

**Hyosung Corporation and Subsidiaries**  
**Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Hyosung Corporation and Subsidiaries**  
**Index**  
**December 31, 2013 and 2012**

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## Report of Independent Auditors

To the Board of Directors and Shareholders of  
Hyosung Corporation

We have audited the accompanying consolidated statements of financial position of Hyosung Corporation and its subsidiaries (the "Group") as of December 31, 2013 and 2012, and the related consolidated statement of income, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Hyosung Capital and certain other consolidated subsidiaries, whose financial statements represent 51% and 48% of the Group's consolidated total assets as of December 31, 2013 and 2012, respectively, and 37% and 33% of the Group's consolidated total sales for the respective years 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 Hyosung Capital and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits 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 its subsidiaries as of December 31, 2013 and 2012, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

As discussed in Note 42 to the consolidated financial statements, the Company restated its financial statements as of and for the year ended December 31, 2012, to correct the accounting errors in the accounts of plant, property and equipment, investments in subsidiaries and associates, and others, which were identified through an investigation of the National Tax Service.

The restatement of the prior year consolidated financial statements increased the total assets by ₩ 9,054 million, increased total liabilities by ₩ 10,467 million, and decreased total net assets by ₩ 1,413 million as of December 31, 2012, and increased the net income for the year ended December 31, 2012, by ₩ 34,236 million.

The Company's consolidated financial statements as of and for the year ended December 31, 2012, were restated to reflect these corrections, and differ from the consolidated financial statements approved by the Board of Directors on March 22, 2013. Therefore, our original report dated March 14, 2013, should no longer be relied upon nor should it be associated with the Company's consolidated financial statements as of and for the year ended December 31, 2012.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

Seoul, Korea  
March 13, 2014

This report is effective as of March 13, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

# Hyosung Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2013 and 2012

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#### 1. General Information

Hyosung Corporation (“the Company”) and its subsidiaries (collectively referred to as ‘the Group’) primarily manufactures and sells synthetic fiber products and electronic products, and is engaged in construction and other related business activities.

As of December 31, 2013, the Group has plants in Ulsan, Anyang, Yongyeon, Icheon, Jincheon, Gumi, Daegu, Changwon, and Daejeon. In addition, the Group has subsidiaries and branches all over the world.

As of December 31, 2013, the Company’s major shareholders are Cho Seok Rae (10.32%), Cho Hyun Joon (9.85%), and Cho Hyun Sang (9.06%).

#### 1.1 Consolidated Subsidiaries

Details of the consolidated subsidiaries as of December 31, 2013 are as follows:

Subsidiaries	Percentage of Ownership	Location	Reporting month	Main business
Galaxia Photonics Co., Ltd.	83.32%	Korea	December	Manufacture and sale of wafer and LED chips
Gumoknongsan Co., Ltd.	90.00%	Korea	December	Growing of other crops
Gongdeokgyeongwoo development corporation	73.33%	Korea	December	Construction
The Class Hyosung	58.02%	Korea	December	Sale of new motor vehicles
Doomi Construction Co.Ltd	100.00%	Korea	December	Golf club operation service
Asia Lnghub Co., Ltd.	88.79%	Korea	December	Manufacture of gas and pipe supply
Flossom Corporation	57.83%	Korea	December	Service of real estate
Taeansolarfarm Corp.	100.00%	Korea	December	Solar power generation
Hanadaol Landchip Private Real Estate Investment Trust No.39 <sup>2</sup>	50.00%	Korea	December	Service of real estate
Hongjin Data Service Co., Ltd.	65.52%	Korea	December	Software development and supply
Hyosung Goodsprings, Inc.	100.00%	Korea	December	Manufacture of liquid pump
Hyosung Ebara Engineering Co., Ltd.	81.33%	Korea	December	Installation of environmental hygiene treatment Appliances
Hyosung Wind Power Holdings Ltd.	100.00%	Korea	December	Manufacture of wind generator
Hyosung Capital Co., Ltd.	97.15%	Korea	December	Finance factoring
Hyosung Capital sixth special purpose entity	0.49%	Korea	December	Other
Hyosung Investment & Development Corporation	58.75%	Korea	December	Development of real estate
Hyosung Trans World Co., Ltd.	100.00%	Korea	December	Logistics
Baoding Hyosung Tianwei Transformer Co., Ltd.	80.00%	China	December	Transformer manufacturing
Central Trade Investment Ltd. <sup>5</sup>	100.00%	China	December	Other
GST Global GmbH	100.00%	Germany	December	Germany holding company
Global Safety Textiles GmbH	100.00%	Germany	December	Manufacture and Sale of Air-bag cushion and Fabric
Global Safety Textiles LLC	100.00%	USA	December	Manufacture and sale of air-bag cushion and fabric
GST Safety Textiles RO S.R.L.	100.00%	Romania	December	Manufacture and sale of air-bag cushion and fabric
Global Safety Textiles U.S. Holdings, Inc.	100.00%	USA	December	U.S.A holding company
GST Automotive Safety Components International LLC	100.00%	USA	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety Components International LLC S.A.de C.V.	100.00%	Mexico	December	Manufacture and sale of air-bag cushion and fabric

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Subsidiaries	Percentage of Ownership	Location	Reporting month	Main business
GST Automotive Safety Czech s.r.o.	100.00%	Czech	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety Poland Sp.z.oo	100.00%	Poland	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety RO S.R.L.	100.00%	Rumania	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety South Africa (Proprietary) Limited	100.00%	South Africa	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety UK Limited	100.00%	UK	December	England holding company
GST Automotive Safety (Changshu) Co., Ltd.	100.00%	China	December	Manufacture and sale of air-bag cushion and fabric
GST China Investment Limited	100.00%	China	December	Hong Kong holding company
HICO America Sales & Tech.	100.00%	USA	December	General trading
Hyosung (H.K) LIMITED	100.00%	China	December	General trading
Hyosung Brasil industria e comercio de fibras LTDA	100.00%	Brazil	December	Manufacture of spandex
Hyosung Brasil industrial & commercial LTDA	100.00%	Brazil	December	Manufacture and sale of tire cords
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	100.00%	China	December	Manufacture of polyesters thread and T/C
Hyosung Chemicals (Jiaxing) Co., Ltd.	100.00%	China	December	Manufacture of chemical product
Hyosung Composites (Guangdong) Co., Ltd.	100.00%	China	December	Manufacture of carbon fibers
Hyosung Corporation India Private Limited	100.00%	India	December	General trading
Hyosung RUS	100.00%	Russia	December	General trading
Hyosung Europe SRL	100.00%	Italy	December	General trading
Hyosung (Taiwan) Corporation	100.00%	Taiwan	December	General trading
Hyosung Holdings USA	100.00%	USA	December	U.S.A holding company
Hyosung International Trade (Jiaxing) Co., Ltd.	100.00%	China	December	General trading
Hyosung International (HK) Ltd.	100.00%	China	December	General trading
Hyosung Istanbul TEKSTIL LTD.STI	76.66%	Turkey	December	Manufacture and sale of spandex
Hyosung Japan Co., Ltd.	100.00%	Japan	December	General trading
Hyosung Luxembourg S.A	100.00%	Luxembourg	December	Manufacture and sale of tire cords
Hyosung Power Holdings Co., Ltd.	100.00%	Cayman Islands	December	Manufacture of transformer
Hyosung Resource (Australia) PTY Ltd.	100.00%	Australia	December	Resources development
Hyosung Singapore PTE Ltd.	100.00%	Singapore	December	General Trading
Hyosung Spandex (GuangDong) Co., Ltd.	100.00%	China	December	Manufacture and sale of spandex
Hyosung Spandex (Jiaxing) Co., Ltd.	100.00%	China	December	Manufacture and sale of spandex
Hyosung Spandex (Zhuhai) Co., Ltd.	75.00%	China	December	Manufacture and sale of spandex
Hyosung SRL	100.00%	Romania	December	Manufacture and sale of tire cords
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.	70.00%	China	December	Manufacture and sale of steel Cord
Hyosung Steel Cord (Qingdao) Co., Ltd.	100.00%	China	December	Manufacture and sale of steel Cord
Hyosung USA Inc.	100.00%	USA	December	Manufacture and sale of tire cords
Hyosung Vietnam Co., Ltd.	88.21%	Vietnam	December	Manufacture of tire cord, Manufacture and sales of spandex
Hyosung Wire Luxembourg S.A	100.00%	Luxembourg	December	Manufacture of chemical fiber
Luckfaith Investment LTD. <sup>5</sup>	100.00%	China	December	Other
Nantong Hyosung Transformer Co., Ltd.	100.00%	China	December	Manufacture and sale of transformer
Nantong Transformer Co., Ltd.	100.00%	China	December	Manufacture and sale of transformer
Nantong Yaubong Transformer Co., Ltd.	100.00%	China	December	Manufacture and sale of transformer
Powertech Corporation	100.00%	USA	December	General trading
PT.HYOSUNG JAKARTA	100.00%	Indonesia	December	General trading

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## Notes to Consolidated Financial Statements

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Subsidiaries	Percentage of Ownership	Location	Reporting month	Main business
Xepix Corp.	74.93%	USA	December	LED research
Zhangjiagang Xiaosha Coil Service Co., Ltd.	64.50%	China	December	Steel manufacturing and processing

<sup>1</sup> Percentage of ownership is the effective percentage of ownership considering percentage of ownership of subsidiaries.

<sup>2</sup> The Group obtains benefits from the special purpose entity("SPE")'s operation and has the decision-making powers to obtain the majority of the benefits of the activities of the SPE. Thus, the subsidiary is included in the scope of consolidation.

<sup>3</sup> The Group owns 98.5% of OpCo GmbH, which is under control by legal administrator as a liquidated company. Thus, the subsidiary is excluded from the scope of consolidation.

<sup>4</sup> Although the Group owns 97.14% of Asia Pacific No.21 Ship Investment Co., Ltd, the Group is not considered to have control over Asia Pacific No.21 Ship Investment Co., Ltd. Thus, the subsidiary is excluded from the scope of consolidation.

<sup>5</sup> These subsidiaries are included in the scope of consolidation due to de facto control.

Summary of financial information of subsidiaries as of and for the years ended December 31, 2013 and 2012, is as follows:

(in millions of Korean won)

	2013						
	Asset	Liability	Equity	Sales	Net income(loss)	Total comprehensive income(loss)	
Galaxia Photonics Co., Ltd.	₩ 5,824	₩ 17,249	₩ (11,425)	₩ 301	₩ (12,492)	₩ (12,475)	
Gumoknongsan Co., Ltd.	2,304	-	2,304	-	(6)	(6)	
Gongdeokgyeongwoo Development Corporation	23,363	20,887	2,476	-	(1,733)	(1,725)	
The Class Hyosung	87,470	80,011	7,459	364,494	428	141	
Asia Lnghub Co., Ltd.	807	64	743	-	(1,291)	(1,291)	
Flossom Corporation	95,510	125,652	(30,142)	6,690	(20,531)	(20,599)	
Taeansolarfarm Corp.	7,514	5,506	2,008	1,369	(32)	226	
Hongjin Data Service Co., Ltd.	10,469	509	9,960	4,721	714	892	
Hyosung Goodsprings, Inc.	212,175	157,674	54,501	266,330	5,668	5,943	
Hyosung Ebara Engineering Co., Ltd.	39,249	69,174	(29,925)	114,138	(35,767)	(35,472)	
Hyosung Wind Power Holdings Ltd.	1,502	-	1,502	-	(28)	(28)	
Hyosung Capital Co., Ltd.	2,538,413	2,199,672	338,741	287,279	27,228	25,612	
Hyosung Investment & Development Corporation	69,185	2,274	66,911	563	10,464	11,748	
Hyosung Trans World Co., Ltd.	37,406	30,663	6,743	183,149	2,347	2,369	
Hanadaol Landchip Private Real Estate Investment Trust No.39	192,163	160,162	32,001	10,942	1,943	1,943	
Doomi Construction Co.Ltd	217,176	210,033	7,143	216	(12,042)	(12,042)	
Baoding Hyosung Tianwei Transformer Co., Ltd.	28,544	28,240	304	14,154	(2,017)	(1,944)	
Beijing Hyosung Container Co., Ltd.	-	-	-	-	(283)	(495)	
GST Global GmbH <sup>1</sup>	405,787	278,723	127,064	330,167	(7,567)	(7,740)	
HICO America Sales & Tech.	175,145	162,849	12,296	132,444	(1,060)	(1,263)	
Hyosung (H.K) LIMITED	1,888	3	1,885	-	1,190	1,136	
Hyosung Brasil industria e comercio de fibras LTDA	116,161	106,357	9,804	113,991	7,043	5,548	
Hyosung Brasil industrial & commercial LTDA	5,552	873	4,679	7,796	114	(694)	
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	332,552	182,584	149,968	289,855	(7,127)	(4,978)	
Hyosung Chemicals (Jiaxing) Co., Ltd.	147,590	83,478	64,112	261,904	39,708	39,372	

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(in millions of Korean won)

	2013					
	Asset	Liability	Equity	Sales	Net income(loss)	Total comprehensive income(loss)
Hyosung Composites (Guangdong) Co., Ltd	11,465	8,733	2,732	1,723	(1,672)	(1,637)
Hyosung Corporation India Private Limited	685	149	536	2,119	158	87
Hyosung Europe SRL	22,095	16,454	5,641	43,845	790	925
Hyosung Holdings USA	48,644	28,640	20,004	33,876	300	(6)
Hyosung International (HK) Ltd.	9,263	7,234	2,029	46,607	286	249
Hyosung International Trade (Jiaxing) Co., Ltd.	73,489	71,607	1,882	318,998	515	521
Hyosung Istanbul TEKSTIL LTD.STI	143,374	114,326	29,048	191,429	13,506	8,396
Hyosung Japan Co., Ltd.	240,217	227,969	12,248	616,556	1,993	(897)
Hyosung Luxembourg S.A	53,906	32,088	21,818	184,308	1,141	1,711
Hyosung Power Holdings Co., Ltd.	69,596	7,511	62,085	-	(317)	(1,240)
Hyosung Resource (Australia) PTY Ltd.	11,811	54	11,757	-	(9)	(2,153)
Hyosung Singapore PTE Ltd.	32,606	6,085	26,521	285,710	(966)	(2,327)
Hyosung Spandex (GuangDong) Co., Ltd.	231,381	140,754	90,627	230,188	15,553	16,634
Hyosung Spandex (Jiaxing) Co., Ltd.	248,755	124,303	124,452	182,242	22,664	23,729
Hyosung Spandex (Zhuhai) Co., Ltd.	71,358	37,510	33,848	85,628	5,184	5,435
Hyosung SRL	-	-	-	-	-	-
Hyosung Steel Cord (Qingdao) Co., Ltd.	211,193	171,831	39,362	110,145	(20,146)	(18,953)
Hyosung Sumiden Steel Cord (Nanjing) Co.,Ltd.	95,172	67,895	27,277	46,140	(408)	(48)
Hyosung USA Inc.	311,689	245,725	65,964	593,555	2,795	1,703
Hyosung Vietnam Co., Ltd.	1,027,360	853,640	173,720	890,784	59,495	56,304
Hyosung Wire Luxembourg S.A	32,532	35,278	(2,746)	66,562	1,714	1,489
Nantong Hyosung Transformer Co., Ltd.	234,565	220,553	14,012	176,472	1,287	1,421
Nantong Transformer Co., Ltd.	1,728	(3,807)	5,535	-	-	70
Nantong Yaubong Transformer Co., Ltd.	2,658	477	2,181	-	(304)	(266)
Powertech Corporation	50	-	50	171	(11)	(12)
Xepix Corp.	3,539	31	3,508	-	(331)	(376)
Zhangjiagang Xiaosha Coil Service Co., Ltd.	19,143	372	18,771	20,087	337	564
Hyosung (Taiwan) Corporation.	451	161	290	2,226	(110)	(123)
Hyosung RUS.	1,547	-	1,547	429	14	(144)
Luckfaith Investment LTD.	154	1	153	-	(1,693)	(1,992)
Central Trade Investment LTD.	15	1	14	-	(2,454)	(2,830)
PT.HYOSUNG JAKARTA	1,237	-	1,237	69	(7)	(32)

<sup>1</sup> Consolidated financial information of GST Global GmbH and its 13 subsidiaries.



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	2012					
	Asset	Liability	Equity	Sales	Net income(loss)	Total comprehensive income(loss)
Galaxia Photonics Co., Ltd.	₩ 16,569	₩ 15,791	₩ 778	₩ 2,548	₩ (25,554)	₩ (25,149)
Gumoknongsan Co., Ltd.	2,310	-	2,310	-	(9)	(9)
Gongdeokgyeongwoo development corporation	19,945	15,743	4,202	-	(733)	(736)
The Class Hyosung	96,816	89,371	7,445	317,889	(6,617)	(7,003)
Asia Lnghub Co., Ltd.	202	129	73	-	(1,202)	(1,202)
Flossom Corporation	103,636	113,179	(9,543)	1,722	(30,531)	(30,586)
Taeansolarfarm Corp.	7,976	6,195	1,781	1,378	81	224
Hanadaol Landchip Private Real Estate Investment Trust No.39	192,163	160,162	32,001	6,101	1,159	1,159
Hongjin Data Service Co., Ltd.	9,786	717	9,069	5,254	952	864
Hyosung Goodsprings, Inc.	180,839	128,681	52,158	324,075	6,839	6,389
Hyosung Ebara Engineering Co., Ltd.	76,696	71,148	5,548	190,313	(14,675)	(15,899)
Hyosung Wind Power Holdings Ltd.	1,529	-	1,529	-	(4)	(4)
Hyosung Capital Co., Ltd.	2,476,404	2,150,032	326,372	294,402	9,025	9,035
Hyosung Investment & Development Corporation	60,991	1,828	59,163	2,808	456	849
Hyosung Trans World Co., Ltd.	31,597	24,223	7,374	201,316	2,125	2,186
Baoding Hyosung Tianwei Transformer Co., Ltd.	33,113	30,865	2,248	22,773	(1,409)	(1,576)
Beijing Hyosung Container Co., Ltd.	8,025	13	8,012	758	(2,707)	(3,256)
Central Trade Investment LTD.	37,635	11,865	25,770	-	-	-
GST Global GmbH <sup>1</sup>	356,366	221,561	134,805	322,986	(30,610)	(42,636)
HICO America Sales & Tech.	175,864	164,234	11,630	343,505	(17,709)	(18,954)
Hyosung (H.K) LIMITED	2,147	1,398	749	-	(5)	(60)
Hyosung Brasil industria e comercio de fibras LTDA	119,002	114,745	4,257	91,132	(7,222)	(8,406)
Hyosung Brasil industrial & commercial LTDA	6,284	912	5,372	8,450	(96)	(1,065)
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	364,236	209,290	154,946	297,835	1,241	(8,601)
Hyosung Chemicals (Jiaxing) Co., Ltd.	152,776	121,828	30,948	223,712	13,775	12,135
Hyosung Composites (Guangdong) Co., Ltd	9,182	6,578	2,604	-	-	(97)
Hyosung Corporation India Private Limited	488	39	449	401	10	(12)
Hyosung Europe SRL	18,774	14,059	4,715	35,799	188	(66)
Hyosung (Taiwan) Corporation	428	15	413	2,651	(145)	(159)
Hyosung Holdings USA	54,957	34,947	20,010	22,917	14,935	13,322
Hyosung International Trade (Jiaxing) Co., Ltd.	45,686	44,325	1,361	295,403	6	(78)
Hyosung International (HK) Ltd.	4,733	2,953	1,780	46,647	5	(127)
Hyosung Istanbul TEKSTIL LTD.STI	161,581	131,311	30,270	164,780	16,541	15,696
Hyosung Japan Co., Ltd.	125,967	112,824	13,143	562,337	3,491	1,150
Hyosung Luxembourg S.A	87,999	67,892	20,107	188,255	918	(161)
Hyosung Power Holdings, Ltd.	70,691	7,366	63,325	-	(325)	(5,264)
Hyosung Resource (Australia) PTY Ltd.	13,934	44	13,890	-	(56)	(1,140)
Hyosung Singapore PTE Ltd.	66,631	37,784	28,847	191,772	388	384
Hyosung Spandex (GuangDong) Co., Ltd.	229,388	155,394	73,994	171,761	(10,732)	(15,541)
Hyosung Spandex (Jiaxing) Co., Ltd.	236,038	128,136	107,902	118,895	1,755	(5,551)
Hyosung Spandex (Zhuhai) Co., Ltd.	62,953	34,540	28,413	68,977	(5,046)	(6,904)
Hyosung SRL	-	-	-	-	-	-
Hyosung Steel Cord (Qingdao) Co., Ltd.	98,293	70,969	27,324	132,675	(11,672)	(15,510)

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	2012					
	Asset	Liability	Equity	Sales	Net income(loss)	Total comprehensive income(loss)
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.	228,047	169,732	58,315	46,476	665	(1,012)
Hyosung USA Inc.	336,409	274,242	62,167	625,134	(8,093)	(13,015)
Hyosung Vietnam Co., Ltd.	984,506	847,293	137,213	731,296	32,974	23,112
Hyosung Wire Luxembourg S.A	45,354	53,943	(8,589)	63,787	(25,037)	(25,267)
Luckfaith Investment LTD.	29,758	9,794	19,964	-	-	-
Nantong Hyosung Transformer Co., Ltd.	253,037	240,446	12,591	166,099	2,263	1,559
Nantong Transformer Co., Ltd.	1,706	(3,759)	5,465	-	-	(338)
Nantong Yaubong Transformer Co., Ltd.	2,918	471	2,447	-	(3,431)	(3,650)
Powertech Corporation	62	-	62	450	(10)	(15)
Xepix Corp.	3,932	47	3,885	342	(38)	(337)
Zhangjiagang Xiaosha Coil Service Co., Ltd.	20,296	2,089	18,207	26,480	739	(372)

<sup>1</sup> Consolidated financial information of GST Global GmbH and its 17 subsidiaries.

## 1.2 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation and excluded from the consolidation for the year ended December 31, 2013, are as follows:

Subsidiaries newly included in the consolidation for the year ended December 31, 2013:

Subsidiary	Description
Doomi Construction Co.Ltd	Newly acquired
Hyosung RUS	"
PT.HYOSUNG JAKARTA	"
GST Automotive Safety RO S.R.L.	"
Hyosung Capital sixth special purpose entity	"
	"

Subsidiaries excluded from the consolidation for the year ended December 31, 2013, are as follows:

Subsidiary	Description
Asia Pacific No.21 Ship Investment Co., Ltd	No control over the subsidiary
Beijing Hyosung Container Co., Ltd.	Disposed of

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The Company newly included the following subsidiaries to reflect the accounting error relating to scope for consolidation identified through the National Tax Service investigation. As a result, the Company has restated the consolidated financial statements as of and for the year ended December 31, 2012, including the following subsidiaries:

Subsidiary	Description
Central Trade Investment LTD.	Control over the subsidiary
Luckfaith Investment LTD.	"

## 2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The Group's financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

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#### 2.2 Changes in Accounting Policy and Disclosures

##### (a) *New and amended standards adopted by the Group*

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2013:

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*

The amendment requires entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. The Group applies the amendment retroactively and there is no impact of the application of this amendment on its total comprehensive income or loss.

- Amendment to Korean IFRS 1019, *Employee Benefits*

The amendment requires entities to immediately recognize all actuarial gains and losses incurred in other comprehensive income or loss. All past service costs incurred are immediately recognized in accordance with the change of the plan, and the previous separate calculation of the interest cost and the expected returns on plan assets has been revised to calculate net interest expense (income) by applying the discount rate used in the defined benefit obligation measurement in the net defined benefit liabilities (assets). There is no material impact of the application of this amendment on the consolidated financial statements.

- Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110, *Consolidated Financial Statements*, introduces a single control concept and provides a specific guidance for the control. The adoption of this standard does not have an impact on consolidation scope in the consolidated financial statements.

- Korean IFRS 1111, *Joint Arrangements*

Korean IFRS 1111, *Joint Arrangements*, reflects the substance of joint arrangements and focuses on the rights and obligations of the parties to the joint arrangements rather than on the legal forms of the arrangements. Joint arrangements are classified into joint operations or joint ventures. The adoption of this standard does not have an impact on the consolidated financial statements.

- Korean IFRS 1112, *Disclosures of Interests in Other Entities*

Korean IFRS 1112, *Disclosure of Interests in Other Entities*, provides disclosure requirements for all types of equity investments in other entities including subsidiaries, associates, joint ventures and unconsolidated structured entities.

# Hyosung Corporation and Subsidiaries

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- Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, provides a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across K-IFRS. The Group has applied this standard prospectively according to the transitional provisions of K-IFRS 1113 and there is no material impact of the application of this standard on the consolidated financial statements.

(b) *New standards and interpretations not yet adopted*

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013, and not early adopted by the Group are as follows:

- Amendment to Korean IFRS 1110, *Consolidated Financial Statements*.

Amendment to Korean IFRS 1110, *Consolidated Financial Statements*, provides that, if a parent company qualifies as an investment entity, it is required to measure its investments in subsidiaries at fair value through profit and loss instead of consolidating these subsidiaries in its consolidated financial statements. The amendment does not apply for a parent of an investment entity if the parent itself is not an investment entity. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*.

Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment is effective for annual periods beginning on or after January 1, 2014, and the Group is assessing the impact of application of this amendment on its consolidated financial statements.

- Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group is assessing the impact of application of this amendment on its consolidated financial statements.

- Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, are applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is

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recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). This interpretation is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this interpretation would not have a material impact on its consolidated financial statements.

#### **2.3 Consolidation**

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, *Consolidated Financial Statements*.

##### *(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### *(b) Changes in ownership interests in subsidiaries without change of control*

In transactions with non-controlling interests, which do not result in loss of control, the Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

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#### *(c) Disposal of subsidiaries*

If the Group loses control of a subsidiary, any investment continuously retained in the subsidiary is re-measured at its fair value at the date when control is lost and any resulting differences are recognized in profit or loss.

#### *(d) Associates*

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

## **2.4 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5). The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

## **2.5 Foreign Currency Translation**

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Controlling Company's functional and presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

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#### 2.6 Financial Assets

##### *(a) Classification and measurement*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

##### *(b) Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than a significant percentage from its cost or a prolonged decline below its cost for a significant period is also objective evidence of impairment.

##### *(c) Derecognition*

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due



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to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position.

#### 2.7 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'other income (expenses)' according to the nature of transactions.

#### 2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method (the gross-weighted average method or the first-in, first-out (FIFO) method in some subsidiaries) except for in-transit inventories which are determined using the specific identification method.

#### 2.9 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Estimated Useful Lives			Estimated Useful Lives		
Buildings	20 - 60	years	Vehicles	3 - 10	years
Structures	5 - 40	years	Tools and equipment	3 - 15	years
Machinery	3 - 25	years	Others	2 - 10	years

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

#### 2.10 Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

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#### 2.11 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

#### 2.12 Intangible Assets

Intangible assets, except for goodwill, are initially recognized at its historical cost and carried at its cost less accumulated amortization and accumulated impairment losses.

Internally generated software development costs are the aggregate costs recognized after meeting the asset recognition criteria, including technical feasibility, and determined to have future economic benefits. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives, are as follows:

	<b>Estimated Useful Lives</b>
Industrial rights	5 - 10 years
Other intangible assets	5 - 25 years

#### 2.13 Investment Property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over 40 years.

#### 2.14 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental

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to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

#### **2.15 Impairment of Non-financial Assets**

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **2.16 Financial Liabilities**

##### *(a) Classification and measurement*

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

Preferred shares that provide for a mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of income as 'finance costs', together with interest expenses recognized on other financial liabilities.

##### *(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

#### **2.17 Financial Guarantee Contracts**

Financial guarantees contracts provided by the Group are initially measured at fair value on the

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date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities':

- (a) the amount determined in accordance with Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*; or
- (b) the initial amount, less accumulated amortization recognized in accordance with Korean IFRS1018, *Revenue*.

#### 2.18 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

#### 2.19 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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#### 2.20 Employee Benefits

##### *(a) Defined benefit liability*

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expenses when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

#### 2.21 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

##### *(a) Sale of goods*

Revenue from the sale of goods is recognized when products are delivered to the purchaser.

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#### *(b) Rendering of services*

Normally, if the contract is based on time and materials related to rendering design services, revenue is recognized according to the percentage of completion. If the contract is based on time, the percentage of completion is measured on the time provided over the total estimated time to be provided, and if the contract is based on materials, the percentage of completion is measured based on the direct costs to date over the total estimated costs.

#### *(c) Royalty income*

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements

#### *(d) Interest income*

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

#### *(e) Dividend income*

Dividend income is recognized when the right to receive payment is established.

### **2.22 Construction Contracts**

A construction contract is defined by Korean IFRS 1011, *Construction Contracts*, as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss on the construction contract is immediately recognized as an expense. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. Contract costs are recognized as an expense in the period in which they are incurred.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded

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from contract costs in determining the stage of completion. These amounts are recognized as inventory, advance payments or other assets.

On the statement of financial position, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognized profits (less recognized losses) exceed progress billings (due from customers for contract work); a contract represents a liability where the opposite is the case (due to customers for contract work)

#### **2.23 Earnings per Share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

#### **2.24 Approval of Issuance of the Financial Statements**

The issuance of the December 31, 2013 financial statements of the Company was approved by the Board of Directors on February 19, 2014, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

### **3. Critical Accounting Estimates and Judgments**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### *(a) Income taxes*

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 35).

#### *(b) Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 4).

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#### *(c) Provisions*

As described in Note 24, the Group recognizes provisions for warranties, repairs and estimated returns as of the reporting date. The amounts are estimated based on historical data.

#### *(d) Defined benefit liability*

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 22).

## 4. Financial Risk Management

### 4.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

#### *(a) Market risk*

##### i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro, Chinese Yuan and other currencies; such as, the Japanese yen, Turkish lira and Singapore dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group's financial instruments denominated in major foreign currencies as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Assets denominated in foreign currencies				
USD	₩	799,494	₩	402,899
CNY		499,039		525,040
JPY		46,722		74,778
Others		182,054		165,545
Liabilities denominated in foreign currencies				
USD		2,168,905		1,229,126
CNY		987,178		1,053,826
JPY		274,410		82,461
Others		174,662		330,997



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As of December 31, 2013 and 2012, if the foreign exchange rate of the Korean won fluctuated by 10%, the effects on net income (loss) would be as follows:

*(in millions of Korean won)*

	<b>2013</b>				<b>2012</b>			
	<b>10% Increase</b>		<b>10% Decrease</b>		<b>10% Increase</b>		<b>10% Decrease</b>	
USD	₩	(136,941)	₩	136,941	₩	(82,623)	₩	82,623
CNY		(48,814)		48,814		(52,879)		52,879
JPY		(22,769)		22,769		(768)		768

ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss.

The Group's investments in equity of other entities that are publicly traded are included in one of the following two equity indexes: KOSPI equity index and KOSDAQ equity index.

The table below summarizes the impact of increases/decreases of the two equity indexes and increases/decreases of prices of unlisted stocks on the Group's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 30% with all other variables held constant:

*(in millions of Korean won)*

	<b>Impact on post-tax profit</b>				<b>Impact on other components of equity</b>			
	<b>2013</b>		<b>2012</b>		<b>2013</b>		<b>2012</b>	
KOSPI	₩	-	₩	-	₩	17,520	₩	34,070
KOSDAQ		-		-		327		1,112

iii) Interest rate risk

The Group's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Group policy is to review on interest rate fluctuation periodically so that they can manage whether to repay or renew the borrowings.

The book values of borrowings exposed to cash flow interest rate risk as of December 31, 2013 and 2012, are as follows:

*(In millions of Korean won)*

	<b>2013</b>		<b>2012</b>	
Borrowings	₩	5,299,484	₩	5,843,138

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At December 31, 2013, if interest rates on borrowings at that date had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been ₩ 52,995 million (2012: ₩ 58,431 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

#### (b) Credit Risk

If wholesale customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilization of credit limits is regularly monitored.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets and liabilities excluding equity investments, and the maximum exposure to financial guarantees contracts is ₩ 1,176,756 million (2012: ₩ 956,714 million).

#### (c) Liquidity Risk

Cash flow forecasting is performed in the operating entities of the Group in and aggregated by Group finance. The Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements. At the reporting date, the Group held money market funds and other liquid assets of that are expected to readily generate cash inflows for managing liquidity risk.

The analyses of the Group's liquidity risk for the financial liabilities as of December 31, 2013, and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Up to 1 year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>2013</b>				
Trade and other payables	₩ 1,401,308	₩ 370,200	₩ -	₩ 1,771,508
Borrowings	5,417,959	3,148,297	1,422	8,567,678
Derivative liabilities <sup>1</sup>	1,330	-	-	1,330
Financial guarantee payment <sup>2</sup>	340,524	532,031	2,401	874,956
PF guarantee payment <sup>2</sup>	135,000	166,800	-	301,800
	₩ 7,296,121	₩ 4,217,328	₩ 3,823	₩ 11,517,272
<b>2012</b>				
Trade and other payables	₩ 1,452,521	₩ 387,125	₩ -	₩ 1,839,646
Borrowings	4,591,578	3,393,381	387,623	8,372,582
Derivative liabilities <sup>1</sup>	654,931	322,830	-	977,761
Financial guarantee payment <sup>2</sup>	390,524	145,200	-	535,724
PF guarantee payment <sup>2</sup>	155,000	223,800	-	378,800
	₩ 7,244,554	₩ 4,472,336	₩ 387,623	₩ 12,104,513

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<sup>1</sup> Contractual cash flow of derivative liabilities is the contractual amount based on the requirement of gross settlement. The fair value of derivative liabilities is same as the book value.

<sup>2</sup> The amount of above financing guarantee contract is the maximum contractual payment that the Group is obliged to pay if the principal debtor claims the whole amount of guarantees. The possibility of not paying the guarantee is higher than that of paying the guarantee according to the financing guarantee contract based on the estimation as of yearend. Yet, the possibility of principal debtor in claiming payment from the Group can change based on the change in the financial condition of the principal debtor.

#### 4.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain an optimal capital structure, the Group monitors financial ratios, such as debt ratio, net borrowing ratio and gearing ratio periodically. If necessary, the Group seeks ways to improve the capital structure.

The debt-to-equity ratio, net borrowing ratio and gearing ratios as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Debts (A)	₩	10,919,332	₩	10,760,065
Equity (B)		2,674,081		3,012,649
Total borrowings (C)		8,220,793		8,028,658
Cash and cash equivalent (D)		444,591		436,726
Debt-to-equity ratio (A/B)		408.34%		357.16%
Net borrowing ratio ((C-D)/B)		290.80%		252.00%
Gearing ratio ((C-D)/(B+C-D))		74.41%		71.59%

#### 4.3 Fair Value Estimation

##### 4.3.1 Fair Value of Financial Instruments by Category

The carrying amount of financial instruments approximates to their fair value except for short and long-term investment securities that are measured at cost as they do not have a quoted market price in an active market and their fair value cannot be measured reliably.

##### 4.3.2 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as of December 31, 2013 and 2012, are as follows:

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<i>(in millions of Korean won)</i>	<b>Category</b>		<b>2013</b>		<b>2012</b>
Available-for-sale financial assets (unlisted)	TransLink Capital Partners 1, L.P.	₩	2,022	₩	1,916
	Korea Housing Guarantee Co., Ltd.		1,717		1,717
	The Korea Economic Daily		1,354		1,354
	Others		1,339		1,483
Available-for-sale financial assets (Investment in Capital)	Machinery financial Cooperative		4,330		4,330
	Miracle 2012 Private Equity Fund		-		2,000
	EN New Technology Business Fund I		1,000		-
	Stonebridge New Growth Fund		-		1,579
	Construction Guarantee Cooperative		1,217		1,217
	Corstone Private Equity Fund VIII		2,000		-
	Medici No.2 Investment Cooperative		800		-
	Others		1,938		2,086

Aforementioned financial instruments are measured at cost because they do not have a quoted price in an active market and their fair value cannot be reliably assessed. The Group has no intention to dispose of the aforementioned financial instruments. And these instruments will be measured at fair value when the Group can develop a reliable estimate of the fair value.

**4.3.3 Fair Value Hierarchy**

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value as of December 31, 2013 and 2012 are as follows:

<i>(In millions of Korean won)</i>	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets				
Cash and cash equivalents	₩ 4	₩ 88,598	₩ -	₩ 88,602
Trade and other receivables	-	-	39,507	39,507
Available-for-sale financial assets	76,269	757	72,841	149,866
Derivative assets	-	38,716	389	39,105
Other financial assets	-	50,000	-	50,000

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Long-term trade and other receivables	-	-	4,678	4,678
Other financial business assets	-	-	2,211,267	2,211,267
	<u>₩ 76,273</u>	<u>₩ 178,070</u>	<u>₩ 2,328,682</u>	<u>₩ 2,583,025</u>
<b>Liabilities</b>				
Trade and other payables	₩ -	₩ -	₩ 346,331	₩ 346,331
Derivative liabilities	-	1,330	-	1,330
Borrowings	-	-	742,000	742,000
Long-term borrowings	-	-	1,073,112	1,073,112
	<u>₩ -</u>	<u>₩ 1,330</u>	<u>₩ 2,161,443</u>	<u>₩ 2,163,773</u>

**2012**

<i>(in millions of Korean won)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	₩ 4	₩ 36,707	₩ -	₩ 36,710
Trade and other receivables	-	-	58,153	58,153
Available-for-sale financial assets	150,351	7,586	64,837	222,774
Derivative assets	-	67,241	95	67,336
Other financial assets	-	-	2,020,752	2,020,752
	<u>₩ 150,355</u>	<u>₩ 111,534</u>	<u>₩ 2,143,837</u>	<u>₩ 2,405,725</u>
<b>Liabilities</b>				
Trade and other payables	₩ -	₩ -	₩ 380,507	₩ 380,507
Derivative liabilities	-	5,293	-	5,293
Borrowings	-	-	602,000	602,000
Long-term borrowings	-	-	1,132,966	1,132,966
	<u>₩ -</u>	<u>₩ 5,293</u>	<u>₩ 2,115,473</u>	<u>₩ 2,120,766</u>

**4.3.4** Details of changes in Level 3 of the fair value hierarchy for the recurring fair value measurements are as follows:

<i>(in millions of Korean won)</i>	<b>Available-for-sale financial assets</b>		<b>Derivative assets</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Beginning balance	₩ 74,362	₩ 52,344	₩ 95	₩ -
Purchases	6,791	21,896	294	95
Amount recognized in other comprehensive income	(4,852)	122	-	-
Amount recognized in profit or loss (impairment)	<u>(335)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>₩ 75,966</u>	<u>₩ 74,362</u>	<u>₩ 389</u>	<u>₩ 95</u>

**4.3.5 Valuation Technique and the Inputs**

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity within the same industry, pricing service, or

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regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in 'level 1'. Instruments included in 'level 1' comprise primarily equity investments classified as available for sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses various valuation techniques and makes judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in 'level 2'. Financial instruments included in 'level 2' are derivative financial instruments. The fair value of derivative financial instruments is measured at discount using forward exchange rate as of the reporting date.

If one or more of the significant inputs are not based on observable market data, the instrument is included in 'level 3'. Financial instrument included 'level 3' uses other method including discounting cash flow method and others.

## 5. Segment information

The Group's reportable segments and details are as follows:

The strategic steering committee is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the strategic steering committee for the purposes of allocating resources and assessing performance. Product separation units in terms of type of goods, were separated as fabric, industrial materials, chemicals, heavy industrial, construction, trading, and others.

The following table presents segment information for the years ended December 31, 2013 and 2012:

(in millions of Korean won)	2013								Total
	Fabric	Industrial materials	Chemical	Heavy industrial	Construction	Trading	Others	Adjustment	
Total revenue	₩2,205,576	₩ 2,368,139	₩ 1,698,828	₩ 2,607,829	₩ 592,767	₩ 3,325,018	₩ 326,176	₩ -	₩13,124,333
Inter-segment revenue	(24,893)	-	(191,365)	(6,540)	(39,586)	(279,834)	(2,958)	-	(545,176)
	2,180,683	2,368,139	1,507,463	2,601,289	553,181	3,045,184	323,218	-	12,579,157
Operating income	267,986	83,109	110,466	(3,020)	(14,246)	29,425	16,463	(4,271)	485,912
Depreciation and amortization	124,858	191,635	88,974	45,648	3,036	6,166	94,893	(2,038)	553,172
Assets									
Current assets	749,795	1,335,322	379,569	1,225,723	377,004	509,464	243,989	(727,572)	4,093,294
Non-current assets	885,649	2,123,520	1,184,464	1,190,194	657,300	154,178	4,798,219	(1,493,405)	9,500,119
Investments in associates	74,866	6,978	16,918	8,613	2,116	-	163,108	-	272,599

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Acquisition of non-current assets	82,352	201,852	302,000	74,337	21,658	61,019	117,081	(12,344)	847,955
Liabilities									
Current liabilities	898,533	1,328,218	493,253	1,086,043	345,247	654,506	2,942,641	(615,889)	7,132,552
Non-current liabilities	113,884	572,310	19,556	98,054	271,336	12,697	2,763,605	(64,662)	3,786,780
<b>2012</b>									
<i>(in millions of Korean won)</i>	<b>Fabric</b>	<b>Industrial materials</b>	<b>Chemical</b>	<b>Heavy industrial</b>	<b>Construction</b>	<b>Trading</b>	<b>Others</b>	<b>Adjustment</b>	<b>Total</b>
Total revenue	₩2,030,992	₩ 2,411,454	₩1,714,110	₩ 2,618,723	₩ 768,427	₩ 3,295,678	₩ 337,851	₩ -	₩ 14,522,334
Inter-segment revenue	(26,228)	-	(169,195)	(3,795)	(91,941)	(271,336)	(2,990)	-	(3,180,193)
	2,004,764	2,411,454	1,544,915	2,614,928	676,486	3,024,342	334,861	-	11,342,141
Operating income	128,289	119,731	85,366	(171,624)	27,896	20,919	(253)	12,741	223,065
Depreciation and amortization	130,879	201,501	76,066	43,707	1,675	5,741	112,293	(205)	571,657
Assets									
Current assets	659,754	1,419,959	313,875	1,434,317	444,343	492,544	309,606	(562,121)	4,512,277
Non-current assets	1,059,489	1,723,815	985,112	1,220,725	433,352	196,391	5,232,516	(1,590,963)	9,260,437
Investments in associates	96,009	11,187	-	6,079	2,252	-	150,904	-	266,431
Acquisition of non-current assets	162,648	432,196	232,420	66,827	207,860	13,200	225,714	(114,094)	1,226,771
Liabilities									
Current liabilities	946,397	1,355,551	453,301	1,117,193	203,996	548,619	2,547,878	(551,795)	6,621,140
Non-current liabilities	212,256	618,391	32,967	74,474	183,332	39,312	2,991,379	(13,186)	4,138,925

Geographical segment information for the years ended December 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>					
	<b>Domestic</b>	<b>North and Central America</b>	<b>Asia</b>	<b>Europe</b>	<b>Others</b>	<b>Total</b>
Revenue	₩ 9,437,767	₩ 628,141	₩ 1,606,636	₩ 784,827	₩ 121,786	₩ 12,579,157
Non-current assets <sup>1</sup>	₩ 4,570,980	₩ 27,512	₩ 1,446,259	₩ 341,205	₩ 67,943	₩ 6,453,899

<i>(in millions of Korean won)</i>	<b>2012</b>					
	<b>Domestic</b>	<b>North and Central America</b>	<b>Asia</b>	<b>Europe</b>	<b>Others</b>	<b>Total</b>
Revenue	₩ 9,708,787	₩ 716,482	₩ 1,342,438	₩ 744,461	₩ 99,582	₩ 12,611,750
Non-current assets <sup>1</sup>	₩ 4,099,276	₩ 38,675	₩ 1,515,308	₩ 333,729	₩ 85,938	₩ 6,072,926

<sup>1</sup> Includes all property, plant and equipment, intangible assets, and investment properties.

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**6. Transfers of Financial Assets**

Related liabilities not derecognized due to the ex-post settlement condition are recognized as borrowings:

<i>(In millions of Korean won)</i>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Book value of assets	₩ 706,890	₩ 877,233
Book value of related liabilities	(706,890)	(877,233)
Net position	-	-

**7. Financial Instruments by Category**

Categorizations of financial assets as of December 31, 2013 and 2012, are as follows:

*(in millions of Korean won)*

	<b>2013</b>				
	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Total</b>
Cash and cash equivalents	₩ 444,591	₩ -	₩ -	₩ -	₩ 444,591
Trade and other receivables	1,870,594	-	-	-	1,870,594
Unbilled construction	66,811	-	-	-	66,811
Other financial assets	25,644	301	8	87,485	113,438
Long-term trade and other receivables	275,133	-	-	-	275,133
Long-term other financial business assets	2,214,507	-	-	-	2,214,507
Long-term other financial assets	90	167,282	39	1,620	169,031
	<u>₩4,897,370</u>	<u>₩ 167,583</u>	<u>₩ 47</u>	<u>₩ 89,105</u>	<u>₩ 5,154,105</u>

*(in millions of Korean won)*

	<b>2012</b>				
	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Total</b>
Cash and cash equivalents	₩ 436,726	₩ -	₩ -	₩ -	₩ 436,726
Trade and other receivables	2,168,158	-	-	-	2,168,158
Unbilled construction	51,607	-	-	-	51,607
Other financial assets	68,912	245	438	66,702	136,297
Long-term trade and other receivables	273,877	-	-	-	273,877
Long-term other financial business assets	2,025,826	-	-	-	2,025,826
Long-term other financial assets	64,758	240,211	1,374	634	306,977
	<u>₩ 5,089,864</u>	<u>₩ 240,456</u>	<u>₩ 1,812</u>	<u>₩ 67,336</u>	<u>₩ 5,399,468</u>



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Categorizations of financial liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>			
	<b>Financial liabilities at amortized cost</b>	<b>Financial guarantee liabilities</b>	<b>Financial liabilities at fair value through profit or loss</b>	<b>Total</b>
Trade and other payables	₩ 1,395,032	₩ 5,990	₩ -	₩ 1,401,022
Borrowings	5,201,074	-	-	5,201,074
Other financial liabilities	-	-	1,221	1,221
Long-term trade and other payables	366,356	-	-	366,356
Long-term borrowings	3,019,719	-	-	3,019,719
Long-term other financial liabilities	-	-	109	109
	<u>₩ 9,982,181</u>	<u>₩ 5,990</u>	<u>₩ 1,330</u>	<u>₩ 9,989,501</u>

<i>(in millions of Korean won)</i>	<b>2012</b>			
	<b>Financial liabilities at amortized cost</b>	<b>Financial guarantee liabilities</b>	<b>Derivative liabilities</b>	<b>Total</b>
Trade and other payables	₩ 1,451,836	₩ 640	₩ -	₩ 1,452,476
Borrowings	4,700,640	-	-	4,700,640
Other financial liabilities	-	-	4,554	4,554
Long-term trade and other payables	382,131	-	-	382,131
Long-term borrowings	3,328,018	-	-	3,328,018
Long-term other financial liabilities	-	-	739	739
	<u>₩ 9,862,623</u>	<u>₩ 640</u>	<u>₩ 5,293</u>	<u>₩ 9,868,556</u>

Income and loss of financial instruments by category for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Financial assets at fair value through profit or loss		
Interest income	₩ -	₩ 185
Loans and receivables		
Gain (Loss) on disposal (Profit or loss)	(3,474)	(3,777)
Interest income	12,098	11,372
Gain on foreign currency translation	65,207	43,862
Loss on foreign currency translation	(56,727)	(41,627)
Bad debts expense	(32,361)	(13,865)
Reversal of allowance for bad debt	194	655
Available-for-sale financial assets		
Gain (Loss) on valuation (Other comprehensive income(loss))	(77,011)	29,208
Gain (Loss) on disposal (Profit or loss)	8,259	13,368
Impairment loss (net income)	(613)	(49)
Interest income	211	30

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Dividends	290	1,670
Held-to-maturity financial assets		
Interest income	72	57
Financial liabilities at amortized cost		
Interest expenses	(220,989)	(246,607)
Gain on foreign currency translation	141,383	80,037
Loss on foreign currency translation	(117,425)	(34,830)
Derivative assets and liabilities		
Gain (Loss) on valuation (Other comprehensive income(loss))	258	143
Gain (Loss) on valuation (Profit or loss)	33,111	65,556
Gain (Loss) on transactions (Profit or loss)	39,782	51,964

**8. Cash and Cash Equivalents**

Cash and cash equivalents in the statements of financial position as of December 31, 2013 and 2012, are the same as the cash and cash equivalents in the statements of cash flows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Cash on hand	₩	51,244	₩	37,173
Bank deposits		393,347		399,553
	₩	<u>444,591</u>	₩	<u>436,726</u>

**9. Restricted Financial Instruments**

Restricted financial instruments as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Description</b>	<b>2013</b>		<b>2012</b>	
Cash and cash equivalents	Pledge for borrowings	₩	1,365	₩	1,956
	Others		7,153		13,444
Other financial liabilities	Pledge for borrowings		2,720		-
Long-term trade and other receivables	Foreign currency payment guarantee		42		46
Long-term other financial assets	Deposits for checking account		91		3,658
		₩	<u>11,371</u>	₩	<u>19,104</u>

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**10. Trade and other receivables**

Details of trade and other receivables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		
	<b>Receivable amounts</b>	<b>Allowance for doubtful accounts</b>	<b>Net book value</b>
Trade receivables	₩ 1,776,458	₩ (46,655)	₩ 1,729,803
Other receivables	157,417	(16,626)	140,791
Long-term trade receivables	25,561	(10,723)	14,838
Long-term other receivables	285,940	(25,645)	260,295
	<u>₩ 2,245,376</u>	<u>₩ (99,649)</u>	<u>₩ 2,145,727</u>

<i>(in millions of Korean won)</i>	<b>2012</b>		
	<b>Receivable amounts</b>	<b>Allowance for doubtful accounts</b>	<b>Net book value</b>
Trade receivables	₩ 1,991,787	₩ (43,514)	₩ 1,948,273
Other receivables	229,865	(9,980)	219,885
Long-term trade receivables	5,542	(6)	5,536
Long-term other receivables	280,494	(12,153)	268,341
	<u>₩ 2,507,688</u>	<u>₩ (65,653)</u>	<u>₩ 2,442,035</u>

Details of other receivables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Other receivables				
Non-trade receivables	₩	104,557	₩	154,705
Short-term loans		10,452		29,256
Accrued income		21,698		31,293
Deposits		4,084		4,631
		<u>140,791</u>		<u>219,885</u>
Long-term other receivables				
Long-term loans		30,207		16,308
Deposits		230,088		252,033
		<u>260,295</u>		<u>268,341</u>
	<u>₩</u>	<u>401,086</u>	<u>₩</u>	<u>488,226</u>

The fair value of long-term trade and other receivables is calculated by discounting nominal value of expected future cash inflow at discount rate which reflects credit risk.

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	<b>2013</b>	<b>2012</b>
Discount rate	3.4% ~ 5.0%	3.4% ~ 5.0%

Meanwhile, the fair value of trade and other receivables as of December 31, 2013 and 2012, are the same as book value.

The aging analyses of trade and other receivables as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

	<b>2013</b>						<b>Total</b>
	<b>Receivables not past due</b>	<b>Past due but not impaired</b>				<b>Impaired</b>	
		<b>Up to 3 months</b>	<b>4 to 6 months</b>	<b>7 to 12 months</b>	<b>Over 12 months</b>		
Trade receivables	₩ 1,473,419	₩ 97,978	₩ 37,157	₩ 58,844	₩ 57,053	₩ 52,007	₩ 1,776,458
Other receivables	151,715	2,252	486	832	1,033	1,099	157,417
Long-term trade receivables	4,581	-	-	-	1	21,446	26,028
Long-term other receivables	258,244	739	1,833	1,225	2,495	23,645	288,181
	<u>₩ 1,887,959</u>	<u>₩ 100,969</u>	<u>₩ 39,476</u>	<u>₩ 60,901</u>	<u>₩ 60,582</u>	<u>₩ 98,197</u>	<u>₩ 2,248,084</u>

(in millions of Korean won)

	<b>2012</b>						<b>Total</b>
	<b>Receivables not past due</b>	<b>Past due but not impaired</b>				<b>Impaired</b>	
		<b>Up to 3 months</b>	<b>4 to 6 months</b>	<b>7 to 12 months</b>	<b>Over 12 months</b>		
Trade receivables	₩ 1,569,777	₩ 222,570	₩ 51,110	₩ 29,270	₩ 77,659	₩ 41,401	₩ 1,991,787
Other receivables	214,882	8,475	502	902	4,263	841	229,865
Long-term trade receivables	3,131	-	-	-	2,405	6	5,542
Long-term other receivables	237,687	30,443	-	-	211	12,153	280,494
	<u>₩ 2,025,477</u>	<u>₩ 261,488</u>	<u>₩ 51,612</u>	<u>₩ 30,172</u>	<u>₩ 84,538</u>	<u>₩ 54,401</u>	<u>₩ 2,507,688</u>

The Group performs individual impairment review on the relevant items by determining whether the individually significant bonds have the symptom of impairment. The collective impairment review is performed for other bonds on which no impairment loss was recognized as a result of individual impairment review.

The Group classifies bonds, whose collection is uncertain due to debtor's bankruptcy or insolvency, as accidental bond. The accidental bond is categorized as composition bond or other accidental bonds. The composition bond is valued by performing impairment valuation by considering estimated repayment amount and other accidental bond is valued by recognizing impairment loss by considering the type and amount of collaterals.

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Changes in provision for impairment of trade and other receivables for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>					
	<b>Beginning</b>	<b>Provision for impairment</b>	<b>Reversal</b>	<b>Changes in scope of consolidation</b>	<b>Others</b>	<b>Ending</b>
Trade and long-term trade receivables	₩ 43,520	₩ 15,602	₩ -	₩ -	₩ (1,744)	₩ 57,378
Other receivables and long-term other receivables	22,133	16,759	(194)	-	3,573	42,271
	<u>₩ 65,653</u>	<u>₩ 32,361</u>	<u>₩ (194)</u>	<u>₩ -</u>	<u>₩ 1,829</u>	<u>₩ 99,649</u>

<i>(in millions of Korean won)</i>	<b>2012</b>					
	<b>Beginning</b>	<b>Provision for impairment</b>	<b>Reversal</b>	<b>Changes in scope of consolidation</b>	<b>Others</b>	<b>Ending</b>
Trade and long-term trade receivables	₩ 20,707	₩ 8,165	₩ (211)	₩ -	₩ 14,859	₩ 43,520
Other receivables and long-term other receivables	33,959	5,700	(444)	-	(17,082)	22,133
	<u>₩ 54,666</u>	<u>₩ 13,865</u>	<u>₩ (655)</u>	<u>₩ -</u>	<u>₩ (2,223)</u>	<u>₩ 65,653</u>

The maximum exposure of trade and other receivables to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The creation and release of provision for impaired trade receivables and other receivables have been included in 'selling and administrative expenses' and 'other operating expenses' in the statements of income, respectively. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

**11. Other financial assets and liabilities**

Other financial assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Loans and receivables	₩ 75,734	₩ 133,671
Available-for-sale financial assets	167,583	240,455
Held-to-maturity financial assets	47	1,812
Derivative assets	39,105	67,336
	<u>282,469</u>	<u>443,274</u>
Less: Current portion	(113,438)	(136,297)
	<u>₩ 169,031</u>	<u>₩ 306,977</u>

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Other financial liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Derivative liabilities	₩	1,330	₩	5,293
		<u>1,330</u>		<u>5,293</u>
Less: Current portion		(1,221)		(4,554)
	₩	<u>109</u>	₩	<u>739</u>

Loans and receivables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Short-term financial instruments	₩	75,644	₩	68,912
Long-term financial instruments		90		64,759
	₩	<u>75,734</u>	₩	<u>133,671</u>

Changes in available-for-sale financial assets for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Beginning balance	₩	240,455	₩	99,782
Acquisition		23,353		48,721
Reclassification <sup>1</sup>		246		103,542
Disposals		(18,990)		(32,362)
Impairment loss of available-for-sale financial assets		(613)		(49)
Net gains/(losses) transfer to equity		(77,665)		38,534
Net gains/(losses) transfer from equity		653		(12,046)
Others		144		(5,667)
Ending balance	₩	<u>167,583</u>	₩	<u>240,455</u>
Short-term available-for-sale financial assets	₩	301	₩	245
Long-term available-for-sale financial assets		167,282		240,210

<sup>1</sup> During 2012, the Company acquired 221,578,080 shares of common stock of Chin Hung International Inc. in a debt-equity swap in which loans and financial assets at fair value through profit or loss with nominal values of ₩90,000 million and ₩13,542 million, respectively, were exchanged for stocks in accordance with stock issuance carried out according to plans for normalization of the business of Chin Hung International Inc.

Short-term available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Government bond	₩	301	₩	245

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Long-term available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013				2012
	Acquisition cost	Fair value / Net asset value <sup>1</sup>	Book value <sup>2</sup>	Book value	
Listed stock (except for investment in associates)	₩ 105,565	₩ 76,269	₩ 76,269	₩ 150,351	
Unlisted stock <sup>1</sup> (except for investment in associates)	40,091	13,286	13,286	16,993	
Equity investments	75,271	77,272	77,272	71,908	
Debt securities	455	455	455	958	
	₩ 221,382	₩ 167,282	₩ 167,282	₩ 240,210	

<sup>1</sup> Net asset value of unlisted stock is calculated based on their recent financial statements.

<sup>2</sup> Available-for-sale financial assets are measured at fair value. However, unlisted stocks which do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably.

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Details of listed stock, excluding investments in associates, as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

Investee	Number of share	Percentage of ownership (%)	2013			2012	
			Acquisition cost	Fair value	Book value	Book value	
SBI Global Investment Co., Ltd.	-	-	₩ -	₩ -	₩ -	₩ 81	
KTB Investment Securities Co., Ltd.	-	-	-	-	-	6	
Savezone I&C Corp.	-	-	-	-	-	12	
Ultra Construction & Engineering Co., Ltd. (preferred share)	-	-	-	-	-	2	
Korea Environment Technology Co., Ltd.	-	-	-	-	-	1,730	
Hanshin Construction Co., Ltd.	-	-	-	-	-	5	
CJ E&M Corporation (formerly OnMedia Corp.)	-	-	-	-	-	505	
Chin Hung International Inc. <sup>1</sup>	44,315,616	46.82%	103,542	71,348	71,348	143,583	
Dong Yang Engineering and Construction Corporation	-	-	-	-	-	4	
FineTec Co., Ltd.	-	-	-	-	-	604	
Hwashin Precision Co., Ltd.	200,000	0.56%	400	313	313	266	
Kiwoom No 1. SPAC	-	-	-	-	-	300	
HI Special Purpose Acquisition Company	-	-	-	-	-	63	
KB Global Star Game & Apps Special Purpose Acquisition Company	-	-	-	-	-	230	
LS Networks Co., Ltd.	45,666	0.06%	229	223	223	212	
NICE Holdings Co., Ltd.	279,610	0.74%	614	3,299	3,299	1,778	
NICE Information Service Co., Ltd.	355,000	0.58%	780	1,086	1,086	970	
			₩ 105,565	₩ 76,269	₩ 76,269	₩ 150,351	

<sup>1</sup> During 2012, the Company acquired 221,578,080 shares (49.21%) of common stock of Chin Hung International Inc. in a debt-equity swap in which loans and financial assets at fair value through profit or loss with nominal values of ₩90,000 million and ₩13,542 million, respectively, were exchanged for stocks in accordance with stock issuance carried out according to plans for normalization of the business of Chin Hung International Inc. The period of safe deposit of securities was until April 9, 2013, and the shares have been provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. (Notes 19 and 39). Also, although the Group's owns more than 20% interest, it has no significant influence in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc., and the shares were classified as available-for-sale financial assets accordingly.



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Details of unlisted stock, excluding investments in associates, as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

Investee	2013			2012	
	Number of share	Percentage of ownership (%)	Acquisition cost	Book value	Book value
Doosan Capital Co., Ltd.	600,000	2.14%	₩ 3,000	₩ 2,665	₩ 6,860
TransLink Capital Partners 1, L.P.	-	-	2,022	2,022	1,916
Korea Housing Guarantee Co., Ltd.	343,380	0.05%	1,717	1,717	1,717
Hankook Economic Newspaper	124,308	0.66%	1,354	1,354	1,354
Maeil Business TV News (MBN)	266,667	0.48%	2,000	1,612	1,757
Channel A Co., LTD.	400,000	0.49%	2,000	1,601	1,906
Changhae Ethanol Co., Ltd.	178,572	3.35%	1,302	977	-
Korea Money Brokerage Corporation	-	-	-	-	20
Daewoo Electronics Corp.	-	-	-	-	19
PPI CO., LTD	-	-	-	-	6
Others	-	-	26,696	1,338	1,438
			₩ 40,091	₩ 13,286	₩ 16,993

Details of equity investments as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

Investee	2013			2012
	Percentage of ownership (%)	Acquisition cost	Book value	Book value
Machinery financial Cooperative	-	₩ 4,480	₩ 4,523	₩ 4,512
Construction Guarantee Cooperative	-	2,113	2,234	2,161
Electronic industry investment cooperative	-	700	700	700
Hyundai Financial Leasing Co., Ltd.	11.98%	16,512	17,316	17,001
Fund of Goldman Sachs Group	0.12%	3,555	3,395	3,609
Conexs resource development No.1 PEF	-	-	-	5,292
Koston No.1 Private Equity Fund	18.18%	2,000	2,000	2,000
E-revolution No.1 Private Equity Fund	7.14%	2,000	1,743	1,869
Conexs new development power No.1 PEF	6.89%	1,310	663	1,399
Medici No.2 Investment Cooperative	13.33%	800	800	800
Shinyoung Private Equity No.1	10.14%	3,228	2,797	3,285
mvp2012 Private Equity Fund	10.00%	1,650	1,683	2,300
Corstone Private Equity Fund IV	10.91%	3,000	3,227	3,072
Stonebridge New Growth Fund1	10.34%	1,579	2,588	1,579
Corstone Private Equity Fund V	16.53%	2,000	2,038	2,152
Glenwood Private Equity Fund I	8.58%	2,000	2,248	2,165
Dominus Strategic Growth Private Equity Fund 1	16.43%	4,000	3,952	4,081
mvp2012-2 Private Equity Fund	12.42%	2,000	3,864	2,050
Miracle 2012 Private Equity Fund1	10.75%	2,000	2,018	2,000
JW Convertible Preferred Stock PEF	-	-	-	2,754
Moorim New Technology business Fund I	16.56%	1,000	1,078	-
Dominus Global I Private Equity Fund	2.64%	3,000	2,992	-
KoFC SG-SK Cooperate financial stability PEF	3.98%	3,500	3,674	-
Foosung-Medici co-growth No.1 Private Equity Fund	9.52%	1,977	1,966	-
Praxis No.1 Private Equity Investment Company	9.80%	5,000	5,007	-
EN New Technology business Fund I	10.31%	1,000	1,000	-
Corstone Private Equity Fund VIII	13.79%	2,000	2,000	-
Others	-	2,867	1,766	7,127
		₩ 75,271	₩ 77,272	₩ 71,908

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Fair values of derivatives assets and liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Current				
Forward exchange contracts	₩ 37,485	₩ 1,221	₩ 47,927	₩ 4,554
Swaps	-	-	18,775	-
	<u>37,485</u>	<u>1,221</u>	<u>66,702</u>	<u>4,554</u>
Non-current				
Forward exchange contracts	748	6	634	739
Swaps	872	103	-	-
	<u>1,620</u>	<u>109</u>	<u>634</u>	<u>739</u>
	<u>₩ 39,105</u>	<u>₩ 1,330</u>	<u>₩ 67,336</u>	<u>₩ 5,293</u>

The maximum exposure to credit risk at the reporting date is the carrying value of the derivatives.

Details of derivative assets and liabilities as of December 31, 2013 and 2012, are as follows:

		Weighted average exchange rate based on contracts <i>(in Korean won)</i>	Weighted average expiry date as of December 31, 2013	Contract price of outstanding derivatives <sup>1</sup> <i>(in millions of Korean Won, thousands of US dollars)</i>			
				2013		2012	
Forward exchange contracts	Sell	1,129.27	2014-06-08	USD 573,191	USD 561,499		
Forward exchange contracts	Sell	1,483.58	2014-09-13	EUR 43,932	EUR 31,203		
Forward exchange contracts	Sell	-	-	CAD -	CAD 4,476		
Forward exchange contracts	Sell	-	-	AUD -	AUD 3,026		
Forward exchange contracts	Sell	11.51	2014-01-29	JPY 16,200	JPY 419,600		
Forward exchange contracts	Sell	1,816.20	2014-09-11	GBP 720	GBP 4,563		
Forward exchange contracts	Sell	-	-	HKD -	HKD 3,562		
Forward exchange contracts - Risk Aversion	Sell	-	-	USD -	USD 510		
Forward exchange contracts	Buy	1,105.41	2014-03-26	USD 4,738	USD -		
Forward exchange contracts	Buy	1,520.32	2014-11-28	EUR 332	EUR -		
Forward exchange contracts	Buy	1,147.99	2014-04-15	JPY 364,100	JPY -		
Currency Swaps	-	-	-	USD -	USD 55		
Currency Swaps	-	-	-	JPY -	JPY 18,471,801		
Currency Swaps	-	1,111.42	2015-02-11	USD 10,332	USD 7,000		
Interest rate swap	-	-	2014-11-03	KRW 5,184	KRW 6,573		

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<sup>1</sup>Since the Group has entered into numerous derivative contracts, the classification per each contract is not presented. Instead, the contracts are grouped into similar types as changes in gain/loss are predictable through the fluctuation of exchange rate.

Details of held-to-maturity financial assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Current portion of held-to-maturity financial assets	₩	8	₩	438
Held-to-maturity financial assets <sup>1</sup>		39		1,374
	₩	<u>47</u>	₩	<u>1,812</u>

<sup>1</sup>Held-to-maturity financial assets owned by the Group consist of government bonds and others.

## 12. Other financial business assets

Details of other financial business assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Loans and receivables	₩	2,214,507	₩	2,025,826
Operating lease assets		23,048		231,427
	₩	<u>2,237,555</u>	₩	<u>2,257,253</u>

Details of loans and receivables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Loans and receivables	₩	2,316,862	₩	2,120,753
Provision for impairment		(102,355)		(94,927)
	₩	<u>2,214,507</u>	₩	<u>2,025,826</u>

The aging analyses of loans and receivables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Up to 1 year	₩	516,267	₩	342,952
1 to 5 years		1,800,595		1,777,801
	₩	<u>2,316,862</u>	₩	<u>2,120,753</u>

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Movements on the provision for impairment of trade receivables for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Beginning	₩ 94,927	₩ 72,971
Provision for receivables impairment	37,401	36,795
Write-off	(29,973)	(14,839)
Ending	<u>₩ 102,355</u>	<u>₩ 94,927</u>

The future minimum lease receipts under non-cancellable operating lease agreements as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Up to 1 year	₩ 8,343	₩ 98,160
1 to 5 years	6,315	83,381
	<u>₩ 14,658</u>	<u>₩ 181,541</u>

**13. Other assets**

Details of other assets as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>Current</b>		
Advance payments	₩ 105,761	₩ 130,380
Provision for impairment	(290)	(73)
Prepaid expenses	55,930	55,732
	<u>161,401</u>	<u>186,039</u>
<b>Non-current</b>		
Long-term prepaid expenses	10,902	11,842
Other investments	35,479	13,931
	<u>46,381</u>	<u>25,773</u>
	<u>₩ 207,782</u>	<u>₩ 211,812</u>

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**14. Inventories**

Inventories as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		
	<b>Acquisition cost</b>	<b>Valuation allowance</b>	<b>Net book value</b>
Merchandise	₩ 194,255	₩ (94)	₩ 194,161
Finished goods	503,842	(20,554)	483,288
Semi-finished goods	153,147	(3,010)	150,137
Work-in-process	93,239	-	93,239
Processing materials on consignment	45	-	45
Processing materials on trust	17	-	17
Raw materials	290,875	(4,011)	286,864
Sub-materials	26,982	-	26,982
Supplies	9,249	-	9,249
Packaging	4,471	-	4,471
Goods in transit	39,253	-	39,253
Cost accrued on construction contract	12,498	-	12,498
Temporary installations	24	-	24
Finished housing	11,033	-	11,033
Sites	123,219	(10,995)	112,224
Others	267	-	267
	<u>₩ 1,462,416</u>	<u>₩ (38,664)</u>	<u>₩ 1,423,752</u>
	<b>2012</b>		
<i>(in millions of Korean won)</i>	<b>Acquisition cost</b>	<b>Valuation allowance</b>	<b>Net book value</b>
Merchandise	₩ 256,922	₩ (140)	₩ 256,782
Finished goods	514,722	(16,581)	498,141
Semi-finished goods	216,663	(1,431)	215,232
Work-in-process	80,566	-	80,566
Processing materials on consignment	4,475	-	4,475
Processing materials on trust	700	-	700
Raw materials	251,498	(3,922)	247,576
Sub-materials	25,963	-	25,963
Supplies	11,875	-	11,875
Packaging	3,981	-	3,981
Goods in transit	24,987	-	24,987
Cost accrued on construction contract	7,436	-	7,436
Temporary installations	34	-	34
Finished housing	40,102	(154)	39,948
Sites	107,955	(5,654)	102,301
Others	220	-	220
	<u>₩ 1,548,099</u>	<u>₩ (27,882)</u>	<u>₩ 1,520,217</u>

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The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 10,536,826 million (2012: ₩ 10,859,633 million) for the year ended December 31, 2013. The Group recognized ₩ 10,783 million of loss on inventory valuation as expense, and the expense has been included in 'cost of sales' in the statement of income.

## 15. Property, plant and equipment

Changes in property, plant and equipment for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013									
	Land	Building	Structure	Machinery	Vehicle	Tool and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning	₩1,448,018	₩ 895,262	₩ 145,674	₩ 1,893,515	₩ 15,503	₩ 96,356	₩ 56,853	₩ 541,114	₩ 1,888	₩ 5,094,183
Acquisition	6,119	14,128	6,094	49,887	6,018	13,230	3,601	478,698	152,306	730,081
Disposal	(22,574)	(3,663)	(2,228)	(10,709)	(3,420)	(815)	(2,658)	-	-	(46,067)
Depreciation and others <sup>1</sup>	-	(41,787)	(8,756)	(360,282)	(5,185)	(29,530)	(13,433)	-	-	(458,973)
Impairment loss <sup>2</sup>	-	(2,129)	-	(5,054)	-	-	(136)	-	-	(7,319)
Transfer <sup>3</sup>	(2,580)	65,377	38,780	275,867	8,601	6,752	86,333	(377,464)	(110,572)	(8,906)
Government grants	-	(1,300)	(163)	(7,357)	(25)	(625)	-	-	-	(9,470)
Others (changes in exchange rate)	33,738	170	(26,598)	68,055	(2,507)	10,254	(1,525)	(190,547)	90	(108,870)
Changes in scope of consolidation	61,144	36,038	36,387	366	1,183	546	-	130,589	-	266,253
Ending	₩1,523,865	₩ 962,096	₩ 189,190	₩ 1,904,288	₩ 20,168	₩ 96,168	₩ 129,035	₩ 582,390	₩ 43,712	₩ 5,450,912

<sup>1</sup> Depreciation and others include ₩ 315 million of shrinkage loss from others and ₩ 1,771 million of supplies.

<sup>2</sup> An additional impairment loss is recognized for ₩ 3,997 million due to a fire in the prior year at a plant of Hyosung Vietnam Co., Ltd., a subsidiary. And an, impairment loss is recognized for ₩ 3,322 million relating to property, plant and equipment of Galaxia Photonics Co., Ltd.

<sup>3</sup> Reclassification includes reclassification from construction in progress and machinery in transit and investment property.

(in millions of Korean won)	2012									
	Land	Building	Structure	Machinery	Vehicle	Tool and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning	₩ 1,446,154	₩ 853,576	₩ 144,345	₩ 1,782,993	₩ 16,465	₩ 99,029	₩ 70,198	₩ 420,852	₩ 4,968	₩ 4,838,580
Acquisition	2,805	40,037	8,775	124,283	10,155	23,162	4,175	660,668	10,606	884,666
Disposal	(2,106)	(537)	(218)	(18,931)	(348)	(2,154)	(19,836)	(206)	-	(44,336)
Depreciation and others <sup>1</sup>	-	(39,129)	(8,424)	(371,944)	(4,371)	(31,317)	(6,039)	-	-	(461,224)
Impairment loss <sup>2</sup>	-	-	(3)	(7,263)	-	-	-	-	-	(7,266)
Transfer <sup>3</sup>	4,323	72,340	4,519	478,706	(6,031)	12,454	10,752	(537,625)	(13,686)	25,752
Government grants	-	-	-	(4,422)	-	(778)	-	-	-	(5,200)
Others (changes in exchange rate)	(3,158)	(31,025)	(2,557)	(89,907)	(367)	(4,080)	(2,397)	(4,147)	-	(137,638)
Changes in scope of consolidation	-	-	(763)	-	-	40	-	1,572	-	849
Ending	₩ 1,448,018	₩ 895,262	₩ 145,674	₩ 1,893,515	₩ 15,503	₩ 96,356	₩ 56,853	₩ 541,114	₩ 1,888	₩ 5,094,183

<sup>1</sup> Depreciation and others include ₩ 186 million of shrinkage loss from others and ₩ 1,452 million of supplies expense.

<sup>2</sup> Impairment loss is recognized due to a fire at a plant of Hyosung Vietnam Co., Ltd., a subsidiary.

<sup>3</sup> Transfer includes the transfer from construction in progress and machinery in transit and investment property.

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Depreciation expense of ₩ 426,054 million (2012: ₩ 427,735 million) has been charged to 'cost of goods sold', ₩ 15,626 million (2012: ₩ 17,646 million) to 'selling and administrative expenses', and ₩ 15,208 million (2012: ₩ 14,205 million) to 'research expenses' for the year ended December 31, 2013.

The Group has capitalized borrowing costs amounting to ₩ 20,797 million (2012: ₩ 11,375 million) on qualifying assets for the year ended December 31, 2013. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 4.63% (2012: 5.04%) for the year ended December 31, 2013.

Bank borrowings are secured land, buildings and machinery (Notes 20 and 39).

**16. Investment property**

Changes in investment property for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		
	<b>Land</b>	<b>Building</b>	<b>Total</b>
Beginning	₩ 321,261	₩ 249,967	₩ 571,228
Acquisition and transfer	16,486	49	16,535
Disposal	(905)	(693)	(1,598)
Depreciation	-	(4,853)	(4,853)
Changes in scope of consolidation	(10,084)	(8,341)	(18,425)
Ending	<u>₩ 326,758</u>	<u>₩ 236,129</u>	<u>₩ 562,888</u>

  

<i>(in millions of Korean won)</i>	<b>2012</b>		
	<b>Land</b>	<b>Building</b>	<b>Total</b>
Beginning	₩ 241,788	₩ 145,063	₩ 386,851
Acquisition and transfer	4,568	3,295	7,863
Disposal	(70)	(35)	(105)
Depreciation	-	(4,799)	(4,799)
Changes in scope of consolidation	74,975	106,443	181,418
Ending	<u>₩ 321,261</u>	<u>₩ 249,967</u>	<u>₩ 571,228</u>

Rent income from investment property amounted to ₩ 21,391 million (2012: ₩ 21,780 million), and operating expenses (including repairs and maintenance) directly related to those investment property amounted to ₩ 12,517 million (2012: ₩ 11,100 million) for the year ended December 31, 2013.

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**17. Intangible assets**

Changes in intangible assets for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013				
	Goodwill	Industrial property	Others	Memberships	Total
Beginning	₩ 128,992	₩ 16,902	₩ 235,561	₩ 26,060	₩ 407,515
Acquisition	-	816	41,568	552	42,936
Transfer <sup>1</sup>	-	59	20,785	-	20,844
Disposal	-	(2)	(492)	(2,799)	(3,293)
Amortization	-	(2,574)	(26,028)	(3)	(28,605)
Impairment loss	(12,363)	-	(11,781)	(478)	(24,622)
Government grants	-	-	(226)	-	(226)
Others	50	(106)	5,547	(756)	4,735
Changes in scope of consolidation	20,816	-	-	-	20,816
Ending	₩ 137,495	₩ 15,095	₩ 264,934	₩ 22,576	₩ 440,100

<sup>1</sup> During 2013, expenses incurred in developing the ERP system were reclassified from construction-in-progress to intangible assets.

<i>(in millions of Korean won)</i>	2012				
	Goodwill	Industrial property	Others	Memberships	Total
Beginning	₩ 144,836	₩ 19,480	₩ 258,894	₩ 27,591	₩ 450,801
Acquisition	-	1,179	25,591	224	26,994
Transfer	-	(107)	67	-	(40)
Disposal	-	-	(3,298)	(1,572)	(4,870)
Amortization	-	(2,602)	(22,519)	(19)	(25,140)
Impairment loss	(12,957)	(235)	(12,365)	-	(25,557)
Government grants	-	-	(208)	-	(208)
Others	(3,666)	(813)	(10,601)	(164)	(15,244)
Changes in scope of consolidation	779	-	-	-	779
Ending	₩ 128,992	₩ 16,902	₩ 235,561	₩ 26,060	₩ 407,515

The carrying amount of industrial materials and other operating segments was reduced to their recoverable amount through recognition of an impairment loss against goodwill.

Amortization of ₩ 24,138 million (2012: ₩ 16,486 million) was included in the 'selling and administrative expenses', and ₩ 4,378 million (2012: ₩ 8,654 million) in the 'cost of goods sold', and ₩ 89 million in the 'research' in the statement of income for the year ended December 31, 2013.



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#### Impairment tests for goodwill

Goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill allocation for each operating segment.

<i>(in millions of Korean won)</i>	<b>December 31, 2013</b>		<b>December 31, 2012</b>	
Fabric	₩	6,654	₩	6,654
Industrial Materials		42,667		42,617
Trading		2,216		2,216
Others		85,958		77,505
	₩	137,495	₩	128,992

Goodwill impairment reviews are undertaken annually. Impairment test suggests that, the carrying value of other operating segments exceeded the value in use by ₩12,363 million and the amount exceeded carrying value is recognized as the other income/expenses, net in the consolidated statement of income. The recoverable amounts have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. In addition, a constant growth rate assumption is used for perpetual cash flow calculation. The key assumptions used for value-in-use calculations in 2013 are as follows:

	<b>Industrial</b>			<b>Heavy</b>		<b>Trading</b>	<b>Others</b>
	<b>Fabric</b>	<b>Materials</b>	<b>Chemical</b>	<b>industrial</b>	<b>Construction</b>		
Gross margin	14.3%	16.6%	14.6%	17.1%	4.2%	4.8%	22.9%
Growth rate <sup>1</sup>	4.7%	5.7%	6.3%	10.0%	10.3%	2.8%	19.3%
Perpetual growth rate <sup>2</sup>	2.0%	3.5%	2.0%	2.0%	0.0%	0.0%	0.0%
Pre-tax discount rate <sup>3</sup>	10.0%	15.0%	10.0%	10.0%	10.0%	10.0%	9.1%

<sup>1</sup> Average revenue growth rate used to extrapolate cash flows for five-year period is measured based on the historical growth rate.

<sup>2</sup> Projected growth rate over five years.

<sup>3</sup> Pre-tax discount rate applied to the cash flow projections.

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#### 18. Investments in Associates

Details of associates of the Group as of December 31, 2013 and 2012, are as follows:

	Percentage of ownership <sup>4</sup>		Location	Date of financial statements
	2013	2012		
Nautilus Hyosung Inc.	43.50%	43.50%	Korea	December 31
Shinwha intertek Co. Ltd. <sup>1</sup>	18.43%	18.43%	Korea	December 31
E-pia Tech Co., Ltd. <sup>2</sup>	21.30%	21.30%	Korea	December 31
Capro Corp.	21.04%	21.04%	Korea	December 31
Taebaek Wind Power Co., Ltd.	35.00%	35.00%	Korea	December 31
Pyeongchang Wind Power Co., Ltd.	35.00%	35.00%	Korea	December 31
Hyosung Information System Co., Ltd.	50.00%	50.00%	Korea	December 31
Hyosung Toyota Corp. <sup>2</sup>	40.00%	40.00%	Korea	December 31
Hyosung ITX Co., Ltd.	34.99%	34.99%	Thailand	December 31
Sumiden Hyosung Steel Cord (THAILAND) Co., Ltd.	30.00%	30.00%	Korea	December 31
Soonchon Eco Green Corporation <sup>1</sup>	23.99%	23.99%	Korea	December 31
No.2 Koston Private Equity Fund <sup>3</sup>	-	24.72%	Korea	September 24
Taiko Private Equity Fund	20.24%	20.24%	Korea	December 31
Shinhan 2013 No.1 New Technology Business Fund <sup>3</sup>	-	-	Korea	December 17

<sup>1</sup> Although the Group holds less than 20% of the associate's equity shares, the Group has significant influence over associate as the Group has involved in making decision and management communication.

<sup>2</sup> The equity method was discontinued as the book value of equity-method investments has decreased to zero.

<sup>3</sup> Loss of control due to disposal of the investments.

<sup>4</sup> Percentage of ownership is effective percentage of ownership that reflects the equity owned by subsidiaries.

Changes in investments in associates for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	Beginning	Acquisition (Disposal)	Valuation of equity method in 2013			Ending
			Gain or loss on equity method investments	Other comprehensive income or loss	Others <sup>1</sup>	
Nautilus Hyosung Inc.	₩ 94,545	₩ -	₩ 9,319	₩ 375	₩ (1,148)	₩103,091
Shinwha intertek Co. Ltd.	-	31,944	(14,791)	(186)	(49)	16,918
Capro Corp.	96,009	-	(19,647)	398	(1,894)	74,866
Taebaek Wind Power Co., Ltd.	5,220	-	2,554	-	-	7,774
Hyosung Information System Co., Ltd.	40,874	-	8,646	-	(2,479)	47,041
Hyosung ITX Co., Ltd.	9,744	-	2,653	(1,357)	(955)	10,085
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	11,187	-	(3,669)	(540)	-	6,978
Others	8,852	(3,777)	889	107	(225)	5,846
	<u>₩266,431</u>	<u>₩ 28,167</u>	<u>₩ (14,046)</u>	<u>₩ (1,203)</u>	<u>₩ (6,750)</u>	<u>₩272,599</u>

<sup>1</sup> Includes dividends, remeasurement of net defined benefit liability and others.

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<i>(in millions of Korean won)</i>	Beginning	Acquisition (Disposal)	Valuation of equity method in 2012			Ending
			Gain or loss on equity method investments	Other comprehensive income or loss	Others <sup>1</sup>	
Nautilus Hyosung Inc.	₩ 83,343	₩ -	₩ 10,786	₩ (223)	₩ 639	₩ 94,545
Capro Corp.	106,173	-	(2,332)	545	(8,377)	96,009
Taebaek Wind Power Co., Ltd.	5,152	-	68	-	-	5,220
Hyosung Information System Co., Ltd.	35,254	-	7,452	-	(1,832)	40,874
Hyosung ITX Co., Ltd.	7,989	-	1,551	2,886	(2,682)	9,744
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	12,307	-	(688)	(432)	-	11,187
Others	8,768	145	(146)	392	(307)	8,852
	<u>₩258,986</u>	<u>₩ 145</u>	<u>₩ 16,691</u>	<u>₩ 3,168</u>	<u>₩ (12,559)</u>	<u>₩266,431</u>

<sup>1</sup> Includes dividends, remeasurement of net defined benefit liability and others.

Summary of condensed financial information of major associates, details of adjustments from the book value of investments in associates, and dividends received from associates as of and for the years ended December 31, 2013 and 2012, are as follows:

*(in millions of Korean won)*

	2013			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Nautilus Hyosung Inc.	₩ 252,524	₩ 195,539	₩ 201,487	₩ 2,099
Shinwha intertek Co. Ltd.	86,422	132,964	69,946	71,364
Capro Corp.	293,654	349,779	110,598	181,421
Taebaek Wind Power Co., Ltd.	11,635	47,070	3,950	32,546
Hyosung Information System Co., Ltd.	197,955	13,663	113,508	4,027
Hyosung ITX Co., Ltd.	35,816	49,925	48,884	8,011
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	10,854	81,052	68,512	135

*(in millions of Korean won)*

	2013			
	Profit	Profit(Loss) from		Total comprehensive income (loss)
		continuing operations	Other comprehensive income	
Nautilus Hyosung Inc.	₩ 510,535	₩ 21,530	₩ (1,903)	₩ 19,627
Shinwha intertek Co. Ltd.	234,282	2,883	(1,469)	1,414
Capro Corp.	771,815	(97,481)	1,889	(95,592)
Taebaek Wind Power Co., Ltd.	11,595	7,296	-	7,296
Hyosung Information System Co., Ltd.	271,562	17,293	231	17,524
Hyosung ITX Co., Ltd.	261,681	7,582	(5,609)	1,973
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	15,276	(12,229)	(1,801)	(14,030)

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	2012			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Nautilus Hyosung Inc.	₩ 281,606	₩ 202,040	₩ 255,553	₩ 3,368
Capro Corp.	367,148	367,488	148,300	130,330
Taebaek Wind Power Co., Ltd.	4,166	47,735	1,428	35,560
Hyosung Information System Co., Ltd.	190,990	13,903	118,979	4,165
Hyosung ITX Co., Ltd.	26,803	44,886	37,856	5,971
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	6,642	86,908	3,562	52,698

(in millions of Korean won)

	2012			
	Profit	Profit(Loss) from continuing operations	Other comprehensive income	Total comprehensive income (loss)
Nautilus Hyosung Inc.	₩ 528,780	₩ 26,091	₩ (231)	₩ 25,860
Capro Corp.	956,646	(19,241)	2,176	(17,065)
Taebaek Wind Power Co., Ltd.	3,849	194	-	194
Hyosung Information System Co., Ltd.	258,328	14,903	(204)	14,699
Hyosung ITX Co., Ltd.	213,327	4,431	1,870	6,301
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	183	(2,296)	(1,439)	(3,735)

For the years ended December 31, 2013, dividends received from Capro Corporation, Hyosung Information System Co., Ltd. and Hyosung ITX Co., Ltd. amounted to ₩ 2,104 million (2012: ₩ 8,418 million), ₩ 2,595 million (2012: ₩ 1,730 million) and ₩ 113 million (2012: nil), respectively.

Details of adjustments from financial information of major associates to the book value of investments in associates and joint ventures for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

	2013						
	Net assets at the end of the year (a)	Net assets of equity shares (b)	Interests in net assets (a*b)	Goodwill	Intergroup transactions	Other	Book value
Nautilus Hyosung Inc.	₩ 244,477	43.50 %	₩ 106,350	₩ -	₩ (3,259)	₩ -	₩103,091
Shinwha Intertek Co. Ltd.	78,076	18.43 %	14,389	455	-	2,074	16,918
Capro Corp.	351,414	21.04 %	73,953	-	903	10	74,866
Taebaek Wind Power Co., Ltd.	22,210	35.00 %	7,774	-	-	-	7,774
Hyosung Information System Co., Ltd.	94,083	50.00 %	47,041	-	-	-	47,041
Hyosung ITX Co., Ltd.	28,845	34.99 %	10,093	-	-	(8)	10,085
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	23,259	30.00 %	6,978	-	-	-	6,978

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(in millions of Korean won)

	2012						
	Net assets at the end of the year (a)	Net assets of equity shares (b)	Interests in net assets (a*b)	Goodwill	Intergroup transactions	Other	Book value
Nautilus Hyosung Inc.	₩ 224,725	44 %	₩ 97,757	₩ -	₩ (3,212)	₩ -	₩ 94,545
Capro Corp.	456,006	21 %	95,963	-	36	10	96,009
Taebaek Wind Power Co., Ltd.	14,913	35 %	5,220	-	-	-	5,220
Hyosung Information System Co., Ltd.	81,749	50 %	40,874	-	-	-	40,874
Hyosung ITX Co., Ltd.	27,862	35 %	9,750	-	-	(6)	9,744
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	37,290	30 %	11,187	-	-	-	11,187

Fair value of marketable investments in associates as of December 31, 2013 and 2012, is as follows:

(in millions of Korean won)	2013		2012	
	Fair value	Book value	Fair value	Book value
Shinwha Intertek Co. Ltd.	₩ 11,316	₩ 16,918	₩ -	₩ -
Capro Corp.	53,958	74,866	105,221	96,009
Hyosung ITX Co., Ltd.	24,963	10,085	17,200	9,744

Accumulated unrecognized changes in equity due to discontinued use of equity method for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013		2012	
	Unrecognized loss	Unrecognized accumulated losses	Unrecognized loss	Unrecognized accumulated losses
E-pia Tech.Co., Ltd.	₩ 6	₩ 90	₩ 47	₩ 84
Hyosung Toyota Corp.	786	3,331	876	2,545

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#### 19. Related Party Transactions

Details of associates and other related parties as of December 31, 2013, are as follows:

##### Associates

Location	Investee
Domestic	Nautilus Hyosung Inc., E-pia Tech.Co., Ltd., Capro Corp., Taebaek Wind Power Co., Ltd., Pyeongchang Wind Power Co., Ltd., Hyosung Information System Co., Ltd., Hyosung Toyota Corp., Hyosung ITX Co., Ltd., Shinwha intertek Co. Ltd., Soonchon Eco Green Corporation, Taiko Private Equity Fund, Shinhan 2013 No.1 New Technology Business Fund, No.2 Koston Private Equity Fund
Asia	Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.

##### Other related parties

Location	Investee
Domestic	Galaxia device Co., Ltd., Galaxia display., Galaxia Electronics, Galaxia Communications Co., Ltd., Shin Dong Jin Co., Ltd., Chin Hung International Inc., Taek Construction Co., Ltd, Dong Ryung Co., Ltd., Trinity Asset Management., Infohub., IB Worldwide., EveryShow, IB Medianet, Galaxia Corporation, The Premium Hyosung Co., Ltd., Gongdeok Development Corporation and other .
China	Tianjin Galaxia Device Electronics., Co.Ltd., Huizhou Galaxia Device Electronics., Co.Ltd., Qingdao Galaxia Device Electronics., Co.Ltd., Beijing Hyosung Computer echnologies.Co., Ltd., and others
Europe	Shinwha intertek Slovakia S.R.O
America	Nautilus Hyosung America Inc., Galaxia America, Inc., and others

##### Significant transactions with related parties

Significant transactions for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013			
	Sales and others	Dividends	Purchases and others	Fixed asset acquisition
<b>Associates</b>				
Nautilus Hyosung Inc.	₩ 16,044	₩ -	₩ 16,309	₩ 2,486
Capro Corp.	1,961	2,104	363,565	-
Shinwha intertek Co. Ltd.	1,562	-	28	40
Others	26,321	2,708	1,752	1,502
	<u>45,888</u>	<u>4,812</u>	<u>381,654</u>	<u>4,028</u>
<b>Other related parties</b>				
Shin Dong Jin Co., Ltd.	5,000	-	7,495	-
Chin Hung International Inc.	32,363	-	79,119	47,663
Galaxia Communications Co., Ltd.	412	-	1,080	11
Others	2,204	-	9,689	440
	<u>39,979</u>	<u>-</u>	<u>97,383</u>	<u>48,114</u>
	<u>₩ 85,867</u>	<u>₩ 4,812</u>	<u>₩ 479,037</u>	<u>₩ 52,142</u>

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<sup>1</sup> Sales, rental income, interest income and others are included in sales and others. Purchase of raw materials, export fees, service fees, interest expense and others are included in purchases and others.

<i>(in millions of Korean won)</i>	<b>2012</b>			
	<b>Sales and others</b>	<b>Dividends</b>	<b>Purchases and others</b>	<b>Fixed asset acquisition</b>
<b>Associates</b>				
Nautilus Hyosung Inc.	₩ 15,517	₩ -	₩ 18,763	₩ 11,495
Capro Corp.	2,226	8,418	524,662	-
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	27,832	-	-	-
Others	30,022	1,730	2,608	5,302
	<u>75,597</u>	<u>10,148</u>	<u>546,033</u>	<u>16,797</u>
<b>Other related parties</b>				
Doomi Construction Co., Ltd.	24,786	-	-	-
Chin Hung International Inc.	3,866	-	13,491	11,658
Gongdeok Development Corporation	3,584	-	5,579	6
Others	2,181	-	9,114	617
	<u>34,417</u>	<u>-</u>	<u>28,184</u>	<u>12,281</u>
	<u>₩ 110,014</u>	<u>₩ 10,148</u>	<u>₩ 574,217</u>	<u>₩ 29,078</u>

<sup>1</sup> Sales, rental income, interest income and others are included in sales and others. Purchase of raw materials, export fees, service fees, interest expense and others are included in purchases and others.

<i>(in millions of Korean won)</i>	<b>2013</b>			
	<b>Trade receivables</b>	<b>Other receivables<sup>1</sup></b>	<b>Trade payables</b>	<b>Other payables<sup>1</sup></b>
<b>Associates</b>				
Nautilus Hyosung Inc.	₩ 1,077	₩ 215	₩ 171	₩ 9,116
Capro Corp.	2,990	3,850	8	3
Shinwha intertek Co. Ltd.	8	-	81,273	-
Others	8,686	164	292	80
	<u>12,761</u>	<u>4,229</u>	<u>81,744</u>	<u>9,199</u>
<b>Other related parties</b>				
Shin Dong Jin Co., Ltd.	6,772	3,119	213	139
Chin Hung International Inc.	6,937	20,110	13,737	15,898
Galaxia Communications Co., Ltd.	201	8,337	-	-
Others	145	7,144	1,531	1,088
	<u>14,055</u>	<u>38,710</u>	<u>15,481</u>	<u>17,125</u>
	<u>₩ 26,816</u>	<u>₩ 42,939</u>	<u>₩ 97,225</u>	<u>₩ 26,324</u>

<sup>1</sup> Non-trade receivables, loans, deposits provided and others are included in other receivables. Trade payables, non-trade payables, deposits received and others are included in other payables.

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<i>(in millions of Korean won)</i>	2012			
	Trade receivables	Other receivables <sup>1</sup>	Trade payables	Other payables <sup>1</sup>
<b>Associates</b>				
Nautilus Hyosung Inc.	₩ 929	₩ 129	₩ 2,500	₩ 2,451
Capro Corp.	-	20	107,726	86
Taebaek Wind Power Co., Ltd.	21	8	-	14
Others	6,947	3,856	734	59
	<u>7,897</u>	<u>4,013</u>	<u>110,960</u>	<u>2,610</u>
<b>Other related parties</b>				
Doomi Construction Co., Ltd.	74,185	4,361	-	-
Shin Dong Jin Co., Ltd.	16,928	3,545	257	120
Chin Hung International Inc.	-	7,104	2,376	2,973
Others	15,926	14,214	710	183
	<u>107,039</u>	<u>29,224</u>	<u>3,343</u>	<u>3,276</u>
	<u>₩ 114,936</u>	<u>₩ 33,237</u>	<u>₩114,303</u>	<u>₩ 5,886</u>

<sup>1</sup> Non-trade receivables, loans, deposits provided and others are included in other receivables. Trade payables, non-trade payables, deposits received and others are included in other payables.

Fund transactions with related parties for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013				
	Loan transactions				
	Beginning	Loan	Exchange differences	Ending	Contributions
<b>Other related parties</b>					
OpCo GmbH <sup>1</sup>	₩ 6,788	₩ -	₩ 52	₩ 6,840	₩ -
Chin Hung International Inc.	-	20,000	-	20,000	-

<sup>1</sup> Provisions are made for the whole amount of loans to OpCo GmbH.

<i>(in millions of Korean won)</i>	2012						
	Loan transactions						
	Beginning	Loan	Repayment	Exchange differences	Transfer	Ending	Contributions
<b>Other related parties</b>							
OpCo GmbH <sup>1</sup>	₩ 7,232	₩ -	₩ -	₩ (444)	₩ -	₩ 6,788	₩ -
Chin Hung International Inc. <sup>2</sup>	72,500	17,500	-	-	(90,000)	-	103,542

<sup>1</sup> Provisions are made for the whole amount of loans to OpCo GmbH.

<sup>2</sup> During 2012, the Company acquired 221,578,080 shares (49.21%) of common stock of Chin Hung International Inc. in a debt-equity swap in which loans and financial assets at fair value through profit or loss with nominal values of ₩90,000 million and ₩13,542 million, respectively, were exchanged for stocks in accordance with stock issuance carried out according to plans for normalization of the business of Chin Hung International Inc.



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The compensation paid or payable to key management for employee services as of December 31, 2013 and 2012, consists of:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Short-term salaries	₩	6,995	₩	6,040
Severance pension benefits		1,355		1,277
	₩	8,350	₩	7,317

Details of collaterals and payment guarantees provided by the Company as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>			
	<b>Guaranteed amount</b>	<b>Details</b>	<b>Credit amount</b>	<b>Creditor</b>
Associates				
Hyosung Toyota Corp.	₩ 3,200	Operating capital and others	₩ -	Toyota Motor Korea Corporation

<i>(in millions of Korean won)</i>	<b>2012</b>			
	<b>Guaranteed amount</b>	<b>Details</b>	<b>Credit amount</b>	<b>Creditor</b>
Associates				
Hyosung Toyota Corp.	₩ 3,200	Operating capital and others	₩ -	Toyota Motor Korea Corporation

**20. Borrowings**

Details of borrowings as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
<b>Borrowings</b>				
Short-term borrowings	₩	3,418,043	₩	3,252,606
Current portion of long-term borrowings		1,783,031		1,448,034
		5,201,074		4,700,640
<b>Long-term borrowings</b>				
Long-term borrowings		1,875,996		1,857,785
Debentures		1,141,078		1,467,836
Redeemable preference shares		2,645		2,397
		3,019,719		3,328,018
	₩	8,220,793	₩	8,028,658

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Details of short-term borrowings as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Financial institutions</b>	<b>Interest rate</b>		<b>2013</b>	<b>2012</b>
		<b>As of Dec. 31,</b>			
		<b>2013 (%)</b>			
Bank overdrafts	Woori Bank and others	6.16 - 8.99	₩	13,857	₩ -
General loan	Woori Bank and others	1.45 - 7.64		1,735,563	1,633,809
Collateralized borrowings <sup>1</sup>	Woori Bank and others	1.97 - 2.87		744,680	873,769
Other bill discount and others	LIG investment securities				
	Inc. and others	0.4 - 6.9		923,943	745,028
				<u>₩ 3,418,043</u>	<u>₩ 3,252,606</u>

<sup>1</sup> The Group sold foreign accounts receivable to financial institutions and these transactions are accounted for as secured borrowing.

Details of long-term borrowings as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Bank</b>	<b>Interest rate</b>		<b>2013</b>	<b>2012</b>
		<b>As of Dec. 31,</b>			
		<b>2013 (%)</b>			
<b>Hyosung Corp.</b>					
Local currency					
long-term borrowings	Korea Development Bank	1.75 - 5.08	₩	471,899	₩ 431,821
	Kwangju Bank	3.90		10,000	10,000
	Jeon Buk Bank	4.09		20,000	10,000
	Hana Bank	4.67 - 5.43		80,000	80,000
	Kookmin Bank	3.90 - 4.12		56,250	63,333
	Korea Finance Corporation	3.63 - 4.12		70,000	-
	KDB Capital	1.5 - 6.7		12,329	16,617
	Korea Housing Guarantee Co., Ltd.	1.00		4,400	4,400
	Woori Bank	4.28 - 4.44		70,000	70,000
	NH Bank	4.22		60,000	-
	Korea Exchange Bank	3.97 - 4.45		48,000	20,000
	Shinhan Bank	4.06		50,000	80,000
	Mineral Resource Corporation	1.20		1,359	1,359
Foreign currency	The Export-Import Bank of Korea	3.70		126,636	160,665
long-term borrowings	Hana Bank	2.25		10,553	10,711
	Kookmin Bank	3.20		10,553	10,711
	Korea finance corporation	2.73		18,995	39,631
	Korea Exchange Bank	2.52		21,106	21,422
	Korea Development Bank	2.85 - 2.91		20,093	24,950
	Shinhan Bank	2.24		21,106	21,422

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<i>(in millions of Korean won)</i>	Bank	Interest rate As of Dec. 31, 2013 (%)	2013	2012
<b>Subsidiaries</b>				
Local currency				
long-term borrowings	Kwangju Bank	-	₩ -	₩ 30,000
	Woori Bank	5.7 - 7.3	58,823	30,000
	Shinhan Bank	-	-	30,000
	Korea Finance Corporation	-	-	160,665
	Korea Development Bank	1.64 - 6.3	88,598	25,875
	Kookmin Bank	5.60	30,000	-
	Korea Exchange Bank	3 - 5.70	47,313	6,266
	Hana Bank	4.8 - 6.15	152,061	-
	NH Bank	4.19	16,358	-
	The Export-Import Bank of Korea	2.62 - 2.89	33,782	-
	IBK investment securities	4.72	55,000	-
	LIG investment securities	3.54	190,000	-
	Newstarhaechi 2nd	5.86	79,900	79,900
	Yekyoram 1st Ltd.	5.86	10,000	10,000
	Island 1st Ltd.	5.86	10,000	10,000
	Construction Corporation	-	-	9,969
	Others	0 - 1.45	3,065	101,490
Foreign currency				
long-term borrowings	Industrial Bank of Korea	-	-	41,773
	The Export-Import Bank of Korea	1.75 - 3.1	145,111	61,375
	Woori Bank	2.42	73,871	74,977
	Korea Finance Corporation	2.3 - 2.8	89,701	86,759
	Bank of China	1.67 - 4.51	7,430	85,764
	Korea Development Bank	1.2 - 3.75	470,706	292,699
	Bank of America	2.35	42,212	43,378
	Misuho Corporate Bank	1.45 - 2.35	62,857	71,303
	SMBC	2.29	21,473	21,422
	Others	-	10,553	205,222
			<u>2,882,093</u>	<u>2,555,879</u>
Less: Current portion			(1,006,031)	(698,034)
Present value discounts			(66)	(60)
			<u>₩ 1,875,996</u>	<u>₩ 1,857,785</u>

Above long-term borrowings are subject to installment repayment or lump-sum repayment at maturity date. Borrowings are collateralized with the Group's investments in associates and property, plant and equipment (Notes 15, 18 and 39).

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Details of debentures as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Maturity date</b>	<b>Interest rate As of Dec. 31, 2013 (%)</b>	<b>2013</b>	<b>2012</b>
<b>Hyosung Corp.</b>				
235-3 <sup>rd</sup> Public subscription bond	2013.03.13	-	₩ -	₩ 30,000
236-3 <sup>rd</sup> Public subscription bond	2013.07.24	-	-	30,000
241-3 <sup>rd</sup> Public subscription bond	2013.03.19	-	-	40,000
242-1 <sup>st</sup> Public subscription bond	2013.03.05	-	-	80,000
242-2 <sup>nd</sup> Public subscription bond	2015.03.05	5.79	70,000	70,000
243-1 <sup>st</sup> Public subscription bond	2013.07.12	-	-	70,000
243-2 <sup>nd</sup> Public subscription bond	2015.07.12	5.75	30,000	30,000
244-1 <sup>st</sup> Public subscription bond	2013.12.21	-	-	30,000
244-2 <sup>nd</sup> Public subscription bond	2014.12.21	4.60	30,000	30,000
244-3 <sup>rd</sup> Public subscription bond	2015.12.21	4.99	40,000	40,000
245-1 <sup>st</sup> Public subscription bond	2014.01.17	4.25	90,000	90,000
245-2 <sup>nd</sup> Public subscription bond	2016.01.17	5.25	60,000	60,000
246-1 <sup>st</sup> Public subscription bond	2014.06.24	4.33	70,000	70,000
246-2 <sup>nd</sup> Public subscription bond	2016.06.24	4.94	60,000	60,000
248-1 <sup>st</sup> Public subscription bond	2014.10.12	4.49	40,000	40,000
248-2 <sup>nd</sup> Public subscription bond	2016.10.12	5.03	50,000	50,000
248 <sup>th</sup> Private bond	2014.09.30	-	-	20,000
249 <sup>th</sup> Private bond	2014.11.14	-	-	40,000
250 <sup>th</sup> Private bond	2014.01.02	-	-	20,000
251-1 <sup>st</sup> Public subscription bond	2015.02.07	4.28	90,000	90,000
251-2 <sup>nd</sup> Public subscription bond	2017.02.07	4.71	60,000	60,000
252 <sup>nd</sup> Private bond	2015.08.28	3.04	31,659	32,133
253-1 <sup>st</sup> Public subscription bond	2016.02.21	3.45	90,000	-
252-2 <sup>nd</sup> Public subscription bond	2018.02.21	3.75	30,000	-
<b>Hyosung Capital Co., Ltd.</b>				
48 <sup>th</sup> Debenture	2013.02.25	-	-	100,000
49 <sup>th</sup> Debenture	2013.03.26	-	-	40,000
50-1 <sup>st</sup> Debenture	2013.04.23	-	-	20,000
50-2 <sup>nd</sup> Debenture	2015.04.23	6.50	20,000	20,000
51 <sup>st</sup> Debenture	2015.05.10	6.40	20,000	20,000
53 <sup>rd</sup> Debenture	2013.06.22	-	-	30,000
55 <sup>th</sup> Debenture	2013.06.30	-	-	20,000
56-2 <sup>nd</sup> Debenture	2013.07.14	-	-	20,000
57 <sup>th</sup> Debenture	2013.09.27	-	-	30,000
58-1 <sup>st</sup> Debenture	2013.10.08	-	-	40,000
58-2 <sup>nd</sup> Debenture	2015.10.08	6.10	10,000	10,000
59-1 <sup>st</sup> Debenture	2013.10.28	-	-	20,000
59-2 <sup>nd</sup> Debenture	2015.10.28	5.80	10,000	10,000
60-2 <sup>nd</sup> Debenture	2013.11.23	-	-	30,000
61-2 <sup>nd</sup> Debenture	2013.12.09	-	-	20,000
62 <sup>nd</sup> Debenture	2013.12.30	-	-	30,000
64 <sup>th</sup> Debenture	2014.01.12	5.20	40,000	40,000
65 <sup>th</sup> Debenture	2014.02.09	5.60	20,000	20,000
66 <sup>th</sup> Debenture	2014.04.04	5.28	20,000	20,000
67 <sup>th</sup> Debenture	2014.04.18	5.29	20,000	20,000
69-2 <sup>nd</sup> Debenture	2014.05.30	5.24	30,000	30,000
71-2 <sup>nd</sup> Debenture	2014.06.21	5.25	10,000	10,000
72 <sup>nd</sup> Debenture	2014.07.13	5.32	30,000	30,000

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<i>(in millions of Korean won)</i>	<b>Maturity date</b>	<b>Interest rate As of Dec. 31, 2013 (%)</b>	<b>2013</b>	<b>2012</b>
76 <sup>th</sup> Debenture	2014.08.11	5.30	10,000	10,000
78 <sup>th</sup> Debenture	2014.09.15	5.30	20,000	20,000
79 <sup>th</sup> Debenture	2014.09.26	5.40	25,000	25,000
80 <sup>th</sup> Debenture	2014.09.29	5.40	10,000	10,000
84 <sup>th</sup> Debenture	2014.11.28	5.25	40,000	40,000
85 <sup>th</sup> Debenture	2015.02.20	5.03	20,000	20,000
86 <sup>th</sup> Debenture	2017.02.24	5.25	30,000	30,000
87-1 <sup>st</sup> Debenture	2013.09.28	-	-	20,000
87-2 <sup>nd</sup> Debenture	2014.03.28	4.58	20,000	20,000
88 <sup>th</sup> Debenture	2015.04.27	4.58	20,000	20,000
89 <sup>th</sup> Debenture	2015.11.07	4.56	20,000	20,000
90-1 <sup>st</sup> Debenture	2015.05.25	4.33	20,000	20,000
90-2 <sup>nd</sup> Debenture	2017.09.26	4.14	30,000	10,000
91 <sup>st</sup> Debenture	2015.06.22	4.30	30,000	30,000
92-1 <sup>st</sup> Debenture	2015.06.28	4.32	20,000	20,000
92-2 <sup>nd</sup> Debenture	2013.03.26	-	-	10,000
93 <sup>th</sup> Debenture	2013.07.30	-	-	20,000
94 <sup>th</sup> Debenture	2015.09.17	3.85	40,000	40,000
95 <sup>th</sup> Debenture	2017.02.24	5.25	10,000	30,000
96-1 <sup>st</sup> Debenture	2014.09.27	3.80	10,000	10,000
96-2 <sup>nd</sup> Debenture	2015.09.27	3.74	30,000	30,000
97 <sup>th</sup> Debenture	2015.10.29	3.80	30,000	30,000
98 <sup>th</sup> Debenture	2013.11.19	-	-	20,000
99 <sup>th</sup> Debenture	2014.02.22	3.37	30,000	-
100 <sup>th</sup> Debenture	2016.03.26	3.49	20,000	-
101 <sup>st</sup> Debenture	2016.04.23	3.52	40,000	-
102 <sup>nd</sup> Debenture	2016.06.24	4.01	20,000	-
103 <sup>rd</sup> Debenture	2016.06.30	4.01	20,000	-
104 <sup>th</sup> Debenture	2016.07.18	3.98	20,000	-
6 <sup>th</sup> ABCP	2014.02.28	3.18	50,000	-
6 <sup>th</sup> ABS	2014.01.28	2.79	140,000	-
6 <sup>th</sup> ABS	2014.02.28	2.79	70,000	-
<b>The Class Hyosung Co., Ltd.</b>				
Private placement bond	2014.09.30	5.52	5,000	5,000
			<u>1,921,659</u>	<u>2,222,133</u>
Less: Current portion			(777,000)	(750,000)
Discount on bonds payable			(3,581)	(4,297)
			<u>W 1,141,078</u>	<u>W 1,467,836</u>

The Class Hyosung Co., Ltd., a subsidiary, issued 418,182 shares of non-cumulative and participating convertible preferred stock at ₩ 5,500 per share on December 28, 2007. The Group recognized ₩ 2,645 million as a liability as of December 31, 2013.

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The requirement for repayment or conversion of non-cumulative and participating convertible preferred stock is as follows:

- Issue price: ₩ 5,500 per share
- Dividend rate: 5%
- Conversion period: from the next day of first issuing date of convertible preferred stock to December 31, 2014
- Conversion rate: one share of common stock per one preferred stock. If the stock of The Class Hyosung Co., Ltd is split or merged, the conversion rate is adjusted based on the ratio of stock split or merger.
- Repayment method: repay cash within two months since the guarantor requests for repayment within The Class Hyosung Co., Ltd.'s profit available for dividend.
- Maturity value: the principal including interest which is calculated at the interest rate of 9% from the issue date to repayment date. Dividend paid, if applicable, is subtracted from the maturity value. If there is no profit available for dividend or repayment is doubtful due to financial condition, interested parties (shareholders) should purchase the stock that The Class Hyosung Co., Ltd. is obliged to repay under the given condition.

#### 21. Trade and other payables

Details of trade and other payables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Trade payables	₩	953,542	₩	959,579
Other payables		447,479		492,897
Long-term other payables		366,357		382,131
	₩	1,767,378	₩	1,834,607

Details of other payables as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
<b>Other payables</b>				
Non-trade payables	₩	275,804	₩	308,270
Accrued expenses		111,103		112,092
Dividend payables		85		84
Withholdings		41,570		36,139
Deposits received		18,917		36,312
		447,479		492,897
<b>Long-term other payables</b>				
Non-trade payables		15,769		11,704
Deposits received		350,588		370,427
		366,357		382,131
	₩	813,836	₩	875,028

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The fair values of long-term other payables was calculated by discounting nominal value of expected future cash inflow at discount rate which reflects credit risk .

	<b>2013</b>	<b>2012</b>
Discount rate	3.4% - 5%	3.4% - 5%

**22. Post-employment Benefits**

Post-employment benefits recognized on the statements of financial position as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Present value of defined benefit payables	₩ 262,427	₩ 240,885
Fair value of plan assets <sup>1</sup>	(219,850)	(184,107)
Post-employment benefit liability	<u>₩ 42,577</u>	<u>₩ 56,778</u>

<sup>1</sup> The contributions to the National Pension Fund of ₩572 million are included in the fair value of plan assets as of December 31, 2013 (2012: ₩610 million).

The amounts recognized on the income statements for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Current service cost	₩ 49,185	₩ 45,420
Interest expenses	8,312	8,372
Interest income	(7,145)	(7,482)
	<u>₩ 50,352</u>	<u>₩ 46,310</u>

Line items including total expenses in the statements of income for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Cost of goods sold	₩ 27,654	₩ 25,154
Selling and administrative expenses	19,639	18,492
Research and development costs	3,059	2,664
	<u>₩ 50,352</u>	<u>₩ 46,310</u>

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Changes in the defined benefit liabilities for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Beginning balance	₩ 240,885	₩ 196,245
Current service cost	49,185	45,420
Interest expenses	8,312	8,372
Payment	(21,509)	(16,208)
Remeasurements:		
Changes in demographic assumptions	1,577	(6,182)
Changes in financial assumptions	(14,566)	14,121
Experience adjustments	(2,093)	(2,411)
Transfer in(out) of associates	174	(3,312)
Changes in scope of consolidation	129	-
Others (changes in exchange rate and others)	333	4,840
Ending balance	<u>₩ 262,427</u>	<u>₩ 240,885</u>

Changes in the fair value of plan assets for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Beginning balance	₩ 184,107	₩ 143,382
Interest income	7,145	7,482
Employer contribution	38,500	42,021
Benefits paid	(8,891)	(9,303)
Remeasurements	(999)	(1,301)
Others(changes in exchange rate and others)	(12)	1,826
Ending balance	<u>₩ 219,850</u>	<u>₩ 184,107</u>

Plan assets as of December 31, 2013 and 2012, consist of the following:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Deposits	₩ 113,935	₩ 95,412
Debt instruments	105,915	88,695
	<u>₩ 219,850</u>	<u>₩ 184,107</u>



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Remeasurements of defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Before income tax effects	₩	14,083	₩	(6,829)
Income tax effects		<u>(3,408)</u>		<u>1,804</u>
After income tax effects	₩	<u>10,675</u>	₩	<u>(5,025)</u>

The principal actuarial assumptions as of December 31, 2013 and 2012, are as follows:

	<b>2013</b>	<b>2012</b>
Discount rate	3.56%~4.20%	3.53%~3.66%
Inflation rate	2.81%~5.00%	2.30%~5.00%
Future salary increases	2.47%~5.70%	2.66%~5.70%

The sensitivity of the defined benefit liabilities as of December 31, 2013, to changes in the weighted principal assumptions is:

	<b>Changes in principal assumption</b>	<b>Effect on defined benefit liability</b>
Discount rate	1.0% increase/decrease	7.0% decrease/8.2% increase
Inflation rate	1.0% increase/decrease	8.2% increase/7.2% decrease
Salary growth rate	1.0% increase/decrease	8.3% increase/7.2% decrease

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit liability to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit liabilities recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The Company reviews the funding level on an annual basis and has a policy to contribute in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2014, are ₩ 40,720 million.

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Expected maturity analysis of undiscounted pension benefits as of December 31, 2013, is as follows:

<i>(in millions of Korean won)</i>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Pension benefits	₩ 23,038	₩ 17,507	₩ 68,950	₩ 1,014,680	₩ 1,124,175

Recognized expense related to the defined contribution plan for the year ended December 31, 2013, is ₩ 532 million (2012: ₩ 820 million).

**23. Deferred Income Tax**

The analyses of deferred tax assets and deferred tax liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered after more than 12 months	₩ 67,265	₩ 200,675
Deferred tax asset to be recovered within 12 months	188,294	37,286
	<u>255,559</u>	<u>237,961</u>
<b>Deferred tax liabilities</b>		
Deferred tax liability to be recovered after more than 12 months	(500,831)	(521,810)
Deferred tax liability to be recovered within 12 months	(7,315)	(5,023)
	<u>(508,146)</u>	<u>(526,833)</u>
Deferred tax assets(liabilities), net	₩ <u>(252,587)</u>	₩ <u>(288,872)</u>

The movements in the deferred income tax account for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Beginning balance	₩ (288,872)	₩ (350,072)
Tax charged to the statement of income (Note 35)	18,019	45,886
Tax charged (credited) to equity (Note 35)	18,266	15,314
Ending balance	₩ <u>(252,587)</u>	₩ <u>(288,872)</u>

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The movements in deferred income tax assets and liabilities for the years ended December 31, 2013 and 2012, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>			
	<b>Beginning</b>	<b>Income statement</b>	<b>Equity</b>	<b>Ending</b>
<b>Deferred tax liabilities</b>				
Revaluation of land	₩ (291,330)	₩ 469	₩ -	₩ (290,861)
Investments in associates	(83,175)	101	384	(82,690)
Defined benefit pension plan assets	(43,667)	(6,159)	-	(49,826)
Reserve for research and human resource development	(39,673)	(4,950)	-	(44,623)
Gain (loss) from fire insurance policy	(2,134)	535	-	(1,599)
Others	(66,854)	25,864	2,443	(38,547)
	<u>(526,833)</u>	<u>15,860</u>	<u>2,827</u>	<u>(508,146)</u>
<b>Deferred tax assets</b>				
Available-for-sale financial assets	80,544	531	18,795	99,870
Provision for severance pension benefits	44,933	8,602	(3,356)	50,179
Accumulated impairment loss	25,532	8,233	-	33,765
Government grants	8,668	75	-	8,743
Impairment loss on sites	3,498	42	-	3,540
Construction contracts	3,605	(3,605)	-	-
Provision for guarantees	2,973	3,803	-	6,776
Accrued compensated absences	2,676	(2,558)	-	118
Provision for construction warranties	2,473	4,864	-	7,337
Others	63,059	(17,828)	-	45,231
	<u>237,961</u>	<u>2,159</u>	<u>15,439</u>	<u>255,559</u>
	<u>₩ (288,872)</u>	<u>₩ 18,019</u>	<u>₩ 18,266</u>	<u>₩ (252,587)</u>

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<i>(in millions of Korean won)</i>	<b>2012</b>			
	<b>Beginning</b>	<b>Income statement</b>	<b>Equity</b>	<b>Ending</b>
<b>Deferred tax liabilities</b>				
Revaluation of land	₩ (293,095)	₩ 1,765	₩ -	₩ (291,330)
Investments in associates	(29,724)	(50,905)	(2,546)	(83,175)
Defined benefit pension plan assets	(34,032)	(9,649)	14	(43,667)
Reserve for research and human resource development	(31,130)	(8,543)	-	(39,673)
Gain (loss) from fire insurance policy	(2,669)	535	-	(2,134)
Others	(87,370)	4,852	15,664	(66,854)
	<u>(478,020)</u>	<u>(61,945)</u>	<u>13,132</u>	<u>(526,833)</u>
<b>Deferred tax assets</b>				
Available-for-sale financial assets	3,203	82,914	(5,573)	80,544
Provision for severance pension benefits	35,070	2,108	7,755	44,933
Accumulated impairment loss	19,814	5,718	-	25,532
Government grants	11,034	(2,366)	-	8,668
Impairment loss on sites	3,251	247	-	3,498
Construction contracts	3,686	(81)	-	3,605
Provision for guarantees	(297)	3,270	-	2,973
Accrued compensated absences	4,159	(1,483)	-	2,676
Provision for construction warranties	2,432	41	-	2,473
Others	45,596	17,463	-	63,059
	<u>127,948</u>	<u>107,831</u>	<u>2,182</u>	<u>237,961</u>
	<u>₩ (350,072)</u>	<u>₩ 45,886</u>	<u>₩ 15,314</u>	<u>₩ (288,872)</u>

The ability to realize deferred tax asset is depends on various components; such as, the Company's ability to generate taxable income for period of the temporary difference realization, general economic environment and industrial expectation, and others. The Company periodically assesses its ability to realize deferred tax assets, and as of December 31, 2013, the Group recognized deferred tax assets for all deductible temporary difference except for the difference relating to investment in associates, which are unrealizable, amounted to ₩ 747,113 million (2012: ₩ 567,871 million)

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of ₩ 122,418 million (2012: ₩ 91,472 million). Unrecognized tax loss carryforwards expire through 2023.

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**24. Other liabilities**

Details of other liabilities as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
<b>Other current liabilities</b>				
Advances	₩	353,669	₩	304,740
Unearned revenues		26,934		30,536
Provision <sup>1</sup>		167		1,212
		380,770		336,488
<b>Other non-current liabilities</b>				
Long-term advances		-		32
Government grants		258		1,731
Provision <sup>1</sup>		59,654		23,424
		59,912		25,187
	₩	440,682	₩	361,675

<sup>1</sup>The Group establishes expenses, which are expected to be spent in the future such as repairs in relation to contract of construction work, as a provision based on the past experience rate. The Group also accrued provision for guarantee for the foreseeable expenses relating to PF (Note 39).

Changes in the Group's provision for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>			
	<b>Provision for warranties</b>	<b>Provision for sales return</b>	<b>Others</b>	<b>Total</b>
Beginning	₩ 10,344	₩ 709	₩ 13,583	₩ 24,636
Increase	28,035	267	35,187	63,489
Decrease	(7,985)	(82)	(20,238)	(28,305)
Ending	₩ 30,394	₩ 894	₩ 28,532	₩ 59,820

<i>(in millions of Korean won)</i>	<b>2012</b>			
	<b>Provision for warranties</b>	<b>Provision for sales return</b>	<b>Others</b>	<b>Total</b>
Beginning	₩ 9,900	₩ 390	₩ 1,559	₩ 11,849
Increase	7,320	402	12,277	19,999
Decrease	(6,876)	(83)	(253)	(7,212)
Ending	₩ 10,344	₩ 709	₩ 13,583	₩ 24,636

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**25. Capital stock**

The Group is authorized to issue 200,000 thousand shares with the par value per share of ₩ 5,000. As of December 31, 2013, the Group has issued 35,117,455 shares of common stock. There is no change of capital stock for the year ended December 31, 2013.

**26. Retained Earnings**

Details of retained earnings as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Legal reserve <sup>1</sup>	₩	20,777	₩	17,450
Discretionary reserve				
Reserve for research and human resource development <sup>2</sup>		156,759		120,000
Reserve for facility		2,207,000		2,092,000
Unappropriated retained earnings		(341,810)		69,401
	₩	2,042,726	₩	2,298,851

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Group to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, with the ratification of the Group's majority shareholders.

<sup>2</sup> The Group 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.

Changes in retained earnings for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Beginning	₩	2,298,851	₩	2,182,611
Net income (loss)		(229,185)		156,640
Remeasurements of defined benefit liability		10,704		(4,901)
Remeasurements of defined benefit liability of associates		(1,715)		(275)
Dividends		(33,269)		(33,269)
Others		(2,660)		(1,956)
Endings	₩	2,042,726	₩	2,298,851

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**27. Other Components of Equity**

Other components of equity as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Other additional capital	₩	325,071	₩	329,667
Treasury stock <sup>1</sup>		(34,204)		(34,204)
Gain (loss) on valuation of available-for-sale financial assets		(30,829)		28,041
Gain (loss) on valuation of derivatives		613		355
Change in equity from applying the equity method		15,275		16,479
Cumulative effect of foreign currency translation		(25,597)		(17,685)
Other capital adjustments		(620)		(973)
	₩	<u>249,709</u>	₩	<u>321,680</u>

<sup>1</sup> The 1,848,851 treasury shares were acquired through a merger in 1998 and are expected to be sold in the future.

**28. Revenue**

Details of revenue for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Sales-Merchandise	₩	4,262,093	₩	4,165,759
Sales-Finished goods		6,808,295		7,207,701
Sales-Construction		892,346		481,372
Sales-Real estate		202,377		389,199
Sales-Others		414,046		367,719
	₩	<u>12,579,157</u>	₩	<u>12,611,750</u>

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**29. Construction Contracts**

Changes in the remaining balance of construction contracts for the years ended December 31, 2013 and 2012, are as follows:

*(in millions of Korean won)*

	<b>2013</b>			
	<b>Beginning balance</b>	<b>Changes<sup>1</sup></b>	<b>Recognized construction revenue</b>	<b>Ending balance</b>
Domestic civil construction	₩ 1,018,906	₩ 1,013,747	₩ 602,874	₩ 1,429,779
Domestic plant construction	601,363	604,550	552,673	653,240
	<u>₩ 1,620,269</u>	<u>₩ 1,618,297</u>	<u>₩ 1,155,547</u>	<u>₩ 2,083,019</u>

<sup>1</sup> In 2013, the increase in subcontracted amount, such as revenue from initial contracts, and decrease in subcontracted amount, such as alterations in the original contract work, amount to ₩ 1,606,143 million and ₩ 12,154 million, respectively.

*(in millions of Korean won)*

	<b>2012</b>			
	<b>Beginning balance</b>	<b>Changes<sup>1</sup></b>	<b>Recognized construction revenue</b>	<b>Ending balance</b>
Domestic civil construction	₩ 1,019,066	₩ 754,743	₩ 754,903	₩ 1,018,906
Domestic plant construction	498,929	306,971	204,537	601,363
	<u>₩ 1,517,995</u>	<u>₩ 1,061,714</u>	<u>₩ 959,440</u>	<u>₩ 1,620,269</u>

<sup>1</sup> In 2012, the increase in subcontracted amount, such as revenue from initial contracts, and decrease in subcontracted amount, such as alterations in the original contract work, amount to ₩ 1,030,749 million and ₩ 30,965 million, respectively.

Details of ongoing construction contracts such as recognized construction profit or loss as of December 31, 2013 and 2012, are as follows:

*(in millions of Korean won)*

	<b>2013</b>				
	<b>Accumulated construction revenue</b>	<b>Accumulated construction cost</b>	<b>Accumulated revenue</b>	<b>Deferred revenue</b>	<b>Reserve<sup>1</sup></b>
Domestic civil construction	₩ 1,881,434	₩ 1,739,587	₩ 141,847	₩ 2,848	₩ -
Domestic plant construction	614,344	617,168	(2,824)	-	134,645
	<u>₩ 2,495,778</u>	<u>₩ 2,356,755</u>	<u>₩ 139,023</u>	<u>₩ 2,848</u>	<u>₩ 134,645</u>



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(in millions of Korean won)

	2012				
	Accumulated construction revenue	Accumulated construction cost	Accumulated revenue	Deferred revenue	Reserve <sup>1</sup>
Domestic civil construction	₩ 1,464,534	₩ 1,347,990	₩ 116,544	₩ 16,710	₩ -
Domestic plant construction	360,489	356,281	4,208	1,990	124,534
	<u>₩ 1,825,023</u>	<u>₩ 1,704,271</u>	<u>₩ 120,752</u>	<u>₩ 18,700</u>	<u>₩ 124,534</u>

<sup>1</sup> In the statement of financial position, the reserve is recorded as long-term deposit.

Details of unbilled and overbilled amounts related to construction as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

	2013		2012	
	Unbilled amount	Overbilled amount	Unbilled amount	Overbilled amount
Domestic civil construction	₩ 58,533	₩ 48,796	₩ 49,319	₩ 47,766
Domestic plant construction	8,278	21,709	2,288	1,232
	<u>₩ 66,811</u>	<u>₩ 70,505</u>	<u>₩ 51,607</u>	<u>₩ 48,998</u>

Details of total estimated construction loss of construction-in-progress as of December 31, 2013, are as follows:

(in millions of Korean won)

	Total estimated construction loss	Provision for construction loss <sup>1</sup>
Qatar MESAIEED Sewage disposal plant construction	₩ 10,359	₩ 10,359
Kaliakoir 400kV S/S PJT_Onshore	1,495	1,495
Philippine BOHOL Project	1,001	1,001
Algeria Sewage disposal plant construction and operation	840	840
Jeju Sewage sludge resourcing utility operation	684	684
Philippine LUZON 2 Project	679	679
Chile Charrua 500/220kV 750MVA S/S and 20 others	2,314	2,314
	<u>₩ 17,372</u>	<u>₩ 17,372</u>

<sup>1</sup> Provision for construction loss is included in unbilled or overbilled amounts related to construction in the consolidated statements of financial position.

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**30. Expenses by Nature**

Cost of sales, and selling and administrative expenses by nature for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Changes in product and work in process	₩	(1,792,293)	₩	(622,331)
Changes in merchandise		4,000,426		3,901,518
Usage of raw material and supplies		5,830,703		5,736,522
Salaries(Note 31)		1,048,839		920,663
Depreciation and amortization		553,172		571,657
Utility		351,168		326,214
Export expenses		142,084		122,361
Utilities		186,433		178,103
Service		201,842		115,460
Outsourcing		624,077		342,216
Others		946,794		792,231
Total <sup>1</sup>	₩	<u>12,093,245</u>	₩	<u>12,384,711</u>

<sup>1</sup>Included in the cost of goods sold, selling and administrative expense, and research and development costs in the statements of income.

**31. Employee Benefit Expense**

Details of employee benefit expense for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Salaries	₩	942,383	₩	778,232
Employee benefits		55,572		95,301
Pension costs - defined contribution plans		532		820
Pension costs - defined benefit plans (Note 22)		50,352		46,310
	₩	<u>1,048,839</u>	₩	<u>920,663</u>

**32. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Salaries	₩	235,731	₩	225,997
Export expenses		142,084		122,361

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Transportation	70,132	62,939
Commissions and fees	67,159	54,527
Rent	31,163	29,357
Employee benefits	26,714	25,790
Travel	24,795	25,615
Operating expenses for overseas branches	17,243	19,412
Severance pension benefits	19,639	18,492
Taxes and dues	21,276	18,348
Advertising	22,894	18,286
Depreciation	15,626	17,646
Amortization	24,227	16,486
Entertainment	12,664	13,066
Communications	7,157	7,504
Training	3,437	3,279
Others	123,120	101,102
	₩ 865,061	₩ 780,207

**33. Other Operation Income and Expenses**

Other operating income and expenses for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>Other operating income</b>		
Miscellaneous revenue	₩ 64,233	₩ 97,932
Gain on valuation of derivatives	34,081	65,974
Gain on derivative transactions	59,140	57,402
Gain on disposal of intangible assets	-	21,279
Government grants	2,824	3,661
Gain on disposal of property, plant and equipment	3,455	3,297
Dividends	290	1,670
Rental income	2,841	1,338
Reversal of other assets' allowance for bad debts	194	444
Gains on disposal of investment properties	59	62
Gains on disposal of other assets	19	-
	167,136	253,059
<b>Other operating expenses</b>		
Miscellaneous losses	85,882	69,452
Impairment loss of intangible assets	24,622	25,557
Additional provision	28,000	11,997
Loss on disposal of property, plant and equipment	4,368	9,313
Commissions	9,658	8,139

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Impairment loss of property, plant and equipment	7,319	7,266
Other assets' allowance for bad debts	16,758	5,701
Loss on derivative transactions	19,358	5,438
Loss on disposal of trade receivables	3,474	3,777
Donations	4,415	2,981
Loss on scrap of inventories	-	721
Loss on valuation of derivatives	971	418
Sales promotion	27	298
Impairment loss of other assets	-	134
Impairment loss of other investment assets	51	-
Loss on valuation of inventories	(25)	-
Loss on disposal of intangible assets	433	-
Loss on disposal of investment property	321	-
Loss on disposal of other assets	343	-
	<u>205,975</u>	<u>151,192</u>
	<u>₩ (38,839)</u>	<u>₩ 101,867</u>

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**34. Finance Income and Costs**

Details of finance income and expenses for the years ended December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>Finance income</b>		
Interest income		
Cash and cash equivalents	₩ 6,190	₩ 2,676
Loans and receivables	3,231	6,763
Financial assets at fair value through profit or loss	-	185
Available-for-sale financial assets	211	30
Held-to-maturity financial assets	72	57
Other financial instruments	2,676	1,933
Gain on foreign currency transactions	169,524	102,109
Gain on foreign currency translation	206,590	123,899
Gain on disposal of financial assets		
Available-for-sale financial assets	9,305	13,525
	<u>397,799</u>	<u>251,177</u>
<b>Finance costs</b>		
Interest expenses		
Financial liabilities at amortized cost	220,988	246,607
Loss on foreign currency transactions	177,383	82,612
Loss on foreign currency translation	174,152	76,457
Loss on disposal of financial assets		
Financial assets at fair value through profit or loss	1,046	156
Impairment loss of financial assets		
Available-for-sale financial assets	613	49
	<u>574,182</u>	<u>405,881</u>
	<u>₩ (176,383)</u>	<u>₩ (154,703)</u>

The Group recognizes income and expense relating to exchange difference as finance income and expenses.

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**35. Income Tax Expense**

Income tax expense for the years ended December 31, 2013 and 2012, consists of:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Current tax:				
Current tax on profits for the year	₩	101,342	₩	107,768
Adjustments in respect of prior years <sup>1</sup>		409,552		(2,362)
Total current tax		<u>510,894</u>		<u>105,406</u>
Deferred tax (Note 23):				
Origination and reversal of temporary differences		(18,019)		(60,064)
Impact of change in Korean tax rate		14		(35)
Total deferred tax		<u>(18,005)</u>		<u>(60,099)</u>
Income tax expense from continuing operations	₩	<u>492,889</u>	₩	<u>45,307</u>

<sup>1</sup> As a result of a tax investigation by the National Tax Service in 2013, the Company paid penalty taxes amounting to ₩ 401,561 million in relation to property, plant and equipment, investment in subsidiaries, and others.

The income tax (charged)/credited directly to equity as of December 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>			<b>2012</b>		
	<b>Before tax</b>	<b>Tax (charge) credit</b>	<b>After tax</b>	<b>Before tax</b>	<b>Tax (charge) credit</b>	<b>After tax</b>
Gain (loss) on valuation of available-for-sale financial assets	₩(40,672)	₩ 9,843	₩ (30,829)	₩ 36,993	₩ (8,952)	₩ 28,041
Actuarial gains and losses	(33,794)	8,178	(25,616)	(47,662)	11,534	(36,128)
Gain (loss) on valuation of derivatives	809	(196)	613	468	(113)	355
Revaluation of land	852,540	(206,315)	646,225	852,540	(206,315)	646,225
Change in equity from applying equity method	20,152	(4,877)	15,275	21,740	(5,261)	16,479
Cumulative effect of foreign currency translation	(33,769)	8,172	(25,597)	(23,331)	5,646	(17,685)
	<u>₩765,266</u>	<u>₩ (185,195)</u>	<u>₩580,071</u>	<u>₩840,748</u>	<u>₩(203,461)</u>	<u>₩637,287</u>

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The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Profit(Loss) before tax	₩	256,645	₩	186,919
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩	57,684	₩	49,896
Tax effects of:				
Income not subject to tax		(3,044)		(3,066)
Expenses not deductible for tax purposes		6,699		9,653
Tax credits		(12,447)		16,235
Others		34,447		(16,260)
Re-measurement of deferred tax - change in the Korean tax rate		(2)		(199)
Adjustment in respect of prior years		409,552		(10,952)
Tax charge from continuing operations	₩	492,889	₩	45,307

As of December 31, 2013, deferred tax, which is expected to be reversed, was measured using the effective rate of 192.1%(2012: 24.2%) that will apply for the given period.

**36. Earnings per Share**

Basic earnings(loss) per ordinary share for the years ended December 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won, except per share amount)</i>	<b>2013</b>		<b>2012</b>	
Profit(loss) attributable to equity holders of the Group	₩	(229,185)	₩	156,640
Weighted average number of ordinary shares in issue <sup>1</sup>		33,268,604		33,268,604
Basic earnings per share				
Basic earnings(loss) per share from continuing operations <i>(in Korean won)</i>	₩	(6,889)	₩	4,708

<sup>1</sup> The number of weighted average number of ordinary shares for the years ended December 31, 2013 and 2012, is 33,268,604 and there has been no change.

**37. Dividends**

The dividends paid in 2013 and 2012 were ₩ 33,269 million (₩ 1,000 per share) and ₩ 33,269 million (₩ 1,000 per share), respectively. A dividend in respect of the year ended December 31, 2013, of ₩ 1,000 per share, amounting to total dividends of ₩ 33,269 million, is to be proposed at the annual general meeting on March 21, 2014. These consolidated financial statements do not reflect this dividend payable.

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**38. Cash generated from operations**

Cash generated from operations for the years ended December 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		<b>2012</b>	
Profit(loss) before income tax	₩	256,645	₩	186,919
Adjustments for:				
Interest income and expenses		112,754		219,072
Gain (loss) on foreign currency translation		(32,334)		(46,025)
Gain (loss) on derivatives		(33,291)		(65,967)
Depreciation and amortization		553,172		571,657
Loss on valuation of inventories		15,167		8,218
Loss on disposal of property, plant, equipment, intangible assets and investment property		5,436		9,313
Gain on disposal of property, plant, equipment, intangible assets, and investment property		(3,514)		(24,639)
Impairment loss on property, plant, equipment, intangible assets, and investment property		31,940		32,823
Bad debts expense		73,430		32,272
Reversal of allowance for bad debts		(194)		(444)
Loss on disposal of financial assets		1,040		1,195
Gain on disposal of financial assets		(10,732)		(18,189)
Impairment loss on financial assets		464		595
Loss on valuation of financial assets		14,996		-
Dividends		(3,385)		(1,670)
Severance pension benefits		50,352		46,310
Additional provisions adjustment		35,534		21,496
Loss on disposal of trade receivables		3,480		3,777
Gain (loss) on investments in associates		(950)		(16,691)
Others		19,800		15,635
Changes in assets and liabilities from operations:				
Decrease in trade receivables		152,667		135,027
Decrease in inventories		63,566		265,022
Decrease (increase) in other receivables		71,105		(50,247)
Decrease (increase) in unbilled amount		(17,872)		48,486
Decrease in other financial assets		62,594		8,027
Decrease in other assets		15,179		22,950
Increase in cumulative effect of foreign currency translation		(20,093)		(12,791)
Increase in other financial business assets		(69,885)		(267,052)
Increase (decrease) in trade payables		37,131		(350,754)
Increase (decrease) in other payables		(170,815)		614
Increase (decrease) in other financial liabilities		931		(17,739)
Payment of warranty expenses		(7,985)		(6,876)
Payment of post-employment benefits		(12,618)		(53,702)
Payment into plan assets		(38,500)		-
Others		(1,315)		(7,311)
Cash generated from operations	₩	1,153,900	₩	689,311



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Significant transactions not affecting cash flows are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Construction-in-progress transferred to property, plant and equipment	₩ 637,648	₩ 580,689
Reclassification of the current portion of long-term loans	602,010	391,749
Reclassification of the current portion of debentures	235,000	280,000
Debt-to-equity swap of Chin Heung International Inc.	-	103,542
Gain (loss) on valuation of available-for-sale financial assets	(386)	30,700
Accounts receivable from debt-equity swap	-	15,147
Accounts payable related to acquisition of property, plant and equipment	(95,134)	(16,238)
Advance payment related to acquisition of property, plant and equipment	(5,084)	(18,904)

**39. Contingencies and Commitments**

*(a) Notes and others provided as collaterals*

Details of commitments and contingencies provided by the Group regarding accounts payable and trade terms as of December 31, 2013, are as follows:

	<b>Provider</b>	<b>Number</b>	<b>Type</b>
Notes	SK Gas Ltd.	1	Blank
	TCC Steel Co., Ltd.	1	Blank
Check	Hanjin Shipping Co., Ltd.	1	Blank
	Mineral Resource Corporation	1	Blank

*(b) Loan agreements and others*

The Group has general loans and open local L/C with a maximum limit of ₩ 6,856,369 million, including bank overdraft and trade bill discount. Also, the Group has accounts receivable discounting agreements with a maximum limit of ₩ 1,036,305 million with financial institutions as of December 31, 2013.

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*(c) Guarantees provided to others*

The Group provided guarantees for others, amounting to ₩ 577,065 million (2012: ₩ 537,473 million) and USD 8,046 thousand (2012: USD 1,615 thousand) as of December 31, 2013.

Also, the Company has provided guarantees for related parties (Note 19).

The Company has provided guarantees amounting to ₩286,200 million to Grand Seventh Ltd. in relation to the solar power plant project in Romania as of December 31, 2013.

*(d) Guarantees provided in relation to project financing*

Details of guarantees provided by the Group to developers as of December 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
Debt assumption/replenishment of funds	₩	261,800	₩	308,800
Joint guarantees		40,000		70,000
	₩	<u>301,800</u>	₩	<u>378,800</u>

Details of guarantees provided in relation to project financing as of December 31, 2013, are as follows:

*(in millions of Korean won)*

Name	Bond entity	Guarantees limit	Borrowings balance	Guarantee detail	Period
Guangjoo Taejeondong APT	IB	₩ 107,000	₩ 97,000	Acceptances for debt	2013.04~2016.04
Gangnam officetel	IB	85,800	50,000	Capital supplement	2011.12~2015.01
Naepo APT	IB	40,000	17,500	Capital supplement	2012.06~2014.12
Sangdodong APT	Bank	29,000	19,300	Acceptance for debt	2012.09~2015.10
Sunchun-si Resource Recycling Center BTO Project	Bank and insurance	40,000	34,000	Joint and several guarantees	2012.04~2014.01
		<u>₩ 301,800</u>	<u>₩ 217,800</u>		

The Group recognized ₩ 1,912 million as financial guarantee liability as of December 31, 2013.

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#### (e) Guarantees provided by others

Details of guarantees provided by others as of December 31, 2013, are as follows:

(in millions of Korean won,  
in US dollars and others)

Guarantor	Collaterals and guarantees provided	Currency	Amount
Kookmin Bank, Shinhan Bank, The	Payment guarantee and others	KRW	622,326
Export-Import Bank of Korea, Korea		USD	22,510,414
Exchange Bank, Hana Bank and		EUR	2,777,986
others		DZD	166,546,203
Korea Construction Financial	Construction performance and		
Cooperative and others	others	KRW	696,257
Seoul Guarantee Insurance Company	Payment guarantee and others	KRW	15,323
Bank Mellat	Payment guarantee and others	EUR	276,263
SH Corporation and others	Capital supplement and other	KRW	31,070

#### (f) Assets pledged as collaterals

Details of assets pledged as collaterals for the Group's debts as of December 31, 2013, are as follows:

Assets pledged as collaterals	Book Value	Maximum credit amount	Descriptions	Lender
Cash, and cash equivalents	₩ 99,900	₩ 817	Borrowing	Newstarhaechi 2 <sup>nd</sup> and others
Property, plant, equipment and inventories		₩ 129,870		
Property, plant, equipment and inventories	₩ 192,570	₩ 276,658	Borrowing	Woori Bank and others
Investments in associates		₩ 17,307		
Property, plant, equipment and inventories	₩ 1,451,479	₩ 1,380,324	Borrowing	Korea Development Bank and other
Property, plant, equipment and inventories	₩ 2,000	₩ 2,600	Borrowing	IBK Capital
Property, plant, equipment and inventories	₩ 150,000	₩ 195,000	PF Debt	PF Debt
Financial Instruments	₩ 2,720	₩ 3,536	Payment guarantee in Korean won	Woori Bank and others
Property, plant, equipment and inventories	₩ 3,479	₩ 2,028	Borrowing	Nonghyup
Financial Instruments	₩ 82	₩ 99,025	Stand by L/C	DBS Bank
Financial Instruments	₩ 40	₩ 27,626	Payment guarantee in foreign currency	Mellat Bank
Trade payables	₩ 706,890	₩ 706,890	Borrowing	Woori Bank and others

The Group has pledged its shares in Chin Hung International Inc. (available-for-sale assets with a book value of ₩71,348 million) as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. Also, the Group has pledged its shares in Flossom

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Corporation (investment in subsidiaries with no book value) as collateral (with a maximum credit amount of ₩56,010 million) in relation to borrowings of Flossom Corporation.

In addition, the Group provided beneficiary rights amounted to ₩ 91,000 million to Woori Bank and other, the preferred beneficial debtor, and also provided right to property transferred for security of contract right and entire operation right in relation to the Doomi Golf Country Club.

#### (g) Pending lawsuits

The Group is involved in nine lawsuits as a plaintiff and 18 lawsuits as a defendant as of December 31, 2013. Management believes that these lawsuits will not have a significant effect on the Group's financial position.

(in millions of Korean won)

Court	Plaintiff	Defendant	Details of lawsuit	Amount	Status
<b>Lawsuits in which the Group is the plaintiff</b>					
Central District Court and other	Hyosung Capital Co., Ltd.	Samsung Electronics and 99 others	Other	₩ 79,052	In progress
Seoul Central District Court	Hyosung Corporation	Korea Railroad and others	Claims for construction costs	28,744	2 <sup>nd</sup> Trial
Seoul Central District Court	Hyosung Corporation	KEPCO	Claims for payment for goods	10,000	1 <sup>st</sup> Trial
Suwon District Court, Seongnam	Hyosung Corporation	The gallery line and others	Claims for construction costs	4,126	1 <sup>st</sup> Trial
Supreme Court of Korea	Hyosung Corporation	Tongyeong City	Claims for construction costs	2,330	3 <sup>rd</sup> Trial
<b>Lawsuits in which the Group is the defendant</b>					
Central District Court and other	Jee Hyung Cho and 20 others	Hyosung Capital Co., Ltd	Other	47,877	In progress
Supreme Court of Korea	Gwangmyeong City	Hyosung Corporation	Claims for damages	11,001	3 <sup>rd</sup> Trial
Seoul Central District Court	147 companies in Korea Federation Plastic Industry Cooperative	Hyosung Corporation and others	Claims for damages	2,290	1 <sup>st</sup> Trial
Seoul Central District Court	Daehan Consultants Co., Ltd.	Hyosung Corporation and others	Claims for damages	2,395	1 <sup>st</sup> Trial
Suwon District Court, Yeosu	Seoul Dream Church	Doomi Construction Co., Ltd.	Claims for transfer performance	1,475	1 <sup>st</sup> Trial in progress

Other than the above, the Group is involved in various lawsuits where the amounts are not material. The outcome of the above cases cannot be estimated as of December 31, 2013.

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**40. Disclosure for Business Combinations**

The Group acquired 100% of the share capital of Doomi Construction Co., Ltd. by investing in kind in the form of trade receivables amounting to ₩ 40,000 million on March 26, 2013. The Group performed an impairment test and recognized impairment loss of ₩ 12,363 million for the goodwill arising from the acquisition. The following table summarizes the consideration paid for Doomi Construction Co., Ltd., the fair value of assets acquired, liabilities assumed:

*(in millions of Korean won)*

Consideration		
Construction receivables	₩	40,000
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		687
Property, plant and equipment		168,013
Other assets		789
Trade and other receivables		(45,476)
Post-retirement benefit liabilities		(129)
Borrowings		(104,700)
Fair value of identifiable net assets		19,184
Goodwill		20,816
	₩	40,000

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**41. Information on Non-controlling Interests**

**41.1 Changes in Accumulated Non-controlling Interests**

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	2013					
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
Hyosung Investment & Development Corporation	41.25	₩ 25,642	₩ (263)	₩ (1,650)	₩ 529	₩ 24,258
Hanadaol Landchip Private Real Estate Investment Trust No.39	50.00	16,001	971	(971)	-	16,001
Hyosung Capital Co., Ltd.	2.85	9,398	775	(280)	(39)	9,854
Hyosung Vietnam Co., Ltd.	11.79	6,837	6,137	-	(384)	12,590
Other	-	27,827	(14,679)	-	(618)	12,530
		₩ 85,705	₩ (7,059)	₩ (2,901)	₩ (512)	₩ 75,233

<i>(in millions of Korean won)</i>	2012					
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
Hyosung Investment & Development Corporation	41.25	₩ 25,291	₩ 187	₩ -	₩ 164	₩ 25,642
Hanadaol Landchip Private Real Estate Investment Trust No.39	50.00	-	580	(579)	16,000	16,001
Hyosung Capital Co., Ltd.	2.85	9,423	256	(280)	(1)	9,398
Hyosung Vietnam Co., Ltd.	11.79	4,419	3,581	-	(1,163)	6,837
Other	-	52,386	(19,632)	(138)	(4,789)	27,827
		₩ 91,519	₩ (15,028)	₩ (997)	₩ 10,211	₩ 85,705

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**41.2 Summarized Financial Information on Subsidiaries**

The summarized financial information for each subsidiary with non-controlling interests that are material to the Group before inter-company eliminations is as follows:

Summarized consolidated statements of financial position as of December 31, 2013 and 2012, are as follows:

		<b>2013</b>						
<i>(in millions of Korean won)</i>		<b>Hyosung Investment &amp; Development Corporation</b>	<b>Hanadaol Landchip Private Real Estate Investment Trust No.39</b>	<b>Hyosung Capital Co., Ltd.</b>	<b>Hyosung Vietnam Co., Ltd.</b>			
Current assets	₩	12,279	₩	1,273	₩	197,400	₩	357,529
Non-current assets		56,906		190,890		2,341,013		669,831
Current liabilities		144		10,162		1,100,223		681,605
Non-current liabilities		2,130		150,000		1,099,449		172,035
Equity		66,911		32,001		338,741		173,720

		<b>2012</b>						
<i>(in millions of Korean won)</i>		<b>Hyosung Investment &amp; Development Corporation</b>	<b>Hanadaol Landchip Private Real Estate Investment Trust No.39</b>	<b>Hyosung Capital Co., Ltd.</b>	<b>Hyosung Vietnam Co., Ltd.</b>			
Current assets	₩	6,371	₩	1,273	₩	121,351	₩	304,418
Non-current assets		54,620		190,890		2,355,053		680,088
Current liabilities		123		160,162		962,050		481,225
Non-current liabilities		1,705		-		1,187,982		366,068
Equity		59,163		32,001		326,372		137,213

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Summarized consolidated statements of comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

	2013			
	Hyosung Investment & Development Corporation	Hanadaol Landchip Private Real Estate Investment Trust No.39	Hyosung Capital Co., Ltd.	Hyosung Vietnam Co., Ltd.
<i>(in millions of Korean won)</i>				
Sales	₩ 563	₩ 10,942	₩ 287,279	₩ 890,784
Profit or loss for the year	10,464	1,943	27,228	59,495
Other comprehensive income	1,284	-	(1,616)	(3,191)
Total comprehensive income	₩ 11,748	₩ 1,943	₩ 25,612	₩ 56,304

	2012			
	Hyosung Investment & Development Corporation	Hanadaol Landchip Private Real Estate Investment Trust No.39	Hyosung Capital Co., Ltd.	Hyosung Vietnam Co., Ltd.
<i>(in millions of Korean won)</i>				
Sales	₩ 2,808	₩ 6,101	₩ 294,402	₩ 731,296
Profit or loss for the year	456	1,159	9,025	32,974
Other comprehensive income	393	-	10	(9,862)
Total comprehensive income	₩ 849	₩ 1,159	₩ 9,035	₩ 23,112

Summarized consolidated statements of cash flows for the years ended December 31, 2013 and 2012, are as follows:

	2013			
	Hyosung Investment & Development Corporation	Hanadaol Landchip Private Real Estate Investment Trust No.39	Hyosung Capital Co., Ltd.	Hyosung Vietnam Co., Ltd.
<i>(in millions of Korean won)</i>				
Cash flows from operating activities	₩ 10,717	₩ 1,944	₩ 55,985	₩ 209,152
Cash flows from investing activities	(6,681)	-	(65,578)	(89,971)
Cash flows from financing activities	(4,000)	(1,942)	65,047	(131,218)
Net (decrease)/increase in cash and cash equivalents	36	2	55,454	(12,037)
Cash and cash equivalents at beginning of year	127	737	33,141	37,458
Exchange gains/(losses) on cash and cash equivalents	-	-	-	-
Cash and cash equivalents at end of year	₩ 163	₩ 739	₩ 88,595	₩ 25,421



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<i>(in millions of Korean won)</i>	2012							
	Hyosung Investment & Development Corporation		Hanadaol Landchip Private Real Estate Investment Trust No.39		Hyosung Capital Co., Ltd.		Hyosung Vietnam Co., Ltd.	
Cash flows from operating activities	₩	1,606	₩	10,625	₩	(26,528)	₩	161,134
Cash flows from investing activities		(2,500)		(190,890)		(135,970)		(185,666)
Cash flows from financing activities		-		149,002		154,222		47,706
Net (decrease)/increase in cash and cash equivalents		(894)		(31,263)		(8,276)		23,174
Cash and cash equivalents at beginning of year		1,021		32,000		41,411		14,284
Exchange gains/(losses) on cash and cash equivalents		-		-		-		-
Cash and cash equivalents at end of year	₩	127	₩	737	₩	33,135	₩	37,458

**41.3 Transactions with Non-controlling Interests**

The Group participated in the capital increase of Asia Lnghub Co.,Ltd. in 2013 not proportionate to its share holdings, resulting in a decrease in controlling interests of ₩ 259 million and an increase in non-controlling interests of ₩ 259 million.

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**42. Restatement of Prior Year Financial Statements**

In 2013, the errors in accounting treatment for property, plant and equipment, investments in subsidiaries and associates, and others was discovered during a tax investigation by the National Tax Service and the Company has retrospectively restated the financial statements as of and for the year ended December 31, 2012, to reflect the correction.

The effects of the correction on the statements of financial position as of December 31, 2012 and January 1, 2012, are as follows:

*(in millions of Korean won)*

	Dec.31, 2012		Jan.1, 2012	
	Before restatement	After restatement	Before restatement	After restatement
<b>Assets</b>				
Cash and cash equivalents	₩ 434,293	₩ 434,293	₩ 526,593	₩ 527,516
Trade and other receivables	2,167,867	2,167,867	2,408,053	2,408,366
Inventories	1,521,139	1,521,139	1,835,808	1,834,906
Property, plant and equipment	5,151,600	5,151,600	4,929,852	4,838,580
Investments in associates	266,431	266,431	258,986	258,986
Long-term other financial assets	242,309	242,309	116,673	186,115
Total assets	13,763,660	13,763,660	13,623,189	13,601,693
<b>Liabilities</b>				
Trade and other payables	1,452,474	1,452,474	1,864,572	1,864,576
Deferred tax liabilities	335,607	335,607	373,873	384,215
Total liabilities	10,749,598	10,749,598	10,662,828	10,673,174
<b>Equity</b>				
Retained earnings	2,295,252	2,295,252	2,213,249	2,182,611
Other components of equity	326,691	326,691	349,180	347,976
Total equity	3,014,062	3,012,649	2,960,361	2,928,519

The effects of the correction on the statement of income for the year ended December 31, 2012, are as follows:

*(in millions of Korean won)*

	2012
Cost of sales	₩ 33,559
Selling and administrative expenses	199
Other income	1,739
Income tax expense	(1,261)
	<u>₩ 34,236</u>

**Hyosung Corporation and Subsidiaries**  
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Changes in profit or loss due to the restatement of the financial statements for the year ended December 31, 2012, are as follows:

<i>(in millions of Korean won, except per share amounts)</i>	<b>2012</b>
Before restatement	
Operating profit	₩ 189,307
Profit for the year	107,376
Basic earnings per share	3,679
After restatement	
Operating profit	223,065
Profit for the year	141,612
Basic earnings per share	4,708

**43. Unconsolidated Structured Entities**

The nature of business unconsolidated structured entities as of December 31, 2013, is as follows:

<i>(in thousands of Korean won)</i>	<b>Purpose of establishment and activities</b>	<b>Method of financing</b>	<b>Total assets</b>
Investment fund and investment trust	Enforcement of investment and profit sharing	Issuance of equity shares	₩ 565,153,453
Mortgage loan	Investment and in real property and collection through sales	Issuance of equity shares and borrowings	852,737,129
Securitization of assets	Securitization and collection of assets	Issuance of ABL and ABCP	308,834,578
Investment in vessels	Investment in vessels and profit sharing	Issuance of equity shares and borrowings	7,614,671

The risk of interest in unconsolidated structured entities as of December 31, 2013, are as follows:

<i>(in thousands of Korean won)</i>	<b>Book value of available-for-sale financial assets</b>	<b>Book value of receivables</b>	<b>Total</b>
Investment fund and investment trust	₩ 50,236,822	₩ -	₩ 50,236,822
Mortgage loan	-	100,994,247	100,994,247
Securitization of assets	-	17,365,425	17,365,425
Investment in vessels	-	7,618,058	7,618,058

Maximum exposure to loss on interest in unconsolidated structured entities as of December 31, 2013, is equal to the book value.