.00% |
| Hyosung International Trade (Jiaxing) Co., Ltd. ¹ | China | General trading | December 31 | 1,053 | 100.00% |
| Hyosung Participacoes Brasil Ltd. ¹ | Brazil | Manufacture and sales of tire cords | December 31 | 6,603 | 100.00% |
| Hyosung Resource (Australia) Pty., Ltd. ¹ | Australia | Resources development | December 31 | 1,562 | 100.00% |
| Hyosung Steel Cord (Nanjing) Co., Ltd. ¹ | China | Manufacture and sales of steel cords | December 31 | 6,223 | 100.00% |
| Lanka Synthetic Fibre Co., Ltd. ² | Srilanka | Manufacture of polyester | December 31 | - | 98.31% |
| Thai Hyosung Co., Ltd. ² | Thailand | General trading | December 31 | - | 49.00% |

Hyosung Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

¹ According to Paragraph 2-1, Article 1-3 of the Act on External Audit of Corporations, the subsidiary is excluded from consolidation in 2007 if its total assets are less than ₩ 7 billion at the end of prior fiscal year.

² According to Paragraph 2-2, Article 1-3 of the Act on External Audit of Corporations, the subsidiary is excluded from consolidation in 2007 if it is in the process of liquidation or has not been in operation for a year and longer.

Changes in Consolidated Subsidiaries

The subsidiaries newly included in the scope of consolidation in 2008 and the respective reasons for inclusion are as stated below:

| Subsidiary | Reason |
|---|--|
| Chin Hung International Inc. | Newly acquired in the current year |
| HICO America Sales & Tech | Increase in total assets at the end of prior fiscal year |
| Hyosung International Trade (Jiaxing) Co., Ltd. | Increase in total assets at the end of prior fiscal year |
| Hyosung Participacoes Brasil Ltd. | Increase in total assets at the end of prior fiscal year |
| Hyosung Steel Cord (Nanjing) Co., Ltd. | Increase in total assets at the end of prior fiscal year |
| Hyosung Holdings USA, Inc. | Established through investments |
| Hyosung FMS Inc. | Increase in total assets at the end of prior fiscal year |
| Taeuk Construction Co., Ltd | Newly acquired in the current year |
| Beijing Hyosung Computer Technologies Co., Ltd. | Increase in total assets at the end of prior fiscal year |

The subsidiaries excluded from consolidation in 2008, although included in 2007, are as follows:

| Subsidiary | Reason |
|----------------------------|--|
| Hyosung Singapore Pte Ltd. | Decrease in total assets at the end of prior fiscal year |
| Xepix Corp. | Decrease in total assets at the end of prior fiscal year |
| NH Tech Inc. | Decrease in total assets at the end of prior fiscal year |

Hyosung Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

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2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

In 2008, the Company adopted the following new Statements of Korean Financial Accounting Standards (SKFAS) issued by the Korea Accounting Standards Board:

- SKFAS No. 5, *Property, Plant and Equipment (As Revised)*
- SKFAS No. 15, *Equity Method (As Revised)*
- SKFAS No. 20, *Related Party Disclosures (As Revised)*
- Korea Accounting Institute Opinion 06-2, *Deferred Income Taxes on Investments in Subsidiaries, Associates and Interests in Joint Venture (As Revised)*
- Financial Supervisory Service's Accounting Implementation Guide [2009-2], *Guidance criteria for designation of non-derivative instruments as foreign currency hedged item for cash flow hedge*

In accordance with *Korea Accounting Institute Opinion 06-2, Deferred Income Taxes on Investments in Subsidiaries, Associates and Interests in Joint Ventures*, the Company changed the recognition method for deferred income taxes on the related investments. However, the prior year financial statements, presented herein for comparative purposes, have not been restated to reflect this change. Instead, the opening balance of retained earnings has been changed, reflecting an increase by ₩ 2,163 million as a result of the accounting change.

On March 28, 2008, in accordance with SKFAS No.15, the gain from change in equity-method resulting from acquisition of subsidiaries' stocks has been reclassified as capital surplus. The prior year financial statements, presented herein for comparative purposes, have been restated to reflect this change. However, the changes in accounting policies do not affect the previously reported net income or net assets.

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Notes to the Consolidated Financial Statements

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Reclassifications of Prior Year Financial Statements

Certain accounts of the December 31, 2007 consolidated financial statements have been reclassified to conform to the December 31, 2008 consolidated financial statement presentation. These reclassifications have not resulted in any change in the previously reported net income or shareholders' equity.

Revenue Recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of goods are transferred to the buyer. Revenue from the rendering of services is recognized under the percentage-of-completion method, under which revenue is generally recognized based on the costs incurred to date as a percentage of the total estimated costs to be incurred.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined. Royalty income is recognized on an accrual basis in accordance with the substance of relevant contracts.

Revenues from Construction Contracts

The Company recognizes revenues from construction contracts using the percentage-of-completion method to determine the amounts to be recognized as revenues in a given period. The stage of completion is measured using the percentage of the total contract costs incurred up to the balance sheet date over the total estimated costs for each contract. When the outcome of a construction contract cannot be estimated reliably, the contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable, and contract costs incurred for the period is recognized that are likely to be recoverable, and contract costs incurred for the period is recognized as an expense.

Costs incurred for prospective construction projects are accounted for as prepaid construction expense, provided that they are identifiable and can be measured reliably, and when it is probable that the contract for such project will be finalized. These prepaid construction expenses are reclassified to contract costs after construction starts.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Hyosung Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

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Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the moving-weighted average method. Certain subsidiaries use the first-in, first-out method. 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 applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

Investments in Securities

Costs of securities are determined using the moving-weighted average method. Certain subsidiaries use the weighted average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses on available-for-sale securities are recognized in the income statement.

Equity-Method Investments

Investees over which the Company can exercise significant influence should reflect any changes in equity after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

The Company's share of its post-acquisition profits or losses in equity-method investments is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the

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carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by equity-method investments are recognized when subsidiaries declare the dividend. When the Company's share of losses in equity-method investments equals or exceeds its interest in the investments, including preferred stock or other long term loans and receivables issued by the equity-method investments, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the investments. Unrealized gains on transactions between the Company and its subsidiaries are eliminated to the extent of the Company's interest in each investment.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

Land is revalued at fair value every three years or on a periodic basis by an independent appraiser. Property, plant and equipment other than land are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use.

Incremental gain after revaluation of land is recognized in accumulated other comprehensive income. In contrast, decrease in value of land after revaluation is deducted from accumulated other comprehensive income, then recognized in the current operations.

Property, plant and equipment are stated net of accumulated depreciation calculated based on the following depreciation method and estimated useful lives.

| | Estimated useful lives | Depreciation method ¹ |
|------------|-------------------------------|---|
| Buildings | 14 ~ 40 years | Straight-line method ¹ |
| Structures | 20 ~ 40 years | Straight-line method ¹ |
| Machinery | 3 ~ 10 years | Straight-line method ¹ |
| Vehicles | 3 ~ 8 years | Straight-line method ¹ |
| Tools | 3 ~ 8 years | Straight-line method ¹ |

¹ Certain subsidiaries use the declining balance method.

Differences in evaluation method between subsidiaries are not material to the consolidated financial statements. Expenditures incurred after the acquisition or completion of assets is capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

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Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on the following depreciation method and estimated useful lives:

Estimated Useful Lives

| | |
|-------------------------|---------------|
| Industrial property | 5 ~ 10 years |
| Right to utilization | 10 ~ 25 years |
| Other intangible assets | 5 years |

Capitalization of Interest Expense

The Company expenses the interest it incurs on borrowings used to finance the cost of manufacturing, acquisition, and construction of inventory and property, plant and equipment that require more than one year to complete from the initial date of manufacture, acquisition, and construction.

Government Grants

Government grants received, which are to be repaid, are recorded as liability, while grants without obligation to be repaid are offset against cost of assets purchased with such grants. Grants received for a specific purpose are offset against the specific expense for which it was granted, and other grants are recorded as a gain for the period.

Impairment of Assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized as accumulated other comprehensive income and expense under the shareholder's equity.

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Income Tax and Deferred Income Tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Discounts on Debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

The Company has partially funded the accrued severance benefits through severance insurance deposits with an insurance company. Deposits made by the Company are recorded as deductions from accrued severance benefits. The excess portion of deposits over accrued severance benefits is recorded as other investments.

The Company deposits certain portion severance benefits to National Pension Service according to National Pension Law. The deposit amount is recorded as a deduction from accrued severance benefits.

Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Translation of Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the balance sheet date, and the resulting translation gains and losses are recognized in current operations.

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Currency Translation for Foreign Operations

Assets and liabilities of a foreign branch or company subject to the equity method of accounting for investments are translated into Korean won at the rates of exchange in effect at the balance sheet date, while their equity is translated at the exchange rate at the time of transaction, and income statement accounts at the average rate over the period. Resulting translation gains and losses are recorded as accumulated other comprehensive income and expense. Corresponding gains and losses are recognized as gain or loss when the foreign branch or company is liquidated or sold.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances with consolidated subsidiaries have been eliminated during consolidation.

To eliminate the investment account of the controlling company and corresponding capital accounts of subsidiaries, the purchase method or the pooling of interest method is applied depending on the nature of the transaction. In using the purchase method, when the Company has control over a subsidiary, the Company records differences between the initial investment accounts and corresponding capital accounts of subsidiaries as goodwill or negative goodwill, which is amortized over a period not more than 20 years using the straight-line method.

Unrealized profit included in inventories, property, plant and equipment and other assets, as a result of intercompany transactions, is eliminated. Unrealized profit, arising from sales by the controlling company to consolidated subsidiaries, or equity-method investees, is fully eliminated and charged to the equity of the controlling company. Unrealized profit, arising from sales by the consolidated subsidiaries, or equity-method investees, to the controlling company, or sales between consolidated subsidiaries, or equity-method investees, is fully eliminated, and charged to the equity of the controlling company and minority interest, based on the percentage of ownership.

The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the controlling company, as a minority interest in consolidated subsidiaries. In addition, if losses of the consolidated subsidiaries, included in minority interest, are in excess of minority interest, the deficit in excess of minority interest is charged to the equity of the controlling company. Until losses charged to the equity of the controlling company are recovered, all gains on related consolidated subsidiaries are recognized in equity of the controlling company.

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Elimination of Investments and Shareholders' Equity

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

The eliminating entries of the Controlling Company's investments against the subsidiary shareholders' equity as of December 31, 2008 and 2007, are as follows:

| 2008 | Amount | Account | Amount |
|--|---------------|--|---------------|
| <i>(in millions of Korean won)</i> | | | |
| Capital stock | ₩ 763,144 | Equity method investments | ₩ 1,497,140 |
| Capital surplus | 184,035 | Minority interest | 268,483 |
| Retained earnings | 550,345 | Capital adjustment | 1,410 |
| Accumulated other comprehensive income | 196,988 | | |
| Provision for loss on valuation of equity method investments | 72,521 | | |
| | | | |
| 2007 | Amount | Account | Amount |
| <i>(in millions of Korean won)</i> | | | |
| Capital stock | ₩ 650,759 | Equity method investments | ₩ 1,054,410 |
| Capital surplus | 353,175 | Minority interest | 125,617 |
| Retained earnings | 130,668 | Accumulated other comprehensive income | 33,926 |
| Provision for loss on valuation of equity method investments | 79,653 | Capital adjustment | 302 |

Use of Provisional Financial Statements

Provisional 2008 financial statements were used in the valuation as neither the audited or reviewed financial statements were available for OpCo GmbH, Hyosung Istanbul Tekstil Ltd. STI and Beijing Hyosung Computer Technologies Co., Ltd. Their financial statements reflect 1.8 % of total consolidated assets, before elimination of intercompany transactions, as of December 31, 2008, and 0.75 % of total consolidated sales, before elimination of intercompany transactions, for the year then ended.

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

| Subsidiary (in millions of Korean won) | Equity ownership | Assets | Liabilities | Sales |
|--|---------------------|---------|-------------|---------|
| OpCo GmbH | 98.85% | ₩ 8,804 | ₩ 9,493 | ₩ 2,746 |
| Hyosung Istanbul Tekstil Ltd. STI | 100.00% | 179,064 | 159,764 | 48,341 |
| Beijing Hyosung Computer Technologies Co., Ltd. | 100.00% | 26,133 | 22,418 | 35,265 |

3. Restricted Financial Instruments

Restricted financial instruments as of December 31, 2008 and 2007, are as follows:

| (in millions of Korean won) | 2008 | | 2007 | | Descriptions |
|----------------------------------|------|--------|------|-------|--|
| Cash and cash equivalents | ₩ | 19,803 | ₩ | - | Government financial assistance fund |
| | | 7,726 | | 46 | Others |
| Short-term financial instruments | | 1,106 | | - | Collateral for subcontracting payments |
| | | 1,656 | | 674 | Others |
| Long-term financial instruments | | 892 | | 130 | Deposits for checking account |
| | | 458 | | 464 | Government financial assistance fund |
| | | - | | 21 | Others |
| | ₩ | 31,641 | ₩ | 1,335 | |

4. Transfers of Trade Accounts and Notes Receivables

Trade accounts and notes receivables transferred to and discounted with third parties as of December 31, 2008 and 2007, are as follows:

| (in millions of Korean won) | 2008 | | 2007 | | Terms |
|--------------------------------|------|---------|------|---------|-------------|
| Accounts receivable (export) | ₩ | 159,923 | ₩ | 94,182 | Secured |
| Accounts receivable (domestic) | | 26,195 | | 34,189 | Not secured |
| Notes receivable | | 6,217 | | 11,494 | Not secured |
| Electronic bills | | 107,205 | | 36,783 | Not secured |
| Factoring | | 13,411 | | 14,474 | Secured |
| | ₩ | 312,951 | ₩ | 191,122 | |

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5. Inventories

Inventories as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | 2007 |
|---------------------------------------|--------------------|------------------|
| Merchandise | ₩ 84,155 | ₩ 89,256 |
| Finished goods | 487,072 | 245,177 |
| Work-in-progress | 38,346 | 45,075 |
| Consigned goods | 37,617 | 5,045 |
| Goods on consignment | 347 | 409 |
| Raw materials | 212,267 | 139,481 |
| Supplies | 6,912 | 15,350 |
| Goods-in-transit | 17,877 | 15,517 |
| Unfinished housing and office units | 88,023 | 67,268 |
| Temporary structures for construction | 550 | 48 |
| Building lots | 129,859 | 115,922 |
| Others | 113,821 | 8,478 |
| | <u>₩ 1,216,846</u> | <u>₩ 747,026</u> |

6. Available-for-sale Securities

Available-for-sale securities as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | 2007 |
|--|------------------|------------------|
| Equity securities | ₩ 100,642 | ₩ 72,509 |
| Investments in cooperatives and associations | 34,450 | 8,558 |
| Debt securities | 87,450 | 21,545 |
| | <u>₩ 222,542</u> | <u>₩ 102,612</u> |

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Equity Securities

Equity securities as of December 31, 2008, are as follows:

| <i>(in millions of Korean won)</i> | Acquisition cost | Fair value | Book value |
|---|-----------------------------|-----------------------|-----------------------|
| Marketable securities | | | |
| KTB Investment Securities Co., Ltd. | ₩ 13 | ₩ 8 | ₩ 8 |
| KTIC Global | 815 | 385 | 385 |
| KT Freetel Co., Ltd. | 5,775 | 23,346 | 23,346 |
| Ultra Construction & Engineering Co., Ltd. | 5 | 3 | 3 |
| KT Corp. | 2,167 | 1,505 | 1,505 |
| Hanshin Construction Co., Ltd | 1 | 10 | 10 |
| Savezone I&C Corp. | 30 | 5 | 5 |
| Korea Environment Technology Co., Ltd. | 407 | 879 | 879 |
| Kumho Tires Co., Inc. | 10,000 | 4,490 | 4,490 |
| OnMedia Corp. | 280 | 297 | 297 |
| Korea Express Corporation ⁴ | 6,374 | 5,205 | 5,205 |
| Hankook Tire Co., Ltd. | 20,680 | 22,958 | 22,958 |
| Ehwa Technologies Information Co., Ltd. | 2,467 | 704 | 704 |
| KP Chemical Corp. | 1,430 | 1,284 | 1,284 |
| Byuck San Engineering & Construction Co., Ltd. | 10 | 8 | 8 |
| SK Energy Co., Ltd. | 385 | 242 | 242 |
| National Information & Credit Evaluation, Inc. | 1,394 | 1,926 | 1,926 |
| Subtotal | 52,233 | 63,255 | 63,255 |
| Non-marketable securities¹ | | | |
| Kangwon Domin Ilbo | 20 | 20 | 20 |
| Ninex Co., Ltd. ² | 3,000 | 1,500 | 1,500 |
| GM Daewoo Auto & Technology Co. ² | 8 | 3 | 3 |
| Namwoo Ad Co., Ltd. ² | 500 | 250 | 250 |
| Bum Yang Air-Conditioner ² | 6 | - | - |
| Sejong Telecom Co., Ltd. ² | 2,406 | - | - |
| Doosan Capital Co., Ltd. | 3,000 | 3,000 | 3,000 |
| KyungNam Newspaper ² | 30 | 15 | 15 |
| Kihyup Finance Inc. | 500 | 500 | 500 |
| Korea Housing Guarantee Co., Ltd. ² | 3,511 | 1,716 | 1,716 |
| Bangsol Inc. ² | 232 | 116 | 116 |
| Hankook Economic Newspaper ² | 1,394 | 717 | 717 |

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| | | | |
|--|------------------|------------------|------------------|
| Korea Management Association Consulting | 180 | 180 | 180 |
| ChemCross.Com | 222 | 222 | 222 |
| Life Point Inc. ² | 1,148 | - | - |
| Momus Venturesgroup ² | 3,242 | - | - |
| POSCO Coil Center | 518 | 518 | 518 |
| InfoNet Korea Ltd. ² | 100 | 50 | 50 |
| TransLink Capital Partners 1, L.P ² . | 976 | 976 | 976 |
| Hyundai Home Shopping Network Corp. | 550 | 550 | 550 |
| Doowoel Investment Co., Ltd. | 1,000 | 1,000 | 1,000 |
| Korea Housing Guarantee Co., Ltd. ² | 3,091 | 1,545 | 1,545 |
| Myoungji Bridge Co., Ltd. | 5,260 | 5,260 | 5,260 |
| Inchon edudevelopment Co. | 520 | 520 | 520 |
| Inchon edulove Co. | 220 | 220 | 220 |
| Inchoeon Eduma Co., Ltd. | 232 | 232 | 232 |
| Emsung Sewage pipe Co., Ltd. | 144 | 144 | 144 |
| Wavecity Development | 200 | 200 | 200 |
| SoulFlora/SPC | 200 | 200 | 200 |
| Korea Money Brokerage Corp. | 20 | 20 | 20 |
| Samsung Life Insurance Co. | 12,264 | 12,264 | 12,264 |
| Daewoo Electronics Corp. ² | 153 | 19 | 19 |
| Aju Rental Co., Ltd. | 4,968 | 4,968 | 4,968 |
| MJ Project Finance Investment Co., Ltd. | 553 | 177 | 177 |
| Pyunghwa Plastic | 6 | 6 | 6 |
| Sami Corporation ³ | - | - | - |
| Suhryung Corporation ³ | - | - | - |
| Elcanto Co., Ltd. ³ | - | - | - |
| Kunyoung Co., Ltd. ³ | - | - | - |
| Nasan Clef Co., Ltd. ³ | - | - | - |
| Securities of overseas | 279 | 279 | 279 |
| | <u>50,653</u> | <u>37,387</u> | <u>37,387</u> |
| Investments in cooperatives and associations | 33,582 | 39,326 | 34,450 |
| Total | <u>₩ 136,468</u> | <u>₩ 139,968</u> | <u>₩ 135,092</u> |

¹ Non-marketable equity securities are recorded at acquisition cost if the fair value is not available or not readily determinable due to insufficient information.

² Impairment losses were recognized before the beginning of the year as the recoverable amounts are less than the book value.

³ These non-marketable securities have a book value of less than ₩ 1 million.

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⁴ Marketable securities of Korea Express Inc. were acquired through participating in Kumho Asiana Consortium. According to the agreement with Asiana Airlines Inc., the Company cannot sell, transfer and pledge the securities within two years from the acquisition date without authorization from Asiana Airlines Inc. After the first two years, Asiana Airlines Inc. becomes the holder of pre-emption rights. Nevertheless, if Asiana Airlines Inc. transfers securities to a third party and gives up the pre-emption rights, the Company can sell the securities within the first two years.

According to the agreement with Kumho Rent-A-Car Co., Ltd., the Company has put options on stocks of Korea Express Inc. The fair value of the put options as of December 31, 2008, amounts to ₩ 6,053 million and is recorded as other investment assets (Note 24).

Equity securities as of December 31, 2007, were as follows:

| <i>(in millions of Korean won)</i> | Acquisition cost | Fair value | Book value |
|--|-----------------------------|-----------------------|-----------------------|
| Marketable securities | | | |
| KTB Investment Securities Co., Ltd. | ₩ 13 | ₩ 31 | ₩ 31 |
| KTIC Global Investment Advisory Co., Ltd. | 815 | 288 | 288 |
| KT Freetel Co., Ltd. | 5,775 | 22,565 | 22,565 |
| Ultra Construction & Engineering Co., Ltd. | 5 | 3 | 3 |
| KT Corp. | 2,167 | 1,963 | 1,963 |
| Hanshin Construction Co., Ltd. | 1 | 20 | 20 |
| Savezone I&C Corp. | 30 | 16 | 16 |
| Korea Environment Technology Co., Ltd. | 407 | 1,018 | 1,018 |
| Kumho Tires Co., Inc. | 10,000 | 14,000 | 14,000 |
| OnMedia Corp. | 280 | 1,098 | 1,098 |
| Saehan Co., Ltd. | 263 | 298 | 298 |
| KP Chemical Corp. | 1,430 | 1,873 | 1,873 |
| Byuck San Engineering & Construction Co., Ltd. | 10 | 25 | 25 |
| National Information & Credit Evaluation Inc. | 1,837 | 2,790 | 2,790 |
| | 23,033 | 45,988 | 45,988 |

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| Non-marketable securities¹ | | | | | | |
|--|----------|---------------|----------|---------------|----------|---------------|
| Kangwon Domin Ilbo | ₩ | 20 | ₩ | 20 | ₩ | 20 |
| Ninex Co., Ltd. ² | | 3,000 | | 1,500 | | 1,500 |
| GM Daewoo Auto & Technology Co. ² | | 8 | | 3 | | 3 |
| Namwoo Ad Co., Ltd. ² | | 500 | | 250 | | 250 |
| Bum Yang Air-Conditioner ² | | 6 | | - | | - |
| Sejong Telecom Co., Ltd. ² | | 2,406 | | - | | - |
| Doosan Capital Co., Ltd. | | 3,000 | | 3,000 | | 3,000 |
| KyungNam Newspaper ² | | 30 | | 15 | | 15 |
| Kihyup Finance Inc. | | 500 | | 500 | | 500 |
| Korea Housing Guarantee Co., Ltd. ² | | 3,511 | | 1,373 | | 1,373 |
| Bangsol Inc. ² | | 232 | | 116 | | 116 |
| Hankook Economic Newspaper ² | | 1,354 | | 677 | | 677 |
| Korea Management Association Consulting | | 180 | | 180 | | 180 |
| ChemCross.Com ² | | 222 | | - | | - |
| Life Point Inc. ² | | 1,148 | | - | | - |
| Momus Venturesgroup ² | | 3,242 | | - | | - |
| POSCO Coil Center | | 518 | | 518 | | 518 |
| InfoNet Korea Ltd. ² | | 100 | | 50 | | 50 |
| TransLink Capital Partners 1, L.P. ² | | 718 | | 718 | | 718 |
| E-pia Ltd. ³ | | 3,000 | | 1,500 | | 1,500 |
| Korea Money Brokerage Corp. | | 20 | | 20 | | 20 |
| Samsung Life Insurance Co., Ltd. | | 12,264 | | 12,264 | | 12,264 |
| Daewoo Electronics Co., Ltd. | | 153 | | 49 | | 49 |
| Pyunghwa Plastic | | 6 | | 6 | | 6 |
| Sammi Co., Ltd. | | - | | - | | - |
| SK Energy Co., Ltd. | | 422 | | 422 | | 422 |
| Suhryung Corporation | | - | | - | | - |
| Hanil Synthetic Fiber | | - | | - | | - |
| Nasan Clef Co., Ltd. ³ | | - | | - | | - |
| MJ Project Finance Investment Co., Ltd. | | 553 | | 177 | | 177 |
| Elcanto Co., Ltd. ³ | | - | | - | | - |
| Kunyoung Co., Ltd. ³ | | - | | - | | - |
| Goldman Sachs Fund | | 1,184 | | 1,184 | | 1,184 |
| Hyosung Capital 2 nd Liquidation | | - | | - | | - |
| Hyosung Capital 3 rd Liquidation | | - | | - | | - |
| Taesan Limited Company | | 833 | | 833 | | 833 |
| Investment securities owned by foreign subsidiaries | | 1,146 | | 1,146 | | 1,146 |
| | | <u>40,276</u> | | <u>26,521</u> | | <u>26,521</u> |
| Investments in cooperatives and associations | | 9,522 | | 8,558 | | 8,558 |
| Total | ₩ | 72,831 | ₩ | 81,067 | ₩ | 81,067 |

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¹ Non-marketable equity securities are recorded at acquisition cost if the fair value is not available or not readily determinable due to insufficient information.

² Impairment losses were recognized before the beginning of the year as the recoverable amounts are less than the book value.

³ These non-marketable securities have a book value of less than ₩ 1 million.

Debt securities

Debt securities as of December 31, 2008 and 2007, are as follows:

| | | 2008 | |
|------------------------------------|---------------------|----------------------|-------------------|
| <i>(in millions of Korean won)</i> | Maturity | Present value | Book value |
| Government and public bonds | Within 1 ~ 5 years | ₩ 14,741 | ₩ 14,741 |
| | Within 5 ~ 10 years | 24 | 24 |
| Money receivables in trust | Within 1 ~ 5 years | 9,416 | 9,416 |
| Asset-backed securities | Within 1 ~ 5 years | 50,269 | 50,269 |
| Subordinated bonds | Within 5 ~ 10 years | 13,000 | 13,000 |
| | | <u>₩ 87,450</u> | <u>₩ 87,450</u> |
| | | 2007 | |
| <i>(in millions of Korean won)</i> | Maturity | Present value | Book value |
| Government and public bonds | Within 1 ~ 5 years | ₩ 9,704 | ₩ 9,704 |
| | Within 5 ~ 10 years | 23 | 23 |
| | Over 10 years | 555 | 555 |
| Asset-backed securities | Within 1 ~ 5 years | 2 | 2 |
| | Over 5 years | 11,228 | 11,228 |
| Subordinated bonds | Within 1 ~ 5 years | 33 | 33 |
| | | <u>₩ 21,545</u> | <u>₩ 21,545</u> |

Changes in unrealized gains(losses)

Changes in unrealized gains(losses) for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 |
|--|----------------|
| Beginning balance | ₩ 15,412 |
| Realized gains on disposal of securities | (199) |
| Other changes in unrealized gain | (11,146) |
| Changes from tax effect | 2,722 |
| Ending balance | <u>₩ 6,789</u> |

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| | | |
|--|---|---------------|
| <i>(in millions of Korean won)</i> | | 2007 |
| Beginning balance | ₩ | 18,071 |
| Realized gains on disposal of securities | | (5,639) |
| Realized gains on impairment of securities | | (141) |
| Other changes in unrealized gain | | 2,207 |
| Changes from tax effect | | 914 |
| Ending balance | ₩ | <u>15,412</u> |

7. Equity-method investments

Equity-method investments as of December 31, 2008, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | | | |
|--|-------------------------|--------------------------------|-------------------------|-------------------|-------------------|
| | Number of shares | Percentage of ownership | Acquisition cost | Fair value | Book value |
| Investee | | | | | |
| Gumoknongsan Co., Ltd. ¹ | 45,000 | 75.00% | ₩ 225 | ₩ 20 | ₩ 225 |
| Beijing Hyosung Food & Beverage Co., Ltd. ³ | - | 95.00% | 1,499 | (363) | - |
| E-pia Tech.Co., Ltd. ³ | 245,343 | 23.32% | 3,750 | 923 | 1,052 |
| Capro Corp. | 8,417,708 | 21.04% | 9,114 | 21,574 | 21,415 |
| Taeon Solar Farm Co., Ltd. ¹ | 420,000 | 100% | 2,100 | 2,196 | 2,100 |
| Hongjin Data Service ¹ | 790,000 | 78.42% | 3,950 | 6,510 | 4,044 |
| Hyosung Wind Power holdings Ltd. ¹ | 240,000 | 100.00% | 1,200 | 1,399 | 1,200 |
| Hyosung Information System Co., Ltd. | 173,000 | 50.00% | 865 | 20,251 | 20,251 |
| Hyosung ITX Co., Ltd. | 4,349,000 | 34.99% | 3,675 | 9,488 | 7,740 |
| Hyosung (H.K) Ltd. | 621,660 | 100.00% | 87,144 | 1,508 | 1,508 |
| Hyosung Deutschland GmbH ² | 490,000 | 100.00% | 74,015 | - | - |
| Hyosung Resource (Australia) Pty Ltd. ¹ | 2,179,083 | 100.00% | 1,681 | 1,865 | 1,681 |
| Hyosung Singapore Pte Ltd. ³ | 96,800 | 100.00% | 30,512 | (545) | - |
| Lanka Synthetic Fibre Co., Ltd. ² | 148,930,000 | 98.31% | - | - | - |
| Thai Hyosung Co., Ltd. ² | - | 49.00% | - | - | - |
| Xepix Corp. | 2,391,667 | 75.00% | 29,506 | 3,690 | 3,690 |
| NH Tech Inc. | 130,000 | 100.00% | 650 | 2,873 | 2,873 |
| Kis-Bank Inc. | 150,000 | 53.11% | 2,063 | 451 | 2,044 |
| Galaxia Communications | 33,328 | 4.52% | 1,696 | 452 | 452 |
| Nautilus Hyosung America Inc. | - | 100.00% | 4,734 | 6,392 | 6,174 |
| Nantong Transformer Co., Ltd. | - | 100.00% | 5,215 | 5,117 | 5,886 |
| Powertech Corporation ¹ | - | 100.00% | 74 | 74 | 74 |
| Total | | | <u>₩ 263,668</u> | <u>₩ 83,875</u> | <u>₩82,409</u> |

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¹ The equity method was not applied because total assets of investees are below ₩ 7 billion and the effect from change in equity is not material to the Company's financial statements even though the Company's percentage of ownership exceeds 20 %.

² The equity method was discontinued as the investee is currently under liquidation or in a significant deficit position.

³ The equity method was discontinued as the investee has capital deficiency.

Changes in goodwill for equity-method investments for the year ended December 31, 2008, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | | |
|------------------------------------|------------------------------|--------------------------------|---------------------|---------------------------|
| | Beginning balance | Increase (Decrease) | Amortization | Ending balance |
| Investee | | | | |
| E-pia Tech Co., Ltd. | ₩ - | ₩ 161 | ₩ (32) | ₩ 129 |
| Capro Corp. | (225) | - | 150 | (75) |
| Hyosung ITX Co., Ltd. | (2,622) | - | 874 | (1,748) |
| Kis-Bank Inc. | 1,791 | - | (199) | 1,592 |
| Galaxia Communications | 823 | - | (823) | - |
| Nantong Transformer Co., Ltd. | 520 | 380 | - | 900 |
| Total | ₩ 287 | ₩ 541 | ₩ (30) | ₩ 798 |

Details of eliminated unrealized losses from intercompany transactions as of December 31, 2008, are as follows:

| <i>(in millions of Korean won)</i> | Current assets |
|------------------------------------|-----------------------|
| Capro Corp. | ₩ (94) |
| Nautilus Hyosung America, Inc. | (217) |
| | <u>₩ (311)</u> |

Changes in investments in subsidiaries accounted for under the equity method as of December 31, 2008, are as follows:

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| <i>(in millions of Korean won)</i> | 2008 | | | | |
|---|------------------------------|---|--|----------------------------|---------------------------|
| | Beginning balance | Gains/losses from equity- method | Changes in equity from equity- method | Others ¹ | Ending balance |
| Investee | | | | | |
| E-pia Tech Co., Ltd. | ₩ - | ₩ (1,082) | ₩ - | ₩ 2,134 | ₩ 1,052 |
| Capro Corp. | 15,926 | (3,479) | 8,968 | - | 21,415 |
| Hyosung Information System Co., Ltd. | 17,759 | 3,358 | - | (866) | 20,251 |
| Hyosung ITX Co., Ltd. | 9,190 | (1,207) | (674) | 431 | 7,740 |
| Hyosung CTX | 1,134 | - | - | (1,134) | - |
| Hyosung (H.K) Ltd. | 1,115 | 3 | 390 | - | 1,508 |
| Hyosung Singapore Pte Ltd. | - | - | - | - | - |
| Xepix Corp. | - | (7) | 943 | 2,754 | 3,690 |
| NH Tech Inc. | - | 728 | - | 2,145 | 2,873 |
| Hongjin Data Service | 3,957 | 87 | - | - | 4,044 |
| Kis-Bank Inc. | 1,930 | 114 | - | - | 2,044 |
| Galaxia Communications | 1,710 | (1,710) | 1 | 451 | 452 |
| Nautilus Hyosung America Inc. | - | (126) | 1,567 | 4,733 | 6,174 |
| Nantong Transformer Co., Ltd. | 4,059 | 51 | - | 1,776 | 5,886 |
| Hyosung FMS Inc. ³ | 1,436 | - | - | (1,436) | - |
| Hyosung International Trade (Jiaying) Co., Ltd. ³ | 1,053 | - | - | (1,053) | - |
| Hyosung Participacoes Brasil Ltd. ³ | 6,603 | - | - | (6,603) | - |
| Beijing Hyosung Computer Technologies Co., Ltd. ³ | 942 | - | - | (942) | - |
| HICO America Sales & Tech. ³ | 1,287 | - | - | (1,287) | - |
| Hyosung Steel Cord (Nanjing) Co., Ltd. ³ | 6,223 | - | - | (6,223) | - |
| Securities under cost method ² | 3,242 | - | - | 2,038 | 5,280 |
| Total | <u>₩ 77,566</u> | <u>₩ (3,270)</u> | <u>₩ 11,195</u> | <u>₩ (3,082)</u> | <u>₩ 82,409</u> |

¹ Others consist of fluctuations due to change in scope of consolidation, increase representing additional acquisition and decrease representing sale, disposal amount and dividend income.

² The cost method was used instead as its effect on investment balances is immaterial.

³ The equity method was used this year as its total assets exceeded ₩ 7,000 million as of the end of the prior fiscal year.

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Summarized financial information of equity-method investees as of December 31, 2008, follows:

| <i>(in millions of Korean won)</i> | 2008 | | | |
|--------------------------------------|---------------------|--------------------------|----------------|--------------------------|
| | Total assets | Total liabilities | Revenue | Net income (loss) |
| Investee | | | | |
| E-pia Tech Co., Ltd. | ₩ 7,111 | ₩ 3,156 | ₩ 1,538 | ₩ (2,107) |
| Capro Corp. | 431,256 | 328,737 | 846,844 | (17,691) |
| Hyosung Information System Co., Ltd. | 111,551 | 71,048 | 201,539 | 6,713 |
| Hyosung ITX Co., Ltd. | 61,850 | 34,745 | 129,945 | (10,584) |
| Hyosung (H.K) Ltd. | 7,924 | 6,416 | 58,074 | 3 |
| Hyosung Singapore Pte Ltd. | 12,323 | 12,868 | 50,038 | 120 |
| Xepix Corp. | 7,894 | 2,969 | 3,969 | (9) |
| NH Tech Inc. | 7,492 | 4,619 | 34,207 | 728 |
| Hongjin Data Service | 6,672 | 906 | 5,309 | 641 |
| Kis-Bank Inc. | 3,061 | 2,211 | 4,568 | 489 |
| Galaxia Communications | 37,427 | 27,443 | 31,677 | (24,971) |
| Nautilus Hyosung America Inc. | 30,104 | 25,484 | 75,672 | 91 |
| Nantong Transformer Co., Ltd. | 5,852 | - | - | - |

Equity-method investments as of December 31, 2007, were as follows:

| <i>(in millions of Korean won)</i> | 2007 | | | | |
|---|-------------------------|--------------------------------|-------------------------|-------------------|-------------------|
| | Number of shares | Percentage of ownership | Acquisition cost | Fair value | Book value |
| Gangreng Wind Power ¹ | 239,998 | 100.00% | ₩ 1,200 | ₩ 1,200 | ₩ 1,200 |
| Gumoknongsan Co., Ltd. ¹ | 45,000 | 75.00% | 225 | 225 | 225 |
| Capro Corp. | 8,417,708 | 21.04% | 9,114 | 16,325 | 15,926 |
| Kis-Bank Inc. | 150,000 | 53.11% | 2,063 | 1,930 | 1,930 |
| Key2net Solution Inc. | 33,328 | 10.94% | 1,696 | 1,710 | 1,710 |
| Hongjin Data Service ¹ | 790,000 | 78.42% | 3,950 | 3,957 | 3,957 |
| Hyosung CTX ³ | 65,100 | 44.44% | 326 | 1,134 | 1,134 |
| Hyosung ITX Co., Ltd. | 4,349,000 | 30.10% | 3,675 | 11,268 | 9,190 |
| Hyosung Information System Co., Ltd. | 173,000 | 50.00% | 865 | 17,759 | 17,759 |
| Hyosung FMS Inc. | 200,000 | 100.00% | 1,000 | 1,436 | 1,436 |
| Beijing Hyosung Hitech Co., Ltd. ¹ | - | 70.00% | 255 | 255 | 255 |

Hyosung Corporation and Subsidiaries
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| | | | | | |
|---|-------------|---------|-----------|----------|----------|
| Beijing Hyosung Computer Technologies Co., Ltd. | - | 100.00% | 1,900 | 942 | 942 |
| Beijing Hyosung Food & Beverage Co., Ltd. | - | 95.00% | 1,499 | (118) | - |
| HICO America Sales & Tech. ¹ | 20,000 | 100.00% | 1,287 | 1,287 | 1,287 |
| Hyosung Deutschland GmbH ² | 490,000 | 100.00% | 74,014 | 1,360 | - |
| Hyosung (H.K) Ltd. | 621,660 | 100.00% | 87,144 | 1,115 | 1,115 |
| Hyosung International Trade (Jiaxing) Co., Ltd. | - | 100.00% | 929 | 1,053 | 1,053 |
| Hyosung Participacoes Brasil Ltd. ¹ | - | 100.00% | 4,408 | 6,603 | 6,603 |
| Hyosung Resource (Australia) Pty Ltd. ¹ | 2,179,083 | 100.00% | 1,562 | 1,525 | 1,562 |
| Hyosung Steel Cord (Nanjing) Co., Ltd. ¹ | - | 100.00% | 6,223 | 6,223 | 6,223 |
| Lanka Synthetic Fibre Co., Ltd. ² | 148,930,000 | 98.31% | 22,447 | - | - |
| Nantong Transformer Co., Ltd. | - | 100.00% | 3,891 | 3,818 | 4,059 |
| Thai Hyosung Co., Ltd. ² | - | 49.00% | 35 | - | - |
| Total | | | ₩ 229,708 | ₩ 81,007 | ₩ 77,566 |

¹ The equity method was not applied because total assets of investees are below ₩ 7 billion and the effect from change in equity is not material to the Company's financial statements even though the Company's percentage of ownership exceeds 20%.

² The equity method was discontinued as the investee is currently under liquidation or in a significant deficit position.

Changes in goodwill for equity-method investments for the year ended December 31, 2007, are as follows:

(in millions of Korean won)

| Investee | 2007 | | | |
|--|-------------------|---------------------|--------------|----------------|
| | Beginning balance | Increase (Decrease) | Amortization | Ending balance |
| Capro Corp. | ₩ (374) | ₩ - | ₩ 149 | ₩ (225) |
| Kis-Bank Inc. | - | 1,990 | (199) | 1,791 |
| Key2net Solution Inc. | - | 915 | (92) | 823 |
| Hyosung ITX Co., Ltd. | (3,496) | - | 874 | (2,622) |
| Hyosung FMS Inc. | - | 436 | 1,000 | 1,436 |
| Beijing Hyosung Computer Technologies Co.,Ltd. | - | 202 | 739 | 941 |
| Nantong Transformer Co.,Ltd. | - | 520 | - | 520 |
| Total | ₩ (3,870) | ₩ 4,063 | ₩ 2,471 | ₩ 2,664 |

Hyosung Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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Details of eliminated unrealized losses from intercompany transactions as of December 31, 2007, are as follows:

| | |
|------------------------------------|-----------------------|
| <i>(in millions of Korean won)</i> | Current assets |
| Capro Corp. | ₩ (178) |

Changes in the investments in subsidiaries accounted for under the equity method as of December 31, 2007, were as follows:

| <i>(in millions of Korean won)</i> | 2007 | | | | | |
|--|--------------------------|--|---|----------------------------|-----------------------|--|
| | Beginning balance | Gains/losses from equity-method | Changes in equity from equity-method | Others ¹ | Ending balance | |
| NH Tech Inc. ³ | ₩ 1,540 | ₩ - | ₩ - | ₩ (1,540) | ₩ - | |
| Capro Corp. | 16,773 | (2,294) | (5,044) | 6,491 | 15,926 | |
| Kis-Bank Inc. | - | (133) | - | 2,063 | 1,930 | |
| Key2net Solution Inc. | - | 14 | - | 1,696 | 1,710 | |
| Hongjin Data Service | 3,869 | 88 | - | - | 3,957 | |
| Hyosung ITX Co., Ltd. | 5,338 | 1,814 | (54) | 2,092 | 9,190 | |
| Hyosung FMS Inc. | - | 436 | - | 1,000 | 1,436 | |
| Hyosung Information System Co., Ltd. | 15,548 | 3,076 | - | (865) | 17,759 | |
| Beijing Hyosung Computer Technologies Co., Ltd. | - | 202 | - | 740 | 942 | |
| Hyosung Deutschland GmbH | - | (680) | (680) | 1,360 | - | |
| Hyosung (H.K) Ltd. ² | - | 584 | (193) | 724 | 1,115 | |
| Hyosung International Trade (Jiaxing) Co., Ltd. ² | - | 61 | 62 | 930 | 1,053 | |
| Hyosung Participacoes Brasil Ltd. | - | 1,090 | 1,105 | 4,408 | 6,603 | |
| Nantong Transformer Co., Ltd. | - | (38) | (3,602) | 7,699 | 4,059 | |
| OpCo GmbH ³ | 3,317 | - | - | (3,317) | - | |
| Securities under cost method | 16,892 | - | - | (5,006) | 11,887 | |
| Total | ₩ 63,277 | ₩ 4,220 | ₩ (8,406) | ₩ 18,475 | ₩ 77,566 | |

¹ Others consist of fluctuations due to change in scope of consolidation, increase representing additional acquisition and decrease representing sale, disposal amount and dividend income.

² The cost method was used instead as its effect on investment balances is immaterial. Also, the valuation and other figures on the investees whose date of deemed acquisition is December 31, 2007, are included.

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³ The equity method was used this year as its total assets exceeded ₩ 7,000 million as of the end of the prior fiscal year.

Summarized financial information of equity-method investees as of December 31, 2007, follows:

(in millions of Korean won)

| Investee | 2007 | | | |
|---|--------------|-------------------|---------|-------------------|
| | Total assets | Total liabilities | Revenue | Net income (loss) |
| Capro Corp. | 450,833 | 373,242 | 669,277 | (10,226) |
| Kis-Bank Inc. | 2,892 | 2,631 | 5,150 | 124 |
| Key2net Solution Inc | 8,526 | 2,078 | 16,515 | 964 |
| Hongjin Data Service | 5,955 | 866 | 4,823 | 691 |
| Hyosung ITX Co., Ltd. | 51,381 | 13,945 | 109,148 | 2,184 |
| Hyosung FMS Inc. | 12,468 | 10,999 | 3,295 | 26,761 |
| Hyosung Information System Co., Ltd. | 111,612 | 76,092 | 175,165 | 6,153 |
| Beijing Hyosung Computer Technologies Co., Ltd. | 14,174 | 13,164 | 23,623 | 202 |
| Hyosung International Trade (Jiaxing) Co., Ltd. | 9,768 | 8,715 | 85,133 | 61 |
| Hyosung Participacoes Brasil Ltd.. | 7,347 | 744 | 6,153 | 1,090 |

8. Transactions and Balances with Related Companies

Significant transactions which occurred in the normal course of business with related companies as of December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

| Consolidated company | Related company | 2008 | | | 2007 | | |
|----------------------|--------------------------------------|--------|-----------|--------|-------|-----------|--------|
| | | Sales | Purchases | Others | Sales | Purchases | Others |
| Hyosung Corporation | NH Tech Inc. | ₩ 15 | ₩ 96 | ₩ - | ₩ - | ₩ - | ₩ - |
| | Info Bada | - | 7 | - | 27 | 64 | - |
| | Capro Corp. | 1,581 | 420,504 | - | 2,026 | 347,853 | - |
| | Hyosung CTX | - | 719 | - | 35 | 25 | - |
| | Hyosung ITX Co., Ltd. | 7 | 148 | 6 | 68 | 178 | 1 |
| | Hyosung Information System Co., Ltd. | 3 | - | 69 | 10 | - | 51 |
| | Xepix Corp. | 11 | 4,024 | - | - | - | - |
| | Hyosung (H.K) Ltd. | 23,744 | 1,624 | 14 | - | - | - |
| | Hyosung Singapore Pte Ltd. | 30,250 | 429 | - | - | - | - |
| | E-pia Tech Co., Ltd. | 81 | - | - | - | - | - |

Hyosung Corporation and Subsidiaries
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| | | | | | | | |
|-------------------------------------|---|--------|--------|-----|--------|-----|-------|
| | Taeon Solar Farm Co., Ltd. | 10,281 | - | - | - | - | - |
| | Aegis Hyosung Co. | - | 7 | - | - | - | - |
| | Galaxia Communications | - | 879 | - | - | - | - |
| | HICO America Sales & Tech. | - | - | - | 83 | 158 | - |
| | Hyosung International Trade (Jiaxing) Co., td. | - | - | - | 11 | 170 | - |
| | Hyosung Participacoes Brasil Ltd. | - | - | - | - | 32 | - |
| | Hyosung Steel Cord (Nanjing) Co., Ltd. | - | - | - | 5,169 | - | 4 |
| Nautilus | Hongjin Data Service | 13 | 24 | - | 34 | 20 | - |
| Hyosung Inc. | Hyosung FMS Inc. | - | - | - | - | 15 | 557 |
| | NH Tech Inc. | 6,650 | 18,407 | - | - | - | - |
| | Kis-Bank Inc. | 184 | - | - | 76 | - | - |
| | Hyosung Information System Co., Ltd. | 658 | 788 | - | 289 | 619 | 11 |
| | Beijing Hyosung Computer Technologies Co., Ltd. | - | - | - | 19,580 | - | - |
| | Nautilus Hyosung America, Inc. | 75,568 | - | - | - | - | - |
| | Hyosung ITX Co., Ltd. | 61 | 41 | - | - | - | - |
| | Galaxia Electronics | - | 700 | - | - | - | - |
| | Galaxia Communications | - | 220 | - | - | - | - |
| | Hitachi Corporation | - | - | - | 8 | - | - |
| | Aegis Hyosung Co. | 24 | 31 | - | 21 | 14 | - |
| Star Lease Co., Ltd. | Galaxia Communications | - | - | 205 | - | - | - |
| | Athena ABS Specialty Company, LLC. | - | - | - | - | - | 4 |
| | Hudson Korea Management Service Inc. | - | - | - | - | - | 16 |
| Hyosung Ebara Co., Ltd. | Hyosung Ebara Environment | 490 | 603 | 704 | 602 | 479 | 1,000 |
| Hyosung Ebara Engineering Co., Ltd. | Hyosung Ebara Environment | 232 | 889 | 183 | - | 316 | 545 |
| Hyosung Trans World Co., Ltd | Capro Corp. | 311 | - | - | 441 | - | - |
| | Hyosung Information System Co., Ltd. | 2 | - | - | 94 | - | - |
| | Galaxia Electronics | 5 | - | - | - | - | - |
| | Will & Vision | - | 136 | - | - | - | - |
| | Hyosung ITX Co., Ltd. | 153 | - | - | 57 | - | - |
| Hyosung FMS Inc. | Hongjin Data Service | 1 | - | - | - | - | - |
| | Hyosung ITX Co., Ltd. | - | 1 | - | - | - | - |
| | Galaxia Communications | - | 354 | - | - | - | - |

Hyosung Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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| | | | | | | | |
|---|-----------------------|------------------|------------------|----------------|-----------------|------------------|----------------|
| Hyosung Chemical Fiber (Jiaying) Co., Ltd | Hyosung (H.K) Ltd. | - | 18,469 | - | - | - | - |
| Hyosung Japan Co., Ltd. | Hyosung ITX Co., Ltd. | 475 | - | - | 468 | - | - |
| | | <u>₩ 150,800</u> | <u>₩ 469,100</u> | <u>₩ 1,181</u> | <u>₩ 29,099</u> | <u>₩ 349,943</u> | <u>₩ 2,189</u> |

Details of receivables and payables with related companies as of December 31, 2008, are as follows:

(in millions of Korean won)

| | | 2008 | | | | |
|-------------------------------------|--------------------------------------|------------------------------------|------------------------------------|---------------------------------|---------------------------------|----|
| Consolidated company | Related company | Receivables | | Payables | | |
| | | Accounts receivable - trade | Accounts receivable - other | Accounts payable - trade | Accounts payable - other | |
| Hyosung Corporation | Capro Corp. | ₩ - | ₩ 74 | ₩ 45,072 | ₩ - | |
| | Hyosung CTX | - | - | - | 138 | |
| | Hyosung Information System Co., Ltd. | - | 15 | - | - | |
| | Hyosung Singapore Pte Ltd. | 162 | 1,294 | 28 | 155 | |
| | Hyosung (H.K.) Ltd. | - | 692 | - | 646 | |
| | NH Tech Inc. | - | 2 | - | - | |
| | Aegis Hyosung Co. | - | - | - | 1 | |
| | Info Bada | - | - | - | 3 | |
| | Galaxia Communications | - | - | - | 94 | |
| | Nautilus | Hongjin Data Service | - | - | 2 | - |
| Hyosung Inc. | NH Tech Inc. | 840 | - | 1,827 | - | |
| | Kis-Bank Inc. | 76 | - | - | - | |
| | Hyosung Information System Co., Ltd. | 17 | - | 92 | - | |
| | Aegis Hyosung Co. | 3 | - | 3 | - | |
| | Nautilus Hyosung America, Inc. | 15,146 | - | - | - | |
| | Hyosung ITX Co., Ltd. | 39 | - | 4 | - | |
| | Galaxia Electronics | - | - | 704 | - | |
| | Galaxia Communications | - | - | 100 | - | |
| | Star Lease Co., Ltd. | Galaxia Communications | 4,500 | - | - | 51 |
| | | Hanil Rental | - | 3 | - | - |
| Hyosung Ebara Co., Ltd. | Hyosung Ebara Environment | 167 | - | 129 | 525 | |
| Hyosung Ebara Engineering Co., Ltd. | Hyosung Ebara Environment | 218 | - | - | 1,103 | |

Hyosung Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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| | | | | | |
|--|----------------------------|-----------------|----------------|-----------------|----------------|
| Hyosung Trans | Capro Corp. | 25 | - | - | - |
| World Co., Ltd. | Hyosung Singapore Pte Ltd. | - | - | - | 1 |
| | Galaxia Electronics | 5 | - | - | - |
| Epiplus Inc. | Galaxia Electronics | 450 | - | - | - |
| Hyosung FMS | Galaxia Communications. | - | - | 375 | - |
| Hyosung Chemical Fiber(Jiaxing) Co., Ltd. | Hyosung (H.K) Ltd. | - | - | 3,168 | - |
| Hyosung Spandex (Guangdong) Co. Ltd. | Hyosung (H.K) Ltd. | - | - | 198 | - |
| Hyosung America Inc. | Xepix Corp | - | 982 | - | - |
| Hyosung Japan Co., Ltd. | Hysoung ITX Co., Ltd. | 437 | - | - | - |
| | | ₩ 22,085 | ₩ 3,062 | ₩ 51,702 | ₩ 2,717 |

Details of receivables and payables with related companies as of December 31, 2007, were as follows:

(in millions of Korean won)

| | | 2007 | | | |
|-----------------------------|---|------------------------------------|------------------------------------|---------------------------------|---------------------------------|
| Consolidated company | Related company | Receivables | | Payables | |
| | | Accounts receivable - trade | Accounts receivable - other | Accounts payable - trade | Accounts payable - other |
| Hyosung Corporation | Capro Corp. | ₩ - | ₩ 308 | ₩ 59,812 | ₩ - |
| | Hyosung ITX Co., Ltd. | - | - | - | 6 |
| | Hyosung Information System Co., Ltd. | - | 10 | - | - |
| | Hyosung CTX | - | - | - | 28 |
| | HICO America Sales & Tech. | - | - | - | 230 |
| | Hyosung International Trade (Jiaxing) Co., Ltd. | - | 48 | - | 7 |
| | Hyosung Steel Cord (Nanjing) Co., Ltd | - | 38 | - | - |
| Nautilus Hyosung Inc. | Aegis Hyosung Co. | - | 95 | - | 2 |
| | Kis-Bank Inc. | 33 | - | - | - |
| | Hongjin Data Service | - | - | - | 2 |
| | Hyosung FMS | - | 20 | - | - |
| | Hyosung Information System Co., Ltd. | - | - | 18 | 141 |

Hyosung Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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| | | | | | |
|-------------------------------------|---|----------------|--------------|-----------------|----------------|
| | Beijing Hyosung Computer Technologies Co., Ltd. | 7,875 | - | - | - |
| Hyosung Ebara Co., Ltd. | Hyosung Ebara Environment | 86 | - | 39 | 701 |
| Hyosung Ebara Engineering Co., Ltd. | Hyosung Ebara Environment | 1 | - | 25 | 508 |
| Hyosung Trans World Co., Ltd. | Capro Corp. | 32 | - | - | - |
| Hyosung Japan Co., Ltd. | Hyosung ITX Co., Ltd. | 934 | 28 | - | - |
| | | <u>₩ 8,961</u> | <u>₩ 547</u> | <u>₩ 59,894</u> | <u>₩ 1,625</u> |

Key management compensation for the years ended December 31, 2008 and 2007, are as follows:

| | 2008 | 2007 |
|------------------------------|-------------|-------------|
| Short-term employee benefits | ₩ 3,833 | ₩ 3,707 |
| Long-term employee benefits | 826 | 1,197 |

Details of pledges and guarantees provided by the Company as of December 31, 2008 and 2007, are as follows :

(in millions of Korean won)

| Guarantor | Related company | 2008 | | Credit amount | Bank |
|---------------------|--|-------------------|----------------------------------|----------------|-------------------------|
| | | Guaranteed amount | Type of loan | | |
| Hyosung Corporation | Hyosung Singapore Pte, Ltd. | ₩ 21,378 | Foreign currency loan and others | ₩ 3,942 | Shinhan Bank and others |
| | Hyosung Steel cord (Nanjing) Co., Ltd. | 18,863 | Foreign currency loan and others | 314 | Hana Bank and others |
| | | <u>₩ 40,241</u> | | <u>₩ 4,256</u> | |

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(in millions of Korean won)

| Guarantor | Related company | 2007 | | | |
|---------------------|--|-------------------|----------------------------------|----------------|-------------------------|
| | | Guaranteed amount | Type of loan | Credit amount | Bank |
| Hyosung Corporation | Hyosung (H.K) Ltd. | ₩ 15,949 | Foreign currency loan and others | ₩ 602 | Shinhan Bank and others |
| | Hyosung Steel Cord (Nanjing) Co., Ltd. | 6,267 | Operating capital and others | 9,107 | Hana Bank |
| | | <u>₩ 22,216</u> | | <u>₩ 9,709</u> | |

No guarantees have been provided to the Company by related companies as of December 31, 2008 and 2007.

9. Transactions and Balances between Consolidated Companies

Significant transactions which occurred in the normal course of business between consolidated companies for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

| Selling company | Purchasing company | 2008 | |
|---------------------|---|-----------------------|-----------------|
| | | Receivables and other | Sales and other |
| Hyosung Corporation | Nautilus Hyosung Inc. | ₩ 1,532 | ₩ 2,016 |
| | The Class Hyosung | 3 | 1,146 |
| | Starlease Co., Ltd. | - | 1 |
| | Chin Hung International Inc. | - | 692 |
| | Hyosung Construction Co., Ltd. | 2,874 | 50,557 |
| | Hyosung Ebara Engineering Co., Ltd. | 1,078 | 1,121 |
| | Hyosung Ebara Co., Ltd. | 523 | 19,809 |
| | Hyosung Capital Co., Ltd. | - | 16 |
| | Hyosung Investment & Development Corporation | - | 50,372 |
| | Hyosung Trans World Co., Ltd. | 24,479 | 2 |
| | Baoding Hyosung Tianwei Transformer Co., Ltd. | - | 24 |
| | HICO America Sales & Tech. | 306 | 24,644 |
| | Hyosung America Inc. | 2,414 | 235,923 |
| | Hyosung Chemical Fiber (Jiaying) Co., Ltd. | 1,897 | 31,308 |
| | Hyosung Europe SRL | 381 | 14,438 |
| | Hyosung International Trade (Jiaying) Co., Ltd. | 44 | 832 |

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| | | | |
|--|--|--------|---------|
| | Hyosung Istanbul TESKSTIL LTD.STI | 94 | 24,657 |
| | Hyosung Japan Co., Ltd. | 99,582 | 205,338 |
| | Hyosung Luxembourg S.A | - | 29,693 |
| | Hyosung Spandex (GuangDong) Co., Ltd. | - | 9,640 |
| | Hyosung Spandex (Jiaxing) Co., Ltd. | - | 7,458 |
| | Hyosung Spandex (Zhuhai) Co., Ltd. | - | 2,898 |
| | Hyosung Steel Cord (Nanjing) Co., Ltd. | - | 1,721 |
| | Hyosung Steel Cord (Qingdao) Co., Ltd. | - | 30,007 |
| | Hyosung USA Inc. | - | 154,961 |
| | Hyosung Vietnam Co., Ltd. | 117 | 122,210 |
| | Nantong Hyosung Transformer Co., Ltd. | - | 18,925 |
| | OpCo GmbH | 18 | - |
| | Zhangjiagang Xiaosha Coil Service Co., Ltd. | 38 | 6,678 |
| Nautilus Hyosung Co., Ltd. | Hyosung Corporation | 43 | 14,311 |
| The Class Hyosung | | - | 47 |
| Epiplus Inc. | | - | 344 |
| Chin Hung International Inc. | | 4,758 | - |
| Hyosung Construction Co., Ltd. | | 77,370 | 21,070 |
| Hyosung Ebara Engineering Co., Ltd. | | 298 | 1,479 |
| Hyosung Ebara Co., Ltd. | | 7,923 | 1,313 |
| Hyosung FMS | | 1 | - |
| Hyosung Capital Co., Ltd. | | 24 | 101 |
| Hyosung Investment & Development Corporation | | 2,500 | - |
| Hyosung Trans World Co., Ltd. | | 2 | 155,731 |
| Baoding Hyosung Tianwei Transformer Co., Ltd. | | 201 | 6,033 |
| Beijing Hyosung Container Co., Ltd. | | 3 | - |
| HICO America Sales & Tech. | | - | 89 |
| Hyosung America Inc. | | 4,240 | 7,294 |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd. | | 9,949 | 103,322 |
| Hyosung Europe SRL | | 7,784 | 2,621 |
| Hyosung International Trade (Jiaxing) Co., Ltd. | | 305 | 232 |
| Hyosung Istanbul TEKSTIL LTD.STI | | 4,056 | 1,137 |

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| | | |
|--|------------------|--------------------|
| Hyosung Japan Co., Ltd. | 7,067 | 141,500 |
| Hyosung Luxembourg S.A | 13,241 | 290 |
| Hyosung Spandex (GuangDong) Co., Ltd. | 14,081 | 4,970 |
| Hyosung Spandex (Jiaxing) Co., Ltd. | 3,888 | - |
| Hyosung Spandex (Zhuhai) Co., Ltd. | 4,745 | - |
| Hyosung Steel Cord (Nanjing) Co., Ltd. | 53 | - |
| Hyosung Steel Cord (Qingdao) Co., Ltd. | 12,842 | 115 |
| Hyosung USA Inc. | 93 | - |
| Hyosung Vietnam Co., Ltd. | 31,665 | 26,033 |
| Nantong Hyosung Transformer Co., Ltd. | 6,406 | - |
| Nantong Yaubong Transformer Co., Ltd. | 212 | - |
| OpCo GmbH | 13 | 175 |
| Zhangjiagang Xiaosha Coil Service Co., Ltd. | 1,607 | 136 |
| Receivables and sales between consolidated subsidiaries and others | | |
| | 119,033 | 416,691 |
| | <u>₩ 469,783</u> | <u>₩ 1,952,121</u> |

(in millions of Korean won)

2007

| Selling company | Purchasing company | Receivables and other | Sales and other |
|---------------------|--|--------------------------|--------------------|
| Hyosung Corporation | Nautilus Hyosung Co., Ltd. | ₩ 63 | ₩ 1,854 |
| | The Class Hyosung | - | 1,150 |
| | Starlease Co., Ltd. | - | 5 |
| | NH Tech Inc. | 2 | 15 |
| | Hyosung Construction Co., Ltd. | 26,523 | 21,463 |
| | Hyosung Ebara Co., Ltd. | 1,158 | 19,825 |
| | Hyosung Ebara Engineering Co., Ltd. | 80 | 878 |
| | Hyosung Capital Co., Ltd. | 86 | 15 |
| | Hyosung Investment & Development Corporation | - | 53,002 |
| | Hyosung Trans World Co., Ltd. | 4 | 25 |
| | Baoding Hyosung Tianwei Transformer Co., Ltd. | 78 | 68 |

Hyosung Corporation and Subsidiaries
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| | | | |
|---|---|--------|---------|
| | Beijing Hyosung Container Co., Ltd. | 3 | 6 |
| | Hyosung America Inc. | 97 | 316,773 |
| | Hyosung Chemical Fiber (Jiaxing) Co., Ltd. | 2,929 | 17,035 |
| | Hyosung Europe SRL | 206 | 17,930 |
| | Hyosung Film (Jiaxing) Co., Ltd. | - | 6,628 |
| | Hyosung Istanbul TESKSTIL LTD.STI | 165 | 26,163 |
| | Hyosung Japan Co., Ltd. | 766 | 149,572 |
| | Hyosung Luxembourg S.A | 27 | 17,663 |
| | Hyosung Singapore PteLtd | 1,275 | 21,513 |
| | Hyosung Spandex (Zhuhai) Co., Ltd. | 3,045 | 2,938 |
| | Hyosung Spandex (GuangDong) Co., Ltd. | 9,372 | 28,463 |
| | Hyosung Spandex (Jiaxing) Co., Ltd. | 4,128 | 13,948 |
| | Hyosung Steel Cord (Qingdao) Co., Ltd. | 1,855 | 21,783 |
| | Hyosung USA Inc. | 90 | 91 |
| | Hyosung Vietnam Co., Ltd. | 169 | 11,112 |
| | Nantong Hyosung Transformer Co., Ltd. | 217 | 1,336 |
| | Nantong Yaubong Transformer Co., Ltd. | 29 | 17 |
| | OpCo GmbH | 5 | 13 |
| | Xepix Corp. | - | 14 |
| | Zhangjiagang Xiaosha Coil Service Co., Ltd. | - | 9,640 |
| Nautilus Hyosung Co., Ltd. | Hyosung Corporation | 1,446 | 13,235 |
| The Class Hyosung | | - | 69 |
| Epiplus Inc. | | 86 | 659 |
| Hyosung Construction Co., Ltd. | | 2,411 | 9,577 |
| Hyosung Ebara Co., Ltd. | | 452 | 1,089 |
| Hyosung Ebara Engineering Co., Ltd. | | 2,151 | 5,899 |
| Hyosung Capital Co., Ltd. | | - | 68 |
| Hyosung Trans World Co., Ltd. | | 16,674 | 108,022 |
| Hyosung America Inc. | | 1,362 | 7,829 |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd | | 389 | 61,913 |
| Hyosung Europe SRL | | 648 | 5,524 |
| Hyosung Film (Jiaxing) Co., Ltd. | | - | 2 |

Hyosung Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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| | | |
|--|------------------|--------------------|
| Hyosung Japan Co., Ltd. | 45,017 | 79,678 |
| Hyosung Singapore Pte Ltd. | 161 | 1,326 |
| Hyosung Participacoes Brasil Ltd. | 32 | - |
| Hyosung Spandex (GuangDong) Co., Ltd | - | 3,051 |
| Hyosung Spandex (Jiaxing) Co., Ltd. | - | 4,583 |
| Hyosung Steel Cord (Qingdao) Co., Ltd | 47 | 3,836 |
| Hyosung USA Inc. | - | 4 |
| Hyosung Vietnam Co., Ltd. | 3 | 9,177 |
| Nantong Hyosung Transformer Co., Ltd. | - | 158 |
| OpCo GmbH | - | 4,367 |
| Xepix Corp. | - | 3,346 |
| Zhangjiagang Xiaosha Coil Service Co., Ltd. | 19 | - |
| Receivables and sales between consolidated subsidiaries and others | | |
| | <u>80,815</u> | <u>200,283</u> |
| | <u>₩ 204,085</u> | <u>₩ 1,284,633</u> |

Hyosung Corporation and Subsidiaries
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The guarantees the Company has provided for subsidiaries as of December 31, 2008, are as follows:

(In millions of Korean won)

| Consolidated subsidiary | Guaranteed amount | Type of borrowings | Credit Amount | Banks |
|--|--------------------|----------------------------------|--------------------|--|
| Hyosung America Inc. | ₩ 31,438 | Foreign currency loan and others | ₩ 28,570 | Shinhan Bank and others |
| HICO America Sales & Tech. | 12,575 | Foreign currency loan and others | 11,318 | Woori Bank and others |
| Hyosung Japan Co., Ltd. | 125,253 | Foreign currency loan and others | 59,321 | Woori Bank and others |
| Hyosung Europe SRL | 755 | Foreign currency loan and others | - | Korea Exchange Bank |
| Hyosung Spandex (Jiaxing) Co., Ltd | 10,060 | Facility loans and others | 10,060 | Woori Bank and others |
| Hyosung Spandex (GuangDong) Co., Ltd. | 75,450 | Facility loans and others | 75,450 | Woori Bank and others |
| Hyosung Spandex (Zhuhai) Co., Ltd. | 22,887 | Operating capital and others | 22,698 | Korea Development bank and others |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd. | 137,068 | Facility loans and others | 137,068 | Korea Development bank and others |
| Hyosung Steel Cord (QingDao) Co., Ltd. | 72,306 | Facility loans and others | 72,306 | Woori Bank and others |
| Beijing Hyosung Container Co., Ltd. | 1,320 | Facility loans and others | 1,320 | Woori Bank |
| Boading Hyosung Tianwei Transformer Co., Ltd | 15,394 | Facility loans and others | 15,394 | Woori Bank and others |
| Nantong Hyosung Transformer Co., Ltd. | 114,808 | Facility loans and others | 101,377 | Hana Bank and others |
| Hyosung Steel Cord(Nanjing) Co., Ltd. | 16,519 | Facility loans and others | 16,519 | Hana Bank |
| Hyosung USA Inc. | 159,577 | Operating capital and others | 94,313 | Kookmin Bank and others |
| Hyosung Holdings USA, Inc. | 37,725 | Operating capital and others | 37,725 | Korea Exchange Bank and others |
| Hyosung Luxembourg S.A | 60,923 | Operating capital and others | 59,408 | The Export-Import Bank of Korea and others |
| Hyosung Vietnam Co., Ltd. | 243,955 | Facility loans and others | 208,378 | Woori Bank and others |
| Hyosung Istanbul Tekstil Ltd. STI | 125,750 | Facility loans and others | 125,750 | The Export-Import Bank of Korea and others |
| OpCo GmbH | 8,213 | Operating capital and others | 8,213 | Shinhan Bank and others |
| | <u>₩ 1,271,976</u> | | <u>₩ 1,085,188</u> | |

Hyosung Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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10. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | | | | Ending Balance |
|--|----------------------|------------------|-------------------|--------------------|------------------|--------------------|
| | Beginning Balance | Acquisition | Disposal | Depreciation | Others | |
| Land ^{1 & 2} | ₩ 744,418 | ₩ 18,120 | ₩ (11,036) | ₩ - | ₩ 873,196 | ₩ 1,624,698 |
| Buildings | 669,446 | 150,820 | (8,232) | (24,683) | 6,338 | 793,689 |
| Structures | 100,462 | 9,371 | - | (4,422) | 8,304 | 113,715 |
| Equipment | 1,022,744 | 284,350 | (11,415) | (270,182) | 430,158 | 1,455,655 |
| Vehicles | 5,717 | 4,539 | (1,016) | (2,519) | 2,322 | 9,043 |
| Tools | 61,431 | 37,142 | (901) | (25,013) | 11,240 | 83,899 |
| Construction-in-progress | 243,966 | 376,674 | - | - | (336,665) | 283,975 |
| Machinery in transit | 292 | 11,013 | - | - | (10,142) | 1,163 |
| | <u>₩2,848,476</u> | <u>₩ 892,029</u> | <u>₩ (32,600)</u> | <u>₩ (326,819)</u> | <u>₩ 984,751</u> | <u>₩ 4,365,837</u> |

¹ Land was revalued on December 31, 2008, by an independent appraiser. The valuation was based on the recent market transactions under terms with third parties. Incremental gain after revaluation, net of tax effect, is recognized in accumulated other comprehensive income (Note 25).

² If land is stated at acquisition cost, the book value as of December 31, 2008, is ₩ 757,244 million (2007: ₩ 744,418 million).

| <i>(in millions of Korean won)</i> | 2007 | | | | | Ending Balance |
|--|----------------------|------------------|-------------------|--------------------|------------------|--------------------|
| | Beginning Balance | Acquisition | Disposal | Depreciation | Others | |
| Land | ₩ 732,725 | ₩ 19,760 | ₩ (11,106) | ₩ - | ₩ 3,039 | ₩ 744,418 |
| Buildings | 575,020 | 21,499 | (20,162) | (31,813) | 124,902 | 669,446 |
| Structures | 100,435 | 2,528 | (11) | (4,361) | 1,871 | 100,462 |
| Equipment | 1,107,564 | 125,202 | (8,076) | (246,759) | 44,813 | 1,022,744 |
| Vehicles | 5,276 | 3,038 | (635) | (2,629) | 667 | 5,717 |
| Tools | 65,098 | 16,434 | (192) | (23,885) | 3,976 | 61,431 |
| Construction-in-progress | 77,127 | 134,624 | - | - | 32,215 | 243,966 |
| Machinery in transit | 4,676 | 28,616 | - | - | (33,000) | 292 |
| | <u>₩ 2,667,921</u> | <u>₩ 351,701</u> | <u>₩ (40,182)</u> | <u>₩ (309,447)</u> | <u>₩ 178,483</u> | <u>₩ 2,848,476</u> |

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As of December 31, 2008, tangible assets, inventories, and constructions are insured against fire and other types of damages for up to ₩ 4,072,767 million with Samsung Fire and Marine Insurance Co and others. Also, vehicles of subsidiaries are insured under comprehensive and liability insurance policy while employees are insured under employment and workers compensation insurance.

Details of fair values of properties belonging to the consolidated company as of December 31, 2008 and 2007, are as follows :

| Accounts (in millions of Korean won) | Type | Book Value | | Fair Value ¹ | |
|---|-------------------------------------|--------------------|------------------|-------------------------|--------------------|
| | | 2008 | 2007 | 2008 | 2007 |
| Property, plant and equipment | Factory site and others | ₩ 1,624,698 | ₩ 744,418 | ₩ 1,605,991 | ₩ 1,138,953 |
| Investment properties (Note 11) | Non-business real estate and others | 4,199 | 2,558 | 5,583 | 4,004 |
| | | <u>₩ 1,628,897</u> | <u>₩ 746,976</u> | <u>₩ 1,611,574</u> | <u>₩ 1,142,957</u> |

¹ Due to insufficient information about fair value of certain properties located in foreign countries, properties with book value of ₩ 20,307 million, and ₩ 6,999 million, as of December 31, 2008 and 2007, respectively, are not included in the table above.

11. Investment Properties

Details of investment properties, which are included in other investment assets, as of December 31, 2008 and 2007, are as follows:

| (in millions of Korean won) | Description | Location | 2008 | 2007 |
|-----------------------------|-------------------------------------|----------|----------------|----------------|
| Land | Non-business real estate | Daegu | ₩ 2,550 | ₩ 2,558 |
| Land | Non-business real estate and others | Wonju | 1,649 | - |
| | | | <u>₩ 4,199</u> | <u>₩ 2,558</u> |

Hyosung Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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12. Goodwill and Negative Goodwill

Changes in goodwill for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|------------------------------------|-------------|-----------------|-------------|-----------------|
| Beginning balance | ₩ | 160,394 | ₩ | 4,305 |
| Increase | | 8,900 | | 177,929 |
| Decrease | | <u>(38,988)</u> | | <u>(21,840)</u> |
| Ending balance | ₩ | <u>130,306</u> | ₩ | <u>160,394</u> |

Changes in negative goodwill for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|------------------------------------|-------------|----------------|-------------|----------|
| Beginning balance | ₩ | - | ₩ | - |
| Increase | | 29,049 | | - |
| Decrease | | <u>(6,459)</u> | | - |
| Ending balance | ₩ | <u>22,590</u> | ₩ | <u>-</u> |

13. Intangible Assets

Changes in intangible assets, excluding goodwill and negative goodwill, for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | | |
|------------------------------------|----------------------------|---------------------|--------------------------------|-----------------|
| | Industrial property | Usage rights | Other intangible assets | Total |
| Beginning Balance | ₩ 5,448 | ₩ 724 | ₩ 30,430 | ₩ 36,602 |
| Acquisition | 2,712 | - | 14,268 | 16,980 |
| Amortization | (885) | (23) | (4,496) | (5,404) |
| Others ¹ | 1,769 | (633) | 10,869 | 12,005 |
| Ending Balance | ₩ <u>9,044</u> | ₩ <u>68</u> | ₩ <u>51,071</u> | ₩ <u>60,183</u> |

Hyosung Corporation and Subsidiaries
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| <i>(in millions of Korean won)</i> | 2007 | | | |
|------------------------------------|------------------------|-----------------|-------------------------------|-----------------|
| | Industrial property | Usage rights | Other intangible assets | Total |
| Beginning Balance | ₩ 4,011 | ₩ 3,533 | ₩ 28,195 | ₩ 35,739 |
| Acquisition | 1,709 | 966 | 9,169 | 11,844 |
| Amortization | (860) | (162) | (6,671) | (7,693) |
| Others ¹ | 588 | (3,613) | (264) | (3,289) |
| Ending Balance | <u>₩ 5,448</u> | <u>₩ 724</u> | <u>₩ 30,429</u> | <u>₩ 36,601</u> |

¹ Others include changes in amount resulting from changes in scope of consolidation and exchange rate.

14. Other Financial Business Assets

Other financial business assets as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | 2007 |
|------------------------------------|--------------------|--------------------|
| Loans | ₩ 538,478 | ₩ 410,466 |
| Installment financial assets | 59,562 | 59,845 |
| Lease and rental assets | 673,059 | 815,325 |
| New technologies financial assets | 83 | 154 |
| | <u>₩ 1,271,182</u> | <u>₩ 1,285,790</u> |

15. Government Grants

The Company has entered into development agreements with Korea Electric Power Research Institute and 33 other parties related to 44 national projects including the electric power converter project for 250 KW fuel cells.

The Company received ₩ 19,822 million in government grants for these projects, and as of December 31, 2008, ₩ 14,867 million is recorded as withholdings and ₩ 8,331 million is recorded as long-term other accounts payable.

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16. Pledged Assets and Guarantees

The following assets are pledged as collateral for the consolidated Company's borrowings as of December 31, 2008, are as follows:

(in thousand of RMB and millions of Korean won)

| | Pledged assets | Lender | Type of borrowings | Borrowed amount | Book value |
|------------------------------------|---|--|--|------------------------|-------------------|
| Hyosung Corporation | Equity method investments | Hana Bank and others | General loans | ₩ 1,025,086 | ₩ 12,780 |
| | Land, building, machinery and equipment | Korea Development Bank and others | General loans and others | | 1,648,468 |
| Chin Hung International Inc. | Treasury stock and others | Construction guarantee and others | Collateral for financing transaction and borrowings | 10,917 | 12,267 |
| | Land and building | Kookmin Bank and other | Collateral for borrowings and security deposits | 10,158 | 7,308 |
| | Inventories | Military Mutual Aid Association and others | Collateral for borrowings | 47,000 | 73,473 |
| Star Lease Co., Ltd. | Lease assets (Inventories) | Shinhan Bank | Collateral for notes | 42,000 | 55,608 |
| Epiplus Co., Ltd. | Land | Kookmin Bank | General loans | 2,801 | 955 |
| | Building | Kookmin Bank | General loans | | 1,047 |
| | Machinery | Korea Development Bank | Facility loans | 2,783 | 3,543 |
| | Time deposits | Kookmin Bank | Private debentures | 250 | 63 |
| | Installment savings | Woori Bank | Operating capital | 1,200 | 33 |
| Hyosung Ebara Co., Ltd. | Cash and cash equivalent | Shinhan Bank | Payment guarantee in foreign currency and other guarantees | 44 | 47 |
| Hyosung Spandex (Jiaxing) Co.,Ltd. | Property, plant and equipment | China Bank | Facility loans | RMB 39,650 | RMB 563,949 |

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Guarantees provided for third parties as of December 31, 2008, are as follows:

(in millions of Korean won)

| Guarantor | Guarantee | Payment guarantee |
|--------------------------------|---|--------------------------|
| Hyosung Corporation | Hyosung (H.K) Ltd. | ₩ 21,378 |
| | Hyosung Steel Cord (Nanjing) Co., Ltd. | 18,863 |
| Chin Hung International Inc. | Kang Won Industry & Development Co., Ltd. | 67,600 |
| | Namyang Construction Co., Ltd. | 9,891 |
| | Daehan Real Estate Investment Trust Co., Ltd. | 129,984 |
| | Asung HD and five other companies | 735,382 |
| | Ehwa Technologies Information Co., Ltd. | 14,320 |
| | Il Sung Construction Co., Ltd. | 80,390 |
| | Lime Development | 411,342 |
| | Lime Industrial Development Co., Ltd. | 6,500 |
| | Mir Engineering & Construction | 80,501 |
| | SeMiRang Co., Ltd. And 18 other companies | 1,159,162 |
| | Seokwang Construction Co., Ltd. | 24,126 |
| | Hyoja Construction and three other companies | 89,079 |
| | SC Hanbo Construction & Engineering Co., Ltd. | 123,209 |
| | The Class Hyosung Co., Ltd. | Sung-nam Bus Company |
| Hyosung Construction Co., Ltd. | Kunsan Regional Maritime Affairs & Fisheries Office | 291 |
| | Chunam University | 74 |
| | | ₩ 2,973,782 |

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The collaterals and guarantees provided by a third party for the Company as of December 31, 2008, are as follows:

(in millions of Korean won, in thousands of USD/EUR/INR/MYR)

| Guarantee | Guarantor | Collaterals and guarantees provided | Amount |
|-------------------------------------|---|--|---------------|
| Hyosung Corporation | Construction guarantee | Payment guarantee | ₩ 139,577 |
| | The Export-Import Bank of Korea and others | Payment guarantee | ₩ 128,749 |
| Chin Hung International Inc. | Construction guarantee | Performance guarantee | ₩ 474,342 |
| | Korea Housing Guarantee Corporation | Construction guarantee | ₩ 32,142 |
| | Seoul Guarantee Insurance Company | Performance guarantee | ₩ 241,245 |
| | Ilung Construction Co., Ltd. | Joint and several guarantee for construction | ₩ 114,603 |
| | Hyoja Construction | Joint and several guarantee for construction | ₩ 35,451 |
| Taeuk Construction Co., Ltd. | SC Hanbo Construction & Engineering Co., Ltd. | Joint and several guarantee for construction | ₩ 26,935 |
| | Korea Housing Guarantee Corporation | Performance guarantee | ₩ 128,961 |
| Epiplus Co., Ltd. | Kibo Technology Fund | Credit guarantee | ₩ 1,312 |
| | Korea Export Insurance Corporation | Credit guarantee | ₩ 180 |
| Hyosung Ebara Co., Ltd. | Bank of Mellat | Payment guarantee | EUR 10 |
| | Seoul Guarantee Insurance Company | Payment guarantee | ₩ 3,904 |
| | Machinery Financial Cooperative | Payment guarantee | ₩ 66,900 |
| | The Export-Import Bank of Korea | Payment guarantee | ₩ 10 |
| | The Export-Import Bank of Korea | Payment guarantee | EUR 1,133 |
| | The Export-Import Bank of Korea | Payment guarantee | INR 7,821 |
| | The Export-Import Bank of Korea | Payment guarantee | USD 643 |
| Hyosung Ebara Engineering Co., Ltd. | SC First Bank | Payment guarantee | USD 10,000 |
| | Construction guarantee | Payment guarantee and others | ₩ 24,663 |
| | Seoul Guarantee Insurance Company | Payment guarantee and others | ₩ 20,362 |
| | Korea Exchange Bank | Performance guarantee | MYR 2,015 |
| Hyosung Trans World Co., Ltd. | Hana Bank | Performance guarantee | USD 14,877 |
| | Seoul Guarantee Insurance Company | Performance guarantee | ₩ 200 |
| | Hanwha Non-life Insurance Co., Ltd. | Liability insurance for freight | ₩ 100 |

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17. Debentures

Debentures as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | Maturity date | Interest rate as of December 31, 2008 | 2008 | 2007 | |
|--|----------------------|--|-------------|-------------|-----------|
| 215 th Public subscription bond | 2008.12.26 | 6.08% | ₩ - | ₩ 100,000 | Unsecured |
| 222 nd Public subscription bond | 2008.04.29 | 4.66% | - | 100,000 | Unsecured |
| 223 rd Public subscription bond | 2008.07.25 | 4.95% | - | 100,000 | Unsecured |
| 224 th Public subscription bond | 2008.06.28 | 4.60% | - | 30,000 | Unsecured |
| 225-1 st Public subscription bond | 2009.01.25 | 6.37% | 150,000 | 150,000 | Unsecured |
| 225-2 nd Public subscription bond | 2011.01.25 | 7.02% | 30,000 | 30,000 | Unsecured |
| 226 th Public subscription bond | 2008.10.24 | 5.88% | - | 50,000 | Unsecured |
| 227 th Public subscription bond | 2008.10.25 | 5.78% | - | 70,000 | Unsecured |
| 228 th Public subscription bond | 2008.04.30 | 5.82% | - | 30,000 | Unsecured |
| 229-1 st Public subscription bond | 2009.07.06 | 5.80% | 70,000 | 70,000 | Unsecured |
| 229-2 nd Public subscription bond | 2011.07.06 | 6.14% | 30,000 | 30,000 | Unsecured |
| 230 th Private subscription bond | 2011.11.15 | 5.62% | 30,000 | 30,000 | Unsecured |
| 231 st Private subscription bond | 2010.01.15 | 5.58% | 10,000 | 10,000 | Unsecured |
| 232-1 st Public subscription bond | 2010.05.21 | 5.54% | 50,000 | 50,000 | Unsecured |
| 232-2 nd Public subscription bond | 2012.05.21 | 5.74% | 50,000 | 50,000 | Unsecured |
| 233-1 st Public subscription bond | 2010.07.11 | 5.73% | 150,000 | 150,000 | Unsecured |
| 233-2 nd Public subscription bond | 2012.07.11 | 6.02% | 30,000 | 30,000 | Unsecured |
| 235-1 st Public subscription bond | 2010.03.13 | 5.66% | 50,000 | - | Unsecured |
| 235-2 nd Public subscription bond | 2011.03.13 | 5.79% | 70,000 | - | Unsecured |
| 235-3 rd Public subscription bond | 2011.03.13 | 6.06% | 30,000 | - | Unsecured |
| 236-1 st Public subscription bond | 2010.07.24 | 6.78% | 20,000 | - | Unsecured |
| 236-2 nd Public subscription bond | 2011.07.24 | 6.87% | 100,000 | - | Unsecured |
| 236-3 rd Public subscription bond | 2013.07.24 | 7.00% | 30,000 | - | Unsecured |
| 237-1 st Public subscription bond | 2009.12.31 | 8.55% | 45,000 | - | Unsecured |
| 237-2 nd Public subscription bond | 2010.12.31 | 8.70% | 25,000 | - | Unsecured |
| 237-3 rd Public subscription bond | 2011.12.31 | 8.85% | 20,000 | - | Unsecured |
| Note 1 | 2008.03.24 | 5.98% | - | 20,000 | Unsecured |
| | 2008.06.22 | 5.56% | - | 20,000 | Unsecured |
| | 2008.09.23 | CD(3M)+1.33 | - | 10,000 | Unsecured |
| | 2008.12.30 | CD(3M)+1.33 | - | 15,000 | Unsecured |
| | 2009.01.26 | CD(3M)+1.20 | 10,000 | 10,000 | Unsecured |
| | | CD(3M)+1.25 | 20,000 | 20,000 | Unsecured |
| | 2009.04.03 | CD(3M)+1.20 | 20,000 | 20,000 | Unsecured |
| | 2009.09.25 | CD(3M)+1.25 | 5,000 | 5,000 | Unsecured |
| | 2010.03.09 | 5.51% | 30,000 | 30,000 | Unsecured |
| | 2010.11.29 | 6.93% | 10,000 | 10,000 | Unsecured |
| | 2009.01.25 | CD(3M)+2.38 | 10,000 | - | Unsecured |

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| | | | | | |
|--------------------------------------|------------|------------------------------|-------------------|-------------------|-----------|
| | 2009.06.23 | CD(3M)+1.73% | 20,000 | - | Unsecured |
| | 2009.10.14 | 7.65% | 20,000 | - | Unsecured |
| | 2009.12.30 | Bank debenture rate+3.11% | 12,000 | - | Unsecured |
| | 2010.03.17 | 6.85% | 40,000 | - | Unsecured |
| | 2010.05.30 | CD(3M)+1.64% | 20,000 | - | Unsecured |
| | 2011.07.14 | 7.85% | 10,000 | - | Unsecured |
| Note 2 | 2008.02.11 | 6.30% | - | 30,000 | Unsecured |
| | 2008.02.28 | 5.55% | - | 20,000 | Unsecured |
| | 2008.05.22 | 6.45% | - | 20,000 | Unsecured |
| | 2008.05.26 | 6.10% | - | 30,000 | Unsecured |
| | 2008.05.30 | 5.58% | - | 50,000 | Unsecured |
| | 2008.08.18 | 5.42% | - | 20,000 | Unsecured |
| | 2008.10.20 | 6.10% | - | 20,000 | Unsecured |
| | 2008.11.27 | 5.27% | - | 20,000 | Unsecured |
| | 2009.09.28 | 5.16% | 30,000 | 30,000 | Unsecured |
| | 2009.11.30 | 5.30% | 30,000 | 30,000 | Unsecured |
| | | 6.93% | 20,000 | - | Unsecured |
| | 2010.04.26 | 5.64% | 50,000 | 50,000 | Unsecured |
| | 2010.10.08 | 6.35% | 30,000 | 30,000 | Unsecured |
| | 2010.11.12 | 6.34% | 20,000 | 20,000 | Unsecured |
| | 2009.09.25 | 8.16% | 30,000 | - | Unsecured |
| | 2009.05.30 | 6.81% | 30,000 | - | Unsecured |
| | 2009.07.23 | 7.00% | 1,053 | - | Unsecured |
| | 2009.10.16 | 6.59% | 30,000 | - | Unsecured |
| | 2010.06.27 | 7.24% | 20,000 | - | Unsecured |
| | 2010.12.16 | 9.50% | 30,000 | - | Unsecured |
| | 2011.04.16 | 6.74% | 40,000 | - | Unsecured |
| | 2011.05.30 | 7.18% | 20,000 | - | Unsecured |
| | | 7.23% | 35,000 | - | Unsecured |
| | 2011.06.27 | 7.44% | 10,000 | - | Unsecured |
| Note 3 | 2008.10.07 | 7.18% | - | 1,100 | Unsecured |
| | 2009.04.17 | 10.62% | 250 | 750 | Unsecured |
| | 2009.10.16 | 6.92% | 750 | 1,000 | Unsecured |
| | | | 1,644,053 | 1,612,850 | |
| Less : Current portion of debentures | | | (554,053) | (481,850) | |
| Discount on bonds | | | (3,534) | (2,714) | |
| | | | <u>₩1,086,466</u> | <u>₩1,128,286</u> | |

Note 1: Debentures are issued by Star Lease Co., Ltd.

Note 2: Debentures are issued by Hyosung Capital Co., Ltd.

Note 3: Debentures are issued by Epiplus Inc.

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18. Long-term Borrowings

Long-term borrowings as of December 31, 2008 and 2007, are as follows:

Local currency long-term borrowings

| <i>(in millions of Korean won)</i> | Bank | Interest rate as of December 31, 2008 | 2008 | 2007 |
|--|--|--|------------------|------------------|
| Facility loans | Kookmin Bank | 5.86% ~ 9.02% | ₩ 52,801 | ₩ 30,000 |
| Operating capital | | 5.86% ~ 9.02% | 3,750 | - |
| Operating capital | Military Mutual Aid Association | 10.40% | 25,500 | - |
| Operating capital | Korea Housing Guarantee Corporation | 1.00% | 2,163 | - |
| Facility loans | Korea Development Bank Capital | 3.00% ~ 4.5% | 10,201 | 10,155 |
| Operating capital | Shinhan Bank | 6.45% | 30,000 | - |
| Operating capital | Woori Bank | 5.98% ~ 8.40% | 80,000 | 80,000 |
| Operating capital | Korea Housing Guarantee Co., Ltd. | 1.00% | 4,400 | 4,400 |
| Operating capital | Hana Bank | 5.95% ~ 6.35% | 60,000 | 30,000 |
| Facility loans | Korea Development Bank | 7.34% ~ 10.21% | 1,615 | 1,700 |
| Facility loans & operating capital | | 4.50% ~ 8.29% | 262,279 | 114,312 |
| Improvement loans | | 5.38% | 368 | 494 |
| Operating capital | Korea Exchange Bank | 5.47% ~ 5.96% | 50,000 | 50,000 |
| Loan subsidy for partners | Samsung Electro-mechanics Co., Ltd. | - | 271 | 505 |
| N/A | Hyosung Capital 2 nd liquidated Co. | - | 13,367 | - |
| | | | <u>596,715</u> | <u>321,566</u> |
| Less : Current portion of long-term borrowings | | | (161,153) | (12,634) |
| Present value discount | | | (446) | - |
| | | | <u>₩ 435,116</u> | <u>₩ 308,932</u> |

Borrowings will be redeemed by installment or in a lump sum, securities under equity-method and property, plant and equipment are pledged as collaterals.

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Long-term borrowings in foreign currency

| <i>(in millions of Korean won)</i> | Bank | Interest rate as of December 31,2008 | 2008 | 2007 |
|---|------------------------|---|------------------|------------------|
| Facility loans | Mitsui Sumimoto Bank | 3.69% | ₩ 25,150 | ₩ 18,764 |
| Facility loans | Shinhan Bank | 3.89% | 25,150 | 18,764 |
| Facility loans | Korea Development Bank | 2.85% ~ 5.23% | 36,845 | 27,923 |
| Borrowings of consolidated companies (overseas) | | | <u>828,725</u> | <u>471,530</u> |
| | | | 915,870 | 536,981 |
| Less: Current portion of long-term borrowings | | | <u>(186,985)</u> | <u>(9,366)</u> |
| | | | <u>₩ 728,885</u> | <u>₩ 527,615</u> |

The foreign currency long-term borrowings will be redeemed by installment or in a lump sum, and are secured by equity-method investments.

The payment schedules of debentures and long-term borrowings are as follows:

| <i>(in millions of Korean won)</i> | Debentures | Local currency long-term borrowings | Long-term borrowings in foreign currency | Total |
|------------------------------------|--------------------|--|---|--------------------|
| Year | | | | |
| 2009 | ₩ 554,053 | ₩ 161,153 | ₩ 186,985 | ₩ 902,191 |
| 2010 | 555,000 | 225,937 | 354,991 | 1,135,928 |
| 2011 | 425,000 | 120,126 | 271,359 | 816,485 |
| 2012 | 80,000 | 25,353 | 65,964 | 171,317 |
| Thereafter | <u>30,000</u> | <u>63,700</u> | <u>36,571</u> | <u>130,271</u> |
| | <u>₩ 1,644,053</u> | <u>₩ 596,269</u> | <u>₩ 915,870</u> | <u>₩ 3,156,192</u> |

19. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | 2007 |
|------------------------------------|-----------------|-----------------|
| Beginning balance | ₩ 153,644 | ₩ 131,688 |
| Increase | 46,323 | 44,883 |
| Payment | (28,410) | (26,843) |
| Others | <u>3,907</u> | <u>3,916</u> |
| Ending balance | 175,464 | 153,644 |
| Less: Severance benefit deposits | (115,343) | (99,165) |
| National Pension Fund contribution | <u>(1,558)</u> | <u>(1,804)</u> |
| Accrued severance benefits | <u>₩ 58,563</u> | <u>₩ 52,675</u> |

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As of December 31, 2008, the Company estimates severance payable to all employees to be ₩175,464 million (2007: ₩153,644 million) and records the corresponding amount as accrued severance benefits. Also, the Company funded 65.74% (2007: 64.54%) of severance payable through severance insurance deposits with Samsung Life Insurance and others.

20. Provision for Construction Warranties

Changes in reserve for construction warranties for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|------------------------------------|-------------|---------------|-------------|---------------|
| Beginning balance | ₩ | 10,288 | ₩ | 7,952 |
| Payment | | (5,420) | | (911) |
| Increase | | 9,436 | | 3,247 |
| Others | | 6,553 | | - |
| Ending balance | ₩ | <u>20,857</u> | ₩ | <u>10,288</u> |

¹ Others include changes in amount resulting from changes in scope of consolidation.

21. Operating leases

As of December 31, 2008, the Company entered into operating lease contracts with GE Capital Korea Co., Ltd. Details of annual lease payments are as follows:

| <i>(in millions of Korean won)</i> | Tools | |
|------------------------------------|--------------|---------------|
| Year | | |
| 2009 | ₩ | 4,411 |
| 2010 | | 4,411 |
| 2011 | | 4,411 |
| 2012 | | 1,417 |
| | ₩ | <u>14,650</u> |

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22. Monetary Assets and Liabilities denominated in Foreign Currencies

As of December 31, 2008 and 2007, monetary assets and liabilities denominated in foreign currencies are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | | | |
|------------------------------------|---------------------------|------------------------------|---------------------------|------------------------------|-------------|----------|
| | Foreign currencies | Korean won equivalent | Foreign currencies | Korean won equivalent | | |
| Assets | | | | | | |
| Cash and cash equivalents | USD | 54,511,619 | ₩ 68,547 | USD | 11,204,160 | ₩ 10,512 |
| | EUR | 2,218,489 | 3,941 | EUR | 2,493,353 | 3,444 |
| | JPY | 194,865,865 | 2,716 | JPY | 129,127,790 | 1,076 |
| | AED | 64,552 | 22 | AED | - | - |
| | BDT | 51,735 | 1 | BDT | 51,735 | 1 |
| | GBP | - | - | GBP | 555 | 1 |
| | MYR | 5,447,860 | 1,970 | MYR | 1,857,979 | 525 |
| | QAR | 7,051,143 | 2,436 | QAR | - | - |
| | VND | - | - | VND | 298,000,000 | 17 |
| Trade accounts receivable | USD | 142,674,595 | 179,413 | USD | 107,207,355 | 100,582 |
| | EUR | 1,909,148 | 3,392 | EUR | 1,172,355 | 1,619 |
| | JPY | 111,494,256 | 1,554 | JPY | 112,638,553 | 938 |
| | MYR | 11,930,536 | 4,313 | MYR | 43,710,641 | 12,360 |
| Other accounts receivable | USD | 4,930,808 | 6,200 | USD | 4,138,905 | 3,883 |
| | EUR | 1,084,325 | 1,926 | EUR | 4,109,375 | 5,676 |
| | JPY | 2,189,985 | 31 | JPY | 2,056,605 | 17 |
| Accrued income | USD | 940,247 | 1,182 | USD | 314,420 | 295 |
| Advance payments | MYR | - | - | MYR | 3,610,000 | 1,021 |
| Short-term financial instruments | QAR | 3,200,000 | 1,106 | QAR | - | - |
| Long-term financial instruments | USD | 160,637 | 202 | USD | 137,999 | 129 |
| | EUR | 88,510 | 157 | EUR | - | - |
| | JPY | - | - | JPY | 500,000 | 4 |
| | AUD | 20 | 1 | AUD | 42,500 | 35 |
| | CAD | 38,500 | 40 | CAD | - | - |
| | CNY | 300,300 | 55 | CNY | 475,000 | 61 |
| | GBP | 555 | 1 | GBP | 15,000 | 14 |
| | GEL | 8,690 | 7 | GEL | - | - |
| | HKD | 72 | 1 | HKD | - | - |

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| | | | | | | |
|---------------------------------|-------|---------------|------------------|-------|---------------|------------------|
| | IDR | - | - | IDR | 182,000,000 | 18 |
| | INR | 2,030,000 | 53 | INR | - | - |
| | IRR | 4,000,000 | 1 | IRR | - | - |
| | MXN | 700 | 1 | MXN | 256,085 | 23 |
| | MYR | - | - | MYR | 42,644 | 12 |
| | NZD | 5,000 | 4 | NZD | - | - |
| | PESO | 151,085 | 14 | PESO | - | - |
| | PHP | 166,700 | 4 | PHP | - | - |
| | PLN | 72,610 | 31 | PLN | - | - |
| | RUB | 1,175,350 | 50 | RUB | 374,000 | 14 |
| | RUPIA | 105,000,000 | 12 | RUPIA | - | - |
| | SAR | 4,100 | 1 | SAR | - | - |
| | SGD | 43 | 1 | SGD | 75,000 | 49 |
| | SUM | 1,072,000 | 1 | SUM | - | - |
| | UAH | 76,800 | 13 | UAH | 65,000 | 12 |
| | VND | 298,000,000 | 21 | VND | 42,000,000 | 2 |
| Short-term loans receivable | USD | 12,800,000 | 16,096 | USD | 12,800,000 | 12,009 |
| Other financial business assets | USD | 344,120 | 433 | USD | - | - |
| Available-for-sale securities | USD | 2,660,063 | 3,345 | USD | - | - |
| Guarantee deposits | USD | 15,154,651 | 19,057 | USD | 11,051,210 | 10,368 |
| | EUR | 5,530,235 | 9,823 | EUR | 2,139,444 | 2,955 |
| | JPY | 9,029,225 | 126 | JPY | 6,674,000 | 56 |
| | MYR | 7,183,097 | 2,597 | MYR | 4,089,722 | 1,156 |
| Total assets | | | <u>₩ 330,898</u> | | | <u>₩ 168,884</u> |
| Liabilities | | | | | | |
| Trade accounts payable | USD | 172,347,862 | 216,727 | USD | 219,046,169 | 205,509 |
| | EUR | 2,433,054 | 4,321 | EUR | 3,514,144 | 4,854 |
| | JPY | 6,681,513,759 | 93,140 | JPY | 4,598,184,874 | 38,303 |
| | CAD | 69,415 | 72 | CAD | - | - |
| | CHF | 445,903 | 531 | CHF | - | - |
| | GBP | 39,537 | 72 | GBP | 120,479 | 115 |
| | HKD | 103,046 | 17 | HKD | 93,522 | 11 |
| | MYR | 2,115,307 | 765 | MYR | 628,346 | 178 |
| | SEK | 389,870 | 63 | SEK | 21,690 | 3 |
| | SGD | - | - | SGD | 119 | - |
| Accrued expenses | USD | 4,205,031 | 5,288 | USD | 5,117,244 | 4,801 |
| | EUR | 57,939 | 103 | EUR | 163,980 | 226 |

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| | | | | | | |
|-------------------------------------|-----|-------------|------------------|-----|---------------|------------------|
| | JPY | 4,937,897 | 69 | JPY | 1,083,020 | 9 |
| | CAD | - | - | CAD | 883 | 1 |
| | CHF | - | - | CHF | 8,238 | 7 |
| Other accounts Payable | USD | 28,777,222 | 36,188 | USD | 20,172,912 | 18,926 |
| | EUR | 1,471,079 | 2,613 | EUR | 1,506,023 | 2,080 |
| | JPY | 233,769,662 | 3,259 | JPY | 197,680,623 | 1,647 |
| | CHF | 890 | 1 | CHF | - | - |
| | CNY | 10,552 | 2 | CNY | - | - |
| | DEM | - | - | DEM | 21,803 | 15 |
| | FRF | - | - | FRF | 6,086 | 1 |
| | GBP | 6,000 | 11 | GBP | 2,550 | 2 |
| | MYR | 3,207,674 | 1,160 | MYR | 106,706 | 30 |
| | QAR | 14,840,220 | 5,127 | QAR | - | - |
| | SEK | 440,500 | 72 | SEK | 678,000 | 99 |
| Advances from customers | USD | 13,764,481 | 17,309 | USD | 9,008,572 | 8,452 |
| | EUR | 8,699,052 | 15,451 | EUR | 1,970,819 | 2,722 |
| | JPY | 43,204,550 | 602 | JPY | 347,868,372 | 2,898 |
| | MYR | 77,103 | 28 | MYR | 4,030,000 | 1,140 |
| Income taxes payable | MYR | 3,844 | 1 | MYR | - | - |
| | QAR | 1,940,952 | 671 | QAR | - | - |
| Short-term and long-term borrowings | USD | 261,023,447 | 328,238 | USD | 266,856,998 | 250,365 |
| | EUR | 5,237,157 | 9,302 | EUR | 7,769,679 | 10,732 |
| | JPY | 898,608,844 | 12,527 | JPY | 3,578,975,740 | 29,813 |
| | CAD | - | - | CAD | 145,710 | 139 |
| | CHF | - | - | CHF | 665,480 | 554 |
| Long-term other accounts payable | JPY | - | - | JPY | 16,000,000 | 133 |
| Total liabilities | | | <u>₩ 753,730</u> | | | <u>₩ 583,765</u> |

In connection with the above foreign currency translations, ₩ 69,163 (2007: ₩ 5,627) million in translation gains and ₩ 109,508 (2007 : ₩ 9,487) million in translation losses are recorded as non-operating income and expenses, respectively.

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23. Commitments and Contingencies

Discounted amount of bills of exchange and notes receivable resulting from unexpired D/A and D/P is ₩ 159,923 million. Also, factored amount of unexpired trade accounts receivables is ₩ 13,411 million.

Details of commitments and contingencies provided by the Company regarding accounts payable and trade terms as of December 31, 2008, are as follows:

| | Provider | Number | Type |
|--------|---|---------------|-------------------------------------|
| Checks | Korea Housing Guarantee Co., Ltd. | 1 | Blank |
| | Woori Bank and others | 8 | Blank |
| | Hana Bank | 1 | Total par value of ₩ 12 million |
| | Seoul Guarantee Insurance Co., Ltd. and others | 5 | Blank |
| | Samsung Electro-Mechanics Co., Ltd. | 1 | Blank |
| | Hanjin Shipping Co., Ltd. | 1 | Blank |
| Notes | SK Gas Ltd. | 1 | Blank |
| | TCC Steel Co., Ltd. | 1 | Blank |
| | Samsung C & T Corporation | 6 | Total par value of ₩ 5,757 million |
| | Kookmin Bank and others | 32 | Blank |
| | Kookmin Bank and others | 12 | Total par value of ₩ 65,340 million |
| | Hyundai Rotem Co. | 2 | Total par value of ₩ 8,206 million |
| | Tong Yang Securities Inc. | 1 | Blank |

The Company is involved in various lawsuits and claims for damages totaling ₩ 61,804 million as of December 31, 2008. The Company cannot ascertain the outcome of these cases.

The commitments of Hyosung Corporation and its subsidiaries as of December 31, 2008, are as follows:

Hyosung Corporation

Woori Bank and others have provided overdraft facilities arrangements and trade bill discount and payment guarantees of an import credit memo with a maximum limit of ₩ 1,407,853 million and a letter of credit payment guarantee agreements with a maximum limit of ₩ 962,780 million. Also, the Korea Specialty Construction Financial Cooperative has provided guarantees of up to ₩ 139,577 million related to construction contracts and the Export-Import Bank of Korea has provided performance guarantees of up to ₩ 128,749 million.

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Nautilus Hyosung Co., Ltd.

(in millions of Korean won , in thousands of US dollars)

| Bank | | Limit | Type |
|---------------------|-----|--------------|-------------------------------|
| Kookmin Bank | ₩ | 5,000 | Bank overdraft |
| | ₩ | 10,000 | E-payable |
| Shinhan Bank | USD | 2,000 | Open local L/C |
| | USD | 7,000 | Foreign-currency bills |
| | ₩ | 10,000 | Bank overdraft |
| | USD | 10,000 | Payment guarantee |
| | USD | 2,000 | Other guarantee |
| Woori Bank | ₩ | 10,000 | Discount of bills |
| | ₩ | 5,000 | Limit of short-term financing |
| | ₩ | 15,000 | Bank overdraft |
| | USD | 25,000 | USANCE |
| Hana Bank | ₩ | 9,000 | Credit line |
| Citibank Korea | ₩ | 26,000 | Credit line |
| | ₩ | 5,000 | Open L/C |
| SC First Bank | USD | 16,000 | Foreign-currency bills |
| | ₩ | 15,000 | Payment guarantee |
| Korea Exchange Bank | USD | 1,000 | Open import L/C |

Chin Hung International Inc.

As a constructor of Ilsan Tanhyun APT, Chin Hung International Inc. and Lim Kwang Construction & Engineering Co., Ltd. have each agreed to pay 50% of the debt if Asung HD, the developer, defaults on its debt. The total amount of debt amounts to ₩ 50,000 million.

Star Lease Co., Ltd.

(in millions of Korean won , in thousands of US dollars)

| Bank | | Limit | Type |
|---------------------|-----|--------------|----------------|
| Shinhan Bank | ₩ | 1,000 | Bank overdraft |
| | USD | 5,000 | Open L/C |
| Woori Bank | ₩ | 20,000 | Bank overdraft |
| Korea Exchange Bank | ₩ | 4,000 | Bank overdraft |
| | USD | 3,000 | Open L/C |
| Hana Bank | ₩ | 10,000 | Bank overdraft |
| Nonghyup Bank | ₩ | 20,000 | Bank overdraft |
| Kookmin Bank | USD | 2,000 | Open L/C |

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The Class Hyosung Co., Ltd.

(in millions of Korean won)

| Bank | | Limit | Type |
|--------------|---|--------------|-------------------|
| Woori Bank | ₩ | 6,000 | Discount of bills |
| Shinhan Bank | | 5,000 | Bank overdraft |
| | | 5,000 | Discount of bills |
| Hana Bank | | 4,000 | Bank overdraft |

Epiplus Inc.

(in millions of Korean won , in thousands of US dollars)

| Bank | | Limit | Type |
|------------------------|-----|--------------|----------------------|
| Korea Exchange Bank | ₩ | 225 | Loan of trade bill |
| Woori Bank | ₩ | 100 | B2B |
| | ₩ | 290 | Trade financing |
| Korea Development Bank | USD | 1,000 | L/C |
| Shinhan Bank | ₩ | 12 | Loan of E-receivable |

Hyosung Ebara Co., Ltd.

Hyosung Ebara Co., Ltd. has given Ebara Corporation and Flow Serve Inc. a share of the profits on sales according to a contract for the introduction of technology on December 31, 2008. The advanced payment is ₩ 18 million, JPY 77,850 thousand and USD 550 thousand.

Details of the borrowings that financial institutions have provided to Hyosung Ebara Co., Ltd. as of December 31, 2008 are as follows:

(in millions of Korean won , in thousands of US dollars)

| Bank | | Limit | Type |
|---------------------------|-----|--------------|-------------------|
| Mitsubishi Tokyo UFJ Bank | ₩ | 2,000 | Bank overdraft |
| | ₩ | 2,000 | Bank overdraft |
| Shinhan Bank | ₩ | 15,000 | Purchase loan |
| | ₩ | 20,000 | Other agreements |
| | USD | 5,000 | Other agreements |
| | USD | 5,324 | Payment guarantee |
| Hana Bank | ₩ | 30,000 | E-payable |

Hyosung Ebara Engineering Co., Ltd.

Hyosung Ebara Engineering Co., Ltd. has given to a related company, Ebara Corporation, a share of the profits on sales according to a contract for the introduction of technology entered into on March 25, 1997. The royalty paid for the years ended December 31, 2008 and 2007, are ₩ 339 million and ₩ 78 million, respectively.

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(in millions of Korean won , in thousands of US dollars)

| Bank | | Limit | Type |
|---------------------|-----|--------------|----------------|
| Hana Bank | ₩ | 3,500 | Bank overdraft |
| Shinhan Bank | ₩ | 1,500 | Bank overdraft |
| Korea Exchange Bank | ₩ | 1,500 | Bank overdraft |
| | ₩ | 300 | Purchase loan |
| | ₩ | 300 | Credit line |
| | EUR | 473 | Import L/C |
| | USD | 4,400 | Import L/C |

Hyosung Investment & Development Corporation

Hyosung Investment & Development Corporation has been given guarantees of ₩ 3,550 million by Seoul Guarantee Insurance Company.

Hyosung Capital Co., Ltd.

(in millions of Korean won)

| Bank | | Limit | Type |
|---|---|--------------|------------------------------|
| Woori Bank | ₩ | 4,000 | Bank overdraft |
| | | 60,000 | General loans |
| | | 50,000 | Discount of commercial paper |
| Shinhan Bank | | 1,000 | Bank overdraft |
| | | 20,000 | General loans |
| | | 15,000 | Discount of commercial paper |
| Kookmin Bank | | 40,000 | General loans |
| Jeonbuk Bank | | 5,000 | Discount of commercial paper |
| Kwangju Bank | | 20,000 | General loans |
| National Agricultural Cooperative Federation | | 5,000 | Bank overdraft |
| Tong Yang Securiteis Inc. | | 30,000 | Discount of commercial paper |
| Woori Investment and Securities Co., Ltd. | | 20,000 | Discount of commercial paper |
| Korea Development Bank | | 15,000 | General loans |
| Meritz Securities Co., Ltd. | | 20,000 | Discount of commercial paper |

Hyosung Capital Co., Ltd. has entered into letters of credit agreement of USD 42,000,000 with Shinhan Bank and others and has been given guarantees of USD 9,773,723 for opening letters of credit and a letter of guarantee.

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24. Derivatives

Forward exchange contract

To hedge against foreign exchange risks, the Company entered into 127 contracts and 14 forward exchange contracts for fluctuation of foreign exchange rates, and the related valuation gain (loss) on derivatives are charged to current operations.

To hedge against foreign exchange risks of USANCE, the Company entered into a contract to sell US dollars and buy Japanese yen. Also, the Company entered into derivative contracts to swap floating rate bonds for fixed rate bonds and interest rate and currency swap contracts for borrowings of USD 21,069 thousand.

Details of derivative instruments for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in thousands)</i> | | 2008 | 2007 |
|---------------------------------|-----|-------------|-------------|
| Foreign exchange risk insurance | USD | 136,940 | 60,967 |
| Foreign exchange risk insurance | EUR | 11,944 | 5,934 |
| Forward exchange contracts | KRW | 1,129,761 | - |
| Forward exchange contracts | USD | 110,000 | 50,000 |
| Forward exchange contracts | EUR | - | 1,350 |
| Forward exchange contracts | JPY | - | 4,626,130 |
| Currency forward transaction | JPY | 418,975 | - |
| Currency forward transaction | USD | 1,000 | - |
| Interest rate swap ¹ | KRW | 65,000 | 38,218 |
| Currency swap ¹ | USD | 42,138 | 96,251 |

¹ Cash flow hedge is applied on USD 65,000,000 (2007: USD 35,000,000) of interest rate swap and USD 21,069,000 (2007: USD 21,069,000) of currency swap.

Put option

Details of the put options owned by the Company are as follows:

| | |
|-----------------|--|
| Purchase date | March 14, 2008 |
| Related stock | Common shares of Korea Express Inc. (Number of shares : 58,479) |
| Exercise period | (1) 3 years after from the next day from payment date (2) One year can be extended under agreement with investors |
| Exercise price | Exercise price = (1) + (2) (1) Contract price of corresponding stocks based on the contract with consortium (2) 6.5% of the exercise price between the purchase date and the completion date |

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Valuation gain or loss

Details of the changes in valuation gain or loss on derivatives are as follows:

| <i>(in millions of Korean won)</i> | 2008 | 2007 | |
|------------------------------------|-------------|-------------|----------------------|
| Foreign exchange risk insurance | ₩ (30,163) | ₩ (1,842) | Current operations |
| Forward exchange contracts | (17,867) | 59 | |
| Currency forward transaction | 4,098 | 623 | |
| Currency swap | 5,591 | 60 | |
| Put options ¹ | 2,428 | - | |
| Interest rate swap | (392) | 498 | Accumulated other |
| Currency swap | (388) | (336) | comprehensive income |

¹ According to the agreement with Kumho Rent-A-Car Co., Ltd., the Company has put option on securities of Korea Express Inc.

Hedge accounting by borrowings in foreign currency

In accordance with the Financial Supervisory Service's Accounting Implementation Guide [2009-2], the Company designated borrowings in foreign currency as hedging the forecasted sales by applying cash-flow hedging accounting. In addition, based on paragraph 16-3 in No. 53-70 from Statements of Korean Financial Accounting Standards, the Company applied and documented the newly adopted policy as of July 1, 2008, in a retrospective manner.

(in thousands)

| | | |
|--------------------------------|-----|---------|
| Short-term borrowings (USANCE) | USD | 169,654 |
| | EUR | 5,237 |
| | JPY | 877,914 |
| Long-term borrowings | USD | 69,300 |

The Company has recognized loss on exchange translation of ₩ 34,131 million, excluding net of tax of ₩ 9,626 million, as accumulated other comprehensive income.

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25. Shareholders' Equity

The Company is authorized to issue 200 million shares with the par value per share of ₩ 5,000. As of December 31, 2008, the Company has issued 35,117,455 shares of common stock.

Changes in capital stock in 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|------------------------------------|-------------------------|---------------|-------------------------|---------------|
| | Number of shares | Amount | Number of shares | Amount |
| Beginning balance | 35,117,455 | ₩ 175,587 | 34,805,821 | ₩ 174,029 |
| Exercise of stock warrants | - | - | 311,634 | 1,558 |
| Ending balance | 35,117,455 | ₩ 175,587 | 35,117,455 | ₩ 157,587 |

In accordance with Asset Revaluation Law, the Company revalued tangible assets on October 1, 1998. Details of asset revaluation as of December 31, 2008, are as follows:

| <i>(in millions of Korean won)</i> | Amount |
|---|------------------|
| Revaluation gain | ₩ 681,290 |
| Revaluation tax | (113,324) |
| Asset revaluation surplus carried over from prior years | 170,334 |
| Revaluation surplus | <u>₩ 738,300</u> |

As of December 31, 2008, 1,848,851 treasury shares have voting rights restrictions pursuant to the Commercial Law.

26. Treasury Stock

The treasury stock is acquired through a merger in 1998 and is expected to be sold in a reasonable time. Details of treasury stock as of December 31, 2008, are as follows:

| <i>(in millions of Korean won)</i> | Year acquired | Acquired number of shares | Amount |
|------------------------------------|----------------------|----------------------------------|---------------|
| Common stock | 1998 | 1,848,851 | ₩ 34,204 |

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27. Retained Earnings

| <i>(in millions of Korean won)</i> | 2008 | 2007 |
|--|------------------|-----------------|
| Legal reserve ¹ | ₩ 4,143 | ₩ 1,648 |
| Reserve for research and human resource development ² | 20,000 | 40,000 |
| Other reserve ² | 160,000 | - |
| | <u>₩ 184,143</u> | <u>₩ 41,648</u> |

¹ The Korean Commercial Code requires the Company to appropriate an amount equal to a minimum of 10 % of cash dividends as a legal reserve until such reserve equals 50 % of its paid-in capital. This reserve is not available for cash dividends but may be transferred to capital stock or may be used to reduce accumulated deficit, if any, with the approval of the shareholders.

² The Company appropriates a certain portion of its retained earnings as a reserve for research and human resource development under the Special Tax Treatment Control Law. This reserve may be transferred to discretionary reserve and distributed as dividends.

Details of appropriated retained earnings offset against accumulated deficit for the last two years are as follows:

| <i>(in millions of Korean won)</i> | Amount | Approval date |
|---|------------------|----------------------|
| Reserve for facility | ₩ 210,000 | March 17, 2006 |
| Reserve for research and human resource development | 76,667 | |
| Legal reserve | 9,099 | |
| Others | 210,462 | |
| | <u>₩ 506,228</u> | |

28. Income Tax Expense

Details of income tax expense(benefit) as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | 2007 |
|--|-------------------|-----------------|
| Current income taxes | ₩ 25,171 | ₩ 75,896 |
| Deferred income tax due to temporary differences | 190,789 | 17,299 |
| Deferred income tax due to loss carry forwards | (53,975) | 3,871 |
| Deferred income tax charged to equity | (215,004) | (7,181) |
| Income tax expense(benefit) | <u>₩ (53,019)</u> | <u>₩ 89,885</u> |

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Reconciliation between net income (loss) before tax and income tax expense follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|--------------------------------------|-------------|----------|-------------|----------|
| Net income before tax | ₩ | 88,526 | ₩ | 298,489 |
| Income tax expense at statutory rate | ₩ | 24,345 | ₩ | 82,084 |
| Adjustments | | | | |
| Non-deductible expense | | (76,098) | | (10,805) |
| Others | | (1,266) | | 18,606 |
| Income tax expense | ₩ | (53,019) | ₩ | 89,885 |
| Effective tax rate | | - | | 30.1% |

Changes in the temporary differences and related deferred tax assets and liabilities as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | | | | |
|---|------------------------------|--------------------|-----------------|--------------------|--|--------------------|
| | Temporary differences | | | | Deferred tax assets (liabilities) | |
| | Beginning | Increase | Decrease | Ending | Beginning | Ending |
| Loss on valuation of inventories | ₩ 13,288 | ₩ 6,376 | ₩ 6,364 | ₩ 13,300 | ₩ 3,654 | ₩ 3,219 |
| Allowance for doubtful accounts | 15,892 | 24,560 | 24,064 | 16,388 | 4,370 | 3,966 |
| Accumulated depreciation | 4,185 | 593 | 3,432 | 1,346 | 1,151 | 296 |
| Provision for equity in loss of associates | 79,653 | - | 6,587 | 73,066 | 21,905 | 16,075 |
| Others | <u>168,338</u> | <u>293,035</u> | <u>72,466</u> | <u>388,907</u> | <u>46,293</u> | <u>89,837</u> |
| | <u>281,356</u> | <u>324,564</u> | <u>112,913</u> | <u>493,007</u> | <u>77,373</u> | <u>113,393</u> |
| Reserve for research and human resource development | (20,000) | - | (13,333) | (6,667) | (5,500) | (1,467) |
| Accrued income | (624) | (12,072) | (10,651) | (2,045) | (172) | (495) |
| Revaluation of land | - | (867,453) | - | (867,453) | - | (190,840) |
| Others | <u>(289,749)</u> | <u>(264,936)</u> | <u>(39,960)</u> | <u>(514,725)</u> | <u>(79,681)</u> | <u>(119,360)</u> |
| | <u>(310,373)</u> | <u>(1,144,461)</u> | <u>(63,944)</u> | <u>(1,390,890)</u> | <u>(85,353)</u> | <u>(312,162)</u> |
| Loss carried forward | - | 136,334 | - | 136,334 | - | 32,993 |
| Tax credit carried forward | 67 | 21,079 | 90 | 21,056 | 74 | 21,056 |
| Total | <u>₩ (28,950)</u> | <u>₩ (662,484)</u> | <u>₩ 49,059</u> | <u>₩(740,493)</u> | <u>₩ (7,906)</u> | <u>₩ (144,720)</u> |

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| <i>(in millions of Korean won)</i> | 2007 | | | | | |
|---|------------------------------|-------------------|-----------------|-------------------|--|------------------|
| | Temporary differences | | | | Deferred tax assets (liabilities) | |
| | Beginning | Increase | Decrease | Ending | Beginning | Ending |
| Loss on valuation of inventories | ₩ 8,930 | ₩ 5,002 | ₩ 644 | ₩ 13,288 | ₩ 2,456 | ₩ 3,654 |
| Allowance for doubtful accounts | 827 | 15,892 | 827 | 15,892 | 227 | 4,370 |
| Accumulated depreciation | 21,548 | 6,347 | 23,710 | 4,185 | 5,926 | 1,151 |
| Provision for equity in loss of associates | 99,563 | - | 19,910 | 79,653 | 27,380 | 21,905 |
| Others | 124,996 | 60,175 | 16,833 | 168,338 | 33,404 | 46,293 |
| | <u>255,864</u> | <u>87,416</u> | <u>61,924</u> | <u>281,356</u> | <u>69,393</u> | <u>77,373</u> |
| Reserve for research and human resource development | (40,000) | - | (20,000) | (20,000) | (11,000) | (5,500) |
| Accrued income | (625) | (624) | (625) | (624) | (172) | (172) |
| Others | (177,848) | (124,769) | (12,868) | (289,749) | (48,902) | (79,681) |
| | <u>(218,473)</u> | <u>(125,393)</u> | <u>(33,493)</u> | <u>(310,373)</u> | <u>(60,074)</u> | <u>(85,353)</u> |
| Loss carried forward | 3,112 | - | 3,112 | - | 337 | - |
| Tax credit carried forward | 3,311 | - | 3,244 | 67 | 3,607 | 74 |
| Total | <u>₩ 43,814</u> | <u>₩ (37,977)</u> | <u>₩ 34,787</u> | <u>₩ (28,950)</u> | <u>₩ 13,263</u> | <u>₩ (7,906)</u> |

Temporary differences not recognized in deferred tax assets nor liabilities are as follows:

| <i>(in millions of Korean won)</i> | Related Assets / Liabilities | Amount |
|------------------------------------|-------------------------------------|---------------|
| Deferred tax assets | Equity method investment stock | ₩ 300,044 |
| Deferred tax liabilities | Equity method investment stock | (139,015) |
| Deferred tax liabilities | Advanced depreciation allowance | (359,146) |

Details of deferred income taxes charged directly to the shareholders' equity or excluded as of December 31, 2008 and 2007, are as follows:

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| | 2008 | | 2007 | |
|--|--------------------|-----------------------------------|-------------------|-----------------------------------|
| | Amount | Deferred tax assets (liabilities) | Amount | Deferred tax assets (liabilities) |
| Retained earnings | ₩ (6,586) | ₩ (1,149) | ₩ (19,909) | ₩ (5,475) |
| Gain on valuation of available-for-sale securities | 12,595 | 2,771 | 3,642 | 983 |
| Gain on valuation of derivatives | 44,364 | 9,760 | (254) | (70) |
| Loss on valuation of equity-method investments, | (156,318) | (34,349) | (12,949) | (3,561) |
| Translation gain from overseas operation | - | - | 3,425 | 942 |
| Surplus from revaluation of land | (867,450) | (190,839) | - | - |
| Consideration for conversion rights | (4,082) | (898) | - | - |
| Total | <u>₩ (977,477)</u> | <u>₩ (215,004)</u> | <u>₩ (26,045)</u> | <u>₩ (7,181)</u> |

Recognition of deferred income tax assets based on realizability

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion and recognized the deferred income tax assets except for the temporary differences from equity-method investments.

29. Earnings Per Share

Basic earnings per share as of December 31, 2008 and 2007, is as follows:

| (in Korean won) | 2008 | 2007 |
|--|-------------------|-------------------|
| Share of net income for controlling company | ₩ 118,487,463,511 | ₩ 166,174,888,271 |
| Net income attributable to common stock | 118,487,463,511 | 166,174,888,271 |
| Weighted average number of common stock outstanding ¹ | 33,268,604 | 33,268,604 |
| Basic earnings per share | 3,561 | 4,995 |

¹ There are no changes in the weighted average number of common shares during the years ended December 31, 2008 and 2007.

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Diluted earnings per share as of December 31, 2008 and 2007, is as follows:

| <i>(in Korean won)</i> | 2008 | 2007 |
|---|-------------------|-------------------|
| Share of net income for controlling company | ₩ 118,487,463,511 | ₩ 166,174,888,271 |
| Diluted net income attributable to common stock | 118,487,463,511 | 166,174,888,271 |
| Weighted average number of common stock and equivalent stock ¹ | 33,268,604 | 33,268,604 |
| Diluted earnings per share | 3,561 | 4,995 |

¹ There are no changes in the weighted average number of common shares during the years ended December 31, 2008 and 2007.

30. Dividends

Details of dividends for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | 2007 |
|--|-------------|-------------|
| Number of common stock eligible for dividends: | 33,268,604 | 33,268,604 |
| Dividend rate | 15% | 15% |
| Dividend amount | ₩ 24,951 | ₩ 24,951 |
| Share of net income for controlling company | 118,487 | 166,175 |
| Dividend payout ratio (Dividends/Net income) | 21.06% | 15.02% |
| Dividend yield ratio (Dividend per share/Market price) | 1.96% | 1.28% |

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31. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|---------------------------------------|-------------|---------|-------------|---------|
| Export expense | ₩ | 211,517 | ₩ | 162,172 |
| Salaries | | 160,155 | | 126,715 |
| Research and development expense | | 99,483 | | 75,211 |
| Others | | 68,535 | | 54,584 |
| Commissions and fees | | 54,161 | | 30,065 |
| Transportation | | 45,773 | | 36,437 |
| Amortization | | 42,972 | | 29,165 |
| Travel | | 22,652 | | 14,822 |
| Warranty expense | | 19,948 | | 18,036 |
| Operating expense for overseas branch | | 18,899 | | 14,378 |
| Rent | | 18,300 | | 13,292 |
| Employee benefits | | 17,373 | | 12,579 |
| Advertising | | 16,558 | | 16,816 |
| Depreciation | | 15,596 | | 12,700 |
| Outsourcing | | 15,447 | | 7,906 |
| Employee retirement benefits | | 14,745 | | 13,227 |
| Bad debts expense | | 12,424 | | 3,778 |
| Taxes and dues | | 11,754 | | 7,437 |
| Communications | | 5,779 | | 4,632 |
| Training | | 4,590 | | 2,968 |
| Vehicles maintenance | | 4,392 | | 3,591 |
| Insurance | | 3,896 | | 2,366 |
| | ₩ | 884,949 | ₩ | 662,877 |

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32. Comprehensive Income

Comprehensive income for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|--|-------------|----------|-------------|---------|
| Net income | ₩ | 141,545 | ₩ | 198,191 |
| Gain on valuation of available-for-sale securities, net of tax of ₩2,432 million | | (8,624) | | (2,659) |
| Loss on valuation of derivatives, net of tax of ₩9,894 million | | (35,080) | | 184 |
| Loss on valuation of equity-method investments, net of tax of ₩ 970 million | | 10,225 | | (8,405) |
| Translation gain from overseas operation, net of tax of ₩ 37,322 million | | 193,595 | | 32,654 |
| Gain on revaluation, net of tax of ₩ 190,839 million | | 676,614 | | - |
| Comprehensive income | ₩ | 978,275 | ₩ | 219,965 |

33. Supplemental Cash Flow Information

Significant transactions not affecting cash flows as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|--|-------------|----------|-------------|--------|
| Machinery-in-transit transferred to property, plant and equipment | ₩ | 10,142 | ₩ | 33,000 |
| Change in retained earnings due to application of equity method | | (36,675) | | 12,423 |
| Change in accumulated other comprehensive income due to application of equity method | | (21,818) | | 2,590 |
| Gain on valuation of available-for-sale securities | | 9,824 | | 2,659 |
| Change in accumulated comprehensive income due to revaluation of land | | 676,614 | | - |

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34. Value Added Information

Value added information for the years end December 31, 2008 and 2007, follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|------------------------------------|-------------|---------|-------------|---------|
| Salaries | ₩ | 389,937 | ₩ | 368,040 |
| Provision for severance benefits | | 46,323 | | 44,883 |
| Employee benefits | | 53,484 | | 44,815 |
| Rent | | 28,603 | | 21,924 |
| Depreciation | | 326,819 | | 309,447 |
| Taxes and dues | | 41,271 | | 26,317 |

35. Summary of Major Construction Contracts

The Company's contract balances and the related revenues recognized for the years ended December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | 2007 | |
|------------------------------------|-------------|------------------|-------------|----------------|
| Beginning balance | ₩ | 659,757 | ₩ | 710,423 |
| Increase | | 2,625,102 | | 283,528 |
| | | <u>3,284,859</u> | | <u>993,951</u> |
| Revenue recognized | | (1,052,388) | | (334,194) |
| Ending balance | ₩ | <u>2,232,471</u> | ₩ | <u>659,757</u> |

Details of the contracts on the ongoing projects as of December 31, 2008, are as follows:

| <i>(in millions of Korean won)</i> | Total contract price | Total estimated construction costs | Cumulative construction revenue | Cumulative construction costs |
|---|-------------------------------------|---|--|--|
| Construction of Waekwon-Daegu highway | ₩ 13,821 | ₩ 13,226 | ₩ 11,871 | ₩ 11,361 |
| Biryoung agricultural water development | 4,939 | 4,682 | 2,069 | 1,961 |
| Establishment of a road bypassing KwangReung Forest | 10,999 | 10,372 | 10,027 | 9,456 |
| Construction of North Injae-Yongdae road | 9,116 | 9,104 | 4,324 | 4,318 |
| Yangju Dukjung Section 1 KNHC Apt | 9,881 | 9,860 | 9,880 | 9,859 |

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| | | | | |
|---|-------------------|--------------------|--------------------|--------------------|
| Construction of Shinryunggono Road | 5,938 | 5,458 | 2,301 | 2,115 |
| Construction of Daesan-Seokmun road | 10,013 | 9,502 | 728 | 691 |
| Gunpo-Bugok Section 2 KNHC Apt | 5,208 | 5,124 | 2,208 | 2,171 |
| Jibang road 357(The free road) 4 | 11,649 | 11,323 | 248 | 241 |
| HEEC Service Sales | 4,936 | 4,936 | 4,936 | 4,936 |
| Gunsan-Mijang Section 2 KNHC Apt | 22,790 | 22,750 | 32 | 32 |
| Paju-Woonjung Section 8 KNHC Apt | 29,839 | 29,846 | 10,445 | 10,448 |
| Incheon-Boogae Section 2 KNHC Apt | 82,642 | 78,314 | 81 | 77 |
| Seoul S.W. Water Treatment | 819 | 819 | 819 | 819 |
| Maintenance & management of the New Airport incineration Facility 2 | 4,127 | 3,615 | 2,857 | 2,504 |
| Kimhae hwamok sewage purification plant | 6,675 | 6,249 | 3,878 | 3,630 |
| Daegu Hyosung residing and working complex | 157,280 | 130,314 | 149,998 | 124,284 |
| Wonju-Hanggu Hyosung Apt | 109,919 | 100,884 | 75,097 | 68,924 |
| Construction of Changdong station | 126,176 | 114,821 | 22,585 | 20,556 |
| Chilgok Land | 28,355 | 23,784 | 12,260 | 10,283 |
| Construction of Banpo Building | 48,542 | 46,805 | 10,280 | 9,913 |
| Construction of Gildong office | 29,848 | 28,833 | 4,261 | 4,114 |
| Construction of Sooseo office | 61,694 | 52,380 | 833 | 706 |
| Daegu Bongduk Apt | 71,664 | 68,675 | 8,251 | 7,907 |
| Daegu Bumaudong Hyosung Apt | 26,952 | 25,813 | 476 | 457 |
| Gunjae segment | 14,238 | 13,377 | 2,806 | 2,526 |
| Construction and sales business of Dae gu Apt and retail stores | 224,479 | 162,622 | 224,479 | 162,622 |
| Others | 3,259,306 | 3,014,702 | 1,754,692 | 1,613,645 |
| | <u>₩4,391,845</u> | <u>₩ 4,008,190</u> | <u>₩ 2,332,722</u> | <u>₩ 2,090,556</u> |

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Details of advances, billed and unbilled amounts related to the construction as of December 31, 2008, are as follows:

| <i>(in millions of Korean won)</i> | | | |
|---|-----------------|----------------------|------------------------|
| Project | Advances | Billed amount | Unbilled amount |
| Construction of Waekwon-Daegu highway | ₩ 1,661 | ₩ - | ₩ - |
| Biryong agricultural water development | 250 | - | - |
| Establishment of a road bypassing KwangReung Forest | 207 | - | - |
| Construction of North Injae-Yongdae highway | 5 | - | - |
| Construction of Shinryunggono Road | - | - | 962 |
| Construction of Daesan-Seokmun road | - | 27 | 291 |
| Gunpo-Bugok Section 2 KNHC Apt | - | - | 491 |
| Jibang road 357(The free road) 4 | - | - | 248 |
| Gunsan-Mijang Section 2 KNHC Apt | - | - | 32 |
| Paju-Woonjung Section 8 KNHC Apt | - | - | 4,101 |
| Incheon-Boogae Section 2 KNHC Apt | - | - | 81 |
| HEEC Service Sales | - | 51 | - |
| Gwangmyung Food Waste Treatment | - | 255 | - |
| Maintenance & management of the New Airport incineration facility 2 | - | 62 | 30 |
| Kimhae Hwamok Sewage Purification Plant | - | - | 274 |
| Daegu Bumadong Hyosung Apt | - | - | 3,418 |
| Daegu Hyosung residing and working complex | 2,782 | - | - |
| Mapo Ahyun Officetel | - | 50 | - |
| Chilgok (Namyul 2) Land | - | - | 4,761 |
| Construction of Chandong station | - | 4,718 | 2,060 |
| Wonju-Hanggu Hyosung Apt | - | 77,250 | - |
| Construction of Banpo building | - | 10,137 | 4,000 |
| Reconstruction of Daegu bongduk | - | - | 8,251 |
| Daegu Bumadong Hyosung Apt | - | - | 476 |
| Construction of Gildong office | - | 1,038 | 1,648 |
| Construction of Sooseo office | - | - | 833 |
| Gunjaje Segment | 657 | 108 | 435 |
| Construction and sales business of Daegu Apt and retail stores | - | 3,942 | - |
| Other | 37,870 | 365,278 | 52,217 |
| | <u>₩ 43,432</u> | <u>₩ 462,916</u> | <u>₩ 84,609</u> |

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36. Segment Information

Consolidated balance sheets by line of business as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | Non-financial related | | Financial related | |
|---|------------------------------|--------------------|--------------------------|--------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | |
| Current | ₩ 3,667,035 | ₩ 1,982,318 | ₩ 63,606 | ₩ 43,936 |
| Non-current | 4,963,069 | 3,338,998 | 113,546 | 32,933 |
| Investment | 271,271 | 295,314 | 112,051 | 31,145 |
| Property, plant and equipment | 4,364,654 | 2,847,177 | 1,183 | 1,300 |
| Intangible assets | 167,587 | 196,507 | 312 | 488 |
| Other non-current assets | 159,557 | - | - | - |
| Other financial business assets | - | - | 1,271,182 | 1,285,790 |
| Total assets | ₩ 8,630,104 | ₩ 5,321,316 | ₩ 1,448,334 | ₩ 1,362,659 |
| Liabilities | | | | |
| Current | ₩ 3,751,888 | ₩ 2,375,736 | ₩ 940,895 | ₩ 488,551 |
| Non-current | 2,443,410 | 1,536,251 | 233,912 | 621,751 |
| Total liabilities | 6,195,298 | 3,911,987 | 1,174,807 | 1,110,302 |
| Equity | | | | |
| Capital stock | 115,017 | 115,017 | 60,570 | 60,570 |
| Consolidated capital surplus | 1,132,912 | 1,131,718 | 42,360 | 42,360 |
| Consolidated retained earnings | 108,087 | 68,267 | 161,281 | 140,471 |
| Consolidated capital adjustments | (34,204) | (34,204) | - | - |
| Consolidated other comprehensive income | 853,471 | 11,328 | 355 | 542 |
| Minority interest | 259,523 | 117,203 | 8,961 | 8,414 |
| Total equity | 2,434,806 | 1,409,329 | 273,527 | 252,357 |
| Total Liabilities and equity | ₩ 8,630,104 | ₩ 5,321,316 | ₩ 1,448,334 | ₩ 1,362,659 |

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Consolidated income statements by line of business as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | Non-financial related | | Financial related | |
|--|------------------------------|-------------|--------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Sales | ₩ 9,377,415 | ₩ 6,921,269 | ₩ 222,687 | ₩ 209,448 |
| Cost of sales | 8,059,838 | 5,874,619 | 171,483 | 145,123 |
| SG&A | 867,140 | 647,273 | 17,809 | 15,604 |
| Operating income | 450,437 | 399,377 | 33,395 | 48,721 |
| Non-operating income | 338,466 | 114,636 | 236 | 2,055 |
| Non-operating expenses | 733,991 | 266,026 | 17 | 274 |
| Net income before taxes | 54,912 | 247,987 | 33,614 | 50,502 |
| Income tax expense(benefit) | (63,275) | 81,626 | 10,256 | 8,259 |
| Income (loss) before minority interest | - | (694) | - | 11,107 |
| Net income for the year | ₩ 118,187 | ₩ 167,055 | ₩ 23,358 | ₩ 31,136 |
| Parent interest in net income | ₩ 95,129 | ₩ 135,568 | ₩ 23,358 | ₩ 30,607 |
| Minority interest in net income | 23,058 | 31,487 | - | 529 |

Financial information by segments as of December 31, 2008 and 2007, are as follows:

| <i>(in millions of Korean won)</i> | 2008 | | | | | | Total |
|------------------------------------|---------------|-----------------|-------------------------|----------------|---------------|----------------------------------|--------------|
| | Fabric | Chemical | Heavy industrial | Trading | Others | Consolidation adjustments | |
| Total segment revenue | ₩ 1,538,080 | ₩ 1,068,963 | ₩ 1,945,917 | ₩ 3,021,666 | ₩ 3,963,445 | ₩ - | ₩ 11,538,071 |
| Internal revenue | 544,529 | 175 | 107,505 | 619,368 | 666,392 | - | 1,937,969 |
| Net sales | ₩ 993,551 | ₩ 1,068,788 | ₩ 1,838,412 | ₩ 2,402,298 | ₩ 3,297,053 | ₩ - | ₩ 9,600,102 |
| Gain (loss) on operations | ₩ 54,292 | ₩ 62,549 | ₩ 185,678 | ₩ 31,920 | ₩ 201,520 | ₩ (52,127) | ₩ 483,832 |
| Assets by line of business | ₩ 845,842 | ₩ 187,900 | ₩ 87,496 | ₩ 700 | ₩ 337,483 | ₩ (1,515) | ₩ 1,457,906 |
| Common assets | 1,466,006 | 534,100 | 1,927,695 | 251,552 | 6,271,707 | (1,830,528) | 8,620,532 |
| Total assets | ₩ 2,311,848 | ₩ 722,000 | ₩ 2,015,191 | ₩ 252,252 | ₩ 6,609,190 | ₩ (1,832,043) | ₩ 10,078,438 |

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| | | 2007 | | | | | |
|------------------------------------|---------------|-----------------|-------------------------|----------------|---------------|----------------------------------|--------------|
| <i>(in millions of Korean won)</i> | Fabric | Chemical | Heavy industrial | Trading | Others | Consolidation adjustments | Total |
| Total segment revenue | ₩ 1,275,083 | ₩ 831,046 | ₩ 1,406,840 | ₩ 2,648,565 | ₩ 2,250,902 | ₩ - | ₩ 8,412,436 |
| Internal revenue | 197,273 | 10,907 | 22,949 | 645,467 | 405,123 | - | 1,281,719 |
| Net sales | ₩ 1,077,810 | ₩ 820,139 | ₩ 1,383,891 | ₩ 2,003,098 | ₩ 1,845,779 | ₩ - | ₩ 7,130,717 |
| Gain (loss) on operations | ₩ 139,143 | ₩ 50,749 | ₩ 113,682 | ₩ 25,182 | ₩ 145,699 | ₩ (26,357) | ₩ 448,098 |
| Assets by line of business | ₩ 491,403 | ₩ 148,670 | ₩ 49,319 | ₩ 8,989 | ₩ 325,227 | ₩ (864) | ₩ 1,022,744 |
| Common assets | 917,445 | 353,101 | 1,219,420 | 337,632 | 3,914,599 | (1,080,966) | 5,661,231 |
| Total assets | ₩ 1,408,848 | ₩ 501,771 | ₩ 1,268,739 | ₩ 346,621 | ₩ 4,239,826 | ₩ (1,081,830) | ₩ 6,683,975 |

Geographical segment information as of December 31, 2008 and 2007, follows:

| | | 2008 | | | | | |
|------------------------------------|-----------------|-------------------------------|-------------|---------------|----------------------------------|----------------------------|--|
| <i>(in millions of Korean won)</i> | Domestic | North, Central America | Asia | Europe | Consolidation adjustments | After consolidation | |
| Total segment revenue | ₩ 8,770,526 | ₩ 960,103 | ₩ 1,512,138 | ₩ 295,304 | ₩ - | ₩ 11,538,071 | |
| Internal revenue | 431,030 | 459,557 | 973,501 | 73,881 | - | 1,937,969 | |
| Net sales | ₩ 8,339,496 | ₩ 500,546 | ₩ 538,637 | ₩ 221,423 | ₩ - | ₩ 9,600,102 | |
| Gain (loss) on operations | ₩ 527,357 | ₩ 4,298 | ₩ 9,215 | ₩ (4,911) | ₩ (52,127) | ₩ 483,832 | |
| Assets by line of business | ₩ 577,987 | ₩ 25,036 | ₩ 767,246 | ₩ 89,152 | ₩ (1,515) | ₩ 1,457,906 | |
| Common assets | 8,513,648 | 445,696 | 1,216,251 | 275,465 | (1,830,528) | 8,620,532 | |
| Total assets | ₩ 9,091,635 | ₩ 470,732 | ₩ 1,983,497 | ₩ 364,617 | ₩ (1,832,043) | ₩ 10,078,438 | |

| | | 2007 | | | | | |
|------------------------------------|-----------------|-------------------------------|-------------|---------------|----------------------------------|----------------------------|--|
| <i>(in millions of Korean won)</i> | Domestic | North, Central America | Asia | Europe | Consolidation adjustments | After consolidation | |
| Total segment revenue | ₩ 6,568,868 | ₩ 675,803 | ₩ 960,565 | ₩ 207,200 | ₩ - | ₩ 8,412,436 | |
| Internal revenue | 337,385 | 373,288 | 499,579 | 71,467 | - | 1,281,719 | |
| Net sales | ₩ 6,231,483 | ₩ 302,515 | ₩ 460,986 | ₩ 135,733 | ₩ - | ₩ 7,130,717 | |
| Gain (loss) on operations | ₩ 379,638 | ₩ 10,176 | ₩ 90,177 | ₩ (5,536) | ₩ (26,357) | ₩ 448,098 | |
| Assets by line of business | ₩ 605,343 | ₩ 35,171 | ₩ 374,724 | ₩ 8,370 | ₩ (864) | ₩ 1,022,744 | |
| Common assets | 5,553,761 | 323,365 | 663,957 | 201,114 | (1,080,966) | 5,661,231 | |
| Total assets | ₩ 6,159,104 | ₩ 358,536 | ₩ 1,038,681 | ₩ 209,484 | ₩ (1,081,830) | ₩ 6,683,975 | |

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37. Subsequent Events

The Company issued unsecured debentures of ₩ 150,000 million in January 2009.

On November 10, 2008, Board of Directors decided to merge with Hyosung Capital Co., Ltd. with Star Lease Co., Ltd. for purpose of expansion in its business and management efficiency and was approved by extraordinary general meeting of shareholders on December 29, 2009.

38. Calculation of Net Income attributed to Controlling Interest and Minority Interest

Details of calculation of net income attributed to controlling interest and minority interest for the years ended December 31, 2008 and 2007, are as follows:

(in millions of Korean won)

| | | |
|---|---|---------|
| Controlling interest in net income | ₩ | 118,487 |
| Nautilus Hyosung Inc. | | 11,498 |
| Chin Hung International Inc. | | 7,788 |
| The Class Hyosung Co., Ltd. | | 394 |
| Star Lease Co., Ltd. | | 565 |
| Epiplus Inc. | | (2,304) |
| Hyosung Construction Co., Ltd. | | (1,849) |
| Hyosung Ebara Co., Ltd. | | 3,959 |
| Hyosung Ebara Engineering Co., Ltd. | | 441 |
| Hyosung Investment & Development | | 6,872 |
| Baoding Hyosung Tianwei Transformer Co., Ltd. | | (78) |
| Hyosung Spandex (Zhuhai) Co., Ltd. | | (711) |
| Hyosung Istanbul TEKSTIL Ltd. STI | | (1,535) |
| Hyosung Vietnam Co., Ltd. | | (1,960) |
| OpCo GmbH | | (96) |
| Zhangjiagang Xiaosha Coil Service Co., Ltd. | | 74 |
| Minority interest in net income | | 23,058 |
| Consolidated net income | ₩ | 141,545 |