

# **Hyosung Corporation**

**Separate Financial Statements  
December 31, 2011**

# Hyosung Corporation

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December 31, 2011 and 2010, and January 1, 2010

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## Report of Independent Auditors

To the Board of Directors and Shareholders of  
Hyosung Corporation

We have audited the accompanying separate statement of financial position of Hyosung Corporation (the "Company") as of December 31, 2011, and the related separate statement of income, comprehensive income, changes in equity and cash flows for the year then ended, expressed in Korean won. These separate financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these separate financial statements based on our audit. The separate financial statements of the Company as of and for the year ended December 31, 2010, were audited by us as per our audit report dated March 10, 2011, where we expressed an unqualified opinion on those statements. The separate financial statements on which we expressed an unqualified opinion do not reflect the adjustments as described in Note 42 as required by the International Financial Reporting Standards adopted by the Republic of Korea ("Korean IFRS"). However, the separate financial statements presented herein for comparative purposes reflect such adjustments in accordance with Korean IFRS.

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

In our opinion, the separate financial statements, referred to above, present fairly, in all material respects, the financial position of Hyosung Corporation as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with Korean IFRS.

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

*Samil PriceWaterhouseCoopers*

Seoul, Korea

March 8, 2012

This report is effective as of March 8, 2012, 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 separate 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**  
**Separate Statements of Financial Position**  
**December 31, 2011 and 2010, and January 1, 2010**

<i>(in millions of Korean won)</i>	<b>Notes</b>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	4, 6, 7	₩ 133,339	₩ 245,401	₩ 30,919
Trade and other receivables	4, 6, 9, 19	1,745,738	1,504,388	1,459,789
Gross amount due from customers for contract work	4, 6, 29	54,555	30,506	29,586
Other financial assets	4, 6, 10	8,332	22,933	61,497
Other current assets	11	106,094	99,671	206,393
Inventories	12, 16	1,093,395	884,901	473,674
Current tax asset		5,989	-	-
		<u>3,147,442</u>	<u>2,787,800</u>	<u>2,261,858</u>
<b>Non-current assets</b>				
Long-term trade and other receivables	4, 6, 9, 19	176,061	133,258	86,632
Property, plant and equipment	13, 16, 39	2,959,265	2,684,451	2,716,843
Investment property	14	436,515	378,616	365,099
Intangible assets	15	28,117	31,543	27,823
Investments in subsidiaries and associates	18, 39	1,699,633	1,519,895	1,481,756
Long-term other financial assets	4, 6, 8, 10	60,056	126,275	106,604
Other non-current assets	11	31	31	31
		<u>5,359,678</u>	<u>4,874,069</u>	<u>4,784,788</u>
<b>Total assets</b>		<u>₩ 8,507,120</u>	<u>₩ 7,661,869</u>	<u>₩ 7,046,646</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	4,6,17,19,21	₩ 1,502,431	₩ 1,278,194	₩ 958,407
Gross amount due to customers for contract work	29	10,643	18,292	13,171
Borrowings	4, 6, 20	1,805,589	1,767,963	1,806,921
Other financial liabilities	4, 6, 10	20,677	7,290	13,521
Current tax liabilities		-	78,187	17,652
Other current liabilities	24	193,640	115,556	140,616
		<u>3,532,980</u>	<u>3,265,482</u>	<u>2,950,288</u>
<b>Non-current liabilities</b>				
Long-term trade and other payables	4,6,17,19,21	38,904	33,368	33,891
Long-term borrowings	4, 6, 20	1,693,502	1,083,566	966,928
Defined benefit liabilities	22	38,527	37,195	35,542
Deferred tax liabilities	23	311,966	312,753	311,483
Other non-current liabilities	24	10,466	86,458	86,024
		<u>2,093,365</u>	<u>1,553,340</u>	<u>1,433,868</u>
<b>Total liabilities</b>		<u>5,626,345</u>	<u>4,818,822</u>	<u>4,384,156</u>
<b>Equity</b>				
Capital stock	25	175,587	175,587	175,587
Capital surplus		130,826	130,826	130,826
Retained earnings	26	2,264,088	2,211,341	2,049,744
Other components of equity	10, 27	310,274	325,293	306,333
<b>Total equity</b>		<u>2,880,775</u>	<u>2,843,047</u>	<u>2,662,490</u>
<b>Total liabilities and equity</b>		<u>₩ 8,507,120</u>	<u>₩ 7,661,869</u>	<u>₩ 7,046,646</u>

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

**Hyosung Corporation**  
**Separate Statements of Income**  
**Years Ended December 31, 2011 and 2010**

<i>(in millions of Korean won, except per share amounts)</i>	<b>Notes</b>	<b>2011</b>		<b>2010</b>	
<b>Revenue</b>	19, 28	₩	9,283,305	₩	8,198,966
<b>Cost of sales</b>	19, 30		<u>(8,255,816)</u>		<u>(6,973,066)</u>
<b>Gross profit</b>			1,027,489		1,225,900
			0		0
Selling and administrative expenses	30, 31, 32		(624,789)		(618,601)
Research and development expense	30		(119,413)		(104,019)
Other operating income	33		179,699		192,678
Other operating expenses	33		<u>(69,963)</u>		<u>(70,992)</u>
<b>Operating profit</b>			393,023		624,966
Finance income	34		200,985		156,449
Finance costs	34		<u>(420,486)</u>		<u>(286,392)</u>
Finance income/costs, net			(219,501)		(129,943)
Impairment losses of subsidiaries and investment in associates	18		<u>(17,525)</u>		<u>(169,692)</u>
Income before income tax	35		155,997		325,331
Income tax expense			<u>(47,952)</u>		<u>(114,789)</u>
<b>Profit for the year</b>		₩	<u>108,045</u>	₩	<u>210,542</u>
<b>Earnings per share from operations attributable to the equity holders of the company during the year</b>					
<b>Basic earnings per share</b>	36	₩	3,248	₩	6,328

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

**Hyosung Corporation**  
**Separate Statements of Comprehensive Income**  
**Years Ended December 31, 2011 and 2010**

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(in millions of Korean won)

	Notes	2011	2010
<b>Profit for the year</b>		₩ 108,045	₩ 210,542
<b>Other comprehensive income</b>			
Gain (Loss) on valuation of available-for-sale financial assets	10	(14,615)	12,186
Actuarial loss on post employment benefit obligations	22	(13,713)	(15,677)
Gain (Loss) on valuation of derivatives	10	-	6,714
Translation gain (loss) from overseas operations		(403)	61
<b>Other comprehensive income (loss) for the year, net of tax</b>		(28,731)	3,284
<b>Total comprehensive income for the year</b>		₩ 79,314	₩ 213,826

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

**Hyosung Corporation**  
**Separate Statements of Changes in Equity**  
**Years Ended December 31, 2011 and 2010**

<i>(in millions of Korean won)</i>	<b>Capital Stock</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Other Components of Equity</b>	<b>Total</b>
<b>Balance at January 1, 2010</b>	₩ 175,587	₩ 130,826	₩ 2,049,744	₩ 306,333	₩ 2,662,490
<b>Comprehensive income</b>					
Profit for the year	-	-	210,542	-	210,542
Gain (loss) on valuation of available-for-sale financial assets	-	-	-	12,186	12,186
Actuarial loss on post employment benefit obligations	-	-	(15,676)	-	(15,676)
Gain (loss) on valuation of derivatives	-	-	-	6,714	6,714
Translation gain (loss) from overseas operations	-	-	-	60	60
<b>Transactions with equity holders of the Company :</b>					
Dividends	-	-	(33,269)	-	(33,269)
<b>Balance at December 31, 2010</b>	<u>₩ 175,587</u>	<u>₩ 130,826</u>	<u>₩ 2,211,341</u>	<u>₩ 325,293</u>	<u>₩ 2,843,047</u>
<b>Balance at January 1, 2011</b>	<u>₩ 175,587</u>	<u>₩ 130,826</u>	<u>₩ 2,211,341</u>	<u>₩ 325,293</u>	<u>₩ 2,843,047</u>
<b>Comprehensive income</b>					
Profit for the year	-	-	108,045	-	108,045
Gain (loss) on valuation of available-for-sale financial assets	-	-	-	(14,615)	(14,615)
Actuarial loss on post employment benefit obligations	-	-	(13,712)	-	(13,712)
Translation of foreign currency financial statements	-	-	-	(404)	(404)
<b>Transactions with equity holders of the Company :</b>					
Dividends	-	-	(41,586)	-	(41,586)
<b>Balance at December 31, 2011</b>	<u>₩ 175,587</u>	<u>₩ 130,826</u>	<u>₩ 2,264,088</u>	<u>₩ 310,274</u>	<u>₩ 2,880,775</u>

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

**Hyosung Corporation**  
**Separate Statements of Cash Flows**  
**Years Ended December 31, 2011 and 2010**

<i>(in millions of Korean won)</i>	Notes	2011	2010
<b>Cash flows from operating activities</b>			
Cash generated from operations	38	₩ 321,791	₩ 683,180
Income tax paid		(128,249)	(53,893)
Interest paid		(139,527)	(132,705)
Interest received		11,611	6,093
Dividends received		<u>85,713</u>	<u>102,557</u>
<b>Net cash provided by operating activities</b>		<u>151,339</u>	<u>605,232</u>
<b>Cash flows from investing activities</b>			
Decrease in short-term loan receivables		-	1,058
Proceeds from disposal of short-term financial Instruments		269	37,000
Proceeds from disposal of available-for-sale financial assets		62,529	4,801
Decrease in long-term loan receivables		417	1,651
Decrease in long-term deposits		20,643	67,939
Proceeds from disposal of property and equipment		9,475	16,953
Proceeds from disposal of investment property		-	35,892
Proceeds from disposal of intangible assets		4,407	164
Proceeds from disposal of investments in subsidiaries and associates		10,796	-
Increase in short-term loans		(80,411)	(9,393)
Acquisition of short-term financial Instruments		(1)	-
Acquisition of available-for-sale financial assets		(262)	(4,240)
Increase in long-term loans		(6,236)	(3,973)
Increase in deposits received		(58,483)	(118,072)
Purchases of property, plant and equipment		(532,904)	(210,686)
Purchases of investment property		(2,370)	(8,131)
Purchases of intangible assets		(1,902)	(5,272)
Acquisition of investments in subsidiaries and associates		(291,501)	(207,830)
Decrease in leasehold deposits received		<u>98</u>	<u>-</u>
<b>Net cash used in investing activities</b>		<u>(865,436)</u>	<u>(402,139)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debentures		428,882	347,550
Proceeds from short-term borrowings		3,642,747	3,510,148
Proceeds from long-term borrowings		587,554	282,390
Repayment of current portion of long-term borrowings		(515,188)	(647,739)
Repayment of short-term borrowings		(3,500,374)	(3,447,691)
Payment of cash dividends		<u>(41,586)</u>	<u>(33,269)</u>
<b>Net cash provided by financing activities</b>		<u>602,035</u>	<u>11,389</u>
Net decrease (increase) in cash and cash equivalents		(112,062)	214,482
<b>Cash and cash equivalents</b>			
Beginning of the year		<u>245,401</u>	<u>30,919</u>
End of the year		<u>₩ 133,339</u>	<u>₩ 245,401</u>

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

# Hyosung Corporation

## Notes to Separate Financial Statements

### December 31, 2011 and 2010, and January 1, 2010

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#### 1. General Information

Hyosung Corporation (the "Company") was established on November 3, 1966, and primarily manufactures and sells synthetic fiber products and electronic products, and is engaged in construction, international trade and other related business activities.

As of December 31, 2011, the Company has plants in Ulsan, Anyang, Yongyeon, Icheon, Jincheon, Gumi, Daegu, Changwon, and Daejeon. In addition, the Company has subsidiaries and branches all over the world.

As of December 31, 2011, the Company's major stockholders are Cho Seok Rae (10.32%), Cho Hyun Joon (7.01%), Cho Hyun Moon (7.18%) and Cho Hyun Sang (7.77%).

#### 2. Significant Accounting Policies

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

##### 2.1 Basis of Preparation

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

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

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

The financial statements of the Company were prepared in accordance with Korean IFRS and are subject to Korean IFRS1101, 'First-time Adoption of Korean IFRS'. The transition date, according to Korean IFRS1101, from the previous accounting principles generally accepted in the Republic of Korea ("Previous K-GAAP") to Korean IFRS is January 1, 2010. Reconciliations and descriptions of the effect of the transition from previous K-GAAP to Korean IFRS on the Company's equity, comprehensive income and cash flows are described in Note 42.

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

The financial statements of the Company are separate financial statements based on Korean IFRS 1027, Consolidated and nonconsolidated financial statements. Investments in subsidiaries, joint ventures, and associates are recognised at cost under the direct equity method.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011, and not early adopted by the Company are as follows:

# Hyosung Corporation

## Notes to Separate Financial Statements

### December 31, 2011 and 2010, and January 1, 2010

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- Amendments to Korean IFRS1101, *Hyperinflation and Removal of Fixed Dates for first-time adopters*

As an exception to retrospective application requirements, this amendment to Korean IFRS1101 allows a prospective application of derecognition of financial assets for transactions occurring on or after the date of transition to Korean IFRS, instead of fixed date (January 1, 2004). Accordingly, the Company is not required to restate and recognize those assets or liabilities that were derecognized as a result of a transaction that occurred before the dated of transition to Korean IFRS. This amendment will be effective for the Company as of January 1, 2012.

- Amendments to Korean IFRS1012, *Income Taxes*

According to the amendments to Korean IFRS1012, Income Taxes, for the investment property that is measured using the fair value model, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless evidences support otherwise. This amendment will be effective for the Company as of January 1, 2012.

- Amendments to Korean IFRS1019, *Employee Benefits*

According to the amendments to Korean IFRS1019, Employee Benefits, use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense(income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities(assets). This amendment will be effective for the Company as of January 1, 2013, and the Company is assessing the impact of application of the amended Korean IFRS1019 on its financial statements as of the report date.

- Amendments to Korean IFRS1107, *Financial Instruments: Disclosures*

According to the amendment, an entity should provide the required disclosures of nature, carrying amount, risk and rewards associated with all transferred financial instruments that are not derecognized from an entity's financial statements. In addition, an entity is required to disclose additional information related to transferred and derecognized financial instruments for any continuing involvement in transferred assets. This amendment will be effective for the Company as of January 1, 2012.

- Enactment of Korean IFRS1113, *Fair value measurement*

Korean IFRS1113, Fair value measurement, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS1101 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within Korean IFRSs. This amendment will be effective for the Company as of January 1, 2013, and the Company expects that it would not have a material impact on the Company.

The Company expects that the application of this amendment except for Korean IFRS1019, *Employee Benefits*, would not have material impact on its financial statements.

## 2.2 Investment in Subsidiaries and Associates

The financial statements of the Company are separate financial statements based on Korean IFRS 1027, Consolidated and nonconsolidated financial statements. Investments in subsidiaries, joint ventures, and associates are recognised at cost under the direct equity method. Management applied the carrying amounts under previous K-GAAP at the time of first adoption of Korean IFRS

# Hyosung Corporation

## Notes to Separate Financial Statements

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as deemed cost of investments. The Company recognizes dividend income from subsidiaries, jointly controlled entities or associates in profit or loss when its right to receive dividend is established.

#### **2.3 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5).

#### **2.4 Foreign Currency Translation**

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

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

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the income statement within 'financial income or expenses'.

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

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

#### **2.6 Financial Assets**

##### 2.6.1 Classification

The Company classifies its financial assets in the following categories: Financial assets and liabilities at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### *(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives or embedded derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as 'current assets' in the statement of financial position.

##### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'cash and cash equivalents', 'trade and

# Hyosung Corporation

## Notes to Separate Financial Statements

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other receivables', 'long-term trade and other receivables' and 'unbilled construction' in the statement of financial position.

#### *(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as 'other financial assets' and 'long-term other financial assets'. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

#### 2.6.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the income statement within 'other income or other operating expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of 'other income' when the Company's right to receive dividend payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'other income or other operating expenses'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of 'financial income'. Dividends on available-for-sale equity instruments are recognized in the income statement as part of 'other income' when the Company's right to receive dividend payments is established.

#### 2.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

#### 2.6.4 Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership. If the risk and rewards of ownership of transferred assets have not been substantially transferred, the Company reviews the level of control retained over that asset and the extent of its continuing involvement to determine if transfers do not qualify for derecognition.

Collaterals (trade receivables and other) provided in transactions of discount and factoring of trade receivables do not meet the requirements for asset derecognition if risks and rewards do not substantially transfer in the event the debtor defaults. Financial liabilities recognized in relation to these transactions are included as borrowings in the Company's statement of financial position.

# Hyosung Corporation

## Notes to Separate Financial Statements

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#### 2.7 Impairment of Financial Assets

##### *(a) Assets carried at amortized cost*

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

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- Delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data suggesting that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with respect to individual financial assets in the portfolio, such as:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the initial effective interest rate. The carrying amount of the asset is reduced by the impairment loss amount and the amount of the loss is recognized in the income statement. In practice, the Company may measure impairment loss based on the fair value of financial asset using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the income statement.

##### *(b) Assets classified as available-for-sale*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Company of financial assets is impaired. For debt securities, the Company uses the criteria refer to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost, for example decrease in fair value of the investments below its cost intentionally and consistently, is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

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#### 2.8 Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The resulting gain or loss is recognized in 'other income or other operating expenses'.

The Company designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### 2.9 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

#### 2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method except for in-transit inventories which are determined using the specific identification method. The cost of finished goods and work in progress consists of the raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges purchases of raw materials.

#### 2.11 Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attribute to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

#### Estimated Useful Lives

Buildings	40 years
Structures	40 years
Machinery	5 - 10 years
Vehicles	5 years
Tools and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other income or other operating expenses' in the income statement.

#### 2.12 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### 2.13 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

#### 2.14 Intangible Assets

##### *(a) Industrial property*

Acquired industrial property is shown at historical cost. Industrial property has a finite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial property over their estimated useful lives of five to ten years.

##### *(b) Other intangible assets*

Other intangible assets which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of 5~25 years when the asset is available for use. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. All membership rights are tested annually for impairment and stated at cost less accumulated impairment. Impairment losses are not reversed.

##### *(c) Research and development costs*

Development costs are recognized as expenses when they are incurred. Development costs which

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are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets.

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Amortization of capitalized development costs is computed using the straight-line method over useful lives from the commencement of the commercial production of the related products or use of the related technology. Such costs are subject to periodic review of their recoverability.

There is no development costs capitalized as assets as of December 31, 2011.

#### **2.15 Investment Property**

Investment property is held to earn rentals or for capital appreciation or both. Investment property also includes property that is being constructed or developed for future use as investment property. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are include in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using straight-line method over their useful lives for 40 years.

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each financial year and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other income or other operating expenses' in the income statements.

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

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-

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financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **2.17 Financial Liabilities**

##### *(a) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified as financial liabilities at fair value through profit or loss when incurred principally for the purpose of repurchasing it in the near term. Derivatives or embedded derivatives are also categorized as this category unless they are designated as hedges.

##### *(b) Financial liabilities carried at amortized cost*

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, as financial liabilities carried at amortized cost and as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position. In case when a transfer of a financial asset does not qualify for derecognition, the transferred asset is continuously recognized as asset and the consideration received is recognized as financial liabilities. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

#### **2.18 Trade Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

#### **2.19 Financial Guarantee Contract**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below. Any increase in the liability relating to guarantees is reported as other financial liabilities.

- amount calculated in accordance with Korean IFRS 1037, Provisions, Contingent Liabilities and Contingent Assets; or
- the initial amount, less accumulated amortization recognized in accordance with Korean IFRS1018, Revenue.

#### **2.20 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. The Company recognizes borrowings as current assets unless it has an unconditional right to delay the settlement of the borrowing. The condition for liability which can be paid by issuing equity depending on the choice of other party of contract does not affect the classification of current liability.

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#### 2.21 Provisions

Provisions are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### 2.22 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

#### 2.23 Employee Benefits

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

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

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when

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they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

#### **2.24 Share Capital**

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

#### **2.25 Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value added taxes.

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

##### *(a) Sales of goods*

Sales of goods are recognized when products are delivered to the purchaser. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Company has objective evidence that all criteria for acceptance have been satisfied.

Provisions for product discount and returns are made based on historic trends and specific knowledge of any customer's intent to return products.

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

Normally, if the contract is based on time and materials related to rendering services, revenue is recognized according to the percentage of completion and a fixed ratio in the terms of the contract is used. If the contract is based on time, the percentage of completion is measured as the time

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provided over the total estimated time to be provided, and if the contract is based on materials, the percentage of completion is measured as the costs to date over the total estimated costs.

#### *(c) Royalty income*

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

#### *(d) Interest income*

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

#### *(e) Dividend income*

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

### **2.26 Construction Contracts**

Construction contract is defined in Korean IFRS 1011, Construction contracts, as a contract specifically negotiated for the construction of an asset

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These amounts are recognized as inventory, prepaid expenses or other assets.

In cases where the aggregate amount of costs incurred and recognized profits (less recognized losses) exceeds progress billings, the total cost incurred plus recognized profits (less recognized losses and progress billings), represents an asset (unbilled amount). The progress billed amounts are included in 'Trade and other receivables'.

In cases where progress billing exceeds the aggregate amount of costs incurred and recognized profits (less recognized losses), the aggregate amount of recognized losses plus progress billing (less cost incurred and recognized profits) represents a liability (overbilled amount).

The Company applies the percentage of completion method on recognition of sales-real estate based on the Korea Accounting Institute Opinion "2011 - I - KQA". This application is effective pursuant to the Acts on Article 13.1.1 Korean International Financial Reporting Standards (K-IFRS) on External Audit for Stock Companies in Korea

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#### 2.27 Earnings per Share

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

#### 2.28 Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

#### 2.29 Approval of Issuance of the Financial Statement

The issuance of the December 31, 2011 financial statements of the Company was approved by the Board of Directors on February 17, 2012.

### 3. Critical Accounting Estimates and Judgments

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

#### *(a) Income taxes*

The Company is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recorded, based on its best estimate, current taxes and deferred taxes that the Company will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

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

#### *(c) Provisions*

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

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

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in

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which the pension benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions.

**4. Financial Risk Management**

**4.1 Financial Risk Factors**

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

*(a) Market risk*

i) Foreign exchange risk

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

The Company's financial instruments denominated in major foreign currencies as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Assets denominated in foreign currencies			
USD	₩ 1,171,342	₩ 1,107,739	₩ 946,732
EUR	34,434	27,234	43,307
JPY	1,117	2,777	2,289
Others	14,837	9,079	5,350
Liabilities denominated in foreign currencies			
USD	2,006,690	1,642,091	1,436,113
EUR	68,298	32,676	46,655
JPY	47,598	16,018	47,749
Others	1,208	5,226	5,989

As of December 31, 2011 and 2010, if the foreign exchange rate of the Korean won fluctuated by 10%, the effects on net income would be as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
	<b>10% Increase</b>	<b>10% Decrease</b>	<b>10% Increase</b>	<b>10% Decrease</b>
USD	₩ (83,535)	₩ 83,535	₩ (57,500)	₩ 57,500
EUR	(3,386)	3,386	(856)	856
JPY	(4,648)	4,648	(1,541)	1,541
Others	1,363	(1,363)	4,979	(4,979)

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ii) Price risk

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

The Company's investments in equity of other entities that are publicly traded are included in one of the following two equity indexes: KOSPI equity index and KOSDAQ equity index. The table below summarizes the impact of increases/decreases of the two equity indexes on the Company's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 30% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation with the index:

<i>(in millions of Korean won)</i>	<b>Impact on post-tax profit</b>		<b>Impact on other components of equity</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
KOSPI	₩ -	₩ -	₩ 5,746	₩ 13,679
KOSDAQ	-	-	672	395
Unlisted	-	-	-	-

Other components of equity would increase/ decrease as a result of gains/losses on equity securities classified as available for sale.

iii) Cash flow and fair value interest rate risk

The Company's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. Also, fixed rate financial assets classified as available for sale expose the Company to fair value interest rate risk. Company policy is to review on interest rate fluctuation periodically so that they can manage whether to repay or renew the borrowings.

The book value of borrowings exposed to cash flow interest rate risk as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Borrowings	₩	810,604	₩	504,837	₩	485,801

At December 31, 2011, if interest rates on US dollar-denominated borrowings at that date had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been ₩ 8,530 million (2010: ₩ 5,429 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings

*(b) Credit Risk*

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

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available-for-sale.

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*(c) Liquidity Risk*

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

The analyses the Company's liquidity risk for the financial liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>Book value</b>	<b>Contractual cash flow</b>	<b>Up to 1 year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>
<b>December 31, 2011</b>					
Trade and other payables	₩ 1,541,335	₩ 1,546,009	₩ 1,502,453	₩ 43,556	₩ -
Borrowings	3,722,346	3,725,334	1,906,143	1,813,508	5,683
Derivative liabilities <sup>1</sup>	20,677	673,909	544,991	128,918	-
Financial guarantee payment <sup>2</sup>	2,501,125	2,501,125	2,501,125	-	-
PF guarantee payment <sup>2</sup>	268,000	268,000	268,000	-	-
	<u>₩ 8,053,483</u>	<u>₩ 8,714,377</u>	<u>₩ 6,722,712</u>	<u>₩ 1,985,982</u>	<u>₩ 5,683</u>
<b>December 31, 2010</b>					
Trade and other payables	₩ 1,311,562	₩ 1,317,043	₩ 1,278,276	₩ 38,767	₩ -
Borrowings	3,143,533	3,146,819	1,917,245	1,225,302	4,272
Derivative liabilities <sup>1</sup>	7,290	470,588	426,955	43,633	-
Financial guarantee payment <sup>2</sup>	1,696,654	1,696,654	1,696,654	-	-
PF guarantee payment <sup>2</sup>	290,880	290,880	290,880	-	-
	<u>₩ 6,449,919</u>	<u>₩ 6,921,984</u>	<u>₩ 5,610,010</u>	<u>₩ 1,307,702</u>	<u>₩ 4,272</u>
<b>January 1, 2010</b>					
Trade and other payables	₩ 992,298	₩ 998,653	₩ 958,451	₩ 40,202	₩ -
Borrowings	2,925,079	2,927,405	1,894,709	1,026,265	6,431
Derivative liabilities <sup>1</sup>	13,521	181,569	70,870	110,699	-
Financial guarantee payment <sup>2</sup>	839,247	839,247	839,247	-	-
PF guarantee payment <sup>2</sup>	444,100	444,100	444,100	-	-
	<u>₩5,214,245</u>	<u>₩ 5,390,974</u>	<u>₩ 4,207,377</u>	<u>₩ 1,177,166</u>	<u>₩ 6,431</u>

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

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

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**4.2 Capital Management**

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

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

The debt ratio and net borrowing ratio as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>		<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>
Debt (A)	₩	5,626,344	₩	4,818,821	₩	4,406,132
Equity (B)		2,880,775		2,843,047		2,662,490
Cash and cash equivalents (C)		133,339		245,401		30,919
Borrowings (D)		3,499,090		2,851,529		2,773,849
Debt ratio (A/B)		195.3%		169.5%		165.5%
Net borrowing ratio ((C-D)/B)		116.8%		91.7%		103.0%

**4.3 Fair Value Estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Company's financial assets and financial liabilities that are measured at fair value as of December 31, 2011 and 2010, and January 1, 2010.

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss	₩ -	₩ 13,542	₩ -	₩ 13,542
Available-for-sale financial assets	28,571	-	12,452	41,023
Derivative assets	-	7,525	-	7,525
	<u>₩ 28,571</u>	<u>₩ 21,067</u>	<u>₩ 12,452</u>	<u>₩ 62,090</u>
<b>Liabilities</b>				
Derivative liabilities	₩ -	₩ 20,677	₩ -	₩ 20,677
	<u>₩ -</u>	<u>₩ 20,677</u>	<u>₩ -</u>	<u>₩ 20,677</u>

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		<b>December 31, 2010</b>			
<i>(in millions of Korean won)</i>		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>					
Financial assets at fair value through profit or loss		₩ -	₩ 24,459	₩ -	₩ 24,459
Available-for-sale financial assets		72,064	-	27,299	99,363
Derivative assets		-	18,912	-	18,912
		<u>₩ 72,064</u>	<u>₩ 43,371</u>	<u>₩ 27,299</u>	<u>₩ 142,734</u>
<b>Liabilities</b>					
Derivative liabilities		₩ -	₩ 7,290	₩ -	₩ 7,290
		<u>₩ -</u>	<u>₩ 7,290</u>	<u>₩ -</u>	<u>₩ 7,290</u>
		<b>January 1, 2010</b>			
<i>(in millions of Korean won)</i>		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>					
Financial assets at fair value through profit or loss		₩ -	₩ 23,972	₩ -	₩ 23,972
Available-for-sale financial assets		73,899	-	5,591	79,490
Derivative assets		-	16,949	-	16,949
		<u>₩ 73,899</u>	<u>₩ 40,921</u>	<u>₩ 5,591</u>	<u>₩ 120,411</u>
<b>Liabilities</b>					
Derivative liabilities		₩ -	₩ 13,521	₩ -	₩ 13,521
		<u>₩ -</u>	<u>₩ 13,521</u>	<u>₩ -</u>	<u>₩ 13,521</u>

The following table presents available-for-sale financial assets that are valued at historical cost as of December 31, 2011 and 2010, and January 1, 2010.

<i>(in millions of Korean won)</i>		<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Available-for-sale financial assets (unlisted)	<b>Category</b>			
	NYNEX Corporation	₩ -	₩ 1,500	₩ 1,500
	Korea Housing Guarantee Co., Ltd.	1,717	1,717	1,717
	The Korea Economic Daily	1,354	1,354	1,354
	TransLink Capital Partners 1, L.P.	1,689	1,584	1,313
	Others	1,487	1,487	4,487

Because above investments are unlisted equities, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore these instruments are measured at cost. The Company does not have any plans to dispose of the above-mentioned equities in the near future. These equities will be measured at fair value when the Company can develop a reliable estimate of the fair value.



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Acquisition of non-current assets	24,603	36,085	55,881	111,729	10,490	373	318,880	558,041
Liabilities								
Current liabilities	410,518	388,434	337,522	529,506	76,097	477,948	1,045,457	3,265,482
Non-current liabilities	4,798	5,849	5,498	33,713	13,508	-	1,489,973	1,553,339

<sup>1</sup> Others include loss on derivative transactions of ₩9,076 million which was offset against sales by applying cash flow hedge accounting.

Geographical segment information for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
North and Central America	₩	501,269	₩	514,207
Asia		4,182,606		3,793,616
Europe		741,308		631,368
Others		496,240		447,325
	₩	<u>5,921,423</u>	₩	<u>5,386,516</u>

**6. Financial Instruments by Category**

Categorizations of financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>				
	<b>Financial assets at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative assets</b>	<b>Total</b>
Cash and cash equivalents	₩ -	₩ 133,339	₩ -	₩ -	₩ 133,339
Trade and other receivables	-	1,745,738	-	-	1,745,738
Unbilled construction	-	54,555	-	-	54,555
Other financial assets	-	1	806	7,525	8,332
Long-term trade and other receivables	-	176,060	-	-	176,060
Long-term other financial assets	13,542	50	46,464	-	60,056
	₩ <u>13,542</u>	₩ <u>2,109,743</u>	₩ <u>47,270</u>	₩ <u>7,525</u>	₩ <u>2,178,080</u>

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<i>(in millions of Korean won)</i>	December 31, 2010				
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Derivative assets	Total
Cash and cash equivalents	₩ -	₩ 245,401	₩ -	₩ -	₩ 245,401
Trade and other receivables	-	1,504,387	-	-	1,504,387
Unbilled construction	-	30,506	-	-	30,506
Other financial assets	3,487	269	265	18,912	22,933
Long-term trade and other receivables	-	133,258	-	-	133,258
Long-term other financial assets	20,972	50	105,253	-	126,275
	₩ 24,459	₩ 1,913,871	₩ 105,518	₩ 18,912	₩ 2,062,760

<i>(in millions of Korean won)</i>	January 1, 2010				
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Derivative assets	Total
Cash and cash equivalents	₩ -	₩ 30,919	₩ -	₩ -	₩ 30,919
Trade and other receivables	-	1,459,789	-	-	1,459,789
Unbilled construction	-	29,586	-	-	29,586
Other financial assets	3,183	37,000	4,365	16,949	61,497
Long-term trade and other receivables	-	86,632	-	-	86,632
Long-term other financial assets	20,789	318	85,496	-	106,603
	₩ 23,972	₩ 1,644,244	₩ 89,861	₩ 16,949	₩ 1,775,026

Categorizations of financial liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011			
	Financial liabilities at amortized cost	Financial guarantee liability	Derivative liabilities	Total
Trade and other payables	₩ 1,487,903	₩ 14,528	₩ -	₩ 1,502,431
Borrowings	1,805,588	-	-	1,805,588
Other financial liabilities	-	-	20,677	20,677
Long-term trade and other payables	38,904	-	-	38,904
Long-term borrowings	1,693,502	-	-	1,693,502
	₩ 5,025,897	₩ 14,528	₩ 20,677	₩ 5,061,102

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December 31, 2010					
<i>(in millions of Korean won)</i>	Financial liabilities at amortized cost	Financial guarantee liability	Derivative liabilities	Total	
Trade and other payables	₩ 1,271,131	₩ 7,063	₩ -	₩	1,278,194
Borrowings	1,767,963	-	-		1,767,963
Other financial liabilities	-	-	7,290		7,290
Long-term trade and other payables	33,368	-	-		33,368
Long-term borrowings	1,083,566	-	-		1,083,566
	₩ 4,156,028	₩ 7,063	₩ 7,290	₩	4,170,381

January 1, 2010					
<i>(in millions of Korean won)</i>	Financial liabilities at amortized cost	Financial guarantee liability	Derivative liabilities	Total	
Trade and other payables	₩ 953,992	₩ 4,415	₩ -	₩	958,407
Borrowings	1,806,920	-	-		1,806,920
Other financial liabilities	-	-	13,521		13,521
Long-term trade and other payables	33,891	-	-		33,891
Long-term borrowings	966,929	-	-		966,929
	₩ 3,761,732	₩ 4,415	₩ 13,521	₩	3,779,668

Income and loss of financial instruments by category for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Financial assets at fair value through profit or loss		
Gain (Loss) on valuation (Other comprehensive income(loss))	₩ (183)	₩ 183
Gain (Loss) on valuation (Profit or loss)	(7,247)	-
Interest income	865	1,247
Loans and receivables		
Gain (Loss) on disposal (Profit or loss)	(2,295)	(2,750)
Interest income	10,659	2,615
Reversal of allowance for bad debt	1,776	7,452
Bad debts expense	-	(15,455)
Other bad debts expense	-	(12,467)
Gain on foreign currency translation	18,068	8,887
Loss on foreign currency translation	(29,781)	(26,624)
Available-for-sale financial assets		
Gain (Loss) on valuation (Other comprehensive income(loss))	(6,293)	15,623
Gain (Loss) on disposal (Profit or loss)	23,771	83
Impairment loss (Profit or loss)	(84,099)	-
Interest income	1,387	1,445
Dividends	1,728	1,534
Financial liabilities at amortized cost		

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Interest expenses	(141,748)	(135,069)
Gain on foreign currency translation	51,951	69,484
Loss on foreign currency translation	(79,972)	(43,029)
Derivative assets and liabilities		
Gain (Loss) on valuation (Other comprehensive income(loss))	-	8,607
Gain (Loss) on valuation (Profit or loss)	(14,656)	12,715
Gain (Loss) on transactions (Profit or loss)	17,097	10,333

**7. Cash and Cash Equivalents**

Cash and cash equivalents in the statements of financial position as of December 31, 2011 and 2010, and January 1, 2010, are the same as cash and cash equivalents in the statements of cash flows.

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Cash on hand	₩ 115	₩ 72	₩ 30
Bank deposits	133,224	245,329	30,889
	<u>₩ 133,339</u>	<u>₩ 245,401</u>	<u>₩ 30,919</u>

**8. Restricted Financial Instruments**

Restricted financial instruments as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>	<b>Description</b>
Short-term financial instruments	₩ -	₩ -	₩ 37,000	Pledged deposit
Long-term financial instruments	50	50	50	Deposits for Checking account
	<u>₩ 50</u>	<u>₩ 50</u>	<u>₩ 37,050</u>	

**9. Trade and Other Receivables**

Details of trade and other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		
	<b>Receivable amounts</b>	<b>Provision for impairment</b>	<b>Net book value</b>
Trade receivables	₩ 1,638,452	₩ (19,528)	₩ 1,618,924
Other receivables	140,759	(13,945)	126,814
Long-term trade receivables	8,205	-	8,205
Long-term other receivables	175,087	(7,232)	167,855
	<u>₩ 1,962,503</u>	<u>₩ (40,705)</u>	<u>₩ 1,921,798</u>

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<i>(in millions of Korean won)</i>	<b>December 31, 2010</b>		
	<b>Receivable amounts</b>	<b>Provision for impairment</b>	<b>Net book value</b>
Trade receivables	₩ 1,477,669	₩ (22,282)	₩ 1,455,387
Other receivables	62,945	(13,945)	49,000
Long-term trade receivables	10,625	-	10,625
Long-term other receivables	129,869	(7,236)	122,633
	<u>₩ 1,681,108</u>	<u>₩ (43,463)</u>	<u>₩ 1,637,645</u>

  

<i>(in millions of Korean won)</i>	<b>January 1, 2010</b>		
	<b>Receivable amounts</b>	<b>Provision for impairment</b>	<b>Net book value</b>
Trade receivables	₩ 1,445,729	₩ (33,852)	₩ 1,411,877
Other receivables	48,900	(988)	47,912
Long-term trade receivables	14,344	-	14,344
Long-term other receivables	80,014	(7,726)	72,288
	<u>₩ 1,588,987</u>	<u>₩ (42,566)</u>	<u>₩ 1,546,421</u>

During 2011, the Company transferred trade receivables amounting to ₩ 938,909 million to banks and collected cash. This transaction is accounted for as a collateralized borrowing (Note 20). According to the loan agreement, the Company has the obligation to pay the relevant amounts to the bank if the customer becomes bankrupt.

Details of other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Other receivables			
Non-trade receivables	₩ 36,896	₩ 39,263	₩ 32,075
Short-term loans	88,993	8,494	13,293
Accrued income	925	1,243	2,544
	<u>126,814</u>	<u>49,000</u>	<u>47,912</u>
Long-term other receivables			
Long-term loans	12,565	6,741	4,396
Deposits	155,290	115,892	67,892
	<u>167,855</u>	<u>122,633</u>	<u>72,288</u>
	<u>₩ 294,669</u>	<u>₩ 171,633</u>	<u>₩ 120,200</u>

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

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Discount rate	3.4% ~ 5.00%	3.4% ~ 5.00%

Meanwhile, the fair value of trade and other receivables as of December 31, 2011 and 2010, and January 1, 2010, are the same as book value.

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The aging analysis of trade and other receivables as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

(in millions of Korean won)

	December 31, 2011						
	Receivables not past due	Up to 3 months	Past due but not impaired			Impaired	Total
			4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 1,482,996	₩ 70,633	₩ 17,699	₩ 16,575	₩ 47,826	₩ 2,723	₩1,638,452
Other receivables	126,814	-	-	-	-	13,945	140,759
Long-term trade receivables	6,295	35	-	13	2,973	-	9,316
Long-term other receivables	168,525	-	-	-	-	7,232	175,757
	<u>₩ 1,784,630</u>	<u>₩ 70,668</u>	<u>₩ 17,699</u>	<u>₩ 16,588</u>	<u>₩ 50,799</u>	<u>₩ 23,900</u>	<u>₩1,964,284</u>

(in millions of Korean won)

	December 31, 2010						
	Receivables not past due	Up to 3 months	Past due but not impaired			Impaired	Total
			4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 1,356,717	₩ 43,910	₩ 25,423	₩ 15,819	₩ 23,061	₩ 12,739	₩ 1,477,669
Other receivables	49,001	-	-	-	-	13,944	62,945
Long-term trade receivables	11,038	-	-	-	1,188	-	12,226
Long-term other receivables	122,987	-	-	-	-	7,237	130,224
	<u>₩ 1,539,743</u>	<u>₩ 43,910</u>	<u>₩ 25,423</u>	<u>₩ 15,819</u>	<u>₩ 24,249</u>	<u>₩ 33,920</u>	<u>₩ 1,683,064</u>

(in millions of Korean won)

	January 1, 2010						
	Receivables not past due	Up to 3 months	Past due but not impaired			Impaired	Total
			4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 1,341,425	₩ 9,085	₩ 48,414	₩ 38,937	₩ 5,718	₩ 2,150	₩1,445,729
Other receivables	47,912	-	-	-	-	988	48,900
Long-term trade receivables	11,337	1	4	250	4,987	-	16,579
Long-term other receivables	72,516	-	-	-	-	7,726	80,242
	<u>₩ 1,473,190</u>	<u>₩ 9,086</u>	<u>₩ 48,418</u>	<u>₩ 39,187</u>	<u>₩ 10,705</u>	<u>₩ 10,864</u>	<u>₩1,591,450</u>

The Company performs individual impairment review on the relevant items by determining whether the individually significant bonds have the symptom of impairment. The collective impairment review is performed for other bonds on which impairment loss was recognized as a result of individual impairment review.

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

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates as of December 31, 2011 and 2010 and January 1, 2010:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Counterparties with external credit rating			
A	₩ 331,292	₩ 385,554	₩ 274,676
BB	286,612	213,154	190,722
BBB	156,346	231,142	95,808
	<u>774,250</u>	<u>829,850</u>	<u>561,206</u>
Counterparties without external credit rating			
Group 1	31,035	26,174	53,090
Group 2	839,526	619,953	845,840
Group 3	235	1,178	21
	<u>870,796</u>	<u>647,305</u>	<u>898,951</u>
	<u>₩ 1,645,046</u>	<u>₩ 1,477,155</u>	<u>₩ 1,460,157</u>

<sup>1</sup> New customers/related parties (less than 6 months)

<sup>2</sup> Existing customers/related parties (more than 6 months) with no defaults in the past

<sup>3</sup> Existing customers/related parties (more than 6 months) with some defaults in the past. All defaults were fully recovered.

Changes in provision for impairment of trade receivables for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>				
	<b>Beginning</b>	<b>Provision for impairment</b>	<b>Reversal</b>	<b>Others</b>	<b>Ending</b>
Trade receivables	₩ 22,282	₩ -	₩ (1,771)	₩ (983)	₩ 19,528
Other accounts receivable	13,945	-	-	-	13,945
Long-term other receivables	7,236	-	(4)	-	7,232
	<u>₩ 43,463</u>	<u>₩ -</u>	<u>₩ (1,775)</u>	<u>₩ (983)</u>	<u>₩ 40,705</u>
<i>(in millions of Korean won)</i>	<b>2010</b>				
	<b>Beginning</b>	<b>Provision for impairment</b>	<b>Reversal</b>	<b>Others</b>	<b>Ending</b>
Trade receivables	₩ 33,852	₩ 15,455	₩ (6,950)	₩ (20,075)	₩ 22,282
Other accounts receivable	988	12,957	-	-	13,945
Long-term other receivables	7,726	129	(502)	(117)	7,236
	<u>₩ 42,566</u>	<u>₩ 28,541</u>	<u>₩ (7,452)</u>	<u>₩ (20,192)</u>	<u>₩ 43,463</u>

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

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

**10. Other Financial Assets and Liabilities**

Other financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Financial assets at fair value through profit or loss	₩	13,542	₩	24,459	₩	23,973
Loans and receivables		51		319		37,318
Available-for-sale financial assets		47,270		105,518		89,861
Derivative assets		7,525		18,912		16,949
		<u>68,388</u>		<u>149,208</u>		<u>168,101</u>
Less: Current portion		(8,332)		(22,933)		(61,497)
	₩	<u>60,056</u>	₩	<u>126,275</u>	₩	<u>106,604</u>

Other financial liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Derivative liabilities	₩	20,677	₩	7,290	₩	13,521
Less: Current portion		(20,677)		(7,290)		(13,521)
	₩	<u>-</u>	₩	<u>-</u>	₩	<u>-</u>

Financial assets at fair value through profit or loss of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Convertible bond investment <sup>1</sup>	₩	13,542	₩	20,972	₩	20,789
Put option <sup>2</sup>		-		3,487		3,183
	₩	<u>13,542</u>	₩	<u>24,459</u>	₩	<u>23,972</u>

<sup>1</sup> Designated as financial assets at fair value through profit or loss as convertible bond, maturing in 2018 and issued by Chin Hung International Inc. The Company recognized loss on valuation amounting to ₩ 7,430 million by using binomial tree option pricing model for the year ended December 31, 2011.

<sup>2</sup> The details of put option as of December 31, 2010 and January 1, 2010, are as follows. The Company sold all shares of Korea Express Co., Ltd. during the year ended December 31, 2011, and thus, there was no outstanding put option as of December 31, 2011.

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**Details**

Acquisition date	March 14, 2008
Shares to be issued	33,204 shares of common stock of Korea Express Co., Ltd
Exercise period	(1) after three years of next date of payment (2) extendable for one year under mutual agreement with investor
Exercise price	Exercise price = (1) + (2) (1) takeover price on consortium contract for stock subject to buy-back (2) annual interest rate of 6.5% during the period until the completion date of sales since the acquisition date of stock subject to buy-back

Loans and receivables as of December 31, 2011 and 2010, January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Short-term financial instruments	₩ 1	₩ 269	₩ 37,000
Long-term financial instruments	<u>50</u>	<u>50</u>	<u>318</u>
	<u>₩ 51</u>	<u>₩ 319</u>	<u>₩ 37,318</u>

Changes in available-for-sale financial assets for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning balance	₩ 105,518	₩ 89,861
Acquisition	261	4,240
Reclassification <sup>1&amp;2</sup>	84,099	694
Disposals	(52,216)	(4,900)
Gain (loss) on valuation of available-for-sale financial assets <sup>1</sup>	(6,293)	15,623
Impairment loss of available-for-sale financial assets	(84,099)	-
Ending balance	<u>₩ 47,270</u>	<u>₩ 105,518</u>
Short-term available-for-sale financial assets	₩ 806	₩ 265
Long-term available-for-sale financial assets	46,464	105,253

<sup>1</sup> The Company cannot exercise control due to the special agreement to fulfill plan for normalization of management of Chin Hung International Inc. for the year end December 31, 2011. The investment in subsidiaries, amounting to ₩ 84,099 million, was replaced to available-for-sale financial assets. But the impairment loss of available-for-sale financial assets was fully recognized, as Chin Hung International Inc. decided capital reduction without refund for all shares that the Company owned on December 31, 2011 (Note 18).

<sup>2</sup> The Company acquired equity investments of ₩ 694 million in 2010 as payment in substitutes from Hyosung Construction Co., Ltd.

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Short-term available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>
Corporate bond	₩	-	₩	-	₩ 829
Government bond		806		265	3,536
	₩	806	₩	265	₩ 4,365

Long-term available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>			<b>December 31, 2010</b>		<b>January 1, 2010</b>
	<b>Acquisition cost</b>	<b>Fair value / Net asset value</b>	<b>Book value <sup>2</sup></b>	<b>Book value</b>	<b>Book value</b>	<b>Book value</b>
Listed stock	₩ 195,642	₩ 94,923	₩ 27,428	₩ 60,145	₩ 48,564	₩ 48,564
Unlisted stock <sup>1</sup>	53,055	23,810	13,107	14,502	10,371	10,371
Equity investments	5,591	5,591	5,591	5,952	5,592	5,592
Debt securities	338	338	338	24,654	20,969	20,969
	₩ 254,626	₩ 124,662	₩ 46,464	₩ 105,253	₩ 85,496	₩ 85,496

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

<sup>2</sup> Available-for-sale financial assets are calculated by using fair value. However, unlisted stock is recorded at cost if the fair value is not available or does not have market value available in an active market.

Details of listed stock (except for investment in subsidiaries and associates) as of December 31, 2011 and 2010, January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>					<b>December 31, 2010</b>	<b>January 1, 2010</b>
	<b>Number of share</b>	<b>Percentage of ownership (%)</b>	<b>Acquisition cost</b>	<b>Fair value</b>	<b>Book value</b>	<b>Book value</b>	<b>Book value</b>
KT CORP.	574,883	0.22%	₩ 7,942	₩ 20,495	₩ 20,495	₩ 26,588	₩ 22,478
SBI Global Investment Co., Ltd.	202,839	0.44%	815	69	69	93	183
KTB Investment Securities Co., Ltd.	2,634	-	13	5	5	14	11
Savezone I&C Corp.	4,555	0.01%	30	10	10	11	10
Ultra Construction & Engineering Co., Ltd. (preferred share)	911	0.07%	5	2	2	4	3
Korea Environment Technology Co., Ltd.	814,280	1.63%	407	2,797	2,797	1,576	924
Hanshin Construction Co., Ltd.	712	0.01%	1	6	6	7	13
Korea Express Co., Ltd	-	-	-	-	-	3,128	1,883
Hankook tire Co., Ltd.	-	-	-	-	-	23,479	18,857
CJ E&M Corporation (formerly OnMedia Corp.)	19,055	0.05%	280	577	577	628	597
Kumho Tires Co., Inc	333,333	0.31%	3,605	3,467	3,467	4,617	3,605

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Chin Hung International Inc. <sup>1</sup>	330,116,817	-	179,474	66,684	-	-	-
Chin Hung International Inc. (Preferred stock B) <sup>1</sup>	1,427,820	-	1,674	401	-	-	-
Chin Hung International Inc. (Preferred stock 2B) <sup>1</sup>	1,251,920	-	1,397	411	-	-	-
			<u>₩ 195,643</u>	<u>₩ 94,924</u>	<u>₩ 27,428</u>	<u>₩ 60,145</u>	<u>₩ 48,564</u>

<sup>1</sup> The Company cannot exercise control due to the special agreement to fulfill plan for normalization of management of Chin Hung International Inc. for the year end December 31, 2011. The investments in subsidiaries were replaced to available-for-sale financial assets. But the impairment loss of available-for-sale financial assets was fully recognized as Chin Hung International Inc. decided on a capital reduction without refund for all shares that the Company owned on December 31, 2011 (Note 18).

Details of unlisted stock (except for investment in subsidiaries and associates) as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011					December 31, 2010	January 1, 2010
	Number of share	Percentage of ownership (%)	Acquisition cost	Fair value	Book value	Book value	Book value
NINEX Co.,Ltd	-	-	₩ -	₩ -	₩ -	₩ 1,500	₩ 1,500
Doosan Capital Co., Ltd.	600,000	3.00%	3,000	6,860	6,860	6,860	3,000
Sejong Telecom Co., Ltd.	263	-	2,406	1	-	-	-
Korea Housing Guarantee Co., Ltd.	343,380	0.05%	1,717	1,954	1,717	1,717	1,717
Hankook Economic Newspaper	124,308	0.66%	1,354	910	1,354	1,354	1,354
Life Point Inc.	500,000	1.39%	1,148	-	-	-	-
MomusVenturesgroup	160,040	9.37%	3,242	371	-	-	-
TransLink Capital Partners 1, L.P.	-	-	1,690	1,342	1,689	1,584	1,313
Chin Hung International Inc. (Preferred stock 3B) <sup>1</sup>	30,998,003	-	18,624	10,167	-	-	-
OpCo GmbH	9,470	-	18,289	-	-	-	-
Others	-	-	1,585	2,205	1,487	1,487	1,487
			<u>₩ 53,055</u>	<u>₩ 23,810</u>	<u>₩ 13,107</u>	<u>₩ 14,502</u>	<u>₩ 10,371</u>

<sup>1</sup> The Company cannot exercise control due to the special agreement to fulfill plan for normalization of management of Chin Hung International Inc. for the year end December 31, 2011. The investments in subsidiaries were replaced to available-for-sale financial assets. But the impairment loss of available-for-sale financial assets was fully recognized, as Chin Hung International Inc. decided on a capital reduction without refund for all shares that the Company owned on December 31, 2011 (Note 18).

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Changes in unrealized gain and loss from available-for-sale securities recorded as accumulated other comprehensive income and expense for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Beginning balance	₩	29,227	₩	17,041
Gain(loss) on valuation of available-for-sale financial assets (Before tax)		(6,293)		15,623
Transfer		(12,306)		-
Tax effect		3,983		(3,437)
Ending balance	₩	14,611	₩	29,227

To hedge against foreign exchange risks, the Company entered into forward exchange contracts and foreign exchange risk insurance, and the related gain (loss) on valuation of derivatives is charged to current operations.

Fair value of derivative assets and liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Current						
Forward exchange contracts	₩ 7,489	₩ 20,568	₩ 18,608	₩ 6,504	₩ 12,551	₩ 1,916
Foreign exchange risk insurance	36	109	304	786	4,398	11,605
	₩ 7,525	₩ 20,677	₩ 18,912	₩ 7,290	₩ 16,949	₩ 13,521

Details of derivative assets and liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

		<b>Weighted average exchange rate based on contracts (in Korean won)</b>	<b>Weighted average expiry date as of December 31, 2011</b>	<b>Contract price of outstanding derivatives (in thousands)</b>		
				<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Forward exchange contracts	Sell	1,144.61	2012-09-19	USD 771,947	USD 617,473	USD 327,658
Forward exchange contracts	Sell	1,560.46	2012-08-03	EUR 62,301	EUR 79,647	EUR 9,640
Forward exchange contracts	Sell	1,126.36	2012-08-19	CAD 21,256	CAD 22,588	CAD 8,330
Forward exchange contracts	Sell	996.72	2012-08-15	AUD 8,196	AUD 14,763	AUD -
Forward exchange contracts	Sell	14.78	2012-08-22	JPY 1,680,217	JPY 5,040,000	JPY -
Forward exchange contracts	Sell	1,774.11	2012-11-25	GBP 996	GBP 437	GBP -
Forward exchange contracts	Sell	149.40	2013-08-30	HKD 3,562	HKD 3,562	HKD -
Forward exchange	Buy	1,137.59	2012-04-01	USD 38,228	USD -	USD -

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contracts									
Forward exchange contracts	Buy	1,531.60	2012-03-20	EUR	1,499	EUR	-	EUR	-
Forward exchange contracts	Buy	14.67	2012-04-07	JPY	166,714	JPY	-	JPY	-
Foreign exchange risk insurance	Sell	928.90	2012-03-01	USD	318	USD	2,850	USD	68,029

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

**11. Other Assets**

Details of other assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Current						
Advance payments	₩	87,301	₩	87,021	₩	193,243
Provision for impairment		(3,768)		(7,437)		(3,300)
Prepaid expenses		22,561		20,087		16,450
		<u>106,094</u>		<u>99,671</u>		<u>206,393</u>
Non-current						
Other investments		31		31		31
	₩	<u>106,125</u>	₩	<u>99,702</u>	₩	<u>206,424</u>

**12. Inventories**

Inventories as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		
	<b>Acquisition cost</b>	<b>Valuation allowance</b>	<b>Net book value</b>
Merchandise	₩ 50,321	₩ -	₩ 50,321
Finished goods	258,914	(4,386)	254,528
Semi-finished goods	190,380	(112)	190,268
Work-in-process	36,948	-	36,948
Processing materials on consignment	28,632	-	28,632
Processing materials on trust	610	-	610
Raw materials	127,079	(538)	126,541
Sub-materials	11,228	-	11,228
Supplies	3,220	-	3,220
Packaging	2,501	-	2,501
Goods in transit	64,591	-	64,591
Cost accrued on construction contract	94,483	-	94,483
Temporary installations	20	-	20
Finished housing	31,907	(12)	31,895
Sites	214,555	(16,945)	197,610
	<u>₩ 1,115,389</u>	<u>₩ (21,993)</u>	<u>₩ 1,093,396</u>

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<i>(in millions of Korean won)</i>	<b>December 31, 2010</b>		
	<b>Acquisition cost</b>	<b>Valuation allowance</b>	<b>Net book value</b>
Merchandise	₩ 32,043	₩ -	₩ 32,043
Finished goods	159,873	(2,482)	157,391
Semi-finished goods	107,239	(109)	107,130
Work-in-process	31,705	-	31,705
Processing materials on consignment	4,488	-	4,488
Processing materials on trust	428	-	428
Raw materials	104,651	(445)	104,206
Sub-materials	9,325	-	9,325
Supplies	2,370	-	2,370
Packaging	1,416	-	1,416
Goods in transit	52,904	-	52,904
Cost accrued on construction contract	29,384	-	29,384
Temporary installations	24	-	24
Finished housing	84,883	(12)	84,871
Sites	284,161	(16,945)	267,216
	₩ 904,894	₩ (19,993)	₩ 884,901

<i>(in millions of Korean won)</i>	<b>January 1, 2010</b>		
	<b>Acquisition cost</b>	<b>Valuation allowance</b>	<b>Net book value</b>
Merchandise	₩ 35,110	₩ -	₩ 35,110
Finished goods	102,589	(1,191)	101,398
Semi-finished goods	80,837	(261)	80,576
Work-in-process	18,110	-	18,110
Processing materials on consignment	4,164	-	4,164
Processing materials on trust	493	-	493
Raw materials	94,806	(380)	94,426
Sub-materials	9,656	-	9,656
Supplies	2,238	-	2,238
Packaging	1,154	-	1,154
Goods in transit	37,969	-	37,969
Cost accrued on construction contract	15,606	-	15,606
Temporary installations	31	-	31
Finished housing	103	(12)	91
Sites	82,764	(10,112)	72,652
	₩ 485,630	₩ (11,956)	₩ 473,674

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 8,255,816 million (2010: ₩ 6,973,066 million) for the year ended December 31, 2011.

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#### 13. Property, plant and equipment

Changes in property, plant and equipment for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011									
	Land	Building	Structure	Machinery	Vehicle	Tools and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning	₩ 1,342,266	₩ 458,382	₩ 95,291	₩ 654,942	₩ 3,063	₩ 39,831	₩ 11,690	₩ 78,466	₩ 520	₩ 2,684,451
Acquisition	13,451	11,823	4,564	58,794	1,241	19,459	25,683	366,178	31,711	532,904
Disposal	(2,733)	(962)	(1,683)	(279)	(43)	(28)	(727)	-	-	(6,455)
Depreciation and others <sup>1</sup>	-	(16,143)	(3,619)	(152,796)	(1,246)	(15,542)	(559)	-	-	(189,905)
Impairment loss	-	-	-	(569)	-	-	-	-	-	(569)
Transfer <sup>2</sup>	33,807	31,343	2,008	163,279	124	7,343	-	(211,286)	(27,262)	(644)
Transfer to investment property	(37,594)	(21,900)	-	-	-	-	-	-	-	(59,494)
Government grants	-	-	-	(469)	-	(554)	-	-	-	(1,023)
Ending	₩ 1,349,197	₩ 462,543	₩ 96,561	₩ 722,902	₩ 3,139	₩ 50,509	₩ 36,087	₩ 233,358	₩ 4,969	₩ 2,959,265

<sup>1</sup> Depreciation and others includes ₩ 348 million of shrinkage loss from others.

<sup>2</sup> Transfer includes the transfer from construction-in-process and machinery-in-transit.

(in millions of Korean won)	2010									
	Land	Building	Structure	Machinery	Vehicle	Tools and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning	₩ 1,364,805	₩ 408,281	₩ 91,734	₩ 523,014	₩ 2,889	₩ 31,974	₩ 11,627	₩ 281,685	₩ 834	₩ 2,716,843
Acquisition	12,854	20,026	2,064	45,000	897	14,491	698	111,100	3,556	210,686
Disposal	(2,077)	(6,522)	(479)	(6,797)	(1)	(347)	-	-	-	(16,223)
Depreciation and others <sup>1</sup>	-	(17,325)	(3,466)	(142,917)	(1,017)	(13,132)	(635)	-	-	(178,492)
Impairment loss	-	-	-	3,548	-	-	-	-	-	3,548
Transfer <sup>2</sup>	-	72,517	5,438	233,094	295	6,845	-	(314,319)	(3,870)	-
Transfer to investment property	(33,316)	(18,595)	-	-	-	-	-	-	-	(51,911)
Ending	₩ 1,342,266	₩ 458,382	₩ 95,291	₩ 654,942	₩ 3,063	₩ 39,831	₩ 11,690	₩ 78,466	₩ 520	₩ 2,684,451

<sup>1</sup> Depreciation and others includes ₩ 348 million of shrinkage loss from others.

<sup>2</sup> Transfer includes the transfer from construction-in-process and machinery-in-transit.

Depreciation expense of ₩ 184,446 million (2010: ₩ 172,896 million) has been charged to 'cost of goods sold', and ₩ 5,459 million (2010: ₩ 5,596 million) to 'selling administrative expenses' for the year ended December 31, 2011.

The Company has capitalized borrowing costs amounting to ₩ 3,991 million (2010: ₩ 324 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 5.57% (2010: 5.97%) for the year ended December 31, 2011.

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

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**14. Investment property**

Changes in investment property for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		
	<b>Land</b>	<b>Building</b>	<b>Total</b>
Beginning	₩ 258,658	₩ 119,958	₩ 378,616
Acquisition	963	1,407	2,370
Disposal	(4)	-	(4)
Depreciation	-	(3,961)	(3,961)
Transfer from property, plant and equipment	37,594	21,900	59,494
Others	(3,521)	3,521	-
Ending	<u>₩ 293,690</u>	<u>₩ 142,825</u>	<u>₩ 436,515</u>

<i>(in millions of Korean won)</i>	<b>2010</b>		
	<b>Land</b>	<b>Building</b>	<b>Total</b>
Beginning	₩ 239,652	₩ 125,446	₩ 365,099
Acquisition	6,483	1,649	8,132
Disposal	(20,794)	(18,138)	(38,932)
Depreciation	-	(3,643)	(3,643)
Transfer from property, plant and equipment	33,316	19,000	52,316
Impairment loss	-	(4,356)	(4,356)
Ending	<u>₩ 258,658</u>	<u>₩ 119,958</u>	<u>₩ 378,616</u>

Rent income from investment property amounted to ₩ 18,002 million (2010: ₩ 16,373 million), and operating expenses (including repairs and maintenance) directly related to those investment property amounted to ₩ 11,395 million (2010: ₩ 8,870 million) for the year ended December 31, 2011.

**15. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>			
	<b>Industrial property</b>	<b>Others</b>	<b>Memberships</b>	<b>Total</b>
Beginning	₩ 6,295	₩ 4,522	₩ 20,726	₩ 31,543
Acquisition	1,196	449	257	1,902
Transfer	-	645	-	645
Disposal	-	(3,118)	(1,349)	(4,467)
Amortization	(1,095)	(409)	(2)	(1,506)
Ending	<u>₩ 6,396</u>	<u>₩ 2,089</u>	<u>₩ 19,632</u>	<u>₩ 28,117</u>

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<i>(in millions of Korean won)</i>	2010			
	Industrial property	Others	Memberships	Total
Beginning	₩ 6,079	₩ 4,675	₩ 17,070	₩ 27,824
Acquisition	1,233	220	3,818	5,271
Disposal	(2)	-	(162)	(164)
Amortization	(1,015)	(373)	-	(1,388)
Ending	₩ 6,295	₩ 4,522	₩ 20,726	₩ 31,543

Amortization of ₩ 174 million (2010: ₩ 286 million) was included in the 'cost of goods sold', and ₩ 1,332 million (2010: ₩ 1,102 million) in the 'selling and administrative expenses' in the statements of income for the year ended December 31, 2011.

**16. Insurance Coverage**

Assets covered by insurance policies as of December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	Assets	Book value	Insurance coverage	Insured by
Property insurance	Building	₩ 605,369	₩ 895,609	Samsung Fire and Marine Insurance Co. and others
	Structure	96,560	97,514	
	Machinery	722,903	2,876,753	
	Inventories	1,093,396	506,647	
	Vehicles and tools	53,648	66,259	
		₩ 2,571,876	₩ 4,442,782	

**17. Government Grants**

Changes in government grants for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Beginning	₩ 28,099	₩ 27,696
Increase	21,133	7,275
Decrease	(8,102)	(6,872)
Ending	₩ 41,130	₩ 28,099

The Company entered into development agreements with Korea Electric Power Research Institute and other 19 parties for 46 national projects, including the electric power converter project for 250 KW fuel cells.

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**18. Investments in subsidiaries and associates**

Changes in investments in subsidiaries and associates for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>Book Value</b>	
	<b>2011</b>	<b>2010</b>
Beginning	₩ 1,519,895	₩ 1,481,756
Acquisition	291,501	207,830
Disposal	(10,140)	-
Others <sup>1</sup>	(101,623)	(169,691)
Ending	₩ 1,699,633	₩ 1,519,895

<sup>1</sup>The Company lost the control over Chin Hung International Inc. due to the special agreement to fulfill plan for normalization of management of Chin Hung International Inc. during the year ended December 31, 2011. Accordingly, the investments in subsidiaries of ₩ 84,099 million were fully reclassified as available-for-sale financial assets.

Details of investments in subsidiaries as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>Location</b>	<b>Percentage of ownership (%)</b>	<b>Book value</b>		
			<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Galaxia Photonics Co.,Ltd.	Korea	81.67%	₩ 15,502	₩ 6,014	₩ 8,709
Gumoknongsan Co.,Ltd.	Korea	90.00%	2,787	-	113
The Class Hyosung	Korea	58.02%	7,183	7,183	7,183
Asia Lnghub Co.,Ltd	Korea	65.22%	344	900	-
Flossom Corporation	Korea	57.83%	18,947	7,173	7,173
Chin Hung International Inc. <sup>1</sup>	Korea	-	-	84,099	70,310
Taeansolarfarm Corp.	Korea	100.00%	1,880	1,880	1,880
Hongjin Data Servece Co., Ltd.	Korea	65.52%	3,300	3,300	3,300
Hyosung Goodsprings, Inc.	Korea	100.00%	74,361	74,361	44,288
Hyosung Ebara Engineering Co.,Ltd	Korea	81.33%	17,435	17,435	17,435
Hyosung Wind Power Holdinds Ltd.	Korea	100.00%	1,200	1,200	1,200
Hyosung Capital Co., Ltd.	Korea	97.15%	361,762	361,762	361,762
Hyosung Investment & Development Corporation	Korea	58.75%	34,798	34,798	34,798
Hyosung Trans World Co., Ltd.	Korea	100.00%	4,698	4,698	4,698
Baoding Hyosung Tianwei Transformer Co., Ltd.	China	80.00%	4,683	4,683	4,683
Beijing Hyosung Container Co., Ltd.	China	100.00%	10,590	10,590	21,526
GST Global GmbH	Germany	100.00%	170,682	-	-
Hyosung (H.K) LIMITED	China	100.00%	829	829	829
Hyosung Brasil industria e comercio de fibras LTDA	Brazil	100.00%	33,322	15,522	-
Hyosung Brasil industrial & commercial LTDA	Brazil	100.00%	8,607	8,607	8,607
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	China	100.00%	166,881	166,881	166,881

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Hyosung Chemicals (Jiaxing) Co., Ltd.	China	100.00%	4,848	4,848	4,848
Hyosung Europe SRL	Italy	100.00%	3,704	3,704	3,704
Hyosung Global(Taiwan) Co., LTD	Taiwan	100.00%	558	-	-
Hyosung Holdings USA	America	100.00%	89,589	89,589	89,589
Hyosung International Trade(Jiaxing) Co., Ltd.	China	100.00%	1,295	1,295	1,295
Hyosung Istanbul TEKSTIL LTD.STI	Turkey	76.66%	12,621	12,621	12,621
Hyosung Japan Co., Ltd.	Japan	100.00%	6,899	6,899	6,899
Hyosung Luxembourg S.A	Luxemburg	100.00%	18,535	18,535	18,535
Hyosung Power Holdings Co., Ltd.	Cayman Islands	100.00%	22,769	22,769	45,941
Hyosung Resource (Australia) PTY Ltd.	Australia	100.00%	4,233	1,908	1,700
Hyosung Singapore PTE Ltd.	Singapore	100.00%	-	-	-
Hyosung Spandex (GuangDong) Co., Ltd.	China	100.00%	121,384	121,384	111,021
Hyosung Spandex (Jiaxing) Co., Ltd.	China	100.00%	135,712	135,712	131,591
Hyosung Spandex (Zhuhai) Co., Ltd.	China	75.00%	24,644	24,644	24,644
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd (prior to Hyosung Steel Cord (Nanjing) Co., Ltd.).	China	70.00%	23,659	33,798	33,798
Hyosung Steel Cord (Qingdao) Co., Ltd.	China	100.00%	70,203	43,528	43,528
Hyosung Vietnam Co., Ltd.	Vietnam	88.21%	49,192	49,192	49,192
Hyosung Wire Luxembourg S.A	Luxemburg	100.00%	18,380	61	-
Xepix Corp.	America	74.93%	2,768	2,768	2,768
Zhangjiagang Xiaosha Coil Service Co., Ltd.	China	64.50%	10,404	10,404	10,404
			<u>₩ 1,561,188</u>	<u>₩ 1,395,574</u>	<u>₩ 1,357,453</u>

<sup>1</sup> Although the Company holds more than 50% of the equity shares of Chin Hung International Inc., the Company lost the control over Chin Hung International Inc. due to the special agreement to fulfill plan for normalization of management of Chin Hung International Inc. during the year end December 31, 2011. Accordingly the investments in subsidiaries were fully reclassified as available-for-sale financial assets.

<sup>2</sup> Although the Company holds more than 50% of the equity shares of OpCo GmbH, the Company is under control by a legal administrator as a liquidated company, and is not able to exercise control. Hence, the investee is excluded from the scope of consolidation.

Details of investments in associates as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	Location	Percentage of ownership (%)	Book value		
			December 31, 2011	December 31, 2010	January 1, 2010
Nautilus Hyosung Inc.	Korea	43.50%	₩ 65,178	₩ 65,178	₩ 65,178
E-pia Tech.Co., Ltd.	Korea	21.30%	401	1,094	1,094
Capro Corp.	Korea	21.04%	22,672	22,672	22,672
Taebaek Wind Power Co., Ltd.	Korea	35.00%	5,334	3,518	3,518
Pyeongchang Wind Power Co., Ltd	Korea	35.00%	893	18	-
Hyosung Information System Co., Ltd	Korea	50.00%	24,860	24,860	24,860
Hyosung Toyota Corp.	Korea	40.00%	-	20	20

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Hyosung ITX Co., Ltd.	Korea	34.99%	6,961	6,961	6,961
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	Taiwan	30.00%	12,146	-	-
			<u>₩ 138,445</u>	<u>₩ 124,321</u>	<u>₩ 124,303</u>

Fair value of marketable shares held by associates as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>			
	<b>Number of shares</b>	<b>Market price per share (in Korean won)</b>	<b>Market value</b>	<b>Book value</b>
Capro Corp.	8,417,708	20,950	176,351	22,672
Hyosung ITX Co., Ltd.	4,349,000	3,020	10,507	6,961

<i>(in millions of Korean won)</i>	<b>December 31, 2010</b>			
	<b>Number of shares</b>	<b>Market price per share (in Korean won)</b>	<b>Market value</b>	<b>Book value</b>
Capro Corp.	8,417,708	20,450	172,142	22,672
Hyosung ITX Co., Ltd.	4,349,000	5,450	18,962	6,961

<i>(in millions of Korean won)</i>	<b>January 1, 2010</b>			
	<b>Number of shares</b>	<b>Market price per share (in Korean won)</b>	<b>Market value</b>	<b>Book value</b>
Capro Corp.	8,417,708	9,500	79,968	22,672
Hyosung ITX Co., Ltd.	4,349,000	4,200	14,613	6,961

**19. Related Parties**

Details of the subsidiaries, associates and other related parties as of December 31, 2011, are as follows:

**(a) Subsidiaries**

<b>Location</b>	<b>Name</b>
Korea	Gangnung Wind Power Ltd., Galaxia Photonics Co.,Ltd., Gumoknongsan Co.,Ltd., The Class Hyosung, Asia Lnghub Co.,Ltd, Taeansolarfarm Corp., Flossom Corporation, Hongjin Data Servece Co., Ltd., Hyosung Goodsprings, Inc.,

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	Hyosung Ebara Engineering Co.,Ltd,
	Hyosung Wind Power Holdinds Ltd.,
	Hyosung Capital Co., Ltd.,
	Hyosung Investment & Development Corporation,
	Hyosung Trans World Co., Ltd.
The Americas	HICO America Sales & Tech.,
	Hyosung Holdings USA,
	Hyosung Brasil industria e comercio de fibras LTDA,
	Hyosung Brasil industrial & commercial LTDA,
	Hyosung Power Holdings Co., Ltd.,
	Hyosung USA Inc.,
	Global Safety Textiles U.S. Holdings One, Inc.,
	Global Safety Textiles U.S. Holdings, Inc.,
	Global Safety Textiles LLC,
	GST Automotive Safety Components International LLC,
	GST Automotive Safety Components International LLC S.A.de C.V,
	Powertech Corporation,
	Xepix Corp.
Europe	Hyosung Europe SRL,
	Hyosung Istanbul TEKSTIL LTD.STI,
	Hyosung Luxembourg S.A,
	Hyosung Wire Luxembourg S.A,
	GST Global GmbH,
	Global Safety Textiles HoldCo Two GmbH,
	Global Safety Textiles Acquisition GmbH,
	Global Safety Textiles HoldCo Three GmbH,
	GST Widefabric International GmbH,
	Global Safety Textiles GmbH,
	GST Automotive Safety Poland Sp.z.oo,
	GST Automotive Safety Czech s.r.o.,
	GST Automotive Safety UK Limited,
	GST Automotive Safety RO S.R.L.
Asia	Hyosung Global Taiwan Co., LTD.,
	Hyosung Japan Co., Ltd.,
	Hyosung Singapore PTE Ltd.,
	Hyosung Vietnam Co., Ltd.,
	GST-KOH China Investment Limited
China	Baoding Hyosung Tianwei Transformer Co., Ltd.,
	Beijing Hyosung Container Co., Ltd.,
	Hyosung (H.K) LIMITED,

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	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.,
	Hyosung Chemicals (Jiaxing) Co., Ltd.,
	Hyosung International Trade(Jiaxing) Co., Ltd.,
	Hyosung Spandex (GuangDong) Co., Ltd.,
	Hyosung Spandex (Jiaxing) Co., Ltd.,
	Hyosung Spandex (Zhuhai) Co., Ltd.,
	Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.,
	Hyosung Steel Cord (Qingdao) Co., Ltd.,
	Zhangjiagang Xiaosha Coil Service Co., Ltd.,
	Hyosung International(HK) Ltd.,
	Nantong Hyosung Transformer Co., Ltd.,
	Nantong Transformer Co., Ltd.,
	Nantong Yaubong Transformer Co., Ltd.,
	GST Automotive Safety(Changshu) Co. Ltd.
Others	Hyosung Resource (Australia) PTY Ltd.,
	GST Automotive Safety South Africa(Proprietary) Limited

**(b) Associates**

<b>Location</b>	<b>Name</b>
Korea	Nautilus Hyosung Inc.,
	E-pia Tech.Co., Ltd.,
	Capro Corp.,
	Taebaek Wind Power Co., Ltd.,
	Pyeongchang Wind Power Co., Ltd,
	Hyosung Information System Co., Ltd.,
	Hyosung Toyota Corp.,
	Hyosung ITX Co., Ltd.
Asia	Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.

**(c) Other related parties**

<b>Location</b>	<b>Name</b>
Korea	Galaxia device co., Ltd.,
	Galaxia display.,
	Galaxia Electronics,
	Galaxia Media,
	Galaxia Communications,
	Kiwoong Information and Communication (KWIC)
	Dong Ryung Co., Ltd.,
	Doomi Development,
	AEGIS enterprise(prior to AEGIS HYOSUNG),
	Shin Dong Jin Co., Ltd.,

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	Chin Hung International Inc.,
	Taeuk Construction Co., Ltd and others
China	Qingdao Shenglin Electronics Co.,Ltd.,
	Qingdao Tiandi Electronics Co.,Ltd.,
	Qingdao Zhiyu Jingmi Electronics Co.,Ltd.,
	Beijing Hyosung Computer Technologies.Co., Ltd. and others
USA	Nautilus Hyosung America Inc.,
	GALAXIA AMERICA,INC.

Significant transactions which occurred in the normal course of business with related parties for the years ended December 31, 2011 and 2010, are as follows:

**Sales and purchases of goods and services**

Sales and purchase of goods and services for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
	<b>Sale</b>	<b>Purchase</b>	<b>Sale</b>	<b>Purchase</b>
Subsidiaries	₩ 1,577,083	₩ 903,382	₩ 1,443,652	₩ 668,481
Associates	20,789	626,589	28,144	480,848
Other related parties	55,200	14,599	29,009	5,761
	₩ 1,653,072	₩ 1,544,570	₩ 1,500,805	₩ 1,155,090

**Year-end balances arising from sales/purchases of goods/services**

Year-end balances arising from sales/purchases of goods/services as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
	<b>Receivables</b>	<b>Payables</b>	<b>Receivables</b>	<b>Payables</b>	<b>Receivables</b>	<b>Payables</b>
Subsidiaries	₩ 374,704	₩135,770	₩ 152,025	₩148,454	₩ 169,258	₩ 98,141
Associates	17,127	153,185	382	133,609	17,916	72,569
Other related parties	181,156	8,420	51,354	1,155	38,361	449
	₩ 572,987	₩297,375	₩ 203,761	₩283,218	₩ 225,535	₩ 171,159

Financial agreements for the relate parties as of December 31, 2011, are as follows:

<i>(in millions of Korean won, in thousands of US dollars)</i>	<b>Related party</b>	<b>Details</b>	<b>Foreign currency</b>		<b>Won equivalent</b>
Subsidiaries	Hyosung Power Holdings Co., Ltd.	Short-term loan	USD	6,141	₩ 7,083
Other related parties	Chin Hung International Inc.	Convertible bond investment		-	13,542
		Short-term loan <sup>1</sup>		-	72,500
	OpCo GmbH	Long-term loan <sup>2</sup>	EUR	2,505	3,743
			USD	3,025	3,488

<sup>1</sup> The Company provided short-term loan at annual interest rate of 6% during the year.

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<sup>2</sup> There is no changes other than fluctuation in exchange rate during the year, and the Company accounted for the above whole amounts as bad debts.

Details of the compensation for key management for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Short-term benefits	₩	5,891	₩	5,564
Severance pension benefits		1,523		1,378
	₩	<u>7,414</u>	₩	<u>6,942</u>

Details of pledges and guarantees provided to related parties by the Company as of December 31, 2011 and 2010, are as follows:

*(in millions of Korean won)*

<b>2011</b>	<b>Related company</b>	<b>Guaranteed amount</b>	<b>Type of loan</b>	<b>Credit amount</b>	<b>Creditor</b>
Subsidiaries	Hyosung Spandex(Jiaxing) Co., Ltd.	₩ 86,498	Operating capital and others	₩ 86,498	Korea Development Bank
	Hyosung Spandex(GuangDong) Co.,Ltd	98,893	Operating capital and others	97,126	Woori Bank and Others
	Hyosung Spandex(Zhuhai)Co., Ltd.	31,139	Operating capital and others	27,080	Korea Development Bank and others
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	63,432	Facility loans and others	63,432	The Export-Import Bank of Korea and others
	Hyosung Chemical(Jiaxing) Co.,Ltd	44,023	Operating capital and others	42,381	Shinhan Bank and others
	Hyosung Steel Cord (Qingao) Co., Ltd	162,615	Facility loans and others	151,082	Woori Bank and others
	Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd	70,111	Operating capital and others	70,063	The Export-Import Bank of Korea and others
	Baoding Hyosung Tianwei Transformer Co.	16,179	Facility loans and others	16,179	Woori Bank and others
	Nantong Hyosung Transformer Co.,Ltd.	273,679	Facility loans and others	218,342	Hana Bank and others
	Hyosung Vietnam Co.,Ltd	674,805	Facility loans and others	542,752	Woori Bank and others
	Hyosung Istanbul Tekstil Ltd. STI	123,403	Facility loans and others	123,403	The Export-Import Bank of Korea and others
	Hyosung Luxembourg S.A.	56,776	Operating capital and others	49,305	The Export-Import Bank of Korea and others
	Hyosung Wire Luxembourg S.A.	37,353	Operating capital and others	25,400	Shinhan Bank and others
	Hyosung USA, Inc.	153,389	Operating capital and others	138,396	Korea Exchange Bank and others
	Hyosung Holdings USA, Inc.	25,373	Operating capital and others	25,373	The Export-Import Bank of Korea and others
	HICO America Inc.	46,132	Foreign currency loans and others	11,533	Woori Bank and others
	Hyosung Japan	168,593	Foreign currency loans and others	77,057	Woori Bank and others

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Hyosung International (HK) LTD.	20,759	Foreign currency loans and others	819	Hana Bank and others
Hyosung Singapore PTE Ltd.	11,533	Foreign currency loans and others	-	Woori Bank
Hyosung Brasil Industria E Comercio De Fibras Ltda.	91,111	Facility loans	91,111	Mizho Bank
GST Global GMBH	149,929	Facility loans and others	149,929	Korea finance corporation and others
Flossom Co., Ltd. (Note 41)	63,000	Facility loans and others	56,000	Korea Exchange Bank and others
	<u>₩2,468,725</u>		<u>₩2,063,261</u>	

(in millions of Korean won)

2010	Related company	Guaranteed amount	Type of loan	Credit amount	Creditor
Subsidiaries	Hyosung Goodsprings, Inc.	₩ 1,934	Advance receipts refunds	₩ 1,934	MAPNA BOILER ENGINEERING & MANUFACTURING
	Boading Hyosung Tianwei Transformer Co., Ltd	17,023	Facility loans and others	17,023	Woori Bank and others
	HICO AMERICA SALES & TECH.,INC	45,556	Foreign currency loans and others	-	Woori Bank and others
	Hyosung America Inc.	11,389	Foreign currency loans and others	-	Korea Exchange Bank
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	36,445	Facility loans and others	36,445	The Export-Import Bank of Korea and others
	Hyosung Chemical(Jiaxing) Co.,Ltd	29,484	Operating capital and others	27,936	Shinhan Bank and others
	Hyosung Holdings USA, Inc	25,056	Operating capital and others	19,361	Kookmin Bank and others
	HYOSUNG INTERNATIONAL(HK) LTD.	20,500	Foreign currency loans and others	375	Hana 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 Japan Co., Ltd.	137,830	Foreign currency loans and others	50,354	Woori Bank and others
	Hyosung Luxembourg S.A.	59,181	Operating capital and others	46,316	The Export-Import Bank of Korea and others
	Hyosung Singapore Pte, Ltd.	11,389	Foreign currency loans and others	-	Woori Bank
	Hyosung Spandex(GuangDong) Co., Ltd.	58,675	Operating capital and others	50,684	Woori Bank and others
	Hyosung Spandex(Jiaxing) Co., Ltd.	34,167	Operating capital and others	34,167	Korea Development Bank
	Hyosung Spandex(Zhuhai) Co., Ltd.	36,445	Operating capital and others	30,730	Korea Development Bank and others
	Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd. (Prior to Hyosung Steel Cord(Nanjing) Co., Ltd.)	52,109	Operating capital and others	46,415	Hana Bank and others
	Hyosung Steel Cord(QingDao) Co., Ltd.	123,001	Facility loans and others	88,275	Woori Bank and others
	Hyosung USA, Inc	151,474	Operating capital and others	79,723	Korea Exchange Bank and others

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Hyosung Vietnam Co., Ltd.	548,625	Facility loans and others	456,193	Woori Bank and others
Nantong Hyosung Transformer Co., Ltd.	139,981	Facility loans and others	98,707	Hana Bank and others
Flossom Co., Ltd.	63,000	Facility loans and others	56,000	Korea Exchange Bank and others
	<u>₩1,696,654</u>		<u>₩1,234,028</u>	

In addition to the above transactions, the Company recognized dividend income of ₩ 79,748 million (2010: ₩ 100,154 million) from subsidiaries, such as Hyosung Goodsprings, Inc. and others, and recognized dividend income ₩ 4,236 million (2010: ₩ 869 million) from associates, such as Capro Corp. and others during the year ended December 31, 2011.

**20. Borrowings**

Details of borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
<b>Current</b>			
Short-term borrowings	₩ 1,401,699	₩ 1,262,783	₩ 1,157,684
Current portion of long-term borrowings	403,889	505,180	649,236
	<u>1,805,588</u>	<u>1,767,963</u>	<u>1,806,920</u>
<b>Non-current</b>			
Debentures	877,168	676,951	698,137
Long-term borrowings	816,334	406,615	268,792
	<u>1,693,502</u>	<u>1,083,566</u>	<u>966,929</u>
	<u>₩ 3,499,090</u>	<u>₩ 2,851,529</u>	<u>₩ 2,773,849</u>

Details of short-term borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>Financial institutions</b>	<b>Interest rate (%)</b>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
<b>Korean won borrowings</b>					
Bank Overdrafts	Woori Bank	6.64%	₩ 4,759	₩ -	₩ -
	Kyungnam Bank	6.33%	4,159	-	-
General loan	National Agricultural Cooperative Federation	-	-	10,000	10,000
	Woori Bank	5.60%~6.27%	60,000	30,000	30,000
	Jeonbuk Bank	5.45%	20,000	-	-
Other bill discount	Woori Bank	-	-	80,000	-
	HI investment & securities Co., Ltd.	-	-	-	31,300
	Eugene Investment & Securities Co., Ltd.	-	-	-	40,000
			<u>88,918</u>	<u>120,000</u>	<u>111,300</u>

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**Foreign currency borrowings**

General loan	Shinhan Bank	2.66%	11,533	22,778	-
	Korea Development Bank	2.93%~3.55%	44,979	10,250	-
USANCE Collateralized borrowings <sup>1</sup>	SMBC	-	-	22,778	-
	The Export-Import Bank of Korea	2.59%	5,766	-	-
	Woori Bank and Others	1.58%~1.78%	311,594	199,303	235,830
	Woori Bank and Others	2.16%~2.60%	938,909	887,674	810,554
			1,312,781	1,142,783	1,046,384
			₩ 1,401,699	₩ 1,262,783	₩ 1,157,684

<sup>1</sup> The Company sold foreign account receivables to financial institutions and these transactions are accounted for as secured borrowing.

Details of long-term borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>Type of loan</b>	<b>Bank</b>	<b>Interest rate (%)</b>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
<b>Korean won borrowings</b>						
Facility loans	Korea Development Bank		2.25%~5.25%	₩ 285,077	₩ 228,659	₩ 156,747
Facility loans	Kwangju Bank		5.28%	10,000	-	-
Facility loans	Jeon Buk Bank		5.09%	10,000	-	-
Facility loans	Hana Bank		5.00%	20,000	-	-
Facility loans	Kookmin Bank		5.17%~7.08%	70,000	46,667	50,000
Facility loans	KDB Capital		1.5%~3.00%	15,776	12,854	13,629
Facility loans	Korea Housing Guarantee Co., Ltd.		1.00%	4,400	4,400	4,400
Operating capital	Korea Development Bank		5.01%~5.69%	110,000	80,000	78,000
Operating capital	Woori Bank		5.60%~5.76%	70,000	30,000	30,000
Operating capital	Korea exchange Bank		5.94%	20,000	20,000	20,000
Operating capital	Hana Bank		5.43%~5.71%	60,000	60,000	60,000
Operating capital	Shinhan Bank		5.19%~5.68%	80,000	30,000	30,000
Account receivable	Factoring	KDB Capital	3.00~4.00%	4,388	6,675	9,800
<b>Foreign currency borrowings</b>						
Facility loans	The Export-Import Bank of Korea		2.59%~3.00%	192,103	22,778	34,211
Facility loans	Hana Bank		3.52%	11,533	-	-
Facility loans	Kookmin Bank		3.31%	6,343	-	-
Facility loans	Korea Finance Corporation		2.98%	20,759	-	-
Facility loans	SMBC		-	-	-	23,352

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Facility loans Shinhan Bank	-	-	-	23,352
		990,379	542,033	533,491
Less: Current portion		(173,889)	(135,180)	(264,236)
Present value discounts		(156)	(238)	(463)
		<u>₩ 816,334</u>	<u>₩ 406,615</u>	<u>₩ 268,792</u>

Above long-term borrowings are subject to installment repayment or lump-sum repayment at maturity date. Borrowings are collateralized with the Company's investment in associates and property, plant and equipment (Note 13, 18 and 39).

Details of debentures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>Maturity date</b>	<b>Interest rate (%)</b>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
225-2 <sup>nd</sup> Public subscription bond	2011.01.25	-	₩ -	₩ 30,000	₩ 30,000
229-2 <sup>nd</sup> Public subscription bond	2011.07.06	-	-	30,000	30,000
230 <sup>th</sup> Private subscription bond	2011.11.15	-	-	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	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	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	-	-	70,000	70,000
235-3 <sup>rd</sup> Public subscription bond	2013.03.13	6.06%	30,000	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	-	-	100,000	100,000
236-3 <sup>rd</sup> Public subscription bond	2013.07.24	7.00%	30,000	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	-	-	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	-	-	60,000	60,000
238-3 <sup>rd</sup> Public subscription bond	2012.01.22	8.70%	70,000	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	-	-	30,000	30,000

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<i>(in millions of Korean won)</i>	<b>Maturity date</b>	<b>Interest rate (%)</b>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
241-2 <sup>nd</sup> Public subscription bond	2012.03.19	6.60%	80,000	80,000	80,000
241-3 <sup>rd</sup> Public subscription bond	2013.03.19	6.90%	40,000	40,000	40,000
242-1 <sup>st</sup> Public subscription bond	2013.03.05	5.18%	80,000	80,000	-
242-2 <sup>nd</sup> Public subscription bond	2015.03.05	5.79%	70,000	70,000	-
243-1 <sup>st</sup> Public subscription bond	2013.07.12	4.93%	70,000	70,000	-
243-2 <sup>nd</sup> Public subscription bond	2015.07.12	5.75%	30,000	30,000	-
244-1 <sup>st</sup> Public subscription bond	2013.12.21	4.10%	30,000	30,000	-
244-2 <sup>nd</sup> Public subscription bond	2014.12.21	4.60%	30,000	30,000	-
244-3 <sup>rd</sup> Public subscription bond	2015.12.21	4.99%	40,000	40,000	-
245-1 <sup>st</sup> Public subscription bond	2014.01.17	4.25%	90,000	-	-
245-2 <sup>nd</sup> Public subscription bond	2016.01.17	5.25%	60,000	-	-
246-1 <sup>st</sup> Public subscription bond	2014.06.24	4.33%	70,000	-	-
246-2 <sup>nd</sup> Public subscription bond	2016.06.24	4.94%	60,000	-	-
248 <sup>th</sup> Private bond	2014.09.30	5.32%	20,000	-	-
248-1 <sup>st</sup> Public subscription bond	2014.10.12	4.49%	40,000	-	-
248-2 <sup>nd</sup> Public subscription bond	2016.10.12	5.03%	50,000	-	-
249 <sup>th</sup> Private bond	2014.11.14	5.23%	40,000	-	-
			1,110,000	1,050,000	1,085,000
Less: Current portion			(230,000)	(370,000)	(385,000)
Discount on bonds payable			(2,832)	(3,049)	(1,863)
			₩ 877,168	₩ 676,951	₩ 698,137

Details of the Company's maturity analysis as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>				
	<b>Total</b>	<b>Up to 1 year</b>	<b>Up to 2 years</b>	<b>Up to 5 years</b>	<b>Over 5 years</b>
Debentures	₩ 1,110,000	₩ 230,000	₩ 280,000	₩ 600,000	₩ -
Korea currency borrowings	848,559	243,699	331,360	267,939	5,561
Foreign currency borrowings	1,543,519	1,331,889	46,133	165,497	-
	₩ 3,502,078	₩ 1,805,588	₩ 657,493	₩ 1,033,436	₩ 5,561

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<b>December 31, 2010</b>					
<i>(in millions of Korean won)</i>	<b>Total</b>	<b>Up to 1 year</b>	<b>Up to 2 years</b>	<b>Up to 5 years</b>	<b>Over 5 years</b>
Debentures	₩ 1,050,000	₩ 370,000	₩ 230,000	₩ 450,000	₩ -
Korea currency borrowings	639,254	255,180	164,650	215,286	4,138
Foreign currency borrowings	1,165,561	1,142,783	22,778	-	-
	<u>₩ 2,854,815</u>	<u>₩ 1,767,963</u>	<u>₩ 417,428</u>	<u>₩ 665,286</u>	<u>₩ 4,138</u>

<b>January 1, 2010</b>					
<i>(in millions of Korean won)</i>	<b>Total</b>	<b>Up to 1 year</b>	<b>Up to 2 years</b>	<b>Up to 5 years</b>	<b>Over 5 years</b>
Debentures	₩ 1,085,000	₩ 385,000	₩ 370,000	₩ 330,000	₩ -
Korea currency borrowings	563,876	294,621	115,580	147,492	6,183
Foreign currency borrowings	1,127,299	1,127,299	-	-	-
	<u>₩ 2,776,175</u>	<u>₩ 1,806,920</u>	<u>₩ 485,580</u>	<u>₩ 477,492</u>	<u>₩ 6,183</u>

**21. Trade and other payables**

Details of trade and other payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Trade payables	₩ 1,103,337	₩ 977,835	₩ 697,237
Other payables	399,094	300,359	261,170
Long-term other payables	38,904	33,368	33,891
	<u>₩ 1,541,335</u>	<u>₩ 1,311,562</u>	<u>₩ 992,298</u>

The book value of other payables as of December 31, 2011 and 2010, and January 1, 2010 are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Other payables			
Non-trade payables	₩ 266,163	₩ 208,331	₩ 171,392
Accrued expenses	52,461	46,173	48,679
Withholdings	33,141	27,025	24,018
Deposits received	47,329	18,830	17,081
	<u>399,094</u>	<u>300,359</u>	<u>261,170</u>
Long-term other payables			
Non-trade payables	14,807	10,116	9,971
Deposits received	24,097	23,252	23,920
	<u>38,904</u>	<u>33,368</u>	<u>33,891</u>
	<u>₩ 437,998</u>	<u>₩ 333,727</u>	<u>₩ 295,061</u>

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

	<b>2011</b>	<b>2010</b>
Discount rate	3.4% ~ 5.00%	3.4% ~ 5.00%

Meanwhile, the fair value of trade and other payables as of December 31, 2011 and 2010, and January 1, 2010, are the same as book value.

**22. Defined Benefit Liability**

Defined benefit liabilities recognized on the statements of finance position as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Present value of defined benefit payables	₩ 171,380	₩ 130,553	₩ 148,440
Fair value of plan assets	(132,853)	(93,358)	(112,898)
Defined benefit liabilities <sup>1</sup>	<u>₩ 38,527</u>	<u>₩ 37,195</u>	<u>₩ 35,542</u>

<sup>1</sup> The fair value of plan asset includes ₩ 594 million of deposits made to National Pension Fund. (December 31, 2010: ₩ 645 million; January 1, 2010: ₩ 1,121 million)

The amounts recognized on the income statements for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Current service cost	₩ 34,711	₩ 28,724
Interest expenses	6,864	8,907
Expected income of plan assets	(4,902)	(6,442)
	<u>₩ 36,673</u>	<u>₩ 31,189</u>

The expenses by nature for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Cost of goods sold	₩ 21,039	₩ 17,891
Selling and administrative expenses	13,380	11,337
Research and development costs	2,254	1,961
	<u>₩ 36,673</u>	<u>₩ 31,189</u>

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning	₩ 130,553	₩ 148,440
Current service cost	34,711	28,724
Interest expenses	6,864	8,907
Payment	(12,704)	(12,478)

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Effect of pension system reduction/ settlement	(1,063)	(62,606)
Actuarial gains and losses	12,993	19,154
Subsidiaries transfer in/out	26	412
Ending	<u>₩ 171,380</u>	<u>₩ 130,553</u>

The movements in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Beginning	₩	93,358	₩	112,898
Expected income of plan assets		4,902		6,443
Employer contribution		41,500		14,605
Benefits paid		(5,546)		(6,753)
Effect of pension system reduction/ settlement		(641)		(32,890)
Actuarial gains and losses		(720)		(945)
Ending	<u>₩</u>	<u>132,853</u>	<u>₩</u>	<u>93,358</u>

<sup>1</sup> Plan assets consisted of short-term financial instruments.

Actual return of plan assets amounted to ₩ 4,182 million (2010: ₩ 5,498 million) for the year ended December 31, 2011.

Actuarial gains and losses recognized as other comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Actuarial gains and losses before income tax	₩	(13,713)	₩	(20,099)
Income tax effects		-		4,422
Actuarial gains and losses after income tax	<u>₩</u>	<u>(13,713)</u>	<u>₩</u>	<u>(15,677)</u>

As of December 31, 2011, accumulated actuarial gains and losses recognized as other comprehensive income and expenses amounts to ₩ 29,390 million (2010: ₩ 15,677 million).

The principal actuarial assumptions as of December 31, 2011 and 2010, and January 1, 2010, were as follows:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Discount rate	4.57%	5.46%	6.27%
Inflation rate	3.50%	3.60%	3.30%
Expected return on plan assets <sup>1</sup>	4.84%	5.50%	5.50%
Future salary increases	2.87%	2.71%	3.30%

<sup>1</sup> Expected return of plan asset is calculated by considering weighted average of actual ratio of return for the last five years. If the provided period of earnings is less than five years, the weighted average for the given period is used.

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The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	<b>Changes in principal assumption</b>	<b>Impact on overall liability</b>
Discount rate	1.0% increase/decrease	7.1% increase/6.1% decrease
Inflation rate	1.0% increase/decrease	7.1% increase/6.3% decrease
Salary growth rate	1.0% increase/decrease	7.2 % increase/6.3% decrease

Adjustments for the differences between initial assumptions and actual figures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Present value of defined benefit liability ₩	171,381 ₩	130,553 ₩	148,440
Fair value of plan assets	(132,853)	(93,358)	(112,898)
Deficit(Surplus) of the funded plans	38,528	37,195	35,542
Defined benefit liability adjustments	3,698	5,479	-
Plan asset adjustments	720	945	-

**23. Deferred Income Tax**

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Deferred tax assets			
Deferred tax asset to be recovered after more than 12 months	₩ 62,994	₩ 64,657	₩ 68,138
Deferred tax asset to be recovered within 12 months	80,687	26,384	22,340
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months	(452,567)	(397,166)	(387,654)
Deferred tax liability to be recovered within 12 months	(3,080)	(6,628)	(14,307)
Deferred tax assets (liabilities), net	<u>₩ (311,966)</u>	<u>₩ (312,753)</u>	<u>₩ (311,483)</u>

The movements in the deferred income tax account for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning balance	₩ (312,753)	₩ (311,483)
Income statement charge (Note 35)	(3,612)	1,626
Current income taxes charged to equity (Note 35)	4,399	(2,896)
Ending balance	<u>₩ (311,966)</u>	<u>₩ (312,753)</u>

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The movements in deferred income tax assets and liabilities for the years ended December 31, 2011 and 2010, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>			
	<b>Beginning</b>	<b>Income statement</b>	<b>Equity</b>	<b>Ending</b>
<b>Deferred tax liabilities</b>				
Reserve for research and human resource development	₩ (17,600)	₩ (11,440)	₩ -	₩ (29,040)
Accrued income	(228)	140	-	(88)
Available-for-sale financial assets	(6,837)	-	3,983	(2,854)
Defined benefit pension plan assets	(20,377)	(11,518)	-	(31,895)
Investments in subsidiaries and associates	(74,362)	44,898	-	(29,464)
Gain (loss) from fire insurance policy	(2,913)	244	-	(2,669)
Revaluation of land	(265,160)	(26,481)	305	(291,336)
Loss on valuation of derivatives	(3,127)	2,763	-	(364)
Trade accounts receivable	(933)	(361)	-	(1,294)
Valuation on present value	(283)	(201)	-	(484)
Guarantee payment	(282)	(15)	-	(297)
Manufacturing cost	-	(1,818)	-	(1,818)
Others	(3,916)	(391)	-	(4,307)
	<u>(396,018)</u>	<u>(4,180)</u>	<u>4,288</u>	<u>(395,910)</u>
<b>Deferred tax assets</b>				
Defined benefit obligations	25,222	6,673	-	31,895
Construction contracts	63	3,612	-	3,675
Accrued compensated absences	3,442	360	-	3,802
Capitalized of financial cost	2,098	(71)	-	2,027
Impairment loss of available-for-sale financial assets	3,846	2,252	-	6,098
Loss on valuation of inventories	3,680	484	-	4,164
Accumulated impairment loss	290	29	-	319
Provision for impairment in excess of tax limit	10,809	(1,982)	-	8,827
Impairment loss on sites	1,654	-	-	1,654
Provision for construction warranties	1,867	565	-	2,432
Government grants	6,800	3,153	-	9,953
Provision for equity in loss of associates	17,087	(17,061)	111	137
Provision for construction losses	4,026	329	-	4,355
Impairment loss of property, plant and equipment	2,898	353	-	3,251
Depreciation	853	211	-	1,064
Loss on valuation of assets and liabilities in foreign	(1,436)	1,490	-	54

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currencies				
Others	66	171	-	237
	83,265	568	111	83,944
	₩ (312,753)	₩ (3,612)	₩ 4,399	₩ (311,966)
<b>2010</b>				
<i>(in millions of Korean won)</i>	<b>Beginning</b>	<b>Income statement</b>	<b>Equity</b>	<b>Ending</b>
<b>Deferred tax liabilities</b>				
Reserve for research and human resource development	₩ (8,800)	₩ (8,800)	₩ -	₩ (17,600)
Accrued income	(604)	376	-	(228)
Available-for-sale financial assets	(3,399)	-	(3,438)	(6,837)
Defined benefit pension plan assets	(24,201)	3,824	-	(20,377)
Investments in subsidiaries and associates	(74,135)	(227)	-	(74,362)
Gain (loss) from fire insurance policy	(3,399)	486	-	(2,913)
Revaluation of land	(269,364)	1,759	2,445	(265,160)
Loss on valuation of derivatives	(830)	(403)	(1,894)	(3,127)
Trade accounts receivable	(7,865)	6,429	-	(1,436)
Valuation on present value	(1,932)	999	-	(933)
Guarantee payment	199	(482)	-	(283)
Manufacturing cost	(289)	7	-	(282)
Others	(4,163)	247	-	(3,916)
	(398,782)	4,215	(2,887)	(397,454)
<b>Deferred tax assets</b>				
Defined benefit obligations	22,033	3,189	-	25,222
Construction contracts	(506)	569	-	63
Accrued compensated absences	1,891	1,551	-	3,442
Capitalized of financial cost	-	2,098	-	2,098
Impairment loss of available-for-sale financial assets	3,821	25	-	3,846
Gains on valuation of inventories	3,388	292	-	3,680
Accumulated impairment loss	290	-	-	290
Provision for impairment in excess of tax limit	8,487	2,322	-	10,809
Impairment loss on sites	-	1,654	-	1,654
Provision for construction warranties	1,988	(121)	-	1,867
Government grants	6,702	98	-	6,800
Provision for equity in loss of associates	16,859	237	(9)	17,087
Long-term borrowing	1,894	(1,894)	-	-
Provision for construction losses	2,546	1,480	-	4,026
Impairment loss of	-	2,898	-	2,898

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property, plant and equipment				
Depreciation	1,076	(223)	-	853
Tax credit carryforwards	12,697	(12,697)	-	-
Others	4,133	(4,067)	-	66
	<u>87,299</u>	<u>(2,589)</u>	<u>(9)</u>	<u>84,701</u>
	<u>₩ (311,483)</u>	<u>₩ 1,626</u>	<u>₩ (2,896)</u>	<u>₩ (312,753)</u>

**24. Other liabilities**

Details of other liabilities as of December 31, 2011 and 2010 January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Other current liabilities			
Advances from customers	₩ 188,965	₩ 110,075	₩ 134,261
Unearned revenues	4,675	5,481	6,355
	<u>193,640</u>	<u>115,556</u>	<u>140,616</u>
Other non-current liabilities			
Provision for warranties <sup>1</sup>	9,900	8,788	9,391
Provision for guarantee <sup>2</sup>	566	77,670	76,633
	<u>10,466</u>	<u>86,458</u>	<u>86,024</u>
	<u>₩ 204,106</u>	<u>₩ 202,014</u>	<u>₩ 226,640</u>

<sup>1</sup> The Company establishes expenses, which are expected to be spent in the future such as defect repairs in relation to contract of construction work, as a provision liability based on the past experience rate.

<sup>2</sup> Provision for guarantee decreased by ₩ 77,104 million due to an exemption of debt by liquidation of Hyosung (America) Inc. which was a subsidiary of the Company.

Changes in the Company's provision for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		
	<b>Provision for warranties</b>	<b>Provision for guarantee</b>	<b>Total</b>
Beginning	₩ 8,788	₩ 77,670	₩ 86,458
Increase	2,832	449	3,281
Decrease	(1,720)	(77,553)	(79,273)
Ending	<u>₩ 9,900</u>	<u>₩ 566</u>	<u>₩ 10,466</u>

<i>(in millions of Korean won)</i>	<b>2010</b>		
	<b>Provision for warranties</b>	<b>Provision for guarantee</b>	<b>Total</b>
Beginning	₩ 9,391	₩ 76,633	₩ 86,024
Increase	1,110	1,075	2,185
Decrease	(1,713)	(38)	(1,751)
Ending	<u>₩ 8,788</u>	<u>₩ 77,670</u>	<u>₩ 86,458</u>

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**25. Capital stock**

The Company is authorized to issue 200,000,000 shares with the par value per share of ₩ 5,000. As of December 31, 2011, the Company has issued 35,117,455 shares of common stock. There is no change of capital stock for the year ended December 31, 2011.

**26. Retained Earnings**

Details retained earnings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Legal reserve <sup>1</sup>	₩ 14,124	₩ 9,965	₩ 6,638
Discretionary reserve			
Reserve for research and human resource development <sup>2</sup>	80,000	40,000	6,667
Reserve for facility	699,000	524,000	253,000
Unappropriated retained earnings	1,470,964	1,637,376	1,783,439
	<u>₩ 2,264,088</u>	<u>₩ 2,211,341</u>	<u>₩ 2,049,744</u>

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

**Appropriation of Retained Earnings**

Details of appropriation of retained earnings for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	₩ 1,376,632	₩ 512
Cumulative effect of accounting changes	-	1,441,999
Actuarial gains and losses	(13,713)	(15,677)
Net income	108,045	210,542
	<u>1,470,964</u>	<u>1,637,376</u>
Appropriation of retained earnings <sup>1</sup>		
Legal reserve	4,159	4,159
Reserve for research and human resource development	40,000	40,000
Reserve for facility	1,384,000	175,000
Dividends		
Cash dividends	33,269	41,585
Dividends(ratio) per share Common stock: ₩1,000 (20%) in 2011,		

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₩1,250 (25%) in 2010

Unappropriated retained earnings carried forward to subsequent year	₩	9,536	₩	1,376,632
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<sup>1</sup> Dates of appropriations: March 16, 2012 and March 18, 2011, for the years ended December 31, 2011 and 2010, respectively.

**27. Other Components of Equity**

Details other components of equity as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Other additional capital	₩	330,210	₩	330,210	₩	330,210
Treasury stock <sup>1</sup>		(34,204)		(34,204)		(34,204)
Gain (loss) on valuation of available-for-sale financial assets		14,611		29,227		17,041
Gain (loss) on valuation of derivatives		-		-		(6,714)
Cumulative effect of foreign currency translation		(343)		60		-
	₩	310,274	₩	325,293	₩	306,333

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

Changes in the accumulated other comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>January 1, 2011</b>		<b>Increase (Decrease)</b>		<b>Reclassify to profit and loss</b>		<b>December 31, 2011</b>	
Gain (loss) on valuation of available-for-sale financial assets	₩	29,227	₩	(4,770)	₩	(9,846)	₩	14,611
Cumulative effect of foreign currency translation		60		(403)		-		(343)
	₩	29,287	₩	(5,173)	₩	(9,846)	₩	14,268

  

<i>(in millions of Korean won)</i>	<b>January 1, 2010</b>		<b>Increase (Decrease)</b>		<b>Reclassify to profit and loss</b>		<b>December 31, 2010</b>	
Gain (loss) on valuation of available-for-sale financial assets	₩	17,041	₩	12,186	₩	-	₩	29,227
Gain (loss) on valuation of derivatives		(6,714)		-		6,714		-
Cumulative effect of foreign currency translation		-		60		-		60
	₩	10,327	₩	12,246	₩	6,714	₩	29,287

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**28. Sales**

Details of sales for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Sales-Merchandise	₩	3,263,252	₩	3,049,162
Sales-Finished goods		5,377,196		4,751,399
Sales-Construction		343,327		255,689
Sales-Real estate		151,517		19,916
Sales-Others		148,013		122,800
	₩	<u>9,283,305</u>	₩	<u>8,198,966</u>

**29. Construction contracts**

Details of revenue and cost of construction for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Revenues of construction	₩	366,292	₩	199,619
Costs of construction		(341,919)		(208,588)
Profits of Construction		24,373		(8,969)

The following table presents book value of unbilled/overbilled amount related to construction as of December 31, 2011 and 2010, and January 1, 2010:

<i>(in millions of Korean won)</i>	<b>December 31, 2011<sup>1</sup></b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Unbilled Amount	₩	54,555	₩	30,506	₩	29,586
Overbilled Amount		10,643		18,293		13,171

<sup>1</sup> The provisions for construction loss amounting to ₩ 17,695 million are included by estimating future construction loss in relation to the construction-in-progress of the Company.

Details of construction receivables and advance payments as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Construction trade receivables	₩	177,210	₩	98,480	₩	190,323
Advance payments		641		1,715		3,917
Amounts of deferred collection		-		-		-

Details of construction contracts as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

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<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
Amounts after added(deducted) recognized profits(losses) on accumulated costs	₩	531,753	₩	492,255	₩	581,660
Less: Progress billing		(487,842)		(480,042)		(565,245)
Net amounts of construction contracts	₩	43,911	₩	12,213	₩	16,415

**30. Expenses by Nature**

Cost of sales and selling and administrative expenses by nature for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Changes in product and work-in process	₩	(206,661)	₩	(39,269)
Changes in merchandise		3,063,851		2,852,623
Usage of raw material and supplies		3,905,654		2,985,639
Employee benefit expenses (Note 31)		550,122		492,592
Depreciation and amortization		194,812		182,887
Utility		154,674		137,358
Export expenses		258,876		273,915
Utilities		101,707		95,256
Service		99,486		92,509
Outsourcing		472,463		263,069
Others		405,033		359,107
Total <sup>1</sup>	₩	9,000,017	₩	7,695,686

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

**31. Employee Benefit Expense**

Employee benefit expense for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Wages and salaries	₩	451,661	₩	410,420
Employee benefits		60,875		50,983
Pension costs - defined contribution plans		913		-
Pension costs - defined benefit plans (Note 22)		36,673		31,189
	₩	550,122	₩	492,592

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**32. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Export expenses	₩ 258,876	₩ 273,915
Salaries	140,201	126,227
Commission and fees	48,982	39,704
Transportation	30,072	29,402
Operating expenses for overseas branches	20,124	16,936
Travel	18,750	16,734
Severance pension benefits	13,881	11,543
Advertising	13,506	12,215
Rent	11,241	10,013
Taxes and dues	8,256	8,010
Entertainment	7,351	6,437
Depreciation	5,459	5,596
Communications	4,290	3,720
Training	3,524	4,452
Amortization	1,332	1,102
Bad debts expense	-	15,455
Others	38,944	37,140
	₩ 624,789	₩ 618,601

**33. Other Operation Income and Expenses**

Other operating income and expenses for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
<b>Other operating income:</b>		
Dividends	₩ 85,713	₩ 102,557
Miscellaneous income	48,366	38,297
Gain on derivative transactions	33,573	16,446
Gain on valuation of derivatives	4,751	17,948
Gain on disposal of property, plant and equipment	3,002	3,282
Reversal of allowance for bad debts	2,764	7,452
Rental income	1,513	1,504
Gain on disposal of intangible assets	14	-
Gain on disposal of non-current assets	2	1,643
Reversal of impairment loss on property, plant and equipment	-	3,548
	179,698	192,677
<b>Other operating expenses:</b>		
Miscellaneous loss	22,121	20,981
Loss on valuation of derivatives	19,407	5,233
Loss on derivative transactions	16,476	6,113
Commissions	5,000	4,161
Donations	2,863	3,276

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Loss on disposal of trade receivables	2,295	2,750
Loss on disposal of property, plant and equipment	1,005	2,148
Impairment loss of property, plant and equipment	569	4,356
Sales promotional	147	68
Loss on disposal of intangible assets	75	-
Loss on disposal of non-current assets	5	4,683
Bad debts expense for other receivables	-	17,223
	<u>69,963</u>	<u>70,992</u>
	<u>₩ 109,735</u>	<u>₩ 121,686</u>

**34. Financial Income and Expenses**

Financial income and expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)

	<b>2011</b>	<b>2010</b>
<b>Financial income:</b>		
Interest income		
Cash and cash equivalents	₩ 6,211	₩ 1,456
Loans and receivables	3,564	298
Financial assets at fair value through profit or loss	865	1,247
Available-for-sale financial assets	1,387	1,445
Other financial instruments	884	861
Gain on foreign currency transactions	93,817	72,689
Gain on foreign currency translation	70,019	78,371
Gain on disposal of financial assets		
Available-for-sale financial assets	23,582	83
Investments in subsidiaries and associates	656	-
	<u>200,985</u>	<u>156,450</u>
<b>Financial expenses:</b>		
Interest expenses		
Financial liabilities at amortized cost	141,748	135,069
Loss on foreign currency transactions	77,172	81,670
Loss on foreign currency translation	109,753	69,653
Loss on disposal of financial assets		
Financial assets at fair value through profit or loss	467	-
Loss on valuation of financial assets		
Financial assets at fair value through profit or loss	7,247	-
Impairment loss of financial assets		
Available-for-sale financial assets	84,099	-
	<u>420,486</u>	<u>286,392</u>
	<u>₩ (219,501)</u>	<u>₩ (129,942)</u>

The Company recognized income and expenses related to exchange difference as financial income and expenses.

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**35. Income Tax Expense**

Income tax expense for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Current tax:				
Current tax on profits for the year	₩	38,182	₩	97,660
Adjustments in respect of prior years		377		15,503
Total current tax		<u>38,559</u>		<u>113,163</u>
Deferred tax (Note 23):				
Origination and reversal of temporary differences		(3,612)		1,626
Impact of change in Korean tax rate		13,005		-
Total deferred tax		<u>9,393</u>		<u>1,626</u>
Income tax expense	₩	<u>47,952</u>	₩	<u>114,789</u>

The income tax (charged)/credited directly to equity as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>			<b>December 31, 2010</b>			<b>January 1, 2010</b>		
	<b>Before tax</b>	<b>Tax (charge) credit</b>	<b>After tax</b>	<b>Before tax</b>	<b>Tax (charge) credit</b>	<b>After tax</b>	<b>Before tax</b>	<b>Tax (charge) credit</b>	<b>After tax</b>
Gain (loss) on valuation of available-for-sale financial assets	₩19,506	₩ (4,894)	₩14,612	₩38,104	₩ (8,877)	₩29,227	₩22,480	₩ (5,439)	₩17,041
Actuarial gains and losses	(32,131)	2,741	(29,390)	(18,418)	2,741	(15,677)	-	-	-
Gain (loss) on valuation of derivatives	-	-	-	-	-	-	(8,607)	1,894	(6,713)
Revaluation of land	852,863	(206,638)	646,225	854,125	(206,943)	647,182	865,238	(209,388)	655,850
Provision for equity in loss of associates	(565)	136	(429)	(117)	25	(92)	(156)	34	(122)
	<u>₩839,673</u>	<u>₩ (208,655)</u>	<u>₩631,018</u>	<u>₩873,694</u>	<u>₩ (213,054)</u>	<u>₩660,640</u>	<u>₩878,955</u>	<u>₩ (212,899)</u>	<u>₩666,056</u>

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

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Profit before tax	₩	155,997	₩	325,331
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩	37,725	₩	78,704
Tax effects of:				
Income not subject to tax		(6,316)		(2,689)
Expenses not deductible for tax purposes		26,702		13,421
Tax credits		(13,084)		(15,243)
Others		(10,457)		25,093
Re-measurement of deferred tax - change in the Korean tax rate		13,005		-

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Adjustment in respect of prior years	377	15,503
Tax charge	₩ 47,952	₩ 114,789

The weighted average applicable tax rate was 30.7% (2010: 35.3%).

During the year, as a result of the change in the Korean corporation tax rate from 22.0% to 24.2% that was enacted on December 31, 2011, and that will be effective from January 1, 2012, the relevant deferred tax balances have been re-measured. As of December 31, 2011, deferred tax, which is expected to reverse in the future, was measured using the effective rate of 24.2% that will apply in the future period.

**36. Earnings per Share**

Basic earnings per ordinary share for the years ended December 31, 2011 and 2010, is as follows:

<i>(in Korean won)</i>	<b>2011</b>		<b>2010</b>	
Net income <sup>1</sup>	₩	108,045 million	₩	210,542 million
Weighted average number of shares <sup>2</sup>		33,268,604		33,268,604
Earnings per share	₩	3,248	₩	6,328

<sup>1</sup> Common share net profit corresponds to the Company's net income.

<sup>2</sup> The number of weighted average number of ordinary shares for the years ended December 31, 2011 and 2010, is 33,268,604 and there has been no change.

**37. Dividends per Share**

The dividends paid in 2011 and 2010 were ₩ 41,586 million (₩ 1,250 per share) and ₩ 33,269 million (₩ 1,000 per share), respectively. A dividend in respect of the year ended December 31, 2011, of ₩ 1,000 per share, amounting to total dividends of ₩ 33,269 million, is to be proposed at the annual general meeting on March 16, 2012. These financial statements do not reflect this dividend payable.

**38. Cash Generated from Operations**

Cash generated from operations for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>		<b>2010</b>	
Profit before income tax	₩	155,997	₩	325,331
Adjustments for:				
Interest income and expenses		128,838		129,762
Gain (loss) on foreign currency translation		39,734		(8,717)
Gain (loss) on derivatives		14,655		(12,715)
Depreciation and amortization		194,812		182,887
Loss on disposal of property, plant, equipment, intangible assets and investment property		1,083		5,187
Gain on disposal of property, plant, equipment, intangible assets, and investment property		(3,016)		(3,282)
Impairment loss on property, plant, equipment, intangible assets, and		569		4,356

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investment property		
Reversal of impairment loss on property, plant, equipment, and investment property	-	(3,548)
Bad debts expense	-	32,677
Reversal of allowance for bad debts	(2,764)	(7,452)
Loss on disposal of financial assets	467	-
Gain on disposal of financial assets	(24,239)	(83)
Impairment loss on financial assets	84,099	-
Loss on valuation of financial assets	7,247	-
Impairment loss on investment in subsidiaries and associates	-	169,692
Reversal of impairment loss on investment in subsidiaries and associates	17,525	-
Dividends	(85,713)	(102,557)
Severance pension benefits	37,585	31,189
Additional provisions adjustment	3,281	2,185
Loss on disposal of trade receivables	2,295	2,750
Others	3,562	596
Changes in assets and liabilities from operations:		
Increase in trade receivables	(249,448)	(91,943)
Increase in inventories	(208,495)	(324,612)
Increase in other receivables	(3,261)	(9,526)
Increase in unbilled amount	(24,049)	(920)
Decrease in other financial assets	19,958	15,681
Increase (decrease) in other assets	(4,028)	101,966
Increase (decrease) in cumulative effect of foreign currency translation	(404)	60
Increase in trade payables	105,646	286,389
Increase (decrease) in other payables	118,501	(22,546)
Decrease (Increase) in overbilled amount	(7,649)	5,121
Increase in other financial liabilities	50,716	27,010
Payment of warranty expenses	(1,720)	(1,713)
Payment of severance pension benefits	(8,071)	(5,725)
Payment into plan assets	(41,500)	(14,605)
Curtailment of severance pension benefits	(422)	(29,715)
Cash generated from operations	₩ 321,791	₩ 683,180

Significant transactions not affecting cash flows are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Reclassification of the current portion of debentures	₩ 230,000	₩ 370,000
Construction-in-progress transferred to property, plant and equipment	213,214	314,865
Reclassification of the current portion of long-term borrowings	183,897	142,290
Reclassification of investment in subsidiaries and associates	84,099	-
Offsets of provision for warranties	77,553	-
Machinery-in-transit transferred to	27,262	3,871

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property, plant and equipment		
Gain (loss) on valuation of available-for-sale financial assets	(18,599)	15,623
Reclassification of the current portion of long-term trade receivables	2,909	4,352
Payment in substitutes	-	93,635

**39. Contingencies and Commitments**

**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, 2011, are as follows:

	Provider	Number	Type
Notes	SK Gas Ltd.	1	Blank
	TCC Steel Co., Ltd.	1	Blank

**Loan agreement and others**

The Company has general loans and open local L/C with a maximum limit of ₩ 1,703,542 million, including bank overdraft and trade bill discount. Also, the Company has accounts receivable discounting agreements with a maximum limit of ₩ 1,055,899 million with financial institutions as of December 31, 2011.

**Guarantees provided to others**

The Company provided guarantees for related parties and others, amounting to ₩ 2,501,125 million as of December 31, 2011 (Note 19).

**Guarantees provided to others with regard to PF**

Details of guarantees provided by the Company to developers as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011		December 31, 2010		January 1, 2010	
Acceptances for debt	₩	210,000	₩	215,000	₩	390,100
Joint and several guarantees		58,000		75,880		54,000
	₩	268,000	₩	290,880	₩	444,100

As of December 31, 2011, the Company provided guarantees in relation to Project Financing:

*(in millions of Korean won)*

Name	Bond entity	Guarantees limit	Borrowings balance	Guarantee detail	Period
Changdong station	Capital	₩ 28,000	₩ 28,000	Joint and several guarantees	2007.10~2012.06
Guangjoo Taejeondong APT	Bank and insurance	90,000	90,000	Acceptances for Debt	2010.04~2013.01
Construction of Sooseo office	Bank	120,000	120,000	Acceptances for Debt	2008.04~2012.07
Reconstruction of Daegu bongduk	Capital	30,000	26,656	Joint and several guarantees	2006.07~ Balance day
		₩ 268,000	₩ 264,656		

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The Company recognized ₩ 6,249 million as guarantee liability in relation to PF guarantee as of December 31, 2011.

**Guarantees provided by others**

Guarantees provided by others as of December 31, 2011, are as follows:

(in millions of Korean won)

Guarantor	Collaterals and guarantees provided	Amount
Korea Construction Financial Cooperative and others	Construction performance and others	₩ 381,450
The Export-Import Bank of Korea	Performance guarantee	369,056

**Assets pledged as collaterals**

As of December 31, 2011, the Company provided following assets as collaterals:

(in millions of Korean won)

Collateral	Maximum credit amount	Lender	Descriptions
Investment in subsidiaries and associates	₩ 20,063	Woori Bank	General loans
Property, plant and equipment & inventories	1,655,331	Korea Development Bank and others	General loan and others
	<u>₩ 1,675,394</u>		

**Pending Lawsuits**

The Company is involved in various lawsuits and claims for damages aggregating to ₩ 18,628 million as of December 31, 2011. 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.

**40. Operating Income and Expenses**

The lists included in the calculation of operating income in accordance with K-IFRS are as follows:

(in millions of Korean won)	2011	2010
<b>Reported amount under previous K-GAAP</b>	₩ 283,288	₩ 503,280
Rental income	1,513	1,504
Reversal of allowance for bad debts	2,764	7,452
Gain on derivative transactions	33,573	16,446
Gain on valuation of derivatives	4,751	17,948
Gain on disposal of property, plant and equipment	3,002	3,282
Reversal of impairment loss on property, plant and equipment	-	3,548
Gain on disposal of intangible assets	14	-
Gain on disposal of non-current assets	2	1,643
Dividends	85,713	102,557
Miscellaneous revenue	48,366	38,297
Loss on disposal of trade receivables	(2,295)	(2,750)
Loss on derivative transactions	(16,476)	(6,113)

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Loss on valuation of derivatives	(19,407)	(5,233)
Loss on disposal of property, plant and equipment	(1,005)	(2,148)
Impairment loss of property, plant and equipment	(569)	(4,356)
Loss on disposal of intangible assets	(75)	-
Loss on disposal of non-current assets	(5)	(4,683)
Bad debts expense for other receivables	-	(17,223)
Donations	(2,863)	(3,276)
Commissions	(5,000)	(4,161)
Sales promotion	(147)	(68)
Miscellaneous losses	(22,121)	(20,981)
<b>Operating income under K-IFRS</b>	<b>₩ 393,023</b>	<b>₩ 624,965</b>

**41. Event After the Reporting Period**

On January 27, 2012, the Board of Directors approved the change in guarantees provided to a subsidiary, Flossom Co. Ltd., amounting to ₩ 76,000 million (Note 19).

**42. Transition to Korean IFRS**

**42.1 First-time Adoption of Korean IFRS**

The Company's transition date to Korean IFRS is January 1, 2010, and adoption date is January 1, 2011.

In preparing financial statements in accordance with Korean IFRS 1101 (First-time Adoption of Korean International Financial Reporting Standards), the Company has applied the mandatory exceptions and certain optional exemptions allowed by Korean IFRS.

**42.2 Exemption Options under Korean IFRS 1101**

The Company elected to apply the following optional exemptions from full retrospective application.

*(1) Business combinations*

The Company elected to apply the exemption for business combinations allowed under Korean IFRS 1101 and has not retrospectively applied Korean IFRS 1103 to past business combinations that occurred before the transition date.

*(2) Deemed cost*

The Company used revaluation amount on the land as of January 1, 2010 (transition date) as deemed cost of transition date in accordance with the past accounting standards. The fair value, which was calculated based on revaluation amount according to the Assets Revaluation Law of October 1, 1998, for machinery, other than land, was recognized as deemed cost.

*(3) Investment in associate and subsidiaries*

The Company used the direct equity method in investments in subsidiaries and associates and applied the carrying amounts under previous K-GAAP at the time of first adoption of Korean IFRS as deemed cost of investments.

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(4) Capitalization of borrowing costs

The Company elected to capitalize borrowing costs for the construction of qualifying assets that are incurred after the transition date to Korean IFRS.

(5) Cumulative translation differences

The Company elected to deem the cumulative translation differences for all foreign operations to be zero at January 1, 2010.

**42.3 Reconciliation between Previous K-GAAP and Korean IFRS**

Effects of Korean IFRS adoption on the Company's total assets, liabilities and equity as of January 1, 2010, the date of Korean IFRS transition, are as follows:

<i>(In millions of Korean won)</i>	January 1, 2010					
	Total assets		Total liabilities		Total equity	
<b>Reported amount under previous K-GAAP</b>	₩	6,243,944	₩	3,506,609	₩	2,737,335
<b>Adjustments for:</b>						
Financial guarantee liabilities <sup>1</sup>		5,609		4,415		1,194
Provision for impairment <sup>2</sup>		3,156		-		3,156
Net carrying amount of the financial asset or financial liability <sup>3</sup>		-		(876)		876
Transfer of receivables <sup>4</sup>		822,944		819,890		3,054
Construction contracts <sup>5</sup>		(3,316)		(3,684)		368
Unused annual leave <sup>6</sup>		-		7,816		(7,816)
Retirement benefit obligations <sup>7</sup>		-		(9,855)		9,855
Deferred income tax of revaluation reserve <sup>11</sup>		-		79,012		(79,012)
Deferred income tax <sup>12</sup>		(21,976)		(19,171)		(2,805)
Deemed cost of and investment in subsidiaries and associate <sup>13</sup>		(3,715)		-		(3,715)
		802,702		877,547		(74,845)
<b>Adjusted amount under Korean IFRS</b>	₩	7,046,646	₩	4,384,156	₩	2,662,490

Effects of Korean IFRS adoption on the Company's total assets, liabilities, equity, profit and comprehensive income as of and for the year ended December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010				
	Total assets	Total liabilities	Total equity	Profit	Comprehensive income
<b>Reported amount under previous K-GAAP</b>	₩ 6,823,070	₩ 3,856,263	₩ 2,966,807	₩ 271,332	₩ 279,090
<b>Adjustments for:</b>					
Financial guarantee liabilities <sup>1</sup>	8,227	7,063	1,164	(30)	(30)
Provision for impairment <sup>2</sup>	303	-	303	(2,853)	(2,853)
Net carrying amount of the financial asset or financial liability <sup>3</sup>	-	(2,489)	2,489	1,613	1,613
Transfer of receivables <sup>4</sup>	896,302	894,111	2,191	(864)	(864)
Construction contracts <sup>5</sup>	676	1,192	(516)	(883)	(883)

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Unused annual leave <sup>6</sup>	(956)	13,266	(14,222)	(6,406)	(6,406)
Retirement benefit obligations <sup>7</sup>	(98)	1,826	(1,924)	8,319	(11,779)
Equity securities <sup>8</sup>	124,601	-	124,601	103,249	108,212
Impairment of investment in subsidiaries and associates <sup>9</sup>	(169,579)	-	(169,579)	(169,579)	(169,579)
Revaluation surplus <sup>10</sup>	-	-	-	(11,112)	-
Deferred income tax of revaluation reserve <sup>11</sup>	-	77,261	(77,261)	1,752	1,752
Deferred income tax <sup>12</sup>	(18,576)	(29,670)	11,094	14,390	13,938
Deemed cost of investment in subsidiaries and associate <sup>13</sup>	(3,715)	-	(3,715)	-	-
Others	1,615	-	1,615	1,614	1,614
	<u>838,799</u>	<u>962,559</u>	<u>(123,760)</u>	<u>(60,790)</u>	<u>(65,265)</u>
<b>Adjusted amount under Korean IFRS</b>	<b>₩ 7,661,869</b>	<b>₩ 4,818,822</b>	<b>₩ 2,843,047</b>	<b>₩ 210,542</b>	<b>₩ 213,825</b>

<sup>1</sup>Recognized as a liability by assessing fair value of financial guarantee contract

<sup>2</sup>Calculated provision for impairment based on historical experience rate for accrued incidents of individual and collective impairment losses

<sup>3</sup>Assessed present value of financial asset or liability.

<sup>4</sup>Recognized as a financial liability, instead of eliminating financial asset, if the Company continues to retain a majority of risk and rewards of financial asset even after transferring financial asset to financial institution.

<sup>5</sup>Presented as total amount of accounts receivable and advances received on unbilled construction and overbilled construction on the identical customers related to percentage-of completion of sales.

<sup>6</sup>Recognized expenses at the point of providing work, regardless of whether it is paid or not

<sup>7</sup>Accounted present value of estimated pension as defined benefit liability by applying calculus of contingency and discount rate according to accumulated method of forecasted unit.

<sup>8</sup>Used the direct equity method in investments in subsidiaries and associates and applied the carrying amounts under previous K-GAAP at the time of first adoption of Korean IFRS as deemed cost of investments.

<sup>9</sup>Recognized impairment loss on investment in associates

<sup>10</sup>Adjusted income from disposition due to application of deemed cost on property, plant and equipment, which was recognized in other comprehensive income at the point of revaluation based on prior accounting standards.

<sup>11</sup>Recognize a liability of deferred corporate tax which was excluded based on the past accounting standards.

<sup>12</sup>Reflected the effect of corporate tax differences and deferred corporate tax on the above adjustment.

<sup>13</sup>Adjusted deemed cost of investment on subsidiaries as the audit report of Chin Hung International Inc., a subsidiary of the Company, is reissued base on the past accounting standards of transition date.

*(2) Effects on the cash flows*

On adoption of Korean IFRS, cash flows from interest received, interest paid, dividends received, and income taxes paid, which had not been separated presented, are presented separately on the face of the statement of cash flows. In order to accommodate the change, cash flows related to relevant income/expenses, assets/liabilities have been adjusted.

Cash flows from operating and financing activities are adjusted due to certain transfers of trade receivables that were derecognized under the previous K-GAAP but are treated as collateralized borrowings under Korean IFRS. Also, other Korean IFRS transition effects are reflected on cash flows where they have an effect on cash flows.

**Report of Independent Accountants'  
Review of Internal Accounting Control System**

To the President of  
Hyosung Corporation

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Hyosung Corporation (the "Company") as of December 31, 2011. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2011, the Company's IACS has been designed and is operating effectively as of December 31, 2011, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a Company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A Company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean IFRS. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2011, and we did not review management's assessment of its IACS subsequent to December 31, 2011. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 8, 2012

## **Report on the Operations of the Internal Accounting Control System**

To the Board of Directors and Auditor of  
Hyosung Corporation

I, as the Internal Accounting Control Officer (“IACO”) of Hyosung Corporation (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2011.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2011, in all material respects, in accordance with the IACS standards.

January 27, 2012

Sang-Woon Lee, Chief Executive Officer

Yoon-Teck Jung, Internal Accounting Control Officer