

# Hyosung Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2010 and 2009

**Hyosung Corporation and Subsidiaries**  
**Index**  
**December 31, 2010 and 2009**

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|  | <b>Page(s)</b> |
|--|----------------|
| <b>Report of Independent Auditors</b> .....          | 1 ~ 2          |
| <b>Consolidated Financial Statements</b>             |                |
| Statements of Financial Position .....               | 3 ~ 4          |
| Statements of Income .....                           | 5              |
| Statements of Changes in Shareholders' Equity .....  | 6              |
| Statements of Cash Flows .....                       | 7 ~ 8          |
| Notes to the Consolidated Financial Statements ..... | 9 ~ 72         |

## Report of Independent Auditors

To the Shareholders and Board of Directors of  
Hyosung Corporation

We have audited the accompanying consolidated statements of financial position of Hyosung Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Nautilus Hyosung Inc. and certain other consolidated subsidiaries, whose financial statements represent 32.29% and 26.53% of the Company's consolidated total assets, before elimination of intercompany transactions, as of December 31, 2010 and 2009, respectively, and 17.59% and 13.28% of the Company's consolidated total sales, before elimination of intercompany transactions, 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 Nautilus Hyosung Inc. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of 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 subsidiaries as of December 31, 2010 and 2009, and the results of their operations, the changes in its shareholders' equity and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

### Samil PricewaterhouseCoopers

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

*Samil PricewaterhouseCoopers*

Seoul, Korea  
March 30, 2011

This report is effective as of March 30, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2010 and 2009**

| <i>(in millions of Korean won)</i>                                   | <b>2010</b>  | <b>2009</b>  |
|--|--------------|--------------|
| <b>Assets</b>  |              |              |
| Current assets   |              |              |
| Cash and cash equivalents (Notes 3, 23, 24 and 34)                   | ₩ 661,554    | ₩ 448,494    |
| Short-term financial instruments (Notes 3 and 23)                    | 27,963       | 56,479       |
| Short-term loans receivable (Note 23)                                | 270,311      | 233,328      |
| Short-term available-for-sale securities                             | 265          | 4,365        |
| Trade accounts receivable, net (Notes 4, 9, 10, 23 and 36)           | 1,616,444    | 1,646,969    |
| Other accounts receivable, net (Notes 9, 10 and 23)                  | 137,217      | 104,162      |
| Accrued income (Note 23)   | 30,360       | 24,948       |
| Advance payments   | 147,412      | 239,524      |
| Prepaid expenses   | 32,242       | 28,421       |
| Derivatives (Note 25)  | 19,472       | 16,977       |
| Current deferred income tax assets (Note 29)                         | 20,313       | 24,347       |
| Other current assets   | 31,329       | 18,506       |
| Inventories, net (Notes 5, 9, 10, 15 and 24)                         | 1,489,520    | 1,070,290    |
| Total current assets   | 4,484,402    | 3,916,810    |
| Long-term financial instruments (Notes 3 and 23)                     | 79,888       | 76,689       |
| Available-for-sale securities (Notes 6 and 23)                       | 219,593      | 179,491      |
| Held-to-maturity securities (Note 7)                                 | 4,945        | 5,237        |
| Equity-method investments (Notes 8, 18 and 24)                       | 114,402      | 99,571       |
| Long-term loans receivable (Note 23)                                 | 7,457        | 4,824        |
| Investments in development   | 903          | 925          |
| Property, plant and equipment, net (Notes 11, 15, 16, 18, 24 and 34) | 4,652,862    | 4,381,133    |
| Intangible assets, net (Notes 12 and 13)                             | 104,616      | 137,126      |
| Guarantee deposits (Note 23)   | 193,795      | 129,298      |
| Deferred tax assets (Note 29)  | 10,952       | 10,507       |
| Other non-current assets (Notes 23 and 25)                           | 45,256       | 56,246       |
| Other financial business assets (Notes 14 and 23)                    | 1,780,817    | 1,283,057    |
| Total assets   | ₩ 11,699,888 | ₩ 10,280,914 |
| <b>Liabilities and Shareholders' Equity</b>                          |              |              |
| Current liabilities  |              |              |
| Trade accounts payable (Notes 9, 10 and 23)                          | ₩ 1,745,961  | ₩ 1,366,189  |
| Short-term borrowings (Notes 10, 18 and 23)                          | 1,404,920    | 1,613,430    |
| Other accounts payable (Notes 9, 10 and 23)                          | 258,705      | 266,781      |
| Advance from customers (Notes 23 and 36)                             | 250,028      | 276,821      |
| Withholdings (Note 16)   | 64,099       | 65,382       |
| Accrued expenses (Note 23)   | 70,179       | 81,921       |
| Current portion of long-term borrowings (Notes 10, 17, 18 and 23)    | 1,397,145    | 1,123,607    |
| Deposits received  | 293,449      | 162,779      |
| Income taxes payable (Notes 23 and 29)                               | 111,440      | 30,365       |
| Derivatives payable (Note 25)  | 7,991        | 15,199       |
| Current deferred tax liabilities (Note 29)                           | 32           | 12           |
| Other current liabilities (Note 16)                                  | 11,937       | 8,056        |
| Total current liabilities  | 5,615,886    | 5,010,542    |
| Debentures, net (Notes 17 and 18)                                    | 1,314,508    | 1,021,922    |
| Long-term borrowings, net (Notes 18, 23, 24 and 25)                  | 1,122,191    | 812,197      |
| Long-term other accounts payable (Note 16)                           | 10,479       | 10,938       |
| Long-term guarantee deposits received                                | 26,658       | 26,362       |
| Accrued severance benefits, net (Note 19)                            | 51,490       | 61,515       |
| Provision for construction warranties (Note 20)                      | 35,361       | 26,164       |
| Provision for construction losses (Note 21)                          | 19,963       | 15,442       |
| Deferred tax liabilities (Note 29)                                   | 268,129      | 252,871      |
| Other non-current liabilities  | 8,481        | 3,073        |
| Total liabilities  | 8,473,146    | 7,241,026    |
| Commitments and contingencies (Note 24)                              |              |              |

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2010 and 2009**

| <i>(in millions of Korean won)</i>                                  | <b>2010</b>         | <b>2009</b>         |
|---|---------------------|---------------------|
| Shareholders' equity  |                     |                     |
| Capital stock   |                     |                     |
| Common stock (Note 26)  | ₩ 175,587           | ₩ 175,587           |
| Capital surplus (Note 26)   | 1,164,677           | 1,169,217           |
| Capital adjustments   |                     |                     |
| Treasury stock (Note 27)  | (34,204)            | (34,204)            |
| Other capital adjustments   | (1,905)             | (1,726)             |
| Accumulated other comprehensive income and expense (Note 33)        |                     |                     |
| Gain on valuation of available-for-sale securities (Notes 6 and 29) | 38,122              | 26,539              |
| Loss on valuation of available-for-sale securities (Notes 6 and 29) | (962)               | (1,175)             |
| Loss on valuation of derivatives (Notes 25 and 29)                  | (576)               | (7,327)             |
| Change in equity from equity-method (Notes 8 and 29)                | 16,104              | 18,186              |
| Surplus from revaluation (Note 29)                                  | 666,218             | 674,886             |
| Translation of foreign currency financial statements                | 118,801             | 104,611             |
| Retained earnings   | <u>832,508</u>      | <u>593,318</u>      |
| Controlling interest in consolidated company                        | 2,974,370           | 2,717,912           |
| Minority interest in consolidated subsidiaries                      | <u>252,372</u>      | <u>321,976</u>      |
| Total shareholders' equity  | <u>3,226,742</u>    | <u>3,039,888</u>    |
| Total liabilities and shareholders' equity                          | <u>₩ 11,699,888</u> | <u>₩ 10,280,914</u> |

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

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statements of Income**  
**Years ended December 31, 2009 and 2008**

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

|   | 2010         | 2009         |
|---|--------------|--------------|
| <b>Sales</b> (Notes 9, 10, 36 and 37)   | ₩ 11,591,481 | ₩ 10,009,193 |
| <b>Cost of sales</b> (Notes 9, 10, 36 and 37)                                   | 9,993,888    | 8,343,011    |
| Gross profit  | 1,597,593    | 1,666,182    |
| <b>Selling and administrative expenses</b> (Notes 9, 11, 13, 19, 22, 32 and 35) | 968,487      | 1,032,345    |
| Operating income  | 629,106      | 633,837      |
| <b>Non-operating income</b>   |              |              |
| Interest income   | 28,764       | 32,573       |
| Dividend income   | 1,649        | 300          |
| Rental income   | 424          | 940          |
| Gain on foreign currency transactions   | 107,993      | 133,566      |
| Gain on foreign currency translation (Note 23)                                  | 71,149       | 74,086       |
| Gain on valuation of equity-method investments (Note 8)                         | 30,673       | 9,217        |
| Gain on disposal of investment assets   | 13,155       | 1,419        |
| Gain on disposal of property, plant and equipment                               | 14,551       | 5,710        |
| Gain on derivative transactions (Note 25)                                       | 19,524       | 15,946       |
| Gain on valuation of derivatives (Note 25)                                      | 18,409       | 16,977       |
| Reversal of loss on investment assets   | -            | 927          |
| Reversal of loss on property, plant and equipment                               | 3,548        | -            |
| Reversal of allowance for doubtful accounts                                     | 87           | -            |
| Amortization of negative goodwill (Note 12)                                     | 823          | 1,568        |
| Others  | 43,447       | 59,907       |
|   | 354,196      | 353,136      |
| <b>Non-operating expenses</b>   |              |              |
| Interest expenses   | 193,303      | 220,520      |
| Loss on disposal of trade accounts receivable                                   | 2,831        | 2,935        |
| Loss on valuation of inventories  | 275          | 150          |
| Loss on foreign currency transactions   | 110,385      | 127,203      |
| Loss on foreign currency translation (Note 23)                                  | 99,147       | 52,955       |
| Loss on disposal of investment assets   | 5,663        | 22,783       |
| Loss on valuation of investment assets  | 298          | 6,510        |
| Loss on disposal of property, plant and equipment                               | 8,306        | 2,563        |
| Impairment of property, plant and equipment                                     | 4,356        | 9,868        |
| Donations   | 3,727        | 2,807        |
| Commissions   | 28,824       | 38,299       |
| Sales promotion   | 68           | 106          |
| Loss on valuation of equity-method investments (Note 8)                         | 2,465        | 2,305        |
| Bad debts expense for other accounts receivable                                 | 101,329      | 55,519       |
| Loss on derivative transactions (Note 25)                                       | 6,782        | 22,217       |
| Loss on valuation of derivatives (Note 25)                                      | 5,355        | 3,125        |
| Loss on retirement of bonds   | -            | 214          |
| Others  | 43,724       | 55,264       |
|   | 616,838      | 625,343      |
| Income before income tax  | 366,464      | 361,630      |
| Income tax expense (Note 29)  | 174,620      | 122,881      |
| Net income  | ₩ 191,844    | ₩ 238,749    |
| Parent interest in net income   | ₩ 266,448    | ₩ 323,430    |
| Minority interest in net income   | (74,604)     | (84,681)     |
| Basic earnings per share (Note 30)  | ₩ 8,009      | ₩ 9,722      |
| Diluted earnings per share (Note 30)  | ₩ 8,009      | ₩ 9,722      |

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

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**Years ended December 31, 2010 and 2009**

|  | Capital<br>stock | Capital<br>surplus | Capital<br>adjustments | Accumulated other<br>comprehensive<br>income and expense | Retained<br>earnings | Minority<br>interest | Total       |
|--|------------------|--------------------|------------------------|--|----------------------|----------------------|-------------|
| <i>(in millions of Korean won)</i>                   |                  |                    |                        |  |                      |                      |             |
| <b>Balances as of January 1, 2009</b>                | ₩ 175,587        | ₩ 1,175,272        | ₩ (34,204)             | ₩ 853,827  | ₩ 269,368            | ₩ 268,483            | ₩ 2,708,333 |
| Cash dividends                                       | -                | -                  | -                      | -  | (24,951)             | (891)                | (25,842)    |
| <b>Retained earnings after appropriation</b>         |                  |                    |                        |  | 244,417              | 267,592              | 2,682,491   |
| Change in capital surplus from equity method         | -                | (6,055)            | -                      | -  | -                    | -                    | (6,055)     |
| Net income   | -                | -                  | -                      | -  | 323,430              | -                    | 323,430     |
| Change in retained earnings - others                 | -                | -                  | -                      | -  | 25,471               | -                    | 25,471      |
| Change in other capital adjustments                  | -                | -                  | (1,726)                | -  | -                    | -                    | (1,726)     |
| Gain on valuation of available-for-sale securities   | -                | -                  | -                      | 18,575   | -                    | -                    | 18,575      |
| Gain on valuation of derivatives                     | -                | -                  | -                      | 27,568   | -                    | -                    | 27,568      |
| Gain on valuation of equity-method investments       | -                | -                  | -                      | 2,089  | -                    | -                    | 2,089       |
| Loss on valuation of equity-method investments       | -                | -                  | -                      | (2,347)  | -                    | -                    | (2,347)     |
| Reserve for revaluation                              | -                | -                  | -                      | (1,728)  | -                    | -                    | (1,728)     |
| Translation of foreign currency financial statements | -                | -                  | -                      | (82,264)   | -                    | -                    | (82,264)    |
| Increase in minority interest                        | -                | -                  | -                      | -  | -                    | 54,384               | 54,384      |
| <b>Balances as of December 31, 2009</b>              | ₩ 175,587        | ₩ 1,169,217        | ₩ (35,930)             | ₩ 815,720  | ₩ 593,318            | ₩ 321,976            | ₩ 3,039,888 |
| <b>Balances as of January 1, 2010</b>                | ₩ 175,587        | ₩ 1,169,217        | ₩ (35,930)             | ₩ 815,720  | ₩ 593,318            | ₩ 321,976            | ₩ 3,039,888 |
| Cash dividends                                       | -                | -                  | -                      | -  | (33,269)             | (1,893)              | (35,162)    |
| <b>Retained earnings after appropriation</b>         |                  |                    |                        |  | 560,049              | 320,083              | 3,004,726   |
| Change in capital surplus from equity method         | -                | (4,540)            | -                      | -  | -                    | -                    | (4,540)     |
| Net income   | -                | -                  | -                      | -  | 266,448              | -                    | 266,448     |
| Change in retained earnings - others                 | -                | -                  | -                      | -  | 6,011                | -                    | 6,011       |
| Change in other capital adjustments                  | -                | -                  | (179)                  | -  | -                    | -                    | (179)       |
| Gain on valuation of available-for-sale securities   | -                | -                  | -                      | 11,796   | -                    | -                    | 11,796      |
| Gain on valuation of derivatives                     | -                | -                  | -                      | 6,751  | -                    | -                    | 6,751       |
| Gain on valuation of equity-method investments       | -                | -                  | -                      | (2,009)  | -                    | -                    | (2,009)     |
| Loss on valuation of equity-method investments       | -                | -                  | -                      | (73)   | -                    | -                    | (73)        |
| Reserve for revaluation                              | -                | -                  | -                      | (8,668)  | -                    | -                    | (8,668)     |
| Translation of foreign currency financial statements | -                | -                  | -                      | 14,190   | -                    | -                    | 14,190      |
| Increase in minority interest                        | -                | -                  | -                      | -  | -                    | (67,711)             | (67,711)    |
| <b>Balances as of December 31, 2010</b>              | ₩ 175,587        | ₩ 1,164,677        | ₩ (36,109)             | ₩ 837,707  | ₩ 832,508            | ₩ 252,372            | ₩ 3,226,742 |

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

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31, 2010 and 2009**

(in millions of Korean won)

|   | 2010             | 2009             |
|---|------------------|------------------|
| <b>Cash flows from operating activities</b>   |                  |                  |
| Net income  | ₩ 191,844        | ₩ 238,749        |
| Adjustments to reconcile net income<br>to net cash provided by operating activities |                  |                  |
| Provision for severance benefits  | 57,573           | 46,122           |
| Depreciation  | 381,958          | 343,858          |
| Amortization  | 53,030           | 47,542           |
| Bad debts expense   | 95,402           | 50,142           |
| Loss on disposal of trade accounts receivable                                       | 2,831            | 2,935            |
| Loss on foreign currency translation  | 98,686           | 52,955           |
| Loss on valuation of inventories  | 275              | 150              |
| Loss on disposal of investment assets   | 5,663            | 22,782           |
| Impairment loss on investment assets  | 298              | 6,510            |
| Loss on disposal of property, plant and equipment                                   | 8,306            | 2,563            |
| Impairment loss on property, plant and equipment                                    | 4,356            | 9,868            |
| Loss on valuation of equity-method investments                                      | 2,465            | 2,305            |
| Bad debts expense for other accounts receivable                                     | 101,329          | 55,519           |
| Loss on valuation of derivatives  | 5,355            | 3,125            |
| Amortization of discounts on issuance of debentures                                 | 2,151            | 4,611            |
| Loss on retirement of bonds   | -                | 214              |
| Contribution to provision for construction losses                                   | 4,521            | 15,442           |
| Amortization of investments in development  | 22               | 49               |
| Warranty expense for construction   | 14,139           | 12,054           |
| Gain on foreign currency translation  | (71,129)         | (74,086)         |
| Gain on disposal of investment assets   | (13,155)         | (1,419)          |
| Gain on disposal of property, plant and equipment                                   | (14,551)         | (5,710)          |
| Reversal of impairment loss on property, plant and equipment                        | (3,548)          | -                |
| Reversal of impairment loss on investment assets                                    | -                | (927)            |
| Gain on valuation of equity-method investments                                      | (30,673)         | (9,217)          |
| Reversal of allowance for doubtful accounts   | (87)             | -                |
| Amortization of negative goodwill   | (823)            | (1,568)          |
| Gain on valuation of derivatives  | (18,409)         | (16,977)         |
|   | <u>685,985</u>   | <u>568,842</u>   |
| <b>Changes in operating assets and liabilities</b>                                  |                  |                  |
| Increase in trade accounts receivable   | (69,244)         | (404,722)        |
| Increase (decrease) in other accounts receivable                                    | (33,537)         | 47,957           |
| Increase in accrued income  | (24,540)         | (15,020)         |
| Decrease (increase) in advance payments   | 91,135           | (103,117)        |
| Decrease (increase) in prepaid expenses   | 1,808            | (27,966)         |
| Increase(decrease) in other current assets  | (12,642)         | 36,730           |
| Increase(decrease) in inventories   | (402,196)        | 93,890           |
| Decrease in derivatives   | 15,914           | 15,299           |
| Increase(decrease) in other financial business assets                               | (497,759)        | 50,543           |
| Decrease in deferred tax assets   | 3,590            | 76,162           |
| Decrease (increase) in translation of foreign currency financial statements         | 14,189           | (64,633)         |
| Increase in trade accounts payable  | 385,238          | 123,552          |
| Decrease (increase) in other accounts payable                                       | (4,484)          | 41,194           |
| Decrease (increase) in advance from customers                                       | (24,795)         | 25,362           |
| Decrease (increase) in withholdings   | (1,443)          | 12,527           |
| Decrease in accrued expenses  | (11,809)         | (4,723)          |
| Increase in income taxes payable  | 81,066           | 11,847           |
| Increase in deposits received   | 130,963          | 4,160            |
| Increase(decrease) in other current liabilities                                     | 3,881            | (375)            |
| Payment of severance benefits   | (86,794)         | (26,991)         |
| Severance benefits transferred  | 568              | 139              |
| Decrease (increase) in severance benefits deposits                                  | 18,773           | (16,577)         |
| Decrease in contribution to National Pension Fund                                   | 221              | 533              |
| Decrease in provision for construction warranties                                   | (4,942)          | (6,747)          |
| Decrease in derivatives payable   | (12,563)         | (40,332)         |
| Increase(decrease) in deferred tax liabilities                                      | 7,654            | (19,914)         |
| Increase in other non-current liabilities   | 5,344            | 1,438            |
|   | <u>(426,404)</u> | <u>(189,784)</u> |
| Net cash provided by operating activities   | <u>451,425</u>   | <u>617,807</u>   |

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31, 2010 and 2009**

(in millions of Korean won)

|  | 2010             | 2009             |
|--|------------------|------------------|
| <b>Cash flows from investing activities</b>                |                  |                  |
| Proceeds from disposal of short-term financial instruments | ₩ 236,198        | ₩ 164,762        |
| Decrease in short-term loans receivable                    | 35,410           | 156,269          |
| Proceeds from disposal of long-term financial instruments  | 153              | 12,613           |
| Proceeds from disposal of available-for-sale securities    | 18,359           | 7,201            |
| Proceeds from disposal of held-to-maturity securities      | 52               | 7,206            |
| Proceeds from disposal of equity-method investments        | -                | 869              |
| Decrease in long-term loans receivable                     | 4,642            | 686              |
| Proceeds from disposal of property, plant and equipment    | 61,531           | 33,038           |
| Decrease in guarantee deposits                             | 29,473           | 58,413           |
| Proceeds from disposal of other investment assets          | 29,035           | 46,928           |
| Proceeds from disposal of short-term financial instruments | (206,491)        | (207,657)        |
| Increase in short-term loans receivable                    | (153,034)        | (230,492)        |
| Acquisition of long-term financial instruments             | (239)            | (16,834)         |
| Acquisition of available-for-sale securities               | (21,590)         | (22,153)         |
| Acquisition of held-to-maturity securities                 | (32)             | (8)              |
| Acquisition of equity-method investments                   | (1,185)          | (13,209)         |
| Increase in long-term loans receivable                     | (4,540)          | (9,983)          |
| Acquisition of property, plant and equipment               | (738,387)        | (492,304)        |
| Acquisition of intangible assets                           | (21,518)         | (17,163)         |
| Acquisition of guarantee deposits                          | (96,292)         | (52,965)         |
| Acquisition of other investment assets                     | (46,073)         | -                |
| Net cash used in investing activities                      | <u>(874,528)</u> | <u>(574,783)</u> |
| <b>Cash flows from financing activities</b>                |                  |                  |
| Proceeds from short-term borrowings                        | 6,953,815        | 6,516,480        |
| Proceeds from current portion of long-term borrowings      | 28,000           | 5,000            |
| Proceeds from issuance of debentures                       | 907,435          | 672,866          |
| Proceeds from long-term borrowings                         | 426,775          | 214,805          |
| Proceeds from issuance of common shares                    | 28,903           | 135,124          |
| Repayment of short-term borrowings                         | (6,625,010)      | (6,623,238)      |
| Repayment of current portion of long-term loans            | (699,820)        | (880,034)        |
| Repayment of debentures                                    | (347,000)        | (10,020)         |
| Repayment of long-term borrowings                          | (48,551)         | (172,412)        |
| Payment of cash dividends                                  | (35,162)         | (25,842)         |
| Net cash provided by (used in) financing activities        | <u>589,385</u>   | <u>(167,271)</u> |
| Net increase in cash due to changes in subsidiaries        | <u>46,778</u>    | <u>93,363</u>    |
| Net increase (decrease) in cash and cash equivalents       | <u>213,060</u>   | <u>(30,884)</u>  |
| <b>Cash and cash equivalents</b>                           |                  |                  |
| Beginning of the year                                      | 448,494          | 479,378          |
| End of the year  | <u>₩ 661,554</u> | <u>₩ 448,494</u> |

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

# Hyosung Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2010 and 2009

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#### 1. The Consolidated Company

##### The Controlling Company

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

The Controlling Company has been listed on the Korea Stock Exchange since June 30, 1973. On November 30, 1998, Hyosung Living Industry Co., Ltd., Hyosung Industries Co., Ltd. and Hyosung Corporation (trading) merged with Hyosung Corporation for the purpose of gaining operational efficiencies and synergy effects. On February 7, 2001, the Controlling Company merged with Hyosung Media and merged with Hyosung Innotech Inc. on June 1, 2007.

As of December 31, 2010, the Controlling Company's major stockholders are Cho Seok Rae (10.32%), Cho Hyun Joon (6.94%), Cho Hyun Moon (7.18%) and Cho Hyun Sang (6.79%).

##### Consolidated Subsidiaries

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

The following table sets forth certain investment information with regard to consolidated subsidiaries as of December 31, 2010:

| <i>(in millions of Korean won)</i>                                | Location | Business                                   | Closing date | Capital | Percentage of ownership |
|---|----------|--|--------------|---------|-------------------------|
| <b>Subsidiaries included in consolidation</b>                     |          |  |              |         |                         |
| Galaxiaphotonics Co., Ltd.  | Korea    | Manufacture and sale of wafer and LED chip | December 31  | ₩ 8,214 | 73.22%                  |
| Nautilus Hyosung Inc.   | Korea    | Computer system development                | December 31  | 178,100 | 43.50%                  |
| The Class Hyosung Co., Ltd.                                       | Korea    | Sale of new motor vehicles                 | December 31  | 18,101  | 58.02%                  |
| Taeuk Construction Co., Ltd.                                      | Korea    | Construction                               | December 31  | (3,499) | 58.50%                  |
| Flossom Co., Ltd.<br>(formerly Soul Flora Inc.)                   | Korea    | Service of real estate                     | December 31  | 12,557  | 55.90%                  |
| Chin Hung International Inc.                                      | Korea    | Construction                               | December 31  | 188,498 | 55.90%                  |
| Taeon Solar Farm Co., Ltd.  | Korea    | Photovoltaic power generation              | December 31  | 1,436   | 100.00%                 |
| Hyosung Good Springs., Ltd.<br>(formerly Hyosung Ebara Co., Ltd.) | Korea    | Manufacture of liquid pumps                | December 31  | 86,180  | 100.00%                 |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |                |  |             |          |         |
|--|----------------|--|-------------|----------|---------|
| Hyosung Ebara Engineering Co., Ltd.                | Korea          | Installation of environmental hygiene treatment appliances | December 31 | 21,222   | 81.33%  |
| Hyosung FMS Inc.                                   | Korea          | System and application software development and supply     | December 31 | 7,150    | 100.00% |
| Hyosung Capital Co., Ltd.                          | Korea          | Factoring finance  | December 31 | 329,296  | 97.15%  |
| Hyosung Investment & Development Corp.             | Korea          | Development of real estate                                 | December 31 | 64,071   | 58.75%  |
| Hyosung Trans World Co., Ltd.                      | Korea          | Transportation   | December 31 | 8,054    | 100.00% |
| Baoding Hyosung Tianwei Transformer Co., Ltd.      | China          | Manufacture and sale of transformers                       | December 31 | 7,326    | 80.00%  |
| Beijing Hyosung Computer Technologies Co., Ltd.    | China          | Manufacture and sale of computer components                | December 31 | 3,510    | 100.00% |
| Beijing Hyosung Container Co., Ltd.                | China          | Manufacture and sale of other plastic products             | December 31 | 13,224   | 100.00% |
| HICO America Sales & Tech.                         | USA            | General trading  | December 31 | 36,024   | 100.00% |
| Hyosung America Inc.                               | USA            | General trading  | December 31 | (77,553) | 100.00% |
| Hyosung Brasil industrial & commercial LTDA        | Brazil         | Manufacture and sale of tire cords                         | December 31 | 8,608    | 100.00% |
| Hyosung Brasil Industrial E Comercio DE Fibers LTD | Brazil         | Manufacture of spandex                                     | December 31 | 13,745   | 100.00% |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd.         | China          | Manufacture of polyester                                   | December 31 | 176,150  | 100.00% |
| Hyosung Chemicals (Jiaxing) Co., Ltd.              | China          | Manufacture of chemical products                           | December 31 | 19,144   | 100.00% |
| Hyosung Europe SRL                                 | Italy          | General trading  | December 31 | 4,596    | 100.00% |
| Hyosung Holdings USA, Inc.                         | USA            | Holding company  | December 31 | 21,070   | 100.00% |
| Hyosung International Trade (Jiaxing) Co., Ltd.    | China          | General trading  | December 31 | 1,405    | 100.00% |
| Hyosung Istanbul Tekstil Ltd.STI                   | Turkey         | Manufacture and sale of spandex                            | December 31 | 22,295   | 76.66%  |
| Hyosung Japan Co., Ltd.                            | Japan          | General trading  | December 31 | 10,135   | 100.00% |
| Hyosung Luxembourg S.A                             | Luxemburg      | Manufacture and sale of tire cords                         | December 31 | 19,956   | 100.00% |
| Hyosung Power Holdings Co., Ltd.                   | Cayman Islands | Holding Company  | December 31 | 22,769   | 100.00% |
| Hyosung Singapore Pte Ltd. <sup>1</sup>            | Singapore      | General trading  | December 31 | (116)    | 100.00% |
| Hyosung Spandex (Guangdong) Co., Ltd.              | China          | Manufacture and sale of spandex                            | December 31 | 141,339  | 100.00% |
| Hyosung Spandex (Jiaxing) Co., Ltd.                | China          | Manufacture and sale of spandex                            | December 31 | 125,047  | 100.00% |
| Hyosung Spandex (Zhuhai) Co., Ltd.                 | China          | Manufacture and sale of spandex                            | December 31 | 32,734   | 75.00%  |
| Hyosung Steel Cord (Nanjing) Co., Ltd.             | China          | Manufacture and sale of steel cords                        | December 31 | 29,912   | 100.00% |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

|  |            |  |             |         |         |
|--|------------|--|-------------|---------|---------|
| Hyosung Steel Cord (Qingdao) Co., Ltd.                 | China      | Manufacture and sale of steel cords                            | December 31 | 45,369  | 100.00% |
| Hyosung USA Inc.                                       | USA        | Manufacture and sale of tire cords                             | December 31 | 69,824  | 100.00% |
| Hyosung Vietnam Co., Ltd.                              | Vietnam    | Manufacture and sale of tire cords                             | December 31 | 93,226  | 88.21%  |
| Nantong Hyosung Transformer Co., Ltd.                  | China      | Manufacture and sale of transformers                           | December 31 | 21,828  | 100.00% |
| Nautilus Hyosung America Inc. <sup>1</sup>             | USA        | Sale of automated teller machines                              | December 31 | 6,636   | 100.00% |
| Zhangjiagang Xiaosha Coil Service Co., Ltd.            | China      | Manufacture of steel products                                  | December 31 | 16,911  | 64.50%  |
| <b>Subsidiaries excluded from consolidation</b>        |            |  |             |         |         |
| Gumoknongsan Co., Ltd. <sup>1</sup>                    | Korea      | Growing of crops   | December 31 | (445)   | 75.00%  |
| Asia LNG Hub. Co., Ltd. <sup>1</sup>                   | Korea      | Manufacture of Gas and pipe                                    | December 31 | 1,232   | 65.22%  |
| Hong Jin Data service Co. <sup>1</sup>                 | Korea      | Software development and supply                                | December 31 | 953     | 78.42%  |
| Hyosung Wind Power Holdings Ltd. <sup>1</sup>          | Korea      | Wind power generation  | December 31 | 1,559   | 100.00% |
| Hyosung Wire Luxembourg S.A <sup>1</sup>               | Luxembourg | Manufacture of chemical fiber                                  | December 31 | 61      | 100.00% |
| Beijing Hyosung Food & Beverage Co., Ltd. <sup>1</sup> | China      | Restaurant business  | December 31 | 1,455   | 95.00%  |
| Hyosung Toyota Co., Ltd. <sup>1</sup>                  | Korea      | Sale of motor vehicles   | December 31 | (2,746) | 40.00%  |
| Hyosung Deutschland GmbH <sup>2</sup>                  | Germany    | General trading  | December 31 | -       | 100.00% |
| Hyosung (H.K) Ltd. <sup>1</sup>                        | China      | General trading  | December 31 | 802     | 100.00% |
| Hyosung Resource (Australia) Pty Ltd. <sup>1</sup>     | Australia  | Resources development  | December 31 | 2,657   | 100.00% |
| Lanka Synthetic Fibre Co., Ltd. <sup>2</sup>           | Sri Lanka  | Manufacture of polyester                                       | December 31 | -       | 98.31%  |
| OpCo GmbH <sup>2</sup>                                 | Germany    | Manufacture of film  | December 31 | (587)   | 98.85%  |
| Xepix Corp. <sup>1</sup>                               | USA        | LED research   | December 31 | 4,591   | 74.93%  |
| NH Tech Inc. <sup>1</sup>                              | Korea      | Management of computer facility                                | December 31 | 3,855   | 100.00% |
| KIS-BANK Inc. <sup>1</sup>                             | Korea      | System software development and supply                         | December 31 | 691     | 53.11%  |
| Nantong Transformer Co., Ltd. <sup>1</sup>             | China      | Manufacture and sale of transformers                           | December 31 | 5,484   | 100.00% |
| Nantong Yaubong Transformer Co., Ltd. <sup>1</sup>     | China      | Manufacture and sale of transformers                           | December 31 | 6,017   | 100.00% |
| Gangreng Wind Power <sup>1</sup>                       | Korea      | Development, construction and management of wind turbine plant | December 31 | 39      | 100.00% |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

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<sup>1</sup> According to Paragraph 2-1, Article 1-3 of the Act on External Audit of Corporations, the subsidiary is excluded from consolidation in 2010 if its total assets are less than ₩ 10 billion at the end of prior fiscal year.

<sup>2</sup> According to Paragraph 2-2, Article 1-3 of the Act on External Audit of Corporations, the subsidiary is excluded from consolidation in 2010 if it is under liquidation or has not been in operation for a year and longer.

The following table sets forth certain investment information with regard to consolidated subsidiaries as of December 31, 2009:

| <i>(in millions of Korean won)</i>                                | Location | Business   | Closing date | Capital  | Percentage of ownership |
|---|----------|--|--------------|----------|-------------------------|
| <b>Subsidiaries included in consolidation</b>                     |          |  |              |          |                         |
| Galaxiaphotonics Co., Ltd.  | Korea    | Manufacture and sale of wafer and LED chip                 | December 31  | 12,883   | 53.94%                  |
| Nautilus Hyosung Inc.   | Korea    | Computer system development                                | December 31  | ₩149,882 | 43.50%                  |
| The Class Hyosung Co., Ltd.                                       | Korea    | Sale of new motor vehicles                                 | December 31  | 12,382   | 58.02%                  |
| Chin Hung International Inc.                                      | Korea    | Construction   | December 31  | 235,906  | 30.86%                  |
| Taeon Solar Farm Co., Ltd   | Korea    | Photovoltaic power generation                              | December 31  | 1,876    | 100.00%                 |
| Hyosung Construction Co., Ltd.                                    | Korea    | Construction   | December 31  | (11,307) | 50.59%                  |
| Hyosung Good Springs., Ltd.<br>(formerly Hyosung Ebara Co., Ltd.) | Korea    | Manufacture of liquid pumps                                | December 31  | 65,985   | 67.00%                  |
| Hyosung Ebara Engineering Co., Ltd.                               | Korea    | Installation of environmental hygiene treatment appliances | December 31  | 21,402   | 81.33%                  |
| Hyosung Capital Co., Ltd.   | Korea    | Factoring finance  | December 31  | 293,391  | 97.15%                  |
| Hyosung Investment & Development Corp.                            | Korea    | Development of real estate                                 | December 31  | 59,066   | 58.75%                  |
| Hyosung Trans World Co., Ltd.                                     | Korea    | Transportation   | December 31  | 4,698    | 100.00%                 |
| Baoding Hyosung Tianwei Transformer Co., Ltd.                     | China    | Manufacture and sale of transformers                       | December 31  | 10,181   | 80.00%                  |
| Beijing Hyosung Container Co., Ltd.                               | China    | Manufacture and sale of other plastic products             | December 31  | 19,851   | 100.00%                 |
| HICO America Sales & Tech.  | USA      | General trading  | December 31  | 29,776   | 100.00%                 |
| Hyosung America Inc.  | USA      | General trading  | December 31  | (76,477) | 100.00%                 |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd.                        | China    | Manufacture of polyester                                   | December 31  | 179,432  | 100.00%                 |
| Hyosung Chemicals (Jiaxing) Co., Ltd.                             | China    | Manufacture of chemical products                           | December 31  | 19,761   | 100.00%                 |
| Hyosung Europe SRL  | Italy    | General trading  | December 31  | 4,575    | 100.00%                 |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

|  |                |  |             |         |         |
|--|----------------|--|-------------|---------|---------|
| Hyosung Holdings USA, Inc.                             | USA            | Holding company  | December 31 | 21,722  | 100.00% |
| Hyosung International Trade (Jiaxing) Co., Ltd.        | China          | General trading  | December 31 | 1,409   | 100.00% |
| Hyosung Istanbul Tekstil Ltd.STI                       | Turkey         | Manufacture and sale of spandex                        | December 31 | 22,468  | 76.66%  |
| Hyosung Japan Co., Ltd.                                | Japan          | General trading  | December 31 | 7,634   | 100.00% |
| Hyosung Luxembourg S.A                                 | Luxemburg      | Manufacture and sale of tire cords                     | December 31 | 20,380  | 100.00% |
| Hyosung Power Holdings Co., Ltd.                       | Cayman Islands | Holding Company  | December 31 | 46,597  | 100.00% |
| Hyosung Singapore Pte Ltd. <sup>1</sup>                | Singapore      | General trading  | December 31 | (156)   | 100.00% |
| Hyosung Spandex (Guangdong) Co., Ltd.                  | China          | Manufacture and sale of spandex                        | December 31 | 134,121 | 100.00% |
| Hyosung Spandex (Jiaxing) Co., Ltd.                    | China          | Manufacture and sale of spandex                        | December 31 | 143,992 | 100.00% |
| Hyosung Spandex (Zhuhai) Co., Ltd.                     | China          | Manufacture and sale of spandex                        | December 31 | 23,909  | 75.00%  |
| Hyosung Steel Cord (Nanjing) Co., Ltd.                 | China          | Manufacture and sale of steel cords                    | December 31 | 33,798  | 100.00% |
| Hyosung Steel Cord (Qingdao) Co., Ltd.                 | China          | Manufacture and sale of steel cords                    | December 31 | 43,679  | 100.00% |
| Hyosung USA Inc.                                       | USA            | Manufacture and sale of tire cords                     | December 31 | 66,832  | 100.00% |
| Hyosung Vietnam Co., Ltd.                              | Vietnam        | Manufacture and sale of tire cords                     | December 31 | 72,974  | 88.21%  |
| Nantong Hyosung Transformer Co., Ltd.                  | China          | Manufacture and sale of transformers                   | December 31 | 45,931  | 100.00% |
| Nantong Yaubong Transformer Co., Ltd.                  | China          | Manufacture and sale of transformers                   | December 31 | 5,966   | 100.00% |
| Zhangjiagang Xiaosha Coil Service Co., Ltd.            | China          | Manufacture of steel products                          | December 31 | 16,183  | 64.50%  |
| Hyosung FMS Inc.                                       | Korea          | System and application software development and supply | December 31 | 4,721   | 100.00% |
| Taeuk Construction Co. ,Ltd                            | Korea          | Construction   | December 31 | (1,286) | 100.00% |
| Nautilus Hyosung America Inc. <sup>1</sup>             | USA            | Sale of automated teller machines                      | December 31 | 5,156   | 100.00% |
| Beijing Hyosung Computer Technologies Co., Ltd.        | China          | Manufacture and sale of computer components            | December 31 | 3,476   | 100.00% |
| <b>Subsidiaries excluded from consolidation</b>        |                |  |             |         |         |
| Gumoknongsan Co., Ltd. <sup>1</sup>                    | Korea          | Growing of crops                                       | December 31 | 27      | 75.00%  |
| Hong Jin Data service Co. <sup>1</sup>                 | Korea          | Software development and supply                        | December 31 | 6,598   | 78.42%  |
| Hyosung Wind Power Holdings Ltd. <sup>1</sup>          | Korea          | Wind power generation                                  | December 31 | 1,399   | 100.00% |
| Beijing Hyosung Food & Beverage Co., Ltd. <sup>1</sup> | China          | Restaurant business                                    | December 31 | (382)   | 95.00%  |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

|  |           |   |             |        |         |
|--|-----------|---|-------------|--------|---------|
| Flossom Co., Ltd.<br>(formerly Soul Flora Inc.) <sup>1</sup> | Korea     | Real estate service   | December 31 | 15,066 | 58.55%  |
| Hyosung Toyota Co., Ltd. <sup>1</sup>                        | Korea     | Sale of motor vehicles  | December 31 | (142)  | 40.00%  |
| Hyosung Deutschland GmbH <sup>2</sup>                        | Germany   | General trading   | December 31 | -      | 100.00% |
| Hyosung (H.K) Ltd. <sup>1</sup>                              | China     | General trading   | December 31 | 829    | 100.00% |
| Hyosung Resource (Australia)<br>Pty Ltd. <sup>1</sup>        | Australia | Resources<br>development  | December 31 | 1,854  | 100.00% |
| Lanka Synthetic Fibre Co., Ltd. <sup>2</sup>                 | Srilanka  | Manufacture of<br>polyester   | December 31 | -      | 98.31%  |
| OpCo GmbH  | Germany   | Manufacture of film   | December 31 | -      | 98.85%  |
| Xepix Corp. <sup>1</sup>                                     | USA       | LED research  | December 31 | 3,694  | 74.93%  |
| NH Tech Inc. <sup>1</sup>                                    | Korea     | Management of<br>computer facility                                      | December 31 | 3,135  | 100.00% |
| KIS-BANK Inc. <sup>1</sup>                                   | Korea     | System software<br>development<br>and supply                            | December 31 | 1,089  | 53.10%  |
| Hyosung Brasil Industrial &<br>Commercial Ltd. <sup>1</sup>  | Brazil    | Manufacture and<br>sale of tire cords                                   | December 31 | 8,607  | 100.00% |
| Nantong Hyosung Transformer<br>Co., Ltd. <sup>1</sup>        | China     | Manufacture and<br>sale of<br>transformers                              | December 31 | 5,438  | 100.00% |
| Powertech Corporation <sup>1</sup>                           | USA       | Design service  | December 31 | (19)   | 100.00% |
| Gangreng Wind Power <sup>1</sup>                             | Korea     | Development,<br>construction and<br>management of wind<br>turbine plant | December 31 | 39     | 100.00% |

<sup>1</sup> According to Paragraph 2-1, Article 1-3 of the Act on External Audit of Corporations, the subsidiary is excluded from consolidation in 2009 if its total assets are less than ₩ 10 billion at the end of prior fiscal year.

<sup>2</sup> According to Paragraph 2-2, Article 1-3 of the Act on External Audit of Corporations, the subsidiary is excluded from consolidation in 2009 if it is under liquidation or has not been in operation for a year and longer.

Summarized financial information of subsidiaries included in consolidation as of and for the year ended December 31, 2010, is as follows:

(in millions of Korean won)

| Subsidiary                                      | 2010            |                      |         |                      |
|---|-----------------|----------------------|---------|----------------------|
|   | Total<br>Assets | Total<br>liabilities | Revenue | Net income<br>(loss) |
| Galaxiaphotonics Co., Ltd.                      | 36,116          | 27,902               | 10,789  | (19,591)             |
| Nautilus Hyosung Inc.                           | 289,127         | 111,026              | 405,830 | 28,361               |
| The Class Hyosung Co., Ltd.                     | 50,426          | 32,325               | 300,106 | 5,719                |
| Flossom Co., Ltd.<br>(formerly Soul Flora Inc.) | 96,424          | 83,867               | 233     | (2,509)              |
| Chin Hung International Inc.                    | 839,732         | 651,234              | 582,388 | (206,106)            |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |                    |                    |                    |                  |
|--|--------------------|--------------------|--------------------|------------------|
| Taeon Solar Farm Co., Ltd.                                       | 10,478             | 9,042              | 1,309              | (172)            |
| Hyosung Ebara Engineering Co., Ltd.                              | 88,957             | 67,735             | 183,609            | 302              |
| Hyosung Good Springs. Ltd.<br>(formerly Hyosung Ebara Co., Ltd.) | 153,608            | 67,429             | 262,101            | 22,895           |
| Hyosung Capital Co., Ltd.  | 1,920,671          | 1,591,375          | 217,915            | 36,893           |
| Hyosung Investment &<br>Development Corp.                        | 67,068             | 2,996              | 633                | 5,905            |
| Hyosung Trans World Co., Ltd.                                    | 40,951             | 32,897             | 224,893            | 3,356            |
| Baoding Hyosung Tianwei<br>Transformer Co., Ltd.                 | 39,638             | 32,312             | 20,008             | (2,912)          |
| Beijing Hyosung Container Co., Ltd.                              | 13,739             | 514                | 4,641              | 1,544            |
| Hyosung Brasil industrial &<br>commercial LTDA                   | 16,639             | 8,031              | 24,651             | 1,870            |
| Hyosung Brasil industria E<br>Comercio DE Fibras LTD             | 13,938             | 192                | -                  | (1,934)          |
| Hyosung Chemical Fiber<br>(Jiaxing) Co., Ltd.                    | 289,906            | 113,756            | 266,234            | 15,752           |
| Hyosung Chemicals<br>(Jiaxing) Co., Ltd.                         | 91,797             | 72,652             | 66,578             | (776)            |
| Hyosung Europe SRL   | 22,708             | 18,111             | 35,172             | 466              |
| Hyosung Holdings USA, Inc.                                       | 459,669            | 431,389            | 827,896            | 8,672            |
| Hyosung International Trade<br>(Jiaxing) Co., Ltd.               | 17,754             | 16,349             | 214,698            | (16)             |
| Hyosung Istanbul Tekstil LTD.STI                                 | 156,582            | 134,287            | 122,150            | 1,041            |
| Hyosung Japan Co., Ltd.  | 79,969             | 69,834             | 437,165            | 1,596            |
| Hyosung Luxembourg S.A   | 107,589            | 87,634             | 213,311            | 1,551            |
| Hyosung Power Holdings Co., Ltd.                                 | 247,159            | 224,390            | 116,037            | (24,546)         |
| Hyosung Singapore PTE Ltd.                                       | 13,994             | 14,110             | 143,702            | 48               |
| Hyosung Spandex<br>(GuangDong) Co., Ltd.                         | 227,951            | 86,611             | 185,031            | 28,729           |
| Hyosung Spandex (Jiaxing) Co., Ltd.                              | 179,108            | 54,061             | 109,913            | 17,773           |
| Hyosung Spandex (Zhuhai) Co., Ltd.                               | 71,129             | 38,396             | 59,619             | 8,540            |
| Hyosung Steel Cord (Nanjing) Co.,<br>Ltd.                        | 77,600             | 47,689             | 7,839              | (4,127)          |
| Hyosung Steel Cord (Qingdao) Co.,<br>Ltd.                        | 156,910            | 111,541            | 117,521            | 1,548            |
| Hyosung Vietnam Co., Ltd.  | 614,216            | 520,990            | 281,898            | 26,184           |
| Zhangjiagang Xiaosha Coil<br>Service Co., Ltd.                   | 20,953             | 4,042              | 26,227             | 586              |
| Others   | 6,978,036          | 3,986,125          | 8,383,388          | 271,745          |
|  | <u>₩13,490,542</u> | <u>₩ 8,750,844</u> | <u>₩13,938,080</u> | <u>₩ 239,694</u> |

# Hyosung Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2010 and 2009

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#### Changes in Consolidated Subsidiaries

The subsidiaries newly included in the scope of consolidation in 2010 and the respective reasons for inclusion are as stated below:

| Subsidiary  | Reason   |
|---|--|
| Flossom Co., Ltd. (formerly Soul Flora Inc.)        | Increase in total assets at the end of prior fiscal year |
| Hyosung Brasil Industrial & Commercial Ltda.        | Increase in total assets at the end of prior fiscal year |
| Hyosung Brasil Industrial E Comercio DE Fibers Ltd. | Newly acquired in the current year                       |

The subsidiaries excluded from consolidation in 2010, although included in 2009, are as follows:

| Subsidiary                            | Reason   |
|---------------------------------------|--|
| Nantong Yaubong Transformer Co., Ltd. | Decrease in total assets at the end of prior fiscal year |
| Hyosung Construction Co., Ltd.        | Liquidated   |

## 2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the presentation of its consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Basis of Presentation

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

#### Reclassifications of Prior Year Financial Statements

Certain accounts of the December 31, 2009 consolidated financial statements have been reclassified to conform to the December 31, 2010 consolidated financial statement presentation. These reclassifications have not resulted in any change in the previously reported net income or shareholders' equity.

#### Revenue Recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The

## **Hyosung Corporation and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

#### **December 31, 2010 and 2009**

---

Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

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

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

#### **Revenues from Construction Contracts**

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

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

#### **Cash and Cash Equivalents**

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

#### **Allowance for Doubtful Accounts**

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

#### **Inventories**

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories except unfinished housing and goods-in-transit (identified cost method) are determined using the moving-weighted average method. Certain subsidiaries use the first-in, first-out method and gross-weighted average method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the

## **Hyosung Corporation and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

#### **December 31, 2010 and 2009**

---

ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

#### **Investments in Securities**

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

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

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

#### **Equity-Method Investments**

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

#### **Property, Plant and Equipment**

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

Land is revalued at fair value at least every three years or on a periodic basis by an independent appraiser. Property, plant and equipment other than land are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. An increase as a result of a revaluation is credited directly to equity under other accumulated comprehensive income and expense. However, the decrease as a result of a

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

revaluation is deducted directly from equity under other accumulated other comprehensive income and expense to the extent of any balance existing in the revaluation surplus in respect of that asset and the residual is recognized as profit or loss.

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

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

<sup>1</sup> Certain subsidiaries use the declining balance method.

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

**Intangible Assets**

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

**Estimated Useful Lives**

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

**Capitalization of Interest Expense**

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

**Government Grants**

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

# Hyosung Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2010 and 2009

---

#### **Impairment of Assets**

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

#### **Derivatives**

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

#### **Income Tax and Deferred Income Tax**

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

#### **Discounts on Debentures**

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

#### **Accrued Severance Benefits**

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

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

## **Hyosung Corporation and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

#### **December 31, 2010 and 2009**

---

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

#### **Provisions and Contingent Liabilities**

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

#### **Translation of Assets and Liabilities Denominated in Foreign Currencies**

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

#### **Currency Translation for Foreign Operations**

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

#### **Principles of Consolidation**

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

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

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

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

to the equity of the controlling company and minority interest, based on the percentage of ownership.

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

**Elimination of Investments and Shareholders' Equity**

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

The eliminating entries of the Controlling Company's investments against the subsidiary shareholders' equity as of December 31, 2010 and 2009, are as follows:

| <b>2010</b>  | <b>Amount</b> | <b>Account</b>            | <b>Amount</b> |
|--|---------------|---------------------------|---------------|
| <i>(in millions of Korean won)</i>                           |               |                           |               |
| Capital stock  | ₩ 1,130,831   | Equity method investments | ₩ 1,588,415   |
| Capital surplus  | 163,815       | Minority interest         | 252,372       |
| Retained earnings  | 349,151       | Capital adjustment        | 4,109         |
| Accumulated other comprehensive income                       | 123,429       |                           |               |
| Provision for loss on valuation of equity method investments | 77,670        |                           |               |
| <br>   |               |                           |               |
| <b>2009</b>  | <b>Amount</b> | <b>Account</b>            | <b>Amount</b> |
| <i>(in millions of Korean won)</i>                           |               |                           |               |
| Capital stock  | ₩ 907,285     | Equity method investments | ₩ 1,511,979   |
| Capital surplus  | 267,422       | Minority interest         | 322,293       |
| Retained earnings  | 452,267       | Capital adjustment        | 3,724         |
| Accumulated other comprehensive income                       | 134,389       |                           |               |
| Provision for loss on valuation of equity method investments | 76,633        |                           |               |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

#### Use of Provisional Financial Statements

Provisional December 31, 2010 financial statements were used in the consolidation as neither the audited or reviewed financial statements were available for Hyosung Brasil industria E Comercio DE Fibras Ltd., Hyosung Istanbul Tekstil Ltd. STI and Beijing Hyosung Computer Technologies Co., Ltd. Their financial statements reflect 1.49 % of total consolidated assets, before elimination of intercompany transactions, as of December 31, 2010, and 1.18 % of total consolidated sales, before elimination of intercompany transactions, for the year then ended.

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

| Subsidiary<br>(in millions of Korean won)             | Equity<br>ownership | Assets   | Liabilities | Sales   |
|---|---------------------|----------|-------------|---------|
| Hyosung Brasil industria E<br>Comercio DE Fibras Ltd. | 100.00%             | ₩ 13,938 | ₩ 192       | ₩ -     |
| Hyosung Istanbul Tekstil Ltd. STI                     | 76.66%              | 156,582  | 134,287     | 122,150 |
| Beijing Hyosung Computer<br>Technologies Co., Ltd.    | 100.00%             | 30,787   | 27,278      | 42,771  |

### 3. Restricted Financial Instruments

Restricted financial instruments as of December 31, 2010 and 2009, are as follows:

| (in millions of Korean won)      | 2010     | 2009     | Descriptions                           |
|----------------------------------|----------|----------|--|
| Cash and cash equivalents        | ₩ 18,886 | ₩ 18,930 | Government financial assistance fund   |
|                                  | 15,398   | 4,174    | Others                                 |
| Short-term financial instruments | 19,338   | 37,000   | Pledged deposit                        |
|                                  | 31       | 32       | Collateral for subcontracting payments |
|                                  | 3,118    | 811      | Others                                 |
| Long-term financial instruments  | 134      | 936      | Deposits for checking account          |
|                                  | 1,652    | -        | Pledged deposit                        |
|                                  | 895      | -        | Deposits received for guarantees       |
|                                  | ₩ 59,452 | ₩ 61,883 |  |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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**4. Transfers of Trade Accounts and Notes Receivables**

Trade accounts and notes receivables transferred to and discounted with third parties as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b>      | <b>2009</b>      | <b>Terms</b> |
|------------------------------------|------------------|------------------|--------------|
| Accounts receivable (export)       | ₩ 617,575        | ₩ 524,549        | Secured      |
| Factoring                          | 6,675            | 9,800            | Secured      |
| Electronic bills                   | 67,435           | 100,814          | Secured      |
| Accounts receivable (domestic)     | 38,153           | 25,090           | Not secured  |
|                                    | <u>₩ 729,838</u> | <u>₩ 660,253</u> |              |

**5. Inventories**

Inventories as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>    | <b>2010</b>        | <b>2009</b>        |
|---------------------------------------|--------------------|--------------------|
| Merchandise                           | ₩ 129,093          | ₩ 107,726          |
| Finished goods                        | 465,421            | 324,967            |
| Work-in-progress                      | 82,586             | 58,522             |
| Consigned goods                       | 4,498              | 4,257              |
| Goods on consignment                  | 427                | 493                |
| Raw materials                         | 266,748            | 250,155            |
| Supplies                              | 9,542              | 3,529              |
| Goods-in-transit                      | 58,610             | 49,813             |
| Unfinished housing and office units   | 25,569             | 12,930             |
| Temporary structures for construction | 146                | 228                |
| Building lots                         | 309,121            | 106,355            |
| Others                                | 137,759            | 151,315            |
|                                       | <u>₩ 1,489,520</u> | <u>₩ 1,070,290</u> |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**6. Available-for-sale Securities**

Available-for-sale securities as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b>      | <b>2009</b>      |
|------------------------------------|------------------|------------------|
| Equity securities                  | ₩ 134,584        | ₩ 119,486        |
| Other equity Investments           | 56,055           | 37,783           |
| Debt securities                    | 29,219           | 26,587           |
|                                    | <u>219,858</u>   | <u>183,856</u>   |
| Less: Current portion              | (265)            | (4,365)          |
|                                    | <u>₩ 219,593</u> | <u>₩ 179,491</u> |

Equity securities as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>     | <b>2010</b>                 |                                    |                                    |
|--|-----------------------------|------------------------------------|------------------------------------|
|  | <b>Acquisition<br/>cost</b> | <b>Fair<br/>value <sup>1</sup></b> | <b>Book<br/>value <sup>2</sup></b> |
| <b>Marketable securities</b>           |                             |                                    |                                    |
| KT Corp. <sup>3</sup>                  | ₩ 7,942                     | ₩ 26,588                           | ₩ 26,588                           |
| Hankook Tire Co., Ltd.                 | 20,681                      | 47,657                             | 47,657                             |
| Kumho Tires Co., Inc. <sup>4</sup>     | 3,333                       | 4,617                              | 4,617                              |
| Korea Express Corporation <sup>5</sup> | 3,619                       | 3,128                              | 3,128                              |
| Alti-Electronics Co., Ltd.             | 5,000                       | 5,056                              | 5,056                              |
| Others                                 | 7,581                       | 10,457                             | 10,457                             |
|  | <u>48,156</u>               | <u>97,503</u>                      | <u>97,503</u>                      |
| <b>Non-marketable securities</b>       |                             |                                    |                                    |
| Doosan Capital Co., Ltd. <sup>6</sup>  | 3,000                       | 6,555                              | 6,860                              |
| Eulsukdobridge Co. Ltd.                | 5,260                       | 5,260                              | 5,260                              |
| Seoul Litetower Co. Ltd.               | 3,080                       | 3,080                              | 3,080                              |
| Aju Rental Co., Ltd                    | 4,968                       | 4,968                              | 4,968                              |
| Others                                 | 26,986                      | 15,508                             | 16,913                             |
|  | <u>43,294</u>               | <u>35,371</u>                      | <u>37,081</u>                      |
| Other equity Investments               | 54,617                      | 41,970                             | 56,054                             |
|  | <u>₩ 146,067</u>            | <u>₩ 174,844</u>                   | <u>₩ 190,639</u>                   |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

| <i>(in millions of Korean won)</i> | <b>2009</b>                 |                                    |                                    |
|------------------------------------|-----------------------------|------------------------------------|------------------------------------|
|                                    | <b>Acquisition<br/>cost</b> | <b>Fair<br/>value <sup>1</sup></b> | <b>Book<br/>value <sup>2</sup></b> |
| <b>Marketable securities</b>       |                             |                                    |                                    |
| KT Corp. <sup>3</sup>              | ₩ 7,942                     | ₩ 22,478                           | ₩ 22,478                           |
| Hankook Tire Co., Ltd.             | 20,681                      | 38,275                             | 38,275                             |
| Alti-Electronics Co., Ltd.         | 5,000                       | 5,655                              | 5,655                              |
| Kumho Tires Co., Inc. <sup>4</sup> | 10,000                      | 3,605                              | 3,605                              |
| Others.                            | 6,959                       | 5,642                              | 5,642                              |
|                                    | <u>50,582</u>               | <u>75,655</u>                      | <u>75,655</u>                      |
| <b>Non-marketable securities</b>   |                             |                                    |                                    |
| Samsung Life Insurance Co.         | 12,264                      | 22,979                             | 12,264                             |
| Myoungji Bridge Co., Ltd.          | 5,260                       | 5,037                              | 5,260                              |
| Aju Rental Co., Ltd.               | 4,968                       | 2,319                              | 4,968                              |
| Seoul Litetower Co. Ltd            | 3,080                       | 3,080                              | 3,080                              |
| Doosan Capital Co., Ltd.           | 3,000                       | 3,036                              | 3,000                              |
| Others                             | 25,333                      | 15,151                             | 15,259                             |
|                                    | <u>53,905</u>               | <u>51,602</u>                      | <u>43,831</u>                      |
| Other equity Investments           | 36,936                      | 28,422                             | 37,783                             |
|                                    | <u>₩ 141,423</u>            | <u>₩ 155,679</u>                   | <u>₩ 157,269</u>                   |

<sup>1</sup> Fair value of non-marketable equity securities are based on the net asset value of their recently issued financial statements.

<sup>2</sup> Non-marketable equity securities are recorded at acquisition cost if the fair value is not available or not readily determinable due to insufficient information.

<sup>3</sup> KT Corp. merged with KT Freetel Co., Ltd. in 2009.

<sup>4</sup> In 2009, an impairment loss of ₩6,395 million was recognized due to the decline in its fair value resulting from the debt workout program of Kumho Tires Co., Inc. In 2010, the number of stocks has been reduced at a ratio of three to one as a result of capital reduction without compensation.

<sup>5</sup> Marketable securities of Korea Express Inc. were acquired through participation in the Kumho Asiana Consortium. According to the agreement with Asiana Airlines Inc., the Company cannot sell, transfer and pledge the securities within two years from the acquisition date without authorization from Asiana Airlines Inc. After the first two years, Asiana Airlines Inc. becomes the holder of pre-emption rights. If Asiana Airlines Inc. transfers securities to a third party and become non-majority shareholder, the Company has an option to sell the securities to Asiana Airlines Inc. with the same condition that Asiana Airlines Inc. sold. According to the agreement with Kumho RAC Co., Ltd.(formerly Kumho Rent-A-Car Co., Ltd.), the Company has put options on stocks of Korea Express Inc. The fair value of the put options

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

as of December 31, 2010 and 2009, amounts to ₩3,487 million and ₩3,183 million, respectively, and is recorded as other investment assets (Note 25).

<sup>6</sup> The fair value of Doosan Capital Co., Ltd. was recorded based on the reasonable valuation by an independent appraiser. The independent appraiser applied the discounted cash flow model considering the industrial characteristics and the basis of data.

**Debt securities**

Debt securities as of December 31, 2010 and 2009, are as follows:

|                                    |                     | <b>2010</b>             |                   |                                |
|------------------------------------|---------------------|-------------------------|-------------------|--------------------------------|
| <i>(in millions of Korean won)</i> | <b>Maturity</b>     | <b>Acquisition cost</b> | <b>Fair value</b> | <b>Book value <sup>1</sup></b> |
| Government and public bonds        | Within 1 year       | ₩ 265                   | ₩ 265             | ₩ 265                          |
|                                    | Within 1 ~ 5 years  | 15,471                  | 15,454            | 15,454                         |
|                                    | Within 5 ~ 10 years | 500                     | 500               | 500                            |
| Subordinated bonds                 | 2014                | 13,000                  | 13,000            | 13,000                         |
|                                    |                     | <u>₩ 29,236</u>         | <u>₩ 29,219</u>   | <u>₩ 29,219</u>                |
|                                    |                     | <b>2009</b>             |                   |                                |
| <i>(in millions of Korean won)</i> | <b>Maturity</b>     | <b>Acquisition cost</b> | <b>Fair value</b> | <b>Book value <sup>1</sup></b> |
| Government and public bonds        | Within 1 year       | ₩ 3,536                 | ₩ 3,536           | ₩ 3,536                        |
|                                    | Within 1 ~ 5 years  | 8,779                   | 8,699             | 8,699                          |
|                                    | Within 5 ~ 10 years | 23                      | 23                | 23                             |
| Certificate of deposit             | Within 1 year       | 829                     | 829               | 829                            |
| Subordinated bonds                 | Within 5 ~ 10 years | 13,000                  | 13,000            | 13,000                         |
| Other debt securities              | Within 1 ~ 5 years  | 200                     | 200               | 200                            |
|                                    | Within 1 ~ 5 years  | 300                     | 300               | 300                            |
|                                    |                     | <u>₩ 26,667</u>         | <u>₩ 26,587</u>   | <u>₩ 26,587</u>                |

<sup>1</sup> Debt securities are recorded at acquisition cost if the fair value is not available or not readily determinable due to insufficient information

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**Changes in unrealized gains (losses)**

Changes in unrealized gains (losses) shown in other comprehensive income (loss) for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b> |               | <b>2009</b> |               |
|------------------------------------|-------------|---------------|-------------|---------------|
| Beginning balance                  | ₩           | 25,364        | ₩           | 6,788         |
| Increase (decrease)                |             | 15,122        |             | 23,815        |
| Changes from tax effect            |             | (3,327)       |             | (5,239)       |
| Ending balance                     | ₩           | <u>37,159</u> | ₩           | <u>25,364</u> |

**7. Held-to-maturity Securities**

Held-to-maturity Securities as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b> |              | <b>2009</b> |              |
|------------------------------------|-------------|--------------|-------------|--------------|
| Government and public bonds        | ₩           | 2,215        | ₩           | 2,537        |
| Corporate-issued debt securities   |             | 2,730        |             | 2,700        |
|                                    | ₩           | <u>4,945</u> | ₩           | <u>5,237</u> |

**8. Equity-method investments**

Equity-method investments as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>                     | <b>2010</b>             |                                |                         |                   |                   |
|--|-------------------------|--------------------------------|-------------------------|-------------------|-------------------|
|  | <b>Number of shares</b> | <b>Percentage of ownership</b> | <b>Acquisition cost</b> | <b>Fair value</b> | <b>Book value</b> |
| <b>Investee</b>  |                         |                                |                         |                   |                   |
| Gumoknongsan Co., Ltd. <sup>1</sup>                    | 45,000                  | 75.00%                         | ₩ 225                   | ₩ -               | ₩ -               |
| Beijing Hyosung Food & Beverage Co., Ltd. <sup>2</sup> | -                       | 95.00%                         | 1,499                   | -                 | -                 |
| Asia LNG Hub. Co., Ltd. <sup>1</sup>                   | 90,000                  | 65.00%                         | 900                     | -                 | 900               |
| E-pia Tech.Co., Ltd.                                   | 245,343                 | 21.30%                         | 3,750                   | 345               | 409               |
| Capro Corp.  | 8,417,708               | 21.04%                         | 9,114                   | 44,311            | 43,957            |
| Taebaek Wind Power Co., Ltd. <sup>1</sup>              | 703,500                 | 35.00%                         | 3,518                   | -                 | 3,518             |
| Pyeongchang Wind Power Co., Ltd. <sup>1</sup>          | 3,500                   | 35%                            | 18                      | -                 | 18                |
| Hongjin Data Service <sup>1</sup>                      | 660,000                 | 65.52%                         | 3,300                   | -                 | 3,300             |
| Hyosung Wind Power holdings <sup>1</sup>               | 240,000                 | 100.00%                        | 1,200                   | -                 | 1,200             |
| Hyosung Information System Co., Ltd.                   | 173,000                 | 50.00%                         | 865                     | 29,451            | 29,452            |
| Hyosung Toyota Corp. <sup>1</sup>                      | 4,000                   | 40.00%                         | 20                      | -                 | 20                |
| Hyosung ITX Co., Ltd.                                  | 4,349,000               | 34.99%                         | 3,675                   | 8,074             | 8,074             |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |             |         |           |          |          |
|--|-------------|---------|-----------|----------|----------|
| Hyosung (H.K) Limited                              | 621,660     | 100.00% | 87,160    | 802      | 802      |
| Hyosung Deutschland GmbH <sup>2</sup>              | 490,000     | 100.00% | 74,014    | -        | -        |
| Hyosung Resource (Australia) PTY Ltd. <sup>1</sup> | 2,179,083   | 100.00% | 1,907     | -        | 1,907    |
| Hyosung Wire Luxembourg S.A <sup>1</sup>           | -           | 100.00% | 61        | -        | 61       |
| Lanka Synthetic Fibre Co., Ltd. <sup>2</sup>       | 148,930,000 | 98.31%  | 22,447    | -        | -        |
| OpCo GmbH <sup>2</sup>                             | 9,470       | 98.85%  | 18,289    | (13,721) | -        |
| Xepix Corp.  | 2,391,667   | 74.93%  | 29,506    | 3,440    | 3,440    |
| NH Tech Inc.                                       | 130,000     | 100.00% | 650       | 3,855    | 3,855    |
| Hongjin Data Service <sup>1</sup>                  | 130,000     | 12.90%  | 650       | 953      | 953      |
| Kis-Bank Inc.                                      | 150,000     | 53.10%  | 2,063     | 692      | 1,886    |
| Galaxia Communications <sup>2</sup>                | 704,920     | 2.31%   | 1,696     | 1,401    | 1,401    |
| Nantong Transformer Co., Ltd.                      | -           | 100%    | 4,724     | -        | 5,125    |
| Nantong Yaubong Transformer Co., Ltd.              | -           | 73.91%  | 3,872     | -        | 2,944    |
| Hyosung International (H.K) LTD                    | -           | 100%    | 1,180     | -        | 1,180    |
|  |             |         | ₩ 276,303 | ₩ 79,603 | ₩114,402 |

<sup>1</sup> The equity method was not applied because total assets of investees are below ₩10 billion and the effect from change in equity is not material to the Company's financial statements even though the Company's percentage of ownership exceeds 20%.

<sup>2</sup> The equity method was discontinued as the investee is currently under liquidation or has capital deficiency.

| <i>(in millions of Korean won)</i>                     | <b>2009</b>             |                                |                         |                   |                   |
|--|-------------------------|--------------------------------|-------------------------|-------------------|-------------------|
|  | <b>Number of shares</b> | <b>Percentage of ownership</b> | <b>Acquisition cost</b> | <b>Fair value</b> | <b>Book value</b> |
| <b>Investee</b>  |                         |                                |                         |                   |                   |
| Gumoknongsan Co., Ltd. <sup>1</sup>                    | 45,000                  | 75.00%                         | ₩ 225                   | ₩ 20              | ₩ 113             |
| Beijing Hyosung Food & Beverage Co., Ltd. <sup>2</sup> | -                       | 95.00%                         | 1,499                   | (363)             | -                 |
| Soul Flora Inc.  | 1,930,500               | 58.50%                         | 9,653                   | 7,616             | 8,937             |
| E-pia Tech.Co., Ltd.                                   | 245,343                 | 21.30%                         | 3,750                   | 1,001             | 1,094             |
| Capro Corp.  | 8,417,708               | 21.04%                         | 9,114                   | 22,789            | 22,672            |
| Taebaek Wind Power Co., Ltd. <sup>1</sup>              | 703,500                 | 35.00%                         | 3,518                   | -                 | 3,518             |
| Hongjin Data Service                                   | 790,000                 | 78.42%                         | 3,950                   | 4,102             | 4,152             |
| Hyosung Wind Power holdings <sup>1</sup>               | 240,000                 | 100.00%                        | 1,200                   | 1,399             | 1,200             |
| Hyosung Information System Co., Ltd.                   | 173,000                 | 50.00%                         | 865                     | 24,859            | 24,859            |
| Hyosung Toyota Corp. <sup>1</sup>                      | 4,000                   | 40.00%                         | 20                      | -                 | 20                |
| Hyosung ITX Co., Ltd.                                  | 4,349,000               | 34.99%                         | 3,675                   | 7,836             | 6,962             |
| Hyosung (H.K) Limited                                  | 621,660                 | 100.00%                        | 87,160                  | 830               | 830               |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |             |         |                  |                 |                 |
|--|-------------|---------|------------------|-----------------|-----------------|
| Hyosung Deutschland GmbH <sup>2</sup>  | 490,000     | 100.00% | 74,014           | -               | -               |
| Hyosung Brasil Industrial & Commercial Ltda(Hyosung Participacoes Brasil Ltda) | -           | 100.00% | 4,408            | 8,607           | 8,607           |
| Hyosung Resource (Australia) PTY Ltd. <sup>1</sup>                             | 2,179,083   | 100.00% | 1,700            | 1,854           | 1,700           |
| Lanka Synthetic Fibre Co., Ltd. <sup>2</sup>                                   | 148,930,000 | 98.31%  | 22,447           | -               | -               |
| OpCo GmbH <sup>2</sup>   | 9,470       | 98.85%  | 18,289           | (641)           | -               |
| Xepix Corp.  | 2,391,667   | 74.93%  | 29,506           | 2,768           | 2,768           |
| NH Tech Inc.   | 130,000     | 100.00% | 650              | 3,135           | 3,135           |
| Kis-Bank Inc.  | 150,000     | 53.10%  | 2,063            | 578             | 1,971           |
| Galaxia Communications   | 33,328      | 2.31%   | 1,696            | 1,558           | 1,559           |
| Nantong Hyosung Transformer Co., Ltd.  | -           | 100%    | 4,842            | 5,438           | 5,453           |
| Powertech Corporation  | -           | 60%     | 74               | 21              | 21              |
|  |             |         | <u>₩ 284,318</u> | <u>₩ 93,407</u> | <u>₩ 99,571</u> |

<sup>1</sup> The equity method was not applied because total assets of investees are below ₩ 10 billion and the effect from change in equity is not material to the Company's financial statements even though the Company's percentage of ownership exceeds 20%.

<sup>2</sup> The equity method was discontinued as the investee is currently under liquidation or has capital deficiency.

Changes in goodwill for equity-method investments for the years ended December 31, 2010 and 2009, are as follows:

| Investee                              | 2010              |                     |              |                |
|---------------------------------------|-------------------|---------------------|--------------|----------------|
|                                       | Beginning balance | Increase (Decrease) | Amortization | Ending balance |
| E-pia Tech Co., Ltd.                  | ₩ 97              | ₩ -                 | ₩ (32)       | ₩ 65           |
| Hyosung ITX Co., Ltd.                 | (874)             | -                   | 874          | -              |
| Kis-Bank Inc.                         | 1,393             | -                   | (199)        | 1,194          |
| Galaxia Communications                | -                 | -                   | -            | -              |
| Nantong Transformer Co., Ltd          | 14                | (14)                | -            | -              |
| Nantong Yaubong Transformer Co., Ltd. | -                 | -                   | -            | -              |
|                                       | <u>₩ 630</u>      | <u>₩ (14)</u>       | <u>₩ 643</u> | <u>₩ 1,259</u> |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

(in millions of Korean won)

| Investee                      | 2009              |                     |              |                |
|-------------------------------|-------------------|---------------------|--------------|----------------|
|                               | Beginning balance | Increase (Decrease) | Amortization | Ending balance |
| Hyosung ITX Co., Ltd.         | ₩ (1,748)         | ₩ -                 | ₩ 874        | ₩ (874)        |
| Kis-Bank Inc.                 | 1,592             | -                   | (199)        | 1,393          |
| E-pia Tech Co., Ltd.          | 129               | -                   | (32)         | 97             |
| Capro Corp.                   | (75)              | -                   | 75           | -              |
| Nantong Transformer Co., Ltd. | 31                | -                   | (17)         | 14             |
|                               | ₩ (71)            | ₩ -                 | ₩ 701        | ₩ 630          |

Details of eliminated unrealized losses from intercompany transactions as of December 31, 2010 and 2009, are as follows:

(in millions of Korean won)

|                      | 2010  | 2009 |
|----------------------|-------|------|
| E-pia Tech Co., Ltd. | ₩ (3) | ₩ 4  |
| Capro Corp.          | 238   | 81   |
|                      | ₩ 235 | ₩ 85 |

Changes in investments in subsidiaries accounted for under the equity method for the years ended December 31, 2010 and 2009, are as follows:

(in millions of Korean won)

| Investee  | 2010              |  |   |                     |                |
|---|-------------------|--|---|---------------------|----------------|
|   | Beginning balance | Gains(loss) from equity-method valuation | Changes in equity under the equity method | Others <sup>1</sup> | Ending balance |
| Flossom Co., Ltd.<br>(formerly Soul Flora Inc)  | ₩ 8,937           | ₩ -                                      | ₩ -                                       | (8,937)             | ₩ -            |
| E-pia Tech Co., Ltd.  | 1,094             | (527)                                    | (158)                                     | -                   | 409            |
| Capro Corp.   | 22,672            | 20,913                                   | 372                                       | -                   | 43,957         |
| Hyosung Information System Co., Ltd.  | 24,859            | 5,457                                    | -   | (865)               | 29,451         |
| Hyosung ITX Co., Ltd.   | 6,962             | 1,096                                    | 20  | (4)                 | 8,074          |
| Hyosung (H.K) Limited   | 830               | (5)                                      | (23)                                      | -                   | 802            |
| Hyosung Brasil industrial & commercial LTDA<br>(formerly Hyosung Participacoes Brasil Ltda) | 8,607             | -  | -   | (8,607)             | -              |
| OpCo GmbH <sup>2</sup>  | -                 | -  | -   | -                   | -              |
| Xepix Corp.   | 2,768             | 739                                      | (67)                                      | -                   | 3,440          |
| NH Tech Inc.  | 3,135             | 720                                      | -   | -                   | 3,855          |
| Hongjin Data Service  | 4,152             | 101                                      | -   | (3,300)             | 953            |
| Kis-Bank Inc.   | 1,971             | (85)                                     | -   | -                   | 1,886          |
| Galaxia Communications  | 1,559             | (165)                                    | 7   | -                   | 1,401          |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |                 |                 |              |                 |                  |
|--|-----------------|-----------------|--------------|-----------------|------------------|
| Powertech Corporation                              | 21              | -               | -            | (21)            | -                |
| Nantong Transformer Co., Ltd.                      | 5,453           | (14)            | 296          | (610)           | 5,125            |
| Nantong Yaubong Transformer Co., Ltd.              | -               | (24)            | 323          | 2,645           | 2,944            |
| Hyosung International (Hongkong) Ltd. <sup>2</sup> | -               | -               | -            | 1,180           | 1,180            |
| Securities under cost method                       | 6,551           | -               | -            | 4,374           | 10,925           |
|  | <u>₩ 99,571</u> | <u>₩ 28,206</u> | <u>₩ 770</u> | <u>(14,145)</u> | <u>₩ 114,402</u> |

(in millions of Korean won)

| Investee  | 2009              |  |   |                     |                 |
|---|-------------------|--|---|---------------------|-----------------|
|   | Beginning balance | Gains(loss) from equity-method valuation | Changes in equity under the equity method | Others <sup>1</sup> | Ending balance  |
| Flossom Co., Ltd. (formerly Soul Flora Inc.)  | ₩ -               | ₩ (598)                                  | ₩ (117)                                   | ₩ 9,652             | ₩ 8,937         |
| E-pia Tech Co., Ltd.  | 1,052             | (195)                                    | (1)                                       | 238                 | 1,094           |
| Capro Corp.   | 21,415            | 1,687                                    | (430)                                     | -                   | 22,672          |
| Hyosung Information System Co., Ltd.  | 20,251            | 5,473                                    | -   | (865)               | 24,859          |
| Hyosung ITX Co., Ltd.   | 7,740             | 1,019                                    | (1,793)                                   | (4)                 | 6,962           |
| Hyosung (H.K) Limited   | 1,508             | (623)                                    | (55)                                      | -                   | 830             |
| Hyosung Brasil industrial & commercial LTDA (formerly Hyosung Participacoes Brasil Ltda.) | -                 | 545                                      | 1,600                                     | 6,462               | 8,607           |
| OpCo GmbH <sup>2</sup>  | -                 | -  | -   | -                   | -               |
| Xepix Corp.   | 3,690             | (580)                                    | (342)                                     | -                   | 2,768           |
| NH Tech Inc.  | 2,873             | 262                                      | -   | -                   | 3,135           |
| Hongjin Data Service  | 4,044             | 108                                      | -   | -                   | 4,152           |
| Kis-Bank Inc.   | 2,044             | (72)                                     | -   | (1)                 | 1,971           |
| Galaxia Communications  | 452               | (46)                                     | (29)                                      | 1,182               | 1,559           |
| Nautilus Hyosung America Inc.   | 6,174             | -  | -   | (6,174)             | -               |
| Nantong Hyosung Transformer Co., Ltd.   | 5,886             | (15)                                     | (418)                                     | -                   | 5,453           |
| Powertech Corporation   | -                 | (53)                                     | -   | 74                  | 21              |
| Securities under cost method  | 5,280             | -  | -   | 1,271               | 6,551           |
|   | <u>₩ 82,409</u>   | <u>₩ 6,912</u>                           | <u>₩ (1,585)</u>                          | <u>₩ 11,835</u>     | <u>₩ 99,571</u> |

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

<sup>2</sup> Unaudited financial statements were used in the valuation as audited financial statements were unavailable. The Company has performed verification procedures on the reliability of the unaudited financial statements.

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

Summarized financial information of equity-method investees as of and for the years ended December 31, 2010 and 2009, is as follows:

(in millions of Korean won)

| Investee                              | 2010         |                   |         |                   |
|---------------------------------------|--------------|-------------------|---------|-------------------|
|                                       | Total assets | Total liabilities | Revenue | Net income (loss) |
| E-pia Tech Co., Ltd.                  | ₩ 5,743      | ₩ 4,121           | ₩ 814   | ₩ (2,340)         |
| Capro Corp.                           | 469,312      | 258,749           | 930,749 | 100,506           |
| Hyosung Information System Co., Ltd.  | 160,557      | 101,655           | 230,288 | 11,232            |
| Hyosung ITX Co., Ltd.                 | 60,543       | 37,469            | 168,391 | 582               |
| Hyosung (H.K) Limited                 | 2,254        | 1,452             | -       | (4)               |
| OpCo GmbH                             | 7,502        | 8,089             | -       | -                 |
| Xepix Corp.                           | 5,012        | 511               | 4,163   | 1,163             |
| NH Tech Inc.                          | 7,994        | 4,139             | 38,905  | 720               |
| Hongjin Data Service                  | 8,017        | 633               | 5,385   | 786               |
| Kis-Bank Inc.                         | 2,926        | 1,623             | 4,133   | 215               |
| Galaxia Communications                | 87,374       | 26,659            | 38,901  | (7,234)           |
| Nantong Transformer Co., Ltd.         | 1,712        | (3,772)           | -       | -                 |
| Nantong Yaubong Transformer Co., Ltd. | 5,803        | 1,819             | -       | -                 |

(in millions of Korean won)

| Investee   | 2009         |                   |         |                   |
|--|--------------|-------------------|---------|-------------------|
|  | Total assets | Total liabilities | Revenue | Net income (loss) |
| Flossom Co., Ltd. (formerly Soul Flora Inc.)   | ₩ 55,111     | ₩ 40,046          | ₩ -     | ₩ (942)           |
| E-pia Tech Co., Ltd.   | 7,713        | 3,015             | 2,468   | (1,222)           |
| Capro Corp.  | 410,089      | 301,800           | 685,450 | 8,442             |
| Hyosung Information System Co., Ltd.   | 138,789      | 89,069            | 216,698 | 10,947            |
| Hyosung ITX Co., Ltd.  | 55,014       | 32,631            | 122,792 | 405               |
| Hyosung (H.K) Limited  | 2,787        | 1,958             | 16,132  | (623)             |
| Hyosung Brasil Industrial & Commercial Ltda.<br>(Hyosung Participacoes Brasil Ltda.) | 11,439       | 2,831             | 10,028  | 545               |
| OpCo GmbH  | 8,299        | 8,948             | -       | -                 |
| Xepix Corp.  | 5,399        | 1,705             | 5,685   | 358               |
| NH Tech Inc.   | 6,948        | 3,812             | 32,142  | 263               |
| Hongjin Data Service   | 7,334        | 737               | 5,385   | 832               |
| Kis-Bank Inc.  | 3,194        | 2,106             | 4,487   | 239               |
| Galaxia Communications   | 97,510       | 29,990            | 12,542  | 481               |
| Nantong Hyosung Transformer Co., Ltd.  | 5,438        | -                 | -       | -                 |
| Powertech Corporation  | 144          | 163               | 452     | (89)              |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

Book and market values of marketable equity-method investments as of December 31, 2010 and 2009, are as follows:

(in millions of Korean won)

| Investee               | 2010         |            | 2009         |            |
|------------------------|--------------|------------|--------------|------------|
|                        | Market value | Book value | Market value | Book value |
| Capro Corp.            | ₩ 172,142    | ₩ 43,957   | ₩ 79,968     | ₩ 22,672   |
| Hyosung ITX Co., Ltd.  | 18,962       | 8,074      | 14,613       | 6,961      |
| Galaxia Communications | 1,745        | 1,401      | 110          | 1,559      |

**9. Transactions and Balances with Related Companies**

Significant transactions which occurred in the normal course of business with related companies during the years ended December 31, 2010 and 2009, are as follows:

(in millions of Korean won)

| Consolidated company           | Related company                              | 2010   |           | 2009   |           |
|--------------------------------|--|--------|-----------|--------|-----------|
|                                |  | Sales  | Purchases | Sales  | Purchases |
| Hyosung Corporation            | NH Tech Inc.                                 | ₩ 16   | 72        | ₩ 15   | ₩ -       |
|                                | Capro Corp.                                  | 8,205  | 463,550   | 1,001  | 342,236   |
|                                | Hyosung ITX Co., Ltd.                        | 90     | 64        | 18     | 26        |
|                                | Hyosung Toyota Co., Ltd.                     | 30     | 2         |        |           |
|                                | Hyosung Information System Co., Ltd.         | 54     | -         | 48     | -         |
|                                | Xepix Corp.                                  | 180    | 4,637     | 98     | 800       |
|                                | Hyosung (H.K) Ltd.                           | 724    | 1,534     | 6,304  | 17        |
|                                | E-pia Tech Co., Ltd.                         | 68     | -         | 56     | -         |
|                                | Aegis Hyosung Co.                            | -      | 6         | -      | 63        |
|                                | Galaxia Communications                       | -      | 1,462     | -      | 508       |
|                                | Galaxia Media Co., Ltd.                      | -      | 10        | -      | -         |
|                                | Hyosung Brasil Industrial & Commercial Ltda. | -      | -         | 686    |           |
|                                | Shin Dong Jin Co., Ltd.                      | 11,316 | 835       | 25,806 | 2,183     |
|                                | Hyosung International(HK) Ltd.               | 22,722 | 496       | 15,434 | 1,266     |
|                                | Doomi Construction Co., Ltd.                 | 12,683 | -         | 6,034  | 4,472     |
|                                | Trinity Asset Management                     | -      | -         | -      | 933       |
|                                | Galaxia Electronics                          | -      | 2,084     | 1      | 6         |
| Gongdeok Development Co., Ltd. | -  | 5,643  | -         | -      |           |
| Nautilus Hyosung Inc.          | Hongjin Data Service                         | 9      | -         | 13     | 6         |
|                                | NH Tech Inc.                                 | 5,914  | 18,353    | 6,643  | 17,145    |
|                                | Kis-Bank Inc.                                | 714    | -         | 459    | -         |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|                                     |  |     |       |       |       |
|-------------------------------------|--|-----|-------|-------|-------|
|                                     | Hyosung Information System Co., Ltd.       | 201 | 386   | 1,441 | 833   |
|                                     | Hyosung ITX Co., Ltd.                      | 2   | 28    | 26    | 33    |
|                                     | Galaxia Communications                     | 500 | 312   | 410   | 400   |
|                                     | Galaxia Device Co., Ltd.                   | 16  | 41    |       |       |
|                                     | Galaxia Display Corp.                      | 9   | -     |       |       |
|                                     | Aegis Hyosung Co.                          | -   | -     | -     | 33    |
|                                     | Solim Construction & Engineering Co., Ltd. | -   | -     | 26    | -     |
|                                     | Hyosung Toyota Co., Ltd                    | 42  | -     | 1     | -     |
| Hyosung Capital Co., Ltd.           | Doomi Construction Co., Ltd.               | 658 | -     | 58    | -     |
|                                     | Galaxia Communications                     | -   | -     | 137   | -     |
|                                     | Shin Dong Jin Co., Ltd.                    | -   | -     | 260   | -     |
|                                     | Trinity Asset Management                   | -   | -     | 200   | -     |
|                                     | Galaxia Device Co., Ltd.                   | 104 | -     | -     | -     |
|                                     | Galaxia Display Corp.                      | 32  | -     | -     | -     |
|                                     | Hyosung Toyota Co., Ltd.                   | 40  | 30    | -     | -     |
|                                     | Hyosung ITX Co., Ltd.                      | -   | 274   | -     | -     |
| Hyosung Good Springs Ltd.           | Hyosung Ebara Environment                  | -   | 444   | 225   | 2,687 |
|                                     | Hyosung ITX Co., Ltd.                      | -   | 3     | -     | -     |
| The Class Hyosung Co.,Ltd           | Hyosung Toyota Co., Ltd.                   | 360 | -     | 225   | -     |
|                                     | Hyosung ITX Co., Ltd.                      | -   | 8     | -     | -     |
|                                     | Galaxia Communications                     | -   | 28    | -     | -     |
| Hyosung Construction Co., Ltd.      | Shin Dong Jin Co., Ltd.                    | -   | -     | -     | 48    |
| Chin Hung International Inc.        | Chin Hung Humansia Ltd.                    | -   | 1,353 | -     | -     |
| Hyosung Ebara Engineering Co., Ltd. | Hyosung Ebara Environment                  | -   | 1,439 | 642   | 152   |
| Hyosung Trans World Co., Ltd        | Capro Corp.                                | 388 | -     | 554   | -     |
|                                     | Hyosung Information System Co., Ltd.       | 42  | -     | -     | -     |
|                                     | Galaxia Electronics                        | 105 | -     | 14    | -     |
|                                     | Hyosung ITX Co., Ltd.                      | 5   | -     | -     | -     |
|                                     | NH Tech Inc.                               | 388 | -     | 5     | -     |
| Hyosung FMS Inc.                    | Hyosung Information System Co., Ltd.       | -   | 11    | -     | -     |
|                                     | NH Tech Inc.                               | 1   | -     | -     | -     |
|                                     | Hyosung ITX Co., Ltd.                      | -   | 1     | -     | -     |
|                                     | Galaxia Communications                     | -   | 3     |       | 27    |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|   |                                  |                 |                  |                 |                  |
|---|----------------------------------|-----------------|------------------|-----------------|------------------|
| Hyosung Chemical Fiber(Jiaxing) Co., Ltd. | Hyosung (H.K) LIMITED            | 765             | 5,808            | -               | -                |
| Hyosung Spandex (GuangDong) Co., Ltd.     | Hyosung Corporation Textile Ltd. | 274             | -                | -               | -                |
| Hyosung Japan Co.,Ltd.                    | Hyosung ITX Co., Ltd.            | 9,569           | -                | 1               | -                |
|   | Nautilus Hyosung Tech. Inc.      | -               | 134              | -               | -                |
|   |                                  | <u>₩ 75,838</u> | <u>₩ 509,051</u> | <u>₩ 66,841</u> | <u>₩ 373,874</u> |

Details of receivables and payables with related companies as of December 31, 2010 and 2009, are as follows:

(in millions of Korean won)

| Consolidated company    | Related company                      | 2010        |           | 2009        |          |
|-------------------------|--------------------------------------|-------------|-----------|-------------|----------|
|                         |                                      | Receivables | Payables  | Receivables | Payables |
| Hyosung Corporation     | Capro Corp.                          | ₩ 105       | ₩ 131,969 | ₩ 101       | ₩ 70,382 |
|                         | Hyosung CTX                          | 1           | 36        | -           | -        |
|                         | Hyosung Information System Co., Ltd. | 5           | -         | 17          | -        |
|                         | Hyosung (H.K) Ltd.                   | 213         | 466       | 668         | 775      |
|                         | NH Tech Inc.                         | 2           | 37        | 1           | 21       |
|                         | Hyosung Toyota Corp.                 | -           | 161       | -           | -        |
|                         | Galaxia Communications               | -           | 14        | 6           | 336      |
|                         | E-pia Tech Co., Ltd.                 | -           | -         | 22          | -        |
|                         | OpCo GmbH                            | 6           | -         | 6           | 18       |
|                         | Galaxia Electronics                  | -           | 1,156     | -           | 92       |
|                         | Galaxia Media Co., Ltd.              | -           | 11        | -           | -        |
|                         | Shin Dong Jin Co., Ltd.              | -           | -         | 31,539      | -        |
|                         | Doomi Construction Co., LTD.         | -           | -         | 6,815       | -        |
|                         | Hyosung International(HK) Ltd.       | 188         | 114       | 92          | 49       |
| Nautilus Hyosung Inc.   | NH Tech Inc.                         | 54          | 1,844     | 470         | 1,563    |
|                         | Kis-Bank Inc.                        | 148         | -         | 156         | -        |
|                         | Hyosung Information System Co., Ltd. | 13          | 21        | 165         | -        |
|                         | Aegis Hyosung Co.                    | -           | 4         | -           | 3        |
|                         | Hyosung ITX Co., Ltd.                | -           | 6         | -           | 2        |
|                         | Galaxia Electronics                  | 40          | -         | -           | -        |
|                         | Galaxia Communications               | -           | -         | 52          | 132      |
|                         | Galaxia Device Co., Ltd.             | -           | 9         | -           | -        |
| Hyosung Toyota Co., Ltd | 3                                    | -           | 1         | -           |          |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |   |                 |                  |                 |                 |
|--|---|-----------------|------------------|-----------------|-----------------|
| The Class<br>Hyosung Co.,Ltd.  | Hyosung Toyota Co., Ltd                         | -               | -                | 33              | -               |
| Chin Hung<br>International Inc.  | Flossom Co., Ltd.<br>(formerly Soul Flora Inc.) | -               | -                | 5,617           | -               |
|  | Chin Hung Humansia Ltd.                         | -               | 16,987           | -               | -               |
| Hyosung<br>Construction<br>Co., Ltd.                                       | Hyosung Capital Co., Ltd.                       | -               | -                | -               | 22              |
| Hyosung Good<br>Springs., Ltd.<br>(formerly<br>Hyosung Ebara<br>Co., Ltd.) | Hyosung Ebara Environment                       | -               | -                | 225             | 2,687           |
|  | Hyosung ITX Co., Ltd.                           | -               | 3                | -               | -               |
| Hyosung Ebara<br>Engineering Co.,<br>Ltd.                                  | Hyosung Ebara Environment                       | -               | 1,559            | -               | -               |
| Hyosung Capital<br>Co., Ltd.   | Doomi Construction Co., LTD.                    | 14,000          | -                | 3,560           | -               |
|  | Galaxia Device Co., Ltd.                        | 3,783           | 848              | 50              | -               |
|  | Galaxia Display Corp.                           | 742             | 179              | 1               | -               |
|  | Hyosung Toyota Co., Ltd                         | 3               | -                | -               | -               |
|  | Hyosung ITX Co., Ltd.                           | 91              | -                | -               | 27              |
|  | Galaxia Electronics                             | 1               | 12               | -               | -               |
|  | Hyosung ITX Co., Ltd.                           | -               | 443              | -               | -               |
| Hyosung Trans<br>World Co., Ltd.   | Capro Corp.                                     | 45              | -                | -               | -               |
|  | NH Tech Inc.                                    | -               | -                | 1               | -               |
|  | Galaxia Electronics                             | -               | -                | -               | -               |
| Hyosung FMS Inc.   | Galaxia Communications                          | -               | -                | -               | 27              |
| Hyosung<br>Chemical<br>Fiber(Jiaxing)<br>Co., Ltd.                         | Hyosung (H.K) Ltd.                              | -               | 2,342            | -               | -               |
| Hyosung<br>Spandex<br>(Guangdong)<br>Co. Ltd.                              | Hyosung (H.K) Ltd.                              | -               | 15               | -               | -               |
| Hyosung Japan<br>Co., Ltd.   | Hyosung ITX Co., Ltd.                           | 237             | -                | -               | -               |
|  |   | <u>₩ 19,680</u> | <u>₩ 158,236</u> | <u>₩ 49,597</u> | <u>₩ 76,109</u> |

Key management compensation for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b> | <b>2009</b> |
|------------------------------------|-------------|-------------|
| Short-term employee benefits       | ₩ 5,564     | ₩ 5,131     |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

Details of pledges and guarantees provided by the Company as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> |                                |                                   |                         | 2010              |               | 2009              |               |
|------------------------------------|--------------------------------|-----------------------------------|-------------------------|-------------------|---------------|-------------------|---------------|
| Guarantor                          | Related company                | Type of loan                      | Bank                    | Guaranteed amount | Credit amount | Guaranteed amount | Credit amount |
| Hyosung Corporation                | Hyosung International (HK)Ltd. | Foreign Currency loans and others | Shinhan Bank and others | ₩ 20,500          | ₩ 375         | ₩ 20,550          | ₩ 468         |

#### 10. Transactions and Balances between Consolidated Companies

Significant transactions which occurred in the normal course of business between consolidated companies for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> |  | 2010                  |                 |
|------------------------------------|--|-----------------------|-----------------|
| Selling company                    | Purchasing company   | Receivables and other | Sales and other |
| Hyosung Corporation                | Nautilus Hyosung Inc.  | ₩ 606                 | ₩ 22,920        |
|                                    | The Class Hyosung Co.,Ltd.                                     | 1                     | 1,194           |
|                                    | Galaxiaphotonics Co., Ltd.                                     | 103                   | 622             |
|                                    | Chin Hung International Inc.                                   | 21,166                | 1,970           |
|                                    | Taeon Solar Farm Co., Ltd                                      | -                     | 98              |
|                                    | Hyosung Construction Co., Ltd.                                 | -                     | 1,120           |
|                                    | Hyosung Ebara Engineering Co., Ltd.                            | 702                   | 2,793           |
|                                    | Hyosung Good Springs., Ltd. (formerly Hyosung Ebara Co., Ltd.) | 5,064                 | 38,985          |
|                                    | HYOSUNG FMS Inc.   | -                     | 4               |
|                                    | Hyosung Capital Co., Ltd.                                      | 18                    | 69              |
|                                    | Hyosung Investment & Development Corp.                         | -                     | 8               |
|                                    | Hyosung Trans World Co., Ltd                                   | 2                     | 15              |
|                                    | Baoding Hyosung Tianwei Transformer Co., Ltd.                  | 171                   | 27,004          |
|                                    | HICO America Sales & Tech., Inc.                               | 1                     | 209,573         |
|                                    | Hyosung America Inc.   | 4,614                 | 28,793          |
|                                    | Hyosung Brasil Industrial & Commercial Ltda.                   | -                     | 6,750           |
|                                    | Hyosung Brasil Industria E Comercio DE Fibras Ltd.             | -                     | 2,413           |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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|   |                     |         |        |
|---|---------------------|---------|--------|
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd.      | 4,191               | 39,313  |        |
| Hyosung Chemicals (Jiaxing) Co., Ltd.           | 22                  | 499     |        |
| Hyosung Europe SRL                              | -                   | 11,832  |        |
| Hyosung International Trade (Jiaxing) Co., Ltd. | -                   | 173     |        |
| Hyosung Istanbul Tekstil Ltd. STI               | 5,514               | 65,339  |        |
| Hyosung Japan Co., Ltd.                         | 691                 | 211,965 |        |
| Hyosung Luxembourg S.A                          | 199                 | 68,348  |        |
| Hyosung Power Holdings Co., Ltd.                | 300                 | 256     |        |
| Hyosung Singapore PTE Ltd.                      | 1,118               | 142,619 |        |
| Hyosung Spandex (GuangDong) Co., Ltd.           | 6,832               | 31,057  |        |
| Hyosung Spandex (Jiaxing) Co., Ltd.             | 3,748               | 7,970   |        |
| Hyosung Spandex (Zhuhai) Co., Ltd.              | 2,479               | 4,735   |        |
| Hyosung Steel Cord (Nanjing) Co., Ltd.          | 121                 | 12,328  |        |
| Hyosung Steel Cord (Qingdao) Co., Ltd.          | 2,203               | 35,255  |        |
| Hyosung USA Inc.                                | 335                 | 18,504  |        |
| Hyosung Vietnam Co., Ltd.                       | 12,148              | 165,198 |        |
| Nantong Hyosung Transformer Co., Ltd.           | 394                 | 9,963   |        |
| Nantong Yaubong Transformer Co., Ltd.           | 788                 | 300     |        |
| Zhangjiagang Xiaosha Coil Service Co., Ltd.     | -                   | 8,915   |        |
| Nautilus Hyosung Inc.                           | Hyosung Corporation | 2,599   | 17,232 |
| The Class Hyosung Co.,Ltd.                      | -                   | 26      |        |
| Galaxiaphotonics Co., Ltd.                      | 213                 | 378     |        |
| Chin Hung International Inc.                    | 1,511               | 5,167   |        |
| Hyosung Construction Co., Ltd.                  | -                   | 81,857  |        |
| Hyosung Ebara Engineering Co., Ltd.             | 5,735               | 14,794  |        |
| Hyosung Ebara Co., Ltd.                         | 514                 | 618     |        |
| Hyosung Capital Co., Ltd.                       | -                   | 144     |        |
| Hyosung Investment & Development Corp.          | -                   | 1       |        |
| Hyosung Trans World Co., Ltd                    | 36,528              | 209,279 |        |
| Baoding Hyosung Tianwei Transformer Co., Ltd.   | 61                  | 65      |        |
| HICO America Sales & Tech., Inc.                | 317                 | 238     |        |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |           |             |
|--|-----------|-------------|
| Hyosung America Inc.   | 5,414     | 5,507       |
| Hyosung Brasil Industrial & Commercial Ltda.                       | -         | 2           |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd.                         | 10,821    | 73,451      |
| Hyosung Chemicals (Jiaxing) Co., Ltd.                              | 32        | 123         |
| Hyosung Europe SRL   | 827       | 1,587       |
| Hyosung International Trade (Jiaxing) Co., Ltd.                    | 66        | 1,664       |
| Hyosung Istanbul Tekstil Ltd. STI                                  | 80        | 1,275       |
| Hyosung Japan Co., Ltd.  | 83,891    | 125,753     |
| Hyosung Luxembourg S.A   | 43        | -           |
| Hyosung Singapore Pte Ltd.   | 120       | 145         |
| Hyosung Spandex (GuangDong) Co., Ltd.                              | -         | 3,416       |
| Hyosung Spandex (Jiaxing) Co., Ltd.                                | -         | 1,716       |
| Hyosung Spandex (Zhuhai) Co., Ltd.                                 | -         | 1,626       |
| Hyosung Steel Cord (Qingdao) Co., Ltd.                             | 320       | 1,828       |
| Hyosung USA Inc.   | -         | 2           |
| Hyosung Vietnam Co., Ltd.  | 1,281     | 119,758     |
| Nantong Hyosung Transformer Co., Ltd.                              | -         | 3           |
| Zhangjiagang Xiaosha Coil Service Co., Ltd.                        | 99        | 177         |
| Receivables and sales between consolidated subsidiaries and others | 34,089    | 485,640     |
|  | ₩ 258,092 | ₩ 2,332,206 |

(in millions of Korean won)

**2009**

| Selling company     | Purchasing company                  | Receivables and other | Sales and other |
|---------------------|-------------------------------------|-----------------------|-----------------|
| Hyosung Corporation | Nautilus Hyosung Inc.               | ₩ 2,187               | ₩ 1,774         |
|                     | The Class Hyosung Co.,Ltd.          | -                     | 1,151           |
|                     | Galaxiaphotonics Co., Ltd.          | 11                    | 260             |
|                     | Chin Hung International Inc.        | -                     | 350             |
|                     | Hyosung Construction Co., Ltd.      | 467                   | 32,827          |
|                     | Hyosung Ebara Engineering Co., Ltd. | 3,852                 | 9,595           |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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|  |                     |         |        |
|--|---------------------|---------|--------|
| Hyosung Ebara Co., Ltd.                            | 386                 | 29,267  |        |
| Hyosung Capital Co., Ltd.                          | -                   | 1       |        |
| Hyosung Investment &<br>Development Corp.          | -                   | 3,885   |        |
| Hyosung Trans World Co., Ltd                       | 21,557              | 1       |        |
| Baoding Hyosung Tianwei<br>Transformer Co., Ltd.   | 158                 | 7,452   |        |
| HICO America Sales & Tech., Inc.                   | 332                 | 266,122 |        |
| Hyosung America Inc.                               | 3,960               | 276,169 |        |
| Hyosung Chemical Fiber (Jiaxing)<br>Co., Ltd.      | 11,790              | 31,714  |        |
| Hyosung Chemicals (Jiaxing) Co.,<br>Ltd.           | 24                  | 6,379   |        |
| Hyosung Europe SRL                                 | 368                 | 10,554  |        |
| Hyosung International Trade<br>(Jiaxing) Co., Ltd. | 24                  | 855     |        |
| Hyosung Istanbul Tekstil Ltd. STI                  | 101                 | 41,342  |        |
| Hyosung Japan Co., Ltd.                            | 53,710              | 186,830 |        |
| Hyosung Luxembourg S.A                             | 116                 | 55,458  |        |
| Hyosung Singapore PTE Ltd.                         | 361                 | 150,159 |        |
| Hyosung Spandex (GuangDong)<br>Co., Ltd.           | -                   | 9,450   |        |
| Hyosung Spandex (Jiaxing) Co.,<br>Ltd.             | -                   | 7,970   |        |
| Hyosung Spandex (Zhuhai) Co.,<br>Ltd.              | -                   | 2,173   |        |
| Hyosung Steel Cord (Qingdao)<br>Co., Ltd.          | -                   | 24,194  |        |
| Hyosung USA Inc.                                   | -                   | 52,905  |        |
| Hyosung Vietnam Co., Ltd.                          | 45                  | 121,287 |        |
| Nantong Hyosung Transformer<br>Co., Ltd.           | -                   | 17,506  |        |
| Zhangjiagang Xiaosha Coil Service<br>Co., Ltd.     | 88                  | 3,146   |        |
| Nautilus Hyosung Inc.                              | Hyosung Corporation | 40      | 13,933 |
| The Class Hyosung Co.,Ltd.                         | 105                 | 211     |        |
| Galaxiaphotonics Co., Ltd.                         | -                   | 113     |        |
| Chin Hung International Inc.                       | 261                 | -       |        |
| Hyosung Construction Co., Ltd.                     | 102,704             | 3,036   |        |
| Hyosung Ebara Engineering Co.,<br>Ltd.             | 4,331               | 3,106   |        |
| Hyosung Ebara Co., Ltd.                            | 4,638               | 1,106   |        |
| Hyosung Capital Co., Ltd.                          | 24                  | 131     |        |
| Hyosung Trans World Co., Ltd                       | 2                   | 157,408 |        |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |           |             |
|--|-----------|-------------|
| Baoding Hyosung Tianwei Transformer Co., Ltd.                      | 156       | 173         |
| Beijing Hyosung Container Co., Ltd.                                | -         | -           |
| HICO America Sales & Tech., Inc.                                   | 12        | 375         |
| Hyosung America Inc.   | 4,545     | 8,883       |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd.                         | 9,742     | 85,106      |
| Hyosung Chemicals (Jiaxing) Co., Ltd.                              | 29        | -           |
| Hyosung Europe SRL   | 6,020     | 2,300       |
| Hyosung International Trade (Jiaxing) Co., Ltd.                    | -         | 553         |
| Hyosung Istanbul Tekstil Ltd. STI                                  | 9,833     | 899         |
| Hyosung Japan Co., Ltd.  | 3,612     | 98,139      |
| Hyosung Luxembourg S.A   | 17,406    | 208         |
| Hyosung Singapore PTE Ltd.   | 9,935     | 578         |
| Hyosung Spandex (GuangDong) Co., Ltd.                              | 5,888     | 2,926       |
| Hyosung Spandex (Jiaxing) Co., Ltd.                                | 4,002     | 18          |
| Hyosung Spandex (Zhuhai) Co., Ltd.                                 | 3,098     | -           |
| Hyosung Steel Cord (Nanjing) Co., Ltd.                             | 93        | -           |
| Hyosung Steel Cord (Qingdao) Co., Ltd.                             | 12,782    | 140         |
| Hyosung USA Inc.   | 373       | 2,522       |
| Hyosung Vietnam Co., Ltd.  | 19,005    | 128,425     |
| Nantong Hyosung Transformer Co., Ltd.                              | 5,858     | -           |
| Nantong Yaubong Transformer Co., Ltd.                              | 513       | 2           |
| Zhangjiagang Xiaosha Coil Service Co., Ltd.                        | 478       | 295         |
| Receivables and sales between consolidated subsidiaries and others | 82,577    | 382,872     |
|  | ₩ 407,599 | ₩ 2,244,234 |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

Details of pledges and guarantees provided to related parties by the Controlling Company as of December 31, 2010, are as follows:

| <i>(in millions of Korean won)</i>            |                   | 2010                              |               |  |
|---|-------------------|-----------------------------------|---------------|--|
| Related Party                                 | Guaranteed amount | Type of loan                      | Credit amount | Creditor                                   |
| <b>Guarantor - Hyosung Corporation</b>        |                   |                                   |               |  |
| Hyosung America Inc.                          | ₩ 11,389          | Foreign currency loans and others | ₩ -           | Korea Exchange Bank                        |
| HICO America Sales & Tech., Inc.              | 45,556            | Foreign currency loans and others | -             | Woori Bank and others                      |
| Hyosung Japan Co., Ltd.                       | 137,830           | Foreign currency loans and others | 50,354        | Woori Bank and others                      |
| Hyosung Spandex (Jiaxing) Co., Ltd.           | 34,167            | Operating capital and others      | 34,167        | Korea Development Bank                     |
| Hyosung Spandex (GuangDong) Co., Ltd.         | 58,675            | Operating capital and others      | 50,684        | Woori Bank and others                      |
| Hyosung Spandex (Zhuhai) Co., Ltd.            | 36,445            | Operating capital and others      | 30,730        | Korea Development Bank and others          |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd.    | 36,445            | Facility loans and others         | 36,445        | The Export-Import Bank of Korea and others |
| Hyosung Chemicals (Jiaxing) Co., Ltd.         | 29,484            |                                   | 27,936        | Shinhan Bank and others                    |
| Hyosung Steel Cord (QingDao) Co., Ltd.        | 123,001           | Facility loans and others         | 88,275        | Woori Bank and others                      |
| Baoding Hyosung Tianwei Transformer Co., Ltd. | 17,023            | Facility loans and others         | 17,023        | Woori Bank and others                      |
| Nantong Hyosung Transformer Co., Ltd.         | 139,981           | Facility loans and others         | 98,707        | Hana Bank and others                       |
| Hyosung Steel Cord(Nanjing) Co., Ltd.         | 52,109            | Facility loans and others         | 46,415        | Hana Bank and others                       |
| Hyosung USA, Inc.                             | 151,474           | Operating capital and others      | 79,723        | Korea Exchange Bank and others             |
| Hyosung Holdings USA, Inc.                    | 25,056            | Operating capital and others      | 19,361        | Kookmin Bank and others                    |
| Hyosung Luxembourg S.A.                       | 59,181            | Operating capital and others      | 46,316        | The Export-Import Bank of Korea and others |
| Hyosung Vietnam Co., Ltd.                     | 548,625           | Facility loans and others         | 456,193       | Woori Bank and others                      |
| Hyosung Istanbul Tekstil Ltd. STI             | 93,390            | Facility loans and others         | 93,390        | The Export-Import Bank of Korea and others |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|   |                    |                                   |                    |  |
|---|--------------------|-----------------------------------|--------------------|--|
| Hyosung Singapore Pte, Ltd.                                 | 11,389             | Foreign currency loans and others | -                  | Woori Bank                               |
| Hyosung Good Springs Ltd.(formerly Hyosung Ebara Co., Ltd.) | 1,934              | Advance receipts refunds          | 1,934              | MAPNA BOILER ENGINEERING & MANUFACTURING |
|   | <u>₩ 1,613,154</u> |                                   | <u>₩ 1,177,653</u> |  |

**11. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | 2010               |                  |                    |                          |                  |                    |
|------------------------------------|--------------------|------------------|--------------------|--------------------------|------------------|--------------------|
|                                    | Land               | Buildings        | Machinery          | Construction in-progress | Others           | Total              |
| Beginning balances                 | ₩ 1,634,908        | ₩ 817,902        | ₩ 1,357,183        | ₩ 349,251                | ₩ 221,889        | ₩ 4,381,133        |
| Acquisition                        | 40,994             | 61,458           | 308,406            | 247,653                  | 79,875           | 738,386            |
| Disposal & Transfer                | (28,966)           | (13,472)         | (8,556)            | -                        | (4,292)          | (55,286)           |
| Depreciation                       | -                  | (38,244)         | (300,071)          | -                        | (43,643)         | (381,958)          |
| Others                             | (9,435)            | 79,182           | 253,092            | (374,792)                | 22,540           | (29,413)           |
| Ending balance                     | <u>₩ 1,637,501</u> | <u>₩ 906,826</u> | <u>₩ 1,610,054</u> | <u>₩ 222,112</u>         | <u>₩ 276,369</u> | <u>₩ 4,652,862</u> |

  

| <i>(in millions of Korean won)</i> | 2009               |                  |                    |                          |                  |                    |
|------------------------------------|--------------------|------------------|--------------------|--------------------------|------------------|--------------------|
|                                    | Land               | Buildings        | Machinery          | Construction in-progress | Others           | Total              |
| Beginning balances                 | ₩ 1,624,698        | ₩ 793,689        | ₩ 1,455,655        | ₩ 283,975                | ₩ 207,820        | ₩ 4,365,837        |
| Acquisition                        | 16,116             | 46,058           | 145,157            | 222,868                  | 62,105           | 492,304            |
| Disposal & Transfer                | (5,476)            | (11,067)         | (16,755)           | (1,190)                  | (5,270)          | (39,758)           |
| Depreciation                       | -                  | (33,001)         | (277,122)          | -                        | (33,735)         | (343,858)          |
| Others                             | (430)              | 22,223           | 50,248             | (156,402)                | (9,031)          | (93,392)           |
| Ending balance                     | <u>₩ 1,634,908</u> | <u>₩ 817,902</u> | <u>₩ 1,357,183</u> | <u>₩ 349,251</u>         | <u>₩ 221,889</u> | <u>₩ 4,381,133</u> |

Land was revalued on December 31, 2010, by an independent appraiser. The valuation was based on the recent market transactions under terms with third parties. Incremental gain after revaluation, net of tax effect, is recognized as accumulated other comprehensive income. The book value of land based on acquisition cost as of December 31, 2010, is ₩783,376 million (2009 : ₩769,669 million).

As of December 31, 2010, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to approximately ₩1,125,977 million (2009 : ₩1,084,371 million).

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**12. Goodwill and Negative Goodwill**

Changes in goodwill for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b> |               | <b>2009</b> |               |
|------------------------------------|-------------|---------------|-------------|---------------|
| Beginning balance                  | ₩           | 91,976        | ₩           | 130,306       |
| Increase                           |             | 1,361         |             | -             |
| Decrease                           |             | (40,580)      |             | (38,330)      |
| Ending balance                     | ₩           | <u>52,757</u> | ₩           | <u>91,976</u> |

Changes in negative goodwill for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b> |               | <b>2009</b> |               |
|------------------------------------|-------------|---------------|-------------|---------------|
| Beginning balance                  | ₩           | 17,330        | ₩           | 22,590        |
| Increase                           |             | -             |             | -             |
| Decrease                           |             | (5,260)       |             | (5,260)       |
| Ending balance                     | ₩           | <u>16,507</u> | ₩           | <u>17,330</u> |

**13. Intangible Assets**

Changes in intangible assets, excluding goodwill and negative goodwill, for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b>                |                      |                                |                 |
|------------------------------------|----------------------------|----------------------|--------------------------------|-----------------|
|                                    | <b>Industrial property</b> | <b>Rights to use</b> | <b>Other intangible assets</b> | <b>Total</b>    |
| Beginning Balance                  | ₩ 7,627                    | ₩ 55                 | ₩ 54,799                       | ₩ 62,481        |
| Acquisition                        | 1,263                      | -                    | 18,893                         | 20,156          |
| Transfer                           | (2)                        | -                    | -                              | (2)             |
| Amortization                       | (1,169)                    | (9)                  | (11,271)                       | (12,449)        |
| Others <sup>1</sup>                | 761                        | 12                   | (2,593)                        | (1,820)         |
| Ending Balance                     | <u>₩ 8,480</u>             | <u>₩ 58</u>          | <u>₩ 59,828</u>                | <u>₩ 68,366</u> |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

| <i>(in millions of Korean won)</i> | <b>2009</b>                |                      |                                |                 |
|------------------------------------|----------------------------|----------------------|--------------------------------|-----------------|
|                                    | <b>Industrial property</b> | <b>Rights to use</b> | <b>Other intangible assets</b> | <b>Total</b>    |
| Beginning Balance                  | ₩ 9,044                    | ₩ 68                 | ₩ 51,071                       | ₩ 60,183        |
| Acquisition                        | 1,846                      | -                    | 15,317                         | 17,163          |
| Transfer                           | -                          | -                    | -                              | -               |
| Amortization                       | (978)                      | (13)                 | (8,220)                        | (9,211)         |
| Others <sup>1</sup>                | (2,285)                    | -                    | (3,369)                        | (5,654)         |
| Ending Balance                     | <u>₩ 7,627</u>             | <u>₩ 55</u>          | <u>₩ 54,799</u>                | <u>₩ 62,481</u> |

<sup>1</sup> Others include changes in amount resulting from changes in scope of consolidation and exchange rate.

**14. Other Financial Business Assets**

Other financial business assets as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b>        | <b>2009</b>        |
|------------------------------------|--------------------|--------------------|
| Loans                              | ₩ 694,308          | ₩ 675,128          |
| Installment financial assets       | 97,333             | 52,126             |
| Lease and rental assets            | 989,176            | 555,803            |
|                                    | <u>₩ 1,780,817</u> | <u>₩ 1,283,057</u> |

**15. Insurance Coverage**

As of December 31, 2010, assets covered by insurance policies are as follows:

| <i>(in millions of Korean won)</i> | <b>Book value</b>  | <b>Insurance coverage</b> | <b>Insured by</b>                                |
|------------------------------------|--------------------|---------------------------|--|
| Inventories                        | ₩ 962,797          | ₩ 608,830                 | Samsung Fire and Marine Insurance Co. and others |
| Property, plant and equipment      | 1,794,456          | 4,481,909                 |  |
|                                    | <u>₩ 2,757,253</u> | <u>₩ 5,090,739</u>        |  |

**16. Government Grants**

The Company has entered into development agreements with Korea Electric Power Research Institute and 26 other parties related to 63 national projects, including the electric power converter project for 250 KW fuel cells.

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

The Company received ₩12,618 million in government grants for these projects, and as of December 31, 2010, ₩17,984 million is recorded as withholdings, ₩10,220 million is recorded as long-term other accounts payable and ₩2,801 million is recorded as other accounts payable.

#### 17. Debentures

Debentures as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>           | <b>Maturity date</b> | <b>Interest rate as of December 31, 2010</b> | <b>2010</b> | <b>2009</b> |
|--|----------------------|--|-------------|-------------|
| <b>Hyosung Corporation</b>                   |                      |  |             |             |
| 225-2 <sup>nd</sup> Public subscription bond | 2011.01.25           | 7.02%  | 30,000      | 30,000      |
| 229-2 <sup>nd</sup> Public subscription bond | 2011.07.06           | 6.14%  | 30,000      | 30,000      |
| 230 <sup>th</sup> Private subscription bond  | 2011.11.15           | 5.62%  | 30,000      | 30,000      |
| 231 <sup>st</sup> Private subscription bond  | 2010.01.31           | -  | -           | 10,000      |
| 232-1 <sup>st</sup> Public subscription bond | 2010.05.21           | -  | -           | 50,000      |
| 232-2 <sup>nd</sup> Public subscription bond | 2012.05.21           | 5.74%  | 50,000      | 50,000      |
| 233-1 <sup>st</sup> Public subscription bond | 2010.07.11           | -  | -           | 150,000     |
| 233-2 <sup>nd</sup> Public subscription bond | 2012.07.11           | 6.02%  | 30,000      | 30,000      |
| 235-1 <sup>st</sup> Public subscription bond | 2010.03.13           | -  | -           | 50,000      |
| 235-2 <sup>nd</sup> Public subscription bond | 2011.03.13           | 5.79%  | 70,000      | 70,000      |
| 235-3 <sup>rd</sup> Public subscription bond | 2013.03.13           | 6.06%  | 30,000      | 30,000      |
| 236-1 <sup>st</sup> Public subscription bond | 2010.07.24           | -  | -           | 20,000      |
| 236-2 <sup>nd</sup> Public subscription bond | 2011.07.24           | 6.87%  | 100,000     | 100,000     |
| 236-3 <sup>rd</sup> Public subscription bond | 2013.07.24           | 7.00%  | 30,000      | 30,000      |
| 237-2 <sup>nd</sup> Public subscription bond | 2010.12.31           | -  | -           | 25,000      |
| 237-3 <sup>rd</sup> Public subscription bond | 2011.12.31           | 8.85%  | 20,000      | 20,000      |
| 238-1 <sup>st</sup> Public subscription bond | 2010.01.22           | -  | -           | 20,000      |
| 238-2 <sup>nd</sup> Public subscription bond | 2011.01.22           | 8.60%  | 60,000      | 60,000      |
| 238-3 <sup>rd</sup> Public subscription bond | 2012.01.22           | 8.70%  | 70,000      | 70,000      |
| 239 <sup>th</sup> Private subscription bond  | 2010.02.02           | -  | -           | 30,000      |
| 240 <sup>th</sup> Private subscription bond  | 2010.02.02           | -  | -           | 30,000      |
| 241-1 <sup>st</sup> Public subscription bond | 2011.03.19           | 6.00%  | 30,000      | 30,000      |
| 241-2 <sup>nd</sup> Public subscription bond | 2012.03.19           | 6.60%  | 80,000      | 80,000      |
| 241-3 <sup>rd</sup> Public subscription bond | 2013.03.19           | 6.90%  | 40,000      | 40,000      |
| 242-1 <sup>st</sup> Public subscription bond | 2013.03.05           | 5.18%  | 80,000      | -           |
| 242-2 <sup>nd</sup> Public subscription bond | 2015.03.05           | 5.79%  | 70,000      | -           |
| 243-1 <sup>st</sup> Public subscription bond | 2013.07.12           | 4.93%  | 70,000      | -           |
| 243-2 <sup>nd</sup> Public subscription bond | 2015.07.12           | 5.75%  | 30,000      | -           |
| 244-1 <sup>st</sup> Public subscription bond | 2013.12.21           | 4.10%  | 30,000      | -           |
| 244-2 <sup>nd</sup> Public subscription bond | 2014.12.21           | 4.60%  | 30,000      | -           |
| 244-3 <sup>rd</sup> Public subscription bond | 2015.12.21           | 4.99%  | 40,000      | -           |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**Hyosung Capital Co., Ltd.**

|   |            |       |         |        |
|---|------------|-------|---------|--------|
| 23 <sup>rd</sup> Public subscription bond   | 2010.04.26 | -     | -       | 50,000 |
| 24 <sup>th</sup> Public subscription bond   | 2010.10.08 | -     | -       | 30,000 |
| 26 <sup>th</sup> Public subscription bond   | 2010.11.12 | -     | -       | 20,000 |
| 28-1 <sup>st</sup> Public subscription bond | 2011.04.16 | 6.74% | 40,000  | 40,000 |
| 29-2 <sup>nd</sup> Public subscription bond | 2011.05.30 | 7.23% | 35,000  | 35,000 |
| 29-3 <sup>rd</sup> Public subscription bond | 2011.05.30 | 7.18% | 20,000  | 20,000 |
| 30-1 <sup>st</sup> Public subscription bond | 2010.06.27 | -     | -       | 20,000 |
| 30-2 <sup>nd</sup> Public subscription bond | 2011.06.27 | 7.44% | 10,000  | 10,000 |
| 317 <sup>th</sup> Private subscription bond | 2010.06.01 | -     | -       | 20,000 |
| 321 <sup>st</sup> Private subscription bond | 2010.01.21 | -     | -       | 10,000 |
| 32 <sup>nd</sup> Public subscription bond   | 2010.12.16 | -     | -       | 30,000 |
| 33 <sup>rd</sup> Private subscription bond  | 2012.01.30 | 8.56% | 30,000  | 30,000 |
| 34 <sup>th</sup> Public subscription bond   | 2010.02.18 | -     | -       | 20,000 |
| 35 <sup>th</sup> Public subscription bond   | 2010.03.09 | -     | -       | 30,000 |
| 36 <sup>th</sup> Public subscription bond   | 2010.11.29 | -     | -       | 10,000 |
| 37 <sup>th</sup> Public subscription bond   | 2010.03.17 | -     | -       | 40,000 |
| 38-2 <sup>nd</sup> Public subscription bond | 2011.07.14 | 7.85% | 10,000  | 10,000 |
| 39 <sup>th</sup> Private subscription bond  | 2012.03.04 | 8.73% | 30,000  | 30,000 |
| 41 <sup>st</sup> Public subscription bond   | 2010.06.16 | -     | -       | 30,000 |
| 42 <sup>nd</sup> Private subscription bond  | 2011.06.26 | 6.40% | 10,000  | 10,000 |
| 43-1 <sup>st</sup> Public subscription bond | 2011.08.31 | 6.35% | 70,000  | 70,000 |
| 43-2 <sup>nd</sup> Public subscription bond | 2012.08.31 | 6.75% | 40,000  | 40,000 |
| 44 <sup>th</sup> Private subscription bond  | 2010.09.25 | -     | -       | 10,000 |
| 45 <sup>th</sup> Bond                       | 2012.04.28 | 6.40% | 30,000  | 30,000 |
| 46 <sup>th</sup> Private subscription bond  | 2010.10.27 | -     | -       | 15,000 |
| 47 <sup>th</sup> Private subscription bond  | 2010.12.30 | -     | -       | 12,000 |
| 48 <sup>th</sup> Bond                       | 2013.02.25 | 6.40% | 100,000 | -      |
| 49 <sup>th</sup> Bond                       | 2013.03.26 | 5.87% | 40,000  | -      |
| 50-1 <sup>st</sup> Bond                     | 2013.04.23 | 5.60% | 20,000  | -      |
| 50-2 <sup>nd</sup> Bond                     | 2015.04.23 | 6.50% | 20,000  | -      |
| 51 <sup>st</sup> Bond                       | 2015.05.10 | 6.40% | 20,000  | -      |
| 52 <sup>nd</sup> Bond                       | 2012.05.27 | 5.30% | 20,000  | -      |
| 53 <sup>rd</sup> Bond                       | 2013.06.22 | 5.90% | 30,000  | -      |
| 54 <sup>th</sup> Private subscription bond  | 2011.06.16 | 5.28% | 30,000  | -      |
| 55 <sup>th</sup> Bond                       | 2013.06.30 | 5.90% | 20,000  | -      |
| 56-1 <sup>st</sup> Bond                     | 2012.07.14 | 5.50% | 10,000  | -      |
| 56-2 <sup>nd</sup> Bond                     | 2013.07.14 | 5.95% | 20,000  | -      |
| 57 <sup>th</sup> Bond                       | 2013.09.27 | 5.75% | 30,000  | -      |
| 58-1 <sup>st</sup> Bond                     | 2013.10.08 | 5.50% | 40,000  | -      |
| 58-2 <sup>nd</sup> Bond                     | 2015.10.08 | 6.10% | 10,000  | -      |
| 59-1 <sup>st</sup> Bond                     | 2013.10.28 | 5.30% | 20,000  | -      |
| 59-2 <sup>nd</sup> Bond                     | 2015.10.28 | 5.80% | 10,000  | -      |
| 60-1 <sup>st</sup> Bond                     | 2012.11.23 | 5.10% | 20,000  | -      |
| 60-2 <sup>nd</sup> Bond                     | 2013.11.23 | 5.50% | 30,000  | -      |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|  |            |       |        |   |
|--|------------|-------|--------|---|
| 61-1 <sup>st</sup> Bond                    | 2011.12.09 | 4.20% | 10,000 | - |
| 61-2 <sup>nd</sup> Bond                    | 2013.12.09 | 5.15% | 20,000 | - |
| 62 <sup>nd</sup> Bond                      | 2013.12.30 | 5.20% | 30,000 | - |
| 63 <sup>rd</sup> Private subscription bond | 2011.12.30 | 5.40% | 12,000 | - |

**The Class Hyosung Co., Ltd.**

|   |            |   |                    |                    |
|---|------------|---|--------------------|--------------------|
| 1 <sup>st</sup> Private subscription bond | 2010.04.16 | - | -                  | 5,000              |
|   |            |   | 1,937,000          | 1,762,000          |
| Less : Current portion of debentures      |            |   | (617,000)          | (737,000)          |
| Discount on bonds                         |            |   | (5,492)            | (3,078)            |
|   |            |   | <u>₩ 1,314,508</u> | <u>₩ 1,021,922</u> |

**18. Borrowings**

Short-term borrowings as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | Bank                                    | Interest rate<br>as of December<br>31, 2010 | 2010 |                    | 2009 |                    |
|------------------------------------|---|---|------|--------------------|------|--------------------|
|                                    |   |   | ₩    |                    | ₩    |                    |
| General loans                      | Woori Bank and others                   | 1.48% ~ 11.08%                              | ₩    | 690,052            | ₩    | 409,138            |
| Usance                             | Woori Bank and others                   | 0.88% ~ 5.66%                               |      | 215,615            |      | 235,830            |
| Others                             | Tong Yang Securities<br>Inc. and others | 1.00% ~ 10.00%                              |      | 499,253            |      | 968,462            |
|                                    |   |   |      | <u>₩ 1,404,920</u> |      | <u>₩ 1,613,430</u> |

Long-term borrowings as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>         | Bank                                 | Interest rate<br>as of December<br>31, 2010 | 2010 |         | 2009 |         |
|--|--------------------------------------|---|------|---------|------|---------|
|  |                                      |   | ₩    |         | ₩    |         |
| <b>Local currency long-term borrowings</b> |                                      |   |      |         |      |         |
| Facility loans                             | Korea Development Bank               | 2.25 ~ 7.59%                                | ₩    | 229,594 | ₩    | 158,023 |
|  | Kookmin Bank                         | 5.49 ~ 8.41%                                |      | 51,578  |      | 54,930  |
|  | Korea Development Bank               | 1.50 ~ 3.00%                                |      | 12,853  |      | 13,629  |
|  | Capital                              |   |      |         |      |         |
|  | Korea Housing Guarantee<br>Co., Ltd. | 1.00%                                       |      | 4,400   |      | 4,400   |
|  | Kwangju Bank                         | A- corporate<br>bond yield rate<br>+3.2%    |      | 10,000  |      | -       |
|  | Suhyup Bank                          | A- corporate<br>bond yield rate<br>+3.2%    |      | 20,000  |      | -       |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|   |   |                                    |             |           |
|---|---|------------------------------------|-------------|-----------|
|   | Korea Exchange Bank                             | A- corporate bond yield rate +3.2% | 19,900      | -         |
|   | Jeonbuk Bank                                    | A- corporate bond yield rate +3.2% | 10,000      | -         |
|   | KDB Life Insurance                              | 7.50%                              | 20,000      | -         |
| Operating capital                               | Korea Development Bank                          | 4.77 ~ 7.82%                       | 80,500      | 78,000    |
|   | Woori Bank                                      | 5.60%                              | 30,000      | 50,000    |
|   | Korea Exchange Bank                             | 5.94 ~ 7.88%                       | 28,400      | 28,400    |
|   | Hana Bank                                       | 4.93 ~ 6.35%                       | 60,000      | 60,000    |
|   | Shinhan Bank                                    | 6.45%                              | 30,000      | 30,000    |
|   | Korea Housing Guarantee Co., Ltd.               | 1.00%                              | 2,163       | 2,163     |
| Others  | Woori Bank and others                           | 2.96 ~ 8.50%                       | 404,378     | 22,934    |
|   | Chin Hung Humansia Ltd.                         | 7.00%                              | 16,987      | -         |
|   |   |                                    | 1,030,753   | 502,479   |
| Less : Current portion of long-term borrowings  |   |                                    | (521,244)   | (223,960) |
| Present value discount                          |   |                                    | (379)       | (381)     |
|   |   |                                    | 509,130     | 278,138   |
| <b>Long-term borrowings in foreign currency</b> |   |                                    |             |           |
| Facility loans                                  | Korea Development Bank                          | Floating rate                      | 190,461     | 34,211    |
|   | Mitsui Sumimoto Bank                            | 3M + 0.90%                         | 54,464      | 23,352    |
|   | Shinhan Bank                                    | -                                  | -           | 23,352    |
|   | Industrial Bank of Korea                        | Floating rate                      | 33,283      | -         |
|   | Mizuho Corporate Bank                           | Floating rate                      | 22,849      | -         |
|   | The Export-Import Bank of Korea                 | Floating rate                      | 191,355     | -         |
|   | Woori Bank                                      | Floating rate                      | 44,331      | -         |
|   | China Construction Bank                         | 2.25%~5.18%                        | 26,646      | -         |
|   | Industrial and Commercial Bank of China Limited | 5.24%                              | 3,450       | -         |
|   | Bank of China                                   | Floating rate                      | 31,188      | -         |
|   | Kexim Vietnam leasing Co., Ltd.                 | 3M LIBOR+4.4%                      | 1,109       | -         |
|   | Nanyang Commercial Bank(China)                  | 3M LIBOR+2.5%                      | 22,848      | -         |
| Operating capital                               | The Export-Import Bank of Korea                 | 3.48%                              | 30,272      | -         |
| Financing leases                                | Kexim Vietnam leasing Co., Ltd.                 | 6M LIBOR+2.11%                     | 1,797       | -         |
| Others  | Korea Development Bank and others               | Floating rate                      | 217,908     | 615,791   |
|   |   |                                    | 871,961     | 696,706   |
| Less : Current portion of long-term borrowings  |   |                                    | (258,901)   | (162,647) |
|   |   |                                    | 613,060     | 534,059   |
|   |   |                                    | ₩ 1,122,190 | ₩ 812,197 |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

Local currency long-term borrowings will be redeemed by installment or in a lump sum, and are secured by equity-method investments and property, plant and equipment.

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

| <i>(in millions of Korean won)</i> | <b>Debentures</b> | <b>Local currency long-term borrowings</b> | <b>Long-term borrowings in foreign currency</b> | <b>Total</b>       |
|------------------------------------|-------------------|--|---|--------------------|
| <b>Year</b>                        |                   |  |   |                    |
| 2011                               | ₩ 617,000         | ₩ 521,244                                  | ₩ 258,901                                       | ₩ 1,397,145        |
| 2012                               | 410,000           | 202,029                                    | 299,895   | 911,924            |
| 2013                               | 680,000           | 209,591                                    | 273,177   | 1,162,768          |
| 2014                               | 90,000            | 5,981                                      | 17,137  | 113,118            |
| 2015                               | 140,000           | 91,908                                     | 22,851  | 254,759            |
|                                    | <u>₩1,937,000</u> | <u>₩ 1,030,753</u>                         | <u>₩ 871,961</u>                                | <u>₩ 3,839,714</u> |

**19. Accrued Severance Benefits**

Changes in accrued severance benefits for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b>     | <b>2009</b>     |
|------------------------------------|-----------------|-----------------|
| Beginning balance                  | ₩ 194,460       | ₩ 175,464       |
| Increase                           | 57,573          | 46,122          |
| Payment                            | (86,794)        | (26,991)        |
| Transfer from related party        | 568             | 139             |
| Others <sup>1</sup>                | (329)           | (274)           |
| Ending balance                     | 165,478         | 194,460         |
| Less: Severance benefit deposits   | (113,184)       | (131,920)       |
| National Pension Fund contribution | (804)           | (1,025)         |
| Accrued severance benefits         | <u>₩ 51,490</u> | <u>₩ 61,515</u> |

<sup>1</sup> Others include changes in amount resulting from changes in scope of consolidation.

As of December 31, 2010, the Company estimates severance payable to all employees to be ₩165,478 million (2009 : ₩194,460 million) and records the corresponding amount as accrued severance benefits. Also, accrued severance benefits are funded at approximately 68.40% as of December 31, 2010 (2009 : 67.84%), through severance insurance deposits with Samsung Life Insurance Co. Ltd. and others.

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

---

**20. Provision for Construction Warranties**

Changes in provision for construction warranties for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b>     | <b>2009</b>     |
|------------------------------------|-----------------|-----------------|
| Beginning balance                  | ₩ 26,164        | ₩ 20,857        |
| Increase                           | 14,138          | 12,054          |
| Payment                            | <u>(4,941)</u>  | <u>(6,747)</u>  |
| Ending balance                     | <u>₩ 35,361</u> | <u>₩ 26,164</u> |

<sup>1</sup> Others include changes in amount resulting from changes in scope of consolidation.

**21. Provision for Construction Losses**

Changes in provision for construction losses for the years ended December 31, 2010 and 2009, are as follows :

| <i>(in millions of Korean won)</i> | <b>2010</b>     | <b>2009</b>     |
|------------------------------------|-----------------|-----------------|
| Beginning balance                  | ₩ 15,442        | ₩ -             |
| Increase                           | <u>4,521</u>    | <u>15,442</u>   |
| Ending balance                     | <u>₩ 19,963</u> | <u>₩ 15,442</u> |

**22. Operating leases**

Minimum lease payments schedule as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b> | <b>2009</b> |
|------------------------------------|-------------|-------------|
| Less than 1 year                   | ₩ 12,893    | ₩ 6,875     |
| 1 year – 5 years                   | 20,932      | 11,140      |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**23. Monetary Assets and Liabilities denominated in Foreign Currencies**

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009, are as follows:

|                                  | 2010               |  | 2009               |  |
|----------------------------------|--------------------|--|--------------------|--|
|                                  | Foreign Currencies | Korean won equivalent<br>(in millions) | Foreign currencies | Korean won equivalent<br>(in millions) |
| <b>Assets</b>                    |                    |  |                    |  |
| Cash and cash equivalents        | USD 39,695,095     | ₩ 45,209                               | USD 17,370,043     | ₩ 20,281                               |
|                                  | EUR 2,194,251      | 3,321                                  | EUR 1,719,970      | 2,880                                  |
|                                  | JPY 155,611,705    | 2,174                                  | JPY 147,847,534    | 1,867                                  |
|                                  | AED 830            | -                                      | AED -              | -                                      |
|                                  | BDT 3,489,879      | 56                                     | BDT 2,625,084      | 44                                     |
|                                  | MYR 7,006,569      | 2,588                                  | MYR 5,566,753      | 1,897                                  |
|                                  | QAR 6,626,678      | 2,072                                  | QAR 5,835,247      | 1,871                                  |
|                                  | VND 40,051,916,504 | 2,403                                  | VND 2,443,001,778  | 154                                    |
|                                  | ALL 4,275,899      | 47                                     | ALL -              | -                                      |
|                                  | BRL 205            | -                                      | BRL -              | -                                      |
|                                  | DZD 6,100,403      | 93                                     | DZD -              | -                                      |
|                                  | PHP 8,815,965      | 229                                    | PHP -              | -                                      |
| Short-term financial instruments | QAR 100,000        | 31                                     | QAR 100,000        | 32                                     |
| Short-term loans receivable      | USD 6,141,298      | 6,994                                  | USD 6,141,298      | 7,171                                  |
| Trade accounts receivable        | USD 131,452,491    | 149,711                                | USD 138,835,748    | 162,105                                |
|                                  | EUR 13,464,270     | 20,380                                 | EUR 23,512,598     | 39,367                                 |
|                                  | JPY 33,097,375     | 462                                    | JPY 58,998,239     | 745                                    |
|                                  | MYR 4,256,752      | 1,572                                  | MYR 4,969,676      | 1,694                                  |
|                                  | GBP -              | -                                      | GBP 139            | 1                                      |
|                                  | AED 1,623,891      | 504                                    | AED -              | -                                      |
|                                  | CAD 16             | -                                      | CAD -              | -                                      |
| Other accounts receivable        | USD 4,323,420      | 4,924                                  | USD 6,062,518      | 7,079                                  |
|                                  | EUR 1,188,274      | 1,799                                  | EUR 1,079,955      | 1,808                                  |
|                                  | JPY 2,056,605      | 29                                     | JPY 2,287,850      | 29                                     |
|                                  | AED 2,468          | 1                                      | AED -              | -                                      |
| Accrued income                   | USD 263,215        | 300                                    | USD 42,091         | 49                                     |
| Long-term financial instruments  | USD 105,226        | 120                                    | USD 126,787        | 148                                    |
|                                  | EUR 222,626        | 337                                    | EUR 118,510        | 198                                    |
|                                  | AUD 92,520         | 107                                    | AUD 92,520         | 97                                     |
|                                  | CAD 38,500         | 44                                     | CAD 38,500         | 43                                     |
|                                  | CNY 713,800        | 123                                    | CNY 77,100         | 13                                     |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|                               |     |             |                  |     |               |                  |
|-------------------------------|-----|-------------|------------------|-----|---------------|------------------|
|                               | GEL | 8,690       | 6                | GEL | 8,690         | 6                |
|                               | HKD | 158,072     | 23               | HKD | 72            | 1                |
|                               | IDR | 35,000,000  | 4                | IDR | 35,000,000    | 4                |
|                               | INR | 1,316,500   | 33               | INR | 1,106,500     | 28               |
|                               | IRR | 4,000,000   | 1                | IRR | 4,000,000     | 1                |
|                               | MXN | 116,435     | 11               | MXN | 93,235        | 8                |
|                               | MYR | 55,000      | 20               | MYR | 30,000        | 10               |
|                               | PHP | 750,000     | 20               | PHP | 750,000       | 19               |
|                               | PLN | 173,610     | 66               | PLN | 173,610       | 70               |
|                               | RUB | 6,307,850   | 235              | RUB | 2,000,350     | 77               |
|                               | SAR | 4,100       | 1                | SAR | 4,100         | 1                |
|                               | SGD | 43          | 1                | SGD | 43            | 1                |
|                               | SUM | 1,031,000   | 1                | SUM | 1,031,000     | 1                |
|                               | UAH | 76,800      | 11               | UAH | 76,800        | 11               |
|                               | THB | 615,000     | 23               | THB | 615,000       | 22               |
|                               | BRL | 36,073      | 25               | BRL | 30,700        | 21               |
|                               | CHF | 3,300       | 4                | CHF | -             | -                |
|                               | TRY | 1,800       | 1                | TRY | -             | -                |
| Available-for-sale securities | USD | 3,199,076   | 3,643            | USD | 2,792,506     | 3,261            |
| Long-term loans receivable    | EUR | 2,505,299   | 3,792            | EUR | 2,505,299     | 4,195            |
|                               | USD | 3,024,683   | 3,445            | USD | 3,024,683     | 3,532            |
| Other non-current assets      | JPY | -           | -                | JPY | 25,973,934    | 328              |
|                               | TRY | -           | -                | TRY | 13,026        | 10               |
| Guarantee deposits            | USD | 18,170,382  | 21,216           | USD | 18,170,382    | 21,216           |
|                               | EUR | 5,423,235   | 8,209            | EUR | 3,230,934     | 5,409            |
|                               | JPY | 8,252,225   | 115              | JPY | 9,259,225     | 117              |
|                               | MYR | 5,358,724   | 1,979            | MYR | 5,358,724     | 1,826            |
|                               | AUD | 170,115     | 197              |     | -             | -                |
|                               | DKK | 1,021,390   | 207              |     | -             | -                |
|                               |     |             | <u>₩ 288,919</u> |     |               | <u>₩ 289,748</u> |
| <b>Liabilities</b>            |     |             |                  |     |               |                  |
| Trade accounts payable        | USD | 386,785,512 | ₩ 440,510        | USD | 172,347,862   | ₩ 216,727        |
|                               | EUR | 3,611,494   | 5,466            | EUR | 2,433,054     | 4,321            |
|                               | JPY | 372,839,830 | 5,209            | JPY | 6,681,513,759 | 93,140           |
|                               | CAD | -           | -                | CAD | 69,415        | 72               |
|                               | CHF | 73,287      | 89               | CHF | 445,903       | 531              |
|                               | GBP | 22,565      | 40               | GBP | 39,537        | 72               |
|                               | HKD | 96,232      | 14               | HKD | 103,046       | 17               |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|                         |     |               |                  |     |             |                  |
|-------------------------|-----|---------------|------------------|-----|-------------|------------------|
|                         | MYR | 568,831       | 210              | MYR | 2,115,307   | 765              |
|                         | SEK | 2,943,021     | 496              | SEK | 389,870     | 63               |
|                         | SGD | 2,053         | 2                | SGD | -           | -                |
|                         | DKK | 414,318       | 84               | DKK | -           | -                |
|                         | GBP | 22,565        | 40               | GBP | -           | -                |
|                         | THB | 248,240       | 9                | THB | -           | -                |
| Short-term borrowings   | USD | 201,505,897   | 229,495          | USD | 170,654,182 | 214,598          |
|                         | EUR | 10,674,676    | 16,157           | EUR | 5,237,157   | 9,302            |
|                         | JPY | 1,363,571,000 | 19,049           | JPY | 898,608,844 | 12,527           |
|                         | CHF | 560,322       | 682              | CHF | -           | -                |
|                         | SEK | 18,974,752    | 3,197            | SEK | -           | -                |
| Other accounts payable  | USD | 42,153,642    | 48,009           | USD | 28,777,222  | 36,188           |
|                         | EUR | 2,342,662     | 3,546            | EUR | 1,471,079   | 2,613            |
|                         | JPY | 157,365,627   | 2,198            | JPY | 233,769,662 | 3,259            |
|                         | AUD | 156,433       | 181              | AUD | -           | -                |
|                         | CHF | -             | -                | CHF | 890         | 1                |
|                         | CNY | 20,000        | 3                | CNY | 10,552      | 2                |
|                         | GBP | -             | -                | GBP | 6,000       | 11               |
|                         | MYR | 1,868,282     | 690              | MYR | 3,207,674   | 1,160            |
|                         | QAR | 18,079,208    | 5,654            | QAR | 14,840,220  | 5,127            |
|                         | SEK | 271,000       | 46               | SEK | 440,500     | 72               |
|                         | DKK | 13,176        | 3                | DKK | -           | -                |
|                         | VND | 9,705,000,000 | 582              | VND | -           | -                |
| Advances from customers | USD | 37,244,170    | 42,417           | USD | 13,764,481  | 17,309           |
|                         | EUR | 6,418,407     | 9,715            | EUR | 8,699,052   | 15,451           |
|                         | JPY | 9,572,381     | 134              | JPY | 43,204,550  | 602              |
|                         | AUD | 68,456        | 79               | AUD | -           | -                |
|                         | MYR | 77,103        | 28               | MYR | 77,103      | 28               |
| Accrued expenses        | USD | 1,855,210     | 2,113            | USD | 4,205,031   | 5,288            |
|                         | EUR | 98,148        | 149              | EUR | 57,939      | 103              |
|                         | JPY | 1,315,145     | 18               | JPY | 4,937,897   | 69               |
|                         | CHF | 4,529         | 6                | CHF | -           | -                |
|                         | SEK | 461,771       | 78               | SEK | -           | -                |
| Income taxes payable    | MYR | -             | -                | MYR | 3,844       | 1                |
|                         | QAR | 1,940,952     | 607              | QAR | 1,940,952   | 671              |
| Long-term borrowings    | USD | 20,000,000    | 22,778           | USD | 90,369,265  | 113,640          |
|                         |     |               | <u>₩ 859,783</u> |     |             | <u>₩ 753,730</u> |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

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In connection with the above foreign currency translations, ₩71,148 million (2009 : ₩74,086 million) in translation gains and ₩99,147 million (2009 : ₩52,955 million) in translation losses are recorded as non-operating income and expenses, respectively.

#### 24. Commitments and Contingencies

##### Guarantees of notes and checks provided as collaterals

Details of commitments and contingencies provided by the Company regarding accounts payable and trade terms as of December 31, 2010, are as follows:

|        | Provider                  | Number | Type                                      |
|--------|---------------------------|--------|---|
| Checks | Bank and others           | 7      | Blank, Total par value of ₩12 million     |
|        | Hanjin Shipping Co., Ltd. | 1      | Blank                                     |
| Notes  | SK Gas Ltd.               | 1      | Blank                                     |
|        | TCC Steel Co., Ltd.       | 1      | Blank                                     |
|        | Samsung C & T Corporation | 5      | Total par value of ₩3,457 million         |
|        | Bank and others           | 19     | Blank, Total par value of ₩31,546 million |
|        | Hyundai Rotem Co.         | 2      | Total par value of ₩8,206 million         |
|        | Tong Yang Securities Inc  | 1      | Blank                                     |

##### Loan agreement and others

The Company has general loans and open local L/C with a maximum limit of ₩2,391,385 million, including bank overdraft and trade bill discount. Also, the Company has account receivables discounting agreements with a maximum limit of ₩1,090,961 million with financial institutions as of December 31, 2010.

##### Guarantees provided to others

| Descriptions                                 | Amount    |
|--|-----------|
| <i>(in millions of Korean won)</i>           |           |
| Collaterals and guarantees                   | ₩ 314,165 |
| Performance guarantee                        | 152       |
| Joint and several guarantee for construction | 198,148   |
| House sales guarantee                        | 331,589   |
| Construction warranty guarantee              | 119       |

##### Guarantees provided to others with regard to PF

Details of guarantees provided by the Company to developers as of December 31, 2010, are as follows:

| <i>(in millions of Korean won)</i> | Amount      | Warrantee |
|------------------------------------|-------------|-----------|
| PF loan Guarantee                  | ₩ 1,022,435 | Developer |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**Guarantees provided by others**

| <b>Guarantor</b>   | <b>Collaterals and guarantees provided</b>   | <b>Amount</b>   |
|--|--|-----------------|
| <i>(in millions of Korean won, in US dollars and others)</i> |  |                 |
| Korea Construction Financial Cooperative and others          | Construction performance and others          | ₩ 906,677       |
| Kookmin Bank   | Bid guarantee                                | EUR 1,000,000   |
|  | Payment guarantee                            | EUR 699,120     |
|  |  | USD 2,121,093   |
| Korea Housing Guarantee Corporation                          | Construction guarantee and others            | 173,162         |
| Bank Mellat  | Performance guarantee and others             | EUR 385,376     |
| Park, Hae-Sung(former representative)                        | Joint surety                                 | 3,900           |
| Korea Development Bank                                       | Payment guarantee                            | EUR 123,791     |
|  |  | USD 230,700     |
| Seoul Guarantee Insurance Company                            | Payment guarantee and others                 | 7,603,644       |
| Shinhan Bank   | Performance guarantee                        | 11,905          |
|  | Performance guarantee and others             | USD 1,407,847   |
|  |  | USD 2,241,002   |
| Citibank   | Foreign-currency payment guarantee           | USD 2,241,002   |
|  |  | USD 2,241,002   |
| Korea Exchange Bank  | Performance guarantee                        | MYR 2,015,000   |
|  | Bid guarantee                                | USD 550,000     |
|  | Foreign-currency payment guarantee           | EUR 3,428,123   |
|  |  | USD 1,095,806   |
|  | ACP project performance guarantee            | JPY 3,169,475   |
| Ilseung Construction Co., Ltd.                               | Joint and several guarantee for Construction | 31,308          |
| Machinery Financial Cooperative                              | Performance guarantee                        | 22,561,106      |
|  | Payment guarantee                            | 40,465,176      |
|  | Construction warranty guarantee              | 28,364,278      |
| Hana Bank  | Performance guarantee                        | USD 15,372,782  |
| Korea Trade Insurance Corporation                            | Short-term export insurance                  | USD 562,053     |
| The Export-Import Bank of Korea                              | Advance refund guarantee                     | EUR 926,295     |
|  |  | INR 7,820,844   |
|  | Performance guarantee                        | DZD 201,124,798 |
|  |  | EUR 1,525,499   |
|  | Bid guarantee                                | DZD 60,000,000  |
|  | Payment guarantee                            | EUR 464,378     |
|  |  | USD 1,105,447   |
| The Export-Import Bank of Korea and others                   | Performance guarantee                        | 321,892         |
| SC First Bank  | Foreign-currency payment guarantee           | USD 62,751      |

## Hyosung Corporation and Subsidiaries

### Notes to the Consolidated Financial Statements

#### December 31, 2010 and 2009

#### Assets pledged as collaterals

As of December 31, 2010, the Company provided following assets as collaterals:

| <i>(in millions of Korean won,<br/>in US dollars and others)</i> | Lender                            | Descriptions                       | Maximum credit<br>amount |
|--|-----------------------------------|------------------------------------|--------------------------|
| Short-term financial instrument                                  | Siemens                           | Foreign-currency payment guarantee | ₩ 154                    |
| Equity-method investments  | Woori Bank and others             | General loans                      | 89,684                   |
| Property, plant and equipment & inventories                      | Korea Development Bank and others | General loan and others            | 1,915,125                |
|  | Korea Development Bank and others | Facility funds loans               | USD 2,600,000<br>12,300  |
|  |                                   |                                    | JPY 460,000,000          |

#### Pending Lawsuits

The Company is involved in various lawsuits and claims for damages aggregating to ₩ 224,710 million and US \$ 15 million dollars as of December 31, 2010. Management believes that these lawsuits and claims will not have a significant adverse effect on the Company's financial position, operating results or cash flows.

## 25. Derivatives

#### Forward exchange contract

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

Also, the Company entered into derivative contracts to swap floating rate bonds for fixed rate bonds and interest rate and currency swap contracts for borrowings.

Details of derivative contracts as of December 31, 2010 and 2009, are as follows:

| <i>(in thousands)</i>           |     | 2010    | 2009    |
|---------------------------------|-----|---------|---------|
| Foreign exchange risk insurance | USD | 2,850   | 68,029  |
| Forward exchange contracts      | USD | 620,982 | 327,658 |
| Forward exchange contracts      | EUR | 79,647  | 9,640   |
| Forward exchange contracts      | CAD | 22,588  | 8,330   |
| Forward exchange contracts      | JPY | 5,040   | -       |
| Forward exchange contracts      | AUD | 15      | -       |
| Forward exchange contracts      | GBP | 1       | -       |
| Forward exchange contracts      | HKD | 4       | -       |
| Currency forward transaction    | USD | 10,949  | 8,700   |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|                                 |     |           |            |
|---------------------------------|-----|-----------|------------|
| Currency forward transaction    | JPY | 556,164   | 1,374,577  |
| Currency swap <sup>1</sup>      | USD | 289       | -          |
| Interest rate swap <sup>1</sup> | KRW | 8,400,000 | 58,400,000 |

<sup>1</sup> Cash flow hedge is applied on ₩ 8,400 million (2009: ₩ 58,400 million) of interest rate swap.

**Put options**

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

|                 |  |
|-----------------|--|
| Purchase date   | March 14, 2008   |
| Related stock   | Common shares of Korea Express Inc.<br>(Number of shares : 33,204)   |
| Exercise period | (1) 3 years after a day from payment date<br>(2) One year can be extended through an agreement with investors  |
| Exercise price  | Exercise price = (1) + (2)<br>(1) Contract price of corresponding stocks based on the contract with the consortium<br>(2) 6.5% of the exercise price between the purchase date and the completion date |

**Valuation gain or loss**

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

| <i>(in millions of Korean won)</i> | 2010           |                | 2009           |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | Valuation gain | Valuation loss | Valuation gain | Valuation loss |
| Forward exchange contracts         | ₩ 17,514       | ₩ (5,233)      | ₩ 12,551       | ₩ (1,916)      |
| Foreign exchange risk insurance    | 130            | -              | 4,398          | -              |
| Put options                        | 304            | -              | -              | (254)          |
| Currency forward transaction       | 461            | (122)          | 28             | (955)          |
|                                    | ₩ 18,409       | ₩ (5,355)      | ₩ 16,977       | ₩ (3,125)      |

**Hedge accounting on borrowings denominated in foreign currency**

In accordance with the Financial Supervisory Service's Accounting Implementation Guide [2010 -2], the Company designated borrowings denominated in foreign currency as hedging the forecasted sales by applying cash-flow hedging accounting.

Details of the interest rate swap designated as hedging the fluctuation of long-term borrowings interest rate are as follows:

| <i>(in millions of Korean won)</i> | Bank                | Contract Amount | losses on valuation of derivatives (accumulated other comprehensive income) |
|------------------------------------|---------------------|-----------------|---|
| Interest rate swap                 | Korea Exchange Bank | ₩ 8,400         | ₩ (576)   |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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Loss on derivative transactions of ₩9,076 million was offset against sales by applying cash flow hedge accounting.

Meanwhile, the realized gain and loss on derivative transactions recognized upon the expiration of contracts during the years ended December 31, 2010 and 2009, amounted to ₩19,524 million and ₩6,782 million, respectively.

**26. Capital Stock and Capital Surplus**

Details of the capital stock are as follows:

| <b>Number of Shares<br/>authorized</b> | <b>Number of Shares<br/>Issued and Outstanding</b> | <b>Par value Per Share<br/>(in won)</b> | <b>Amount<br/>(in millions)</b> |
|--|--|---|---------------------------------|
| 200,000,000                            | 35,117,455   | ₩ 5,000                                 | ₩ 175,587                       |

In accordance with Asset Revaluation Law, the Company has revalued its property, plant and equipment on October 1, 1998. Details of asset revaluation as of December 31, 2010, are as follows:

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

**27. Treasury Stock**

The treasury stock was acquired through a merger in 1998 and is expected to be sold in a reasonable time. Details of treasury stock as of December 31, 2010, are as follows:

| <i>(in millions of<br/>Korean won)</i> | <b>Year<br/>acquired</b> | <b>Percentage of<br/>ownership</b> | <b>Acquired number<br/>of shares</b> | <b>Amount</b> |
|--|--------------------------|------------------------------------|--------------------------------------|---------------|
| Common stock                           | 1998                     | 5.26%                              | 1,848,851                            | ₩ 34,204      |

As of December 31, 2010, 1,848,851 treasury shares have no voting rights pursuant to the Commercial Law.

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**28. Retained Earnings**

| <i>(in millions of Korean won)</i>                               | <b>2010</b>      | <b>2009</b>      |
|--|------------------|------------------|
| Legal reserve <sup>1</sup>                                       | ₩ 9,965          | ₩ 6,638          |
| Reserve for research and human resource development <sup>2</sup> | 40,000           | 6,667            |
| Other reserve <sup>2</sup>                                       | 524,000          | 253,000          |
|  | <u>₩ 573,965</u> | <u>₩ 266,305</u> |

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

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

**29. Income Tax Expense**

Income tax expense as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>               | <b>2010</b>      | <b>2009</b>      |
|--|------------------|------------------|
| Current income taxes                             | ₩ 157,094        | ₩ 49,294         |
| Deferred income tax due to temporary differences | 8,669            | 32,106           |
| Deferred income tax due to loss carry forwards   | 10,200           | 41,202           |
| Deferred income tax charged to equity            | (1,343)          | 279              |
| Income tax expense                               | <u>₩ 174,620</u> | <u>₩ 122,881</u> |

Reconciliation between net income before tax and income tax expense follows:

| <i>(in millions of Korean won)</i>   | <b>2010</b>      | <b>2009</b>      |
|--------------------------------------|------------------|------------------|
| Net income before tax                | ₩ 366,464        | ₩ 361,630        |
| Income tax expense at statutory rate | ₩ 97,556         | ₩ 94,979         |
| Adjustments                          |                  |                  |
| Non- taxable income                  | -                | (195)            |
| Non-deductible expense               | 15,041           | 4,687            |
| Others                               | 62,023           | 23,410           |
| Income tax expense                   | <u>₩ 174,620</u> | <u>₩ 122,881</u> |
| Effective tax rate                   | 47.65%           | 33.98%           |



**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|                          |             |           |           |             |                   |                   |
|--------------------------|-------------|-----------|-----------|-------------|-------------------|-------------------|
|                          | (1,390,890) | (135,742) | (211,371) | (1,315,261) | (312,162)         | (296,190)         |
| Tax loss carryforwards   | 136,334     | 44,673    | 136,334   | 44,673      | 32,993            | 150               |
| Tax credit carryforwards | 21,056      | -         | 8,359     | 12,697      | 21,056            | 12,697            |
|                          |             |           |           |             | <u>₩(144,720)</u> | <u>₩(218,028)</u> |

Temporary differences not recognized as deferred tax assets or liabilities are as follows:

| <i>(in millions of Korean won)</i> | <b>Related Assets / Liabilities</b> | <b>2010</b> | <b>2009</b> |
|------------------------------------|-------------------------------------|-------------|-------------|
| Deferred tax assets                | Temporary differences and others    | 762,680     | 427,853     |
| Deferred tax assets                | Tax loss carryforwards              | 78,373      | 43,991      |
| Deferred tax liabilities           | Advanced depreciation allowance     | (491,216)   | (455,345)   |

Details of deferred income taxes charged directly to the shareholders' equity as of December 31, 2010 and 2009, are as follows:

|  | <b>Deferred tax assets (liabilities)</b> |              |
|--|--|--------------|
|  | <b>2010</b>                              | <b>2009</b>  |
| Retained earnings                                  | ₩ (9)                                    | ₩ (86)       |
| Gain on valuation of available-for-sale securities | (4,476)                                  | (3,532)      |
| Gain on valuation of derivatives                   | (1,995)                                  | (8,268)      |
| Loss on valuation of equity-method investments     | 2,692                                    | 11,678       |
| Surplus from revaluation of land                   | 2,445                                    | 487          |
|  | <u>₩ (1,343)</u>                         | <u>₩ 279</u> |

**Recognition of deferred income tax assets based on realizability**

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

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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**30. Earnings Per Share**

Basic earnings per share for the years ended December 31, 2010 and 2009, is as follows:

| <i>(in Korean won)</i>   | <b>2010</b> |                 | <b>2009</b> |                 |
|--|-------------|-----------------|-------------|-----------------|
| Share in net income of controlling company                       | ₩           | 266,447,725,972 | ₩           | 323,430,573,461 |
| Weighted average number of common stock outstanding <sup>1</sup> |             | 33,268,604      |             | 33,268,604      |
| Basic earnings per share   |             | 8,009           |             | 9,722           |

<sup>1</sup> There are no changes in the weighted average number of common shares during the years ended December 31, 2010 and 2009.

**31. Dividends**

Details of dividends for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>                     | <b>2010</b> |            | <b>2009</b> |            |
|--|-------------|------------|-------------|------------|
| Number of common stock eligible for dividends          |             | 33,268,604 |             | 33,268,604 |
| Dividend rate  |             | 25%        |             | 20%        |
| Dividend amount  | ₩           | 41,586     | ₩           | 33,269     |
| Dividend payout ratio (Dividends/Net income)           |             | 15.33%     |             | 10.29%     |
| Dividend yield ratio (Dividend per share/Market price) |             | 1.18%      |             | 1.17%      |

**32. Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b> |         | <b>2009</b> |         |
|------------------------------------|-------------|---------|-------------|---------|
| Salaries                           | ₩           | 212,685 | ₩           | 186,977 |
| Research and development expense   |             | 121,745 |             | 102,013 |
| Bad debts expense                  |             | 95,402  |             | 50,142  |
| Export expense                     |             | 93,599  |             | 224,395 |
| Others                             |             | 64,867  |             | 96,744  |
| Commissions and fees               |             | 63,154  |             | 85,462  |
| Transportation                     |             | 49,476  |             | 48,167  |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

|                                       |           |             |
|---------------------------------------|-----------|-------------|
| Amortization                          | 45,230    | 43,853      |
| Travel                                | 28,042    | 25,708      |
| Employee benefits                     | 24,058    | 19,080      |
| Rent                                  | 22,639    | 22,269      |
| Retirement and severance benefits     | 22,584    | 17,077      |
| Advertising                           | 22,194    | 17,260      |
| Operating expense for overseas branch | 17,108    | 18,193      |
| Warranty expense                      | 16,995    | 11,663      |
| Taxes and dues                        | 16,539    | 16,444      |
| Outsourcing                           | 16,068    | 15,841      |
| Depreciation                          | 14,251    | 12,571      |
| Communications                        | 6,692     | 5,748       |
| Training                              | 6,108     | 4,295       |
| Vehicles maintenance                  | 5,448     | 4,903       |
| Insurance                             | 3,603     | 3,540       |
|                                       | ₩ 968,487 | ₩ 1,032,345 |

**33. Comprehensive Income**

Comprehensive income for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>  | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|
| Net income  | ₩ 191,844   | ₩ 238,749   |
| Other comprehensive income and expense  |             |             |
| Gain (loss) on valuation of available-for-sale securities,<br>net of tax of (-)₩3,327 million (2009: (-)₩5,239 million) | 11,795      | 18,576      |
| Gain (loss) on valuation of derivatives,<br>net of tax of (-)₩1,899 million (2009: (-)₩7,581 million)                   | 6,751       | 27,569      |
| Gain (loss) on valuation of equity-method investments,<br>net of tax of ₩ 339 million (2009: ₩ 842 million)             | (2,081)     | (258)       |
| Translation gain from overseas operation, net of tax of<br>₩ 3,895 million(2009: (-)₩ 11,023 million)                   | 14,189      | (82,264)    |
| Gain on revaluation, net of tax of<br>₩ 2,445 million (2009: ₩ 487 million)   | (8,668)     | (1,728)     |
| Comprehensive income  | ₩ 213,830   | ₩ 200,644   |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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**34. Supplemental Cash Flow Information**

Significant transactions not affecting cash flows as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>                                    | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|
| Machinery-in-transit transferred to property, plant and equipment     | ₩ 3,871     | ₩ 12,064    |
| Change in accumulated comprehensive income due to revaluation of land | 11,112      | 2,216       |
| Construction-in-progress transferred to property, plant and equipment | 417,884     | 151,536     |
| Reclassification of the current portion of long-term borrowings       | 412,290     | 652,342     |

**35. Value Added Information**

Value added information for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b> | <b>2009</b> |
|------------------------------------|-------------|-------------|
| Salaries                           | ₩ 548,140   | ₩ 463,544   |
| Retirement and severance benefits  | 57,573      | 46,122      |
| Employee benefits                  | 76,918      | 60,067      |
| Rent                               | 37,907      | 32,509      |
| Depreciation                       | 381,958     | 343,858     |
| Amortization                       | 53,030      | 47,542      |
| Taxes and dues                     | 40,543      | 39,404      |

**36. Summary of Major Construction Contracts**

The Company's contract balances and the related revenues recognized for the years ended December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>2010</b>        | <b>2009</b>        |
|------------------------------------|--------------------|--------------------|
| Beginning balance                  | ₩ 2,288,958        | ₩ 2,456,556        |
| Increase                           | 1,234,681          | 835,704            |
|                                    | <u>3,523,639</u>   | <u>3,292,261</u>   |
| Revenue recognized                 | (1,037,363)        | (1,003,303)        |
| Ending balance                     | <u>₩ 2,486,276</u> | <u>₩ 2,288,958</u> |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

Details of the major contracts on the ongoing projects as of December 31, 2010, are as follows:

(in millions of Korean won)

| Project   | Total<br>contract<br>price | Total<br>estimated<br>construction<br>costs | Cumulative<br>construction<br>revenue | Cumulative<br>construction<br>costs |
|---|----------------------------|---|---------------------------------------|-------------------------------------|
| Biryong agricultural water development                                | ₩ 5,382                    | ₩ 4,898                                     | ₩ 3,092                               | ₩ 2,814                             |
| Construction of North Injae-Yongdae road                              | 9,430                      | 9,430                                       | 8,707                                 | 8,707                               |
| Construction of Shinryunggono road                                    | 6,859                      | 6,242                                       | 5,340                                 | 4,859                               |
| Construction of Yongdu-Dongmyeon road                                 | 10,164                     | 10,164                                      | 555                                   | 555                                 |
| Construction of Daesan-Seokmun road                                   | 10,448                     | 10,333                                      | 2,935                                 | 2,903                               |
| Jibang road 357(The free road) 4                                      | 13,953                     | 13,953                                      | 11,936                                | 11,936                              |
| Gunsan-Mijang Section 2 KNHC Apt                                      | 24,426                     | 24,059                                      | 21,338                                | 21,018                              |
| Paju-Woonjung Section 8 KNHC Apt                                      | 32,617                     | 36,407                                      | 32,617                                | 36,407                              |
| Incheon-sorae Section 1 KNHC Apt                                      | 37,032                     | 37,614                                      | 33,789                                | 34,371                              |
| Incheon-Boogae Section 1 KNHC Apt                                     | 86,635                     | 80,770                                      | 33,940                                | 31,643                              |
| Recirculation of Sudockwon Landfill Sites Sanitary                    | 1,598                      | 1,551                                       | 1,501                                 | 1,456                               |
| Daegu Hyosung residing and working complex                            | 157,280                    | 127,554                                     | 153,891                               | 124,820                             |
| Construction of Changdong station                                     | 154,426                    | 140,528                                     | 44,913                                | 40,871                              |
| Chilgok (Namyul 2) Land   | 28,355                     | 24,668                                      | 13,770                                | 11,980                              |
| Construction of Banpo Building  | 48,542                     | 48,542                                      | 47,402                                | 47,402                              |
| Construction of Doomi Golf course(services)                           | 9,368                      | 9,171                                       | 7,355                                 | 7,200                               |
| Construction of Doomi Golf course(civil engineering, course)          | 39,374                     | 38,547                                      | 5,993                                 | 5,868                               |
| Construction of Doomi Golf course(logging & planting trees)           | 1,228                      | 1,202                                       | 939                                   | 919                                 |
| Construction of Doomi Golf course(approach road)                      | 3,370                      | 3,299                                       | 3,180                                 | 3,113                               |
| Bundang Imae-dong Townhouse   | 25,781                     | 25,781                                      | 2,321                                 | 2,321                               |
| Construction of Sooseo office   | 61,694                     | 61,694                                      | 3,163                                 | 3,163                               |
| Maintenance of the FED Osan non-commissioned officers' Accommodations | 10,376                     | 9,338                                       | 6,358                                 | 5,722                               |
| Construction of Pyeongtaek vehicle maintenance center                 | 17,871                     | 15,905                                      | 1,211                                 | 1,078                               |
| Construction of Kangnam office hotel                                  | 32,360                     | 25,888                                      | 67                                    | 54                                  |
| Reconstruction of Daegu bongduk                                       | 73,177                     | 90,276                                      | 33,407                                | 50,506                              |
| Daegu Bumadong Hyosung Apt  | 26,952                     | 26,952                                      | 515                                   | 515                                 |
| Gunjaje Segment   | 9,777                      | 8,765                                       | 8,819                                 | 7,903                               |
| Others  | 3,893,502                  | 3,505,597                                   | 1,908,003                             | 1,820,473                           |
|   | <u>₩ 4,831,977</u>         | <u>₩ 4,399,128</u>                          | <u>₩ 2,397,057</u>                    | <u>₩ 2,290,577</u>                  |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

Details of advances, billed and unbilled amounts related to the construction as of December 31, 2010, are as follows:

(in millions of Korean won)

| Project   | Advances | Billed amount | Unbilled amount |
|---|----------|---------------|-----------------|
| Biryong agricultural water development                                | ₩ 125    | ₩ -           | ₩ -             |
| Construction of North Injae-Yongdae road                              | 95       | -             | -               |
| Construction of Shinryunggono Road                                    | -        | -             | 893             |
| Gwangmyung Food Waste Treatment                                       | 52       | -             | -               |
| Construction of Daesan-Seokmun road                                   | -        | -             | 211             |
| Jibang road 357(The free road) 4                                      | -        | -             | 1,349           |
| Gunsan-Mijang Section 2 KNHC Apt                                      | -        | -             | 621             |
| Paju-Woonjung Section 8 KNHC Apt                                      | -        | 11            | 2,448           |
| Incheon-Boogae Section 1 KNHC Apt                                     | -        | -             | 4,502           |
| Incheon-Sorae Section 1 KNHC Apt                                      | -        | -             | 1,932           |
| Construction of Yongdu-Dongmyun road                                  | -        | -             | 91              |
| Construction of Doomi Golf course(services)                           | -        | 7,751         | -               |
| Construction of Doomi Golf course(logging & planting trees)           | -        | 1,037         | -               |
| Construction of Doomi Golf course(approach road)                      | -        | 3,400         | 89              |
| Construction of Doomi Golf course(civic engineering course)           | -        | 6,333         | 236             |
| Daegu Bumadong Hyosung Apt  | -        | -             | 1,262           |
| Daegu Hyosung residing and working complex                            | 1,389    | -             | -               |
| Chilgok (Namyul 2) Land   | -        | 5,059         | 1,491           |
| Construction of Chandong station                                      | -        | 13,898        | 3,364           |
| Wonju-Hanggu Hyosung Apt  | -        | 9,722         | -               |
| Construction of Banpo building  | -        | 24,290        | 6,313           |
| Reconstruction of Daegu bongduk                                       | -        | 29,963        | 1,122           |
| Daegu Bumadong Hyosung Apt  | -        | -             | 515             |
| Construction of Sooseo office   | -        | -             | 3,163           |
| Bundang Imae-dong Townhouse   | -        | 484           | 1,473           |
| Bundang Imae-dong Service   | -        | 26            | 7               |
| Recirculation of Sudockwon Landfill Sites Sanitary                    | -        | -             | 58              |
| Maintenance of the FED Osan non-commissioned officer's accommodations | -        | -             | 312             |
| Construction of Pyeongtack vehicle maintenance center                 | -        | -             | 752             |
| Construction of Kangnam office hotel                                  | -        | -             | 67              |
| Gunjaje Segment   | 845      | 53            | 2,737           |
| Other   | 18,303   | 2,800,657     | 3,387,004       |
|   | ₩ 20,809 | ₩2,902,684    | ₩ 3,422,012     |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**37. Segment Information**

Consolidated statements of financial position by line of business as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i>      | <b>Non-financial related</b> |                    | <b>Financial related</b> |                    |
|---|------------------------------|--------------------|--------------------------|--------------------|
|   | <b>2010</b>                  | <b>2009</b>        | <b>2010</b>              | <b>2009</b>        |
| <b>Assets</b>                           |                              |                    |                          |                    |
| Current                                 | ₩ 4,430,725                  | ₩ 3,843,015        | ₩ 53,678                 | ₩ 73,795           |
| Non-current                             | 5,348,492                    | 5,009,443          | 86,176                   | 71,603             |
| Property, plant and equipment           | 4,651,780                    | 4,380,004          | 1,082                    | 1,129              |
| Intangible assets                       | 103,602                      | 136,478            | 1,014                    | 648                |
| Other non-current assets                | 593,110                      | 492,961            | 84,080                   | 69,826             |
| Other financial business assets         | -                            | -                  | 1,780,817                | 1,283,058          |
| <b>Total assets</b>                     | <b>₩ 9,779,217</b>           | <b>₩ 8,852,458</b> | <b>₩ 1,920,671</b>       | <b>₩ 1,428,456</b> |
| <b>Liabilities</b>                      |                              |                    |                          |                    |
| Current                                 | ₩ 4,697,235                  | ₩ 4,199,454        | ₩ 671,651                | ₩ 811,089          |
| Non-current                             | 2,184,536                    | 1,906,507          | 919,724                  | 323,976            |
| <b>Total liabilities</b>                | <b>6,881,771</b>             | <b>6,105,961</b>   | <b>1,591,375</b>         | <b>1,135,065</b>   |
| <b>Equity</b>                           |                              |                    |                          |                    |
| Capital stock                           | 130,251                      | 130,251            | 45,336                   | 45,336             |
| Consolidated capital surplus            | 1,107,083                    | 1,111,623          | 57,594                   | 57,594             |
| Consolidated capital adjustments        | (33,798)                     | (33,620)           | (2,310)                  | (2,310)            |
| Consolidated other comprehensive income | 826,829                      | 808,389            | 10,877                   | 7,331              |
| Consolidated retained earnings          | 614,709                      | 416,233            |                          | 177,085            |
| Minority interest                       | 252,372                      | 313,621            | 9,377                    | 8,355              |
| <b>Total equity</b>                     | <b>2,897,446</b>             | <b>2,746,497</b>   | <b>329,296</b>           | <b>293,391</b>     |
| <b>Total Liabilities and Equity</b>     | <b>₩ 9,779,217</b>           | <b>₩ 8,852,458</b> | <b>₩ 1,920,671</b>       | <b>₩ 1,428,456</b> |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

Consolidated income statements by line of business as of December 31, 2010 and 2009, are as follows:

| <i>(in millions of Korean won)</i> | <b>Non-financial related</b> |             | <b>Financial related</b> |             |
|------------------------------------|------------------------------|-------------|--------------------------|-------------|
|                                    | <b>2010</b>                  | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Sales                              | ₩ 11,373,566                 | ₩ 9,833,642 | ₩ 217,915                | ₩ 175,550   |
| Cost of sales                      | 9,837,664                    | 8,196,488   | 156,224                  | 146,523     |
| SG&A                               | 949,779                      | 1,015,568   | 18,708                   | 16,777      |
| Operating income                   | 586,123                      | 621,587     | 42,983                   | 12,250      |
| Non-operating income               | 353,766                      | 352,734     | 430                      | 402         |
| Non-operating expenses             | 616,829                      | 625,277     | 9                        | 66          |
| Net income before taxes            | 323,060                      | 349,044     | 43,404                   | 12,586      |
| Income tax expense (benefit)       | 168,109                      | 125,492     | 6,511                    | (2,611)     |
| Net income for the year            | ₩ 154,951                    | ₩ 223,552   | ₩ 36,893                 | ₩ 15,197    |
| Parent interest in net income      | ₩ 230,605                    | ₩ 308,646   | ₩ 35,842                 | ₩ 14,784    |
| Minority interest in net income    | (75,654)                     | (85,094)    | 1,051                    | 413         |

Financial information by segments as of December 31, 2010 and 2009, follows:

| <i>(in millions of Korean won)</i> | <b>2010</b>   |                 |                         |                |               |                                  |              |
|------------------------------------|---------------|-----------------|-------------------------|----------------|---------------|----------------------------------|--------------|
|                                    | <b>Fabric</b> | <b>Chemical</b> | <b>Heavy industrial</b> | <b>Trading</b> | <b>Others</b> | <b>Consolidation adjustments</b> | <b>Total</b> |
| Total segment revenue              | ₩1,884,798    | ₩1,320,782      | ₩2,572,018              | ₩3,774,695     | ₩4,478,859    | ₩ -                              | ₩14,031,152  |
| Internal revenue                   | 503,574       | 65,307          | 249,076                 | 759,187        | 862,527       | -                                | 2,439,671    |
| Net sales                          | 1,381,224     | 1,255,475       | 2,322,942               | 3,015,508      | 3,616,332     | -                                | 11,591,481   |
| Gain (loss) on operations          | 254,232       | 126,916         | 112,112                 | 35,073         | 139,240       | (38,467)                         | 629,106      |
| Assets by line of business         | 553,438       | 322,665         | 137,352                 | 949            | 596,695       | (1,045)                          | 1,610,054    |
| Common assets                      | 1,020,069     | 536,793         | 2,732,131               | 332,680        | 7,246,461     | (1,778,300)                      | 10,089,834   |
| Total assets                       | ₩1,573,507    | ₩ 859,458       | ₩2,869,483              | ₩ 333,629      | ₩7,843,156    | ₩ (1,779,345)                    | ₩11,699,888  |

  

| <i>(in millions of Korean won)</i> | <b>2009</b>   |                 |                         |                |               |                                  |              |
|------------------------------------|---------------|-----------------|-------------------------|----------------|---------------|----------------------------------|--------------|
|                                    | <b>Fabric</b> | <b>Chemical</b> | <b>Heavy industrial</b> | <b>Trading</b> | <b>Others</b> | <b>Consolidation adjustments</b> | <b>Total</b> |
| Total segment revenue              | ₩1,796,093    | ₩1,031,113      | ₩ 2,239,914             | ₩ 2,854,235    | ₩ 4,356,225   | ₩ -                              | ₩12,277,580  |
| Internal revenue                   | 469,230       | -               | 6,877                   | 131,442        | 1,660,839     | -                                | 2,268,388    |
| Net sales                          | 1,326,863     | 1,031,113       | 2,233,037               | 2,722,793      | 2,695,386     | -                                | 10,009,192   |
| Gain (loss) on operations          | 182,917       | 127,942         | 229,125                 | 27,655         | 98,907        | (32,709)                         | 633,837      |
| Assets by line of business         | 748,040       | 198,400         | 95,837                  | 784            | 321,106       | (863)                            | 1,363,304    |
| Common assets                      | 1,122,044     | 552,390         | 2,237,798               | 188,124        | 6,574,266     | (1,757,012)                      | 8,917,610    |
| Total assets                       | ₩1,870,084    | ₩ 750,790       | ₩ 2,333,635             | ₩ 188,908      | ₩ 6,895,372   | ₩ (1,757,875)                    | ₩10,280,914  |

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

Geographical segment information as of December 31, 2010 and 2009, follows:

| <i>(in millions of Korean won)</i> | 2010        |                        |             |           |                           |                     |
|------------------------------------|-------------|------------------------|-------------|-----------|---------------------------|---------------------|
|                                    | Domestic    | North, Central America | Asia        | Europe    | Consolidation adjustments | After consolidation |
| Total segment revenue              | ₩10,609,445 | ₩ 951,189              | ₩ 2,099,886 | ₩ 370,632 | ₩ -                       | ₩ 14,031,152        |
| Internal revenue                   | 1,732,615   | 15,471                 | 685,149     | 6,436     | -                         | 2,439,671           |
| Net sales                          | 8,876,830   | 935,718                | 1,414,737   | 364,196   | -                         | 11,591,481          |
| Gain (loss) on operations          | 504,385     | 19,813                 | 107,550     | 35,825    | (38,467)                  | 629,106             |
| Assets by line of business         | 688,966     | 17,839                 | 834,583     | 69,711    | (1,045)                   | 1,610,054           |
| Common assets                      | 9,779,353   | 533,587                | 1,338,026   | 217,168   | (1,778,300)               | 10,089,834          |
| Total assets                       | ₩10,468,319 | ₩ 551,426              | ₩ 2,172,609 | ₩ 286,879 | ₩ (1,779,345)             | ₩ 11,699,888        |
|                                    | 2009        |                        |             |           |                           |                     |
| <i>(in millions of Korean won)</i> | Domestic    | North, Central America | Asia        | Europe    | Consolidation adjustments | After consolidation |
| Total segment revenue              | ₩ 8,934,372 | ₩ 991,368              | ₩ 2,025,709 | ₩ 326,131 | ₩ -                       | ₩ 12,277,580        |
| Internal revenue                   | 1,587,619   | 26,987                 | 648,761     | 5,021     | -                         | 2,268,388           |
| Net sales                          | 7,346,753   | 964,381                | 1,376,948   | 321,110   | -                         | 10,009,192          |
| Gain (loss) on operations          | 552,556     | 14,803                 | 91,699      | 7,488     | (32,709)                  | 633,837             |
| Assets by line of business         | 554,015     | 21,114                 | 719,476     | 69,562    | (863)                     | 1,363,304           |
| Common assets                      | 8,865,309   | 437,480                | 1,143,554   | 228,279   | (1,757,012)               | 8,917,610           |
| Total assets                       | ₩ 9,419,324 | ₩ 458,594              | ₩ 1,863,030 | ₩ 297,841 | ₩ (1,757,875)             | ₩ 10,280,914        |

**38. Subsequent events**

**Issuance of debentures**

The Company issued unsecured debentures amounting to ₩150,000 million in January 2011.

**Chin Hung International Inc.**

As a result of a request for corporate restructuring in February 10, 2011, the due diligence process on Chin Hung International Inc., a subsidiary, is currently in progress. The due diligence process to determine the restructuring may not conform to generally accepted accounting principles, and the comprehensive outcome cannot be reasonably determined as of report date. Adjustments to reflect the impact of the restructuring are not included in the Company's consolidated financial statements.

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009**

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**39. Calculation of Net Income attributed to Controlling Interest and Minority Interest**

Details of calculation of net income attributed to controlling interest and minority interest for the year ended December 31, 2010, are as follows:

| <i>(in millions of Korean won)</i>                                | <b>2010</b> |
|---|-------------|
| Controlling interest in net income                                | ₩ 266,447   |
| Nautilus Hyosung Inc.   | 15,889      |
| Chin Hung International Inc.                                      | (98,176)    |
| The Class Hyosung Co., Ltd.                                       | 2,401       |
| Hyosung Capital Co., Ltd.   | 1,051       |
| Galaxiaphotonics Co., Ltd.  | (7,258)     |
| Flossom Co., Ltd.<br>(formerly Soul Flora Inc)                    | (1,041)     |
| Hyosung Good Springs., Ltd.<br>(formerly Hyosung Ebara Co., Ltd.) | 7,722       |
| Hyosung Ebara Engineering Co., Ltd.                               | 43          |
| Hyosung Investment & Development Corp.                            | (154)       |
| Baoding Hyosung Tianwei Transformer Co., Ltd.                     | (582)       |
| Hyosung Spandex (Zhuhai) Co., Ltd.                                | 2,135       |
| Hyosung Istanbul Tekstil Ltd. STI                                 | 243         |
| Hyosung Vietnam Co., Ltd.   | 2,916       |
| Zhangjiagang Xiaosha Coil Service Co., Ltd.                       | 208         |
| Minority interest in net income                                   | (74,603)    |
| Consolidated net income   | ₩ 191,844   |

**40. Preparation for IFRS Adoption**

Under the IFRS roadmap released in March 2007, financial reporting using the K-IFRS is to become mandatory for the Company beginning 2011. The Company set up a team and appointed a consultant for the conversion of the Company's financial statements from K-GAAP to K-IFRS. During the first phase of the conversion, the Company completed employee training, analyses of major accounts and selection of major tasks to be worked on. During the second phase, the Company settled differences on the minor items and revised its accounting policies. The accounting system and the related processes are still being developed. On the third phase, the Company expects to prepare its financial statements under the K-IFRS after the conversion date.