

Hyosung Corporation and Subsidiaries
Consolidated Financial Statements
December 31, 2012 and 2011

Hyosung Corporation and Subsidiaries
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December 31, 2012 and 2011

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Report of Independent Auditors

To the Board of Directors and Shareholders of
Hyosung Corporation

We have audited the accompanying consolidated statements of financial position of Hyosung Corporation and its subsidiaries (the "Group") as of December 31, 2012 and 2011, and the related consolidated statement of income, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Hyosung Capital and certain other consolidated subsidiaries, whose financial statements represent 48% and 47% of the Group's consolidated total assets as of December 31, 2012 and 2011, respectively, and 33% and 41% of the Group's consolidated total sales for the respective years then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for Hyosung Capital and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

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

Samil PricewaterhouseCoopers

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In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of Hyosung Corporation and its subsidiaries as of December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

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

Seoul, Korea
March 14, 2013

This report is effective as of March 14, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Hyosung Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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1. General Information

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

As of December 31, 2012, the Group has plants in Ulsan, Anyang, Yongyeon, Icheon, Jincheon, Gumi, Daegu, Changwon, and Daejeon. In addition, the Group has subsidiaries and branches all over the world.

As of December 31, 2012, the Company's major shareholders are Cho Seok Rae (10.32%), Cho Hyun Joon (7.26%), Cho Hyun Moon (7.18%) and Cho Hyun Sang (7.90%).

The subsidiaries as of December 31, 2012, are as follows:

Subsidiaries	Percentage of Ownership	Location	Reporting month	Main business
Galaxia Photonics Co., Ltd.	83.32%	Korea	December	Manufacture and sale of wafer and LED chips
Gumoknongsan Co., Ltd.	90.00%	Korea	December	Growing of other crops
Gongdeokgyeongwoo development corporation	73.33%	Korea	December	Construction
The Class Hyosung	58.02%	Korea	December	Sale of new motor vehicles
Asia Lnghub Co., Ltd.	78.95%	Korea	December	Manufacture of gas and pipe supply
Asia Pacific No.21 Ship Investment Co., Ltd	97.14%	Korea	December	Rent other transportation supplies
Flossom Corporation	57.83%	Korea	December	Service of real estate
Taeansolarfarm Corp.	100.00%	Korea	December	Solar power generation
Hanadaol Landchip Private Real Estate Investment Trust No.39 ²	50.00%	Korea	December	Service of real estate
Hongjin Data Service Co., Ltd.	65.52%	Korea	December	Software development and supply
Hyosung Goodsprings, Inc.	100.00%	Korea	December	Manufacture of liquid pump
Hyosung Ebara Engineering Co., Ltd.	81.33%	Korea	December	Installation of environmental hygiene treatment Appliances
Hyosung Wind Power Holdings Ltd.	100.00%	Korea	December	Manufacture of wind generator
Hyosung Capital Co., Ltd.	97.15%	Korea	December	Finance factoring
Hyosung Investment & Development Corporation	58.75%	Korea	December	Development of real estate
Hyosung Trans World Co., Ltd.	100.00%	Korea	December	Logistics
Baoding Hyosung Tianwei Transformer Co., Ltd.	80.00%	China	December	Logistics
Beijing Hyosung Container Co., Ltd.	100.00%	China	December	Manufacture and sales of other plastic products
GST Global GmbH	100.00%	Germany	December	Germany holding company
Global Safety Textiles GmbH	100.00%	Germany	December	Manufacture and Sale of Air-bag cushion and Fabric
Global Safety Textiles LLC	100.00%	USA	December	Manufacture and sale of air-bag cushion and fabric
Global Safety Textiles U.S. Holdings, Inc.	100.00%	USA	December	U.S.A holding company
GST Automotive Safety Components International LLC	100.00%	USA	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety Components International LLC S.A.de C.V.	100.00%	Mexico	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety Czech s.r.o.	100.00%	Czech	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety Poland Sp.z.oo	100.00%	Poland	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety RO S.R.L.	100.00%	Rumania	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety South Africa (Proprietary) Limited	100.00%	South Africa	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety UK Limited	100.00%	UK	December	England holding company

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Subsidiaries	Percentage of Ownership	Location	Reporting month	Main business
GST Automotive Safety (Changshu) Co., Ltd.	100.00%	China	December	Manufacture and sale of air-bag cushion and fabric
GST China Investment Limited	100.00%	China	December	Hong Kong holding company
HICO America Sales & Tech.	100.00%	USA	December	General trading
Hyosung (H.K) LIMITED	100.00%	China	December	General trading
Hyosung Brasil industria e comercio de fibras LTDA	100.00%	Brazil	December	Manufacture of spandex
Hyosung Brasil industrial & commercial LTDA	100.00%	Brazil	December	Manufacture and sale of tire cords
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	100.00%	China	December	Manufacture of polyesters thread and T/C
Hyosung Chemicals (Jiaxing) Co., Ltd.	100.00%	China	December	Manufacture of chemical product
Hyosung Composites (Guangdong) Co., Ltd.	100.00%	China	December	Manufacture of carbon fibers
Hyosung Corporation India Private Limited	100.00%	India	December	General trading
Hyosung Europe SRL	100.00%	Italy	December	General trading
Hyosung (Taiwan) Corporation	100.00%	Taiwan	December	General trading
Hyosung Holdings USA	100.00%	USA	December	U.S.A holding company
Hyosung International Trade (Jiaxing) Co., Ltd.	100.00%	China	December	General trading
Hyosung International (HK) Ltd.	100.00%	China	December	General trading
Hyosung Istanbul TEKSTIL LTD.STI	76.66%	Turkey	December	Manufacture and sales of spandex
Hyosung Japan Co., Ltd.	100.00%	Japan	December	General trading
Hyosung Luxembourg S.A	100.00%	Luxembourg	December	Manufacture and sale of tire cords
Hyosung Power Holdings Co., Ltd.	100.00%	Cayman Islands	December	Manufacture of transformer
Hyosung Resource (Australia) PTY Ltd.	100.00%	Australia	December	Resources development
Hyosung Singapore PTE Ltd.	100.00%	Singapore	December	General Trading
Hyosung Spandex (GuangDong) Co., Ltd.	100.00%	China	December	Manufacture and sales of spandex
Hyosung Spandex (Jiaxing) Co., Ltd.	100.00%	China	December	Manufacture and sales of spandex
Hyosung Spandex (Zhuhai) Co., Ltd.	75.00%	China	December	Manufacture and sales of spandex
Hyosung SRL	100.00%	Rumania	December	Manufacture and sales of tire cords
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.	70.00%	China	December	Manufacture and sales of steel Cord
Hyosung Steel Cord (Qingdao) Co., Ltd.	100.00%	China	December	Manufacture and sales of steel Cord
Hyosung USA Inc.	100.00%	USA	December	Manufacture and sale of tire cords
Hyosung Vietnam Co., Ltd.	88.21%	Vietnam	December	Manufacture of tire cord, Manufacture and sales of spandex
Hyosung Wire Luxembourg S.A	100.00%	Luxembourg	December	Manufacture of chemical fiber
Nantong Hyosung Transformer Co., Ltd.	100.00%	China	December	Manufacture and sales of transformer
Nantong Transformer Co., Ltd.	100.00%	China	December	Manufacture and sales of transformer
Nantong Yaubong Transformer Co., Ltd.	100.00%	China	December	Manufacture and sales of transformer
Powertech Corporation	100.00%	USA	December	General trading
Xepix Corp.	74.93%	USA	December	LED research
Zhangjiagang Xiaosha Coil Service Co., Ltd.	64.50%	China	December	Steel manufactures processing industry

¹ Percentage of ownership is the effective percentage of ownership considering percentage of ownership of subsidiaries.

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

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

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Notes to Consolidated Financial Statements

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Summary of financial information of subsidiaries as of and for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)

	2012					
	Asset	Liability	Equity	Sales	Net income(loss)	Total comprehensive income(loss)
Galaxia Photonics Co., Ltd.	₩ 16,773	₩ 15,723	₩ 1,050	₩ 2,548	₩ (25,554)	₩ (25,149)
Gumoknongsan Co., Ltd.	2,310	-	2,310	-	(9)	(9)
Gongdeokgyeongwoo development corporation	19,945	15,743	4,202	-	(733)	(736)
The Class Hyosung	98,816	89,371	7,445	317,889	(6,617)	(7,003)
Asia Lnghub Co., Ltd	193	129	64	-	(1,202)	(1,202)
Flossom Corporation	103,636	113,179	(9,543)	1,722	(30,531)	(30,586)
Taeansolarfarm Corp.	7,976	6,195	1,781	1,378	81	224
Hanadaol Landchip Private Real Estate Investment Trust No.39	192,163	160,162	32,001	6,101	1,159	1,159
Hongjin Data Service Co., Ltd.	9,786	717	9,096	5,254	952	864
Hyosung Goodsprings, Inc.	180,839	128,681	52,157	324,075	6,839	6,389
Hyosung Ebara Engineering Co., Ltd	76,551	71,004	5,548	190,313	(14,675)	(15,899)
Hyosung Wind Power Holdings Ltd.	1,529	-	1,529	-	(4)	(4)
Hyosung Capital Co., Ltd. ¹	2,476,403	2,150,032	326,372	294,402	9,025	9,035
Hyosung Investment & Development Corporation	60,991	1,828	59,163	2,808	456	849
Hyosung Trans World co., Ltd.	31,597	24,223	7,373	201,316	2,125	2,186
Baoding Hyosung Tianwei Transformer Co., Ltd.	33,113	30,865	2,248	22,773	(1,409)	(1,576)
Beijing Hyosung Container Co., Ltd.	8,025	13	8,012	758	(2,707)	(3,256)
GST Global GmbH ²	356,366	221,561	134,804	322,986	(30,610)	(42,636)
HICO America Sales & Tech.	175,864	164,234	11,630	343,505	(17,709)	(18,954)
Hyosung (H.K) LIMITED	2,147	1,398	749	-	(5)	(60)
Hyosung (Taiwan) Corporation	428	15	413	2,651	(145)	(159)
Hyosung Brasil industria e comercio de fibras LTDA	119,002	114,745	4,257	91,132	(7,222)	(8,406)
Hyosung Brasil industrial & commercial LTDA	6,284	912	5,373	8,450	(96)	(1,065)
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	364,236	209,290	154,946	297,835	1,241	(8,601)
Hyosung Chemicals (Jiaxing) Co., Ltd.	152,776	121,828	30,948	223,712	13,775	12,135
Hyosung Composites (Guangdong) Co., Ltd.	9,182	6,578	2,604	-	-	(97)
Hyosung Corporation India Private Limited	488	39	448	401	10	(12)
Hyosung Europe SRL	18,774	14,059	4,715	35,799	188	(66)
Hyosung Holdings USA	54,957	34,947	20,010	22,917	14,935	13,322
Hyosung International (HK) Ltd.	4,733	2,953	1,780	46,647	5	(127)
Hyosung International Trade (Jiaxing) Co., Ltd.	45,686	44,325	1,361	295,403	6	(78)
Hyosung Istanbul TEKSTIL LTD.STI	161,581	131,311	30,270	164,780	16,541	15,696
Hyosung Japan Co., Ltd.	125,967	112,824	13,144	562,337	3,491	1,150
Hyosung Luxembourg S.A	87,999	67,892	20,107	188,255	918	(161)
Hyosung Power Holdings Co., Ltd.	70,691	7,366	63,324	-	(325)	(5,264)
Hyosung Resource (Australia) PTY Ltd.	13,934	44	13,890	-	(56)	(1,140)
Hyosung Singapore PTE Ltd.	37,604	37,784	(180)	191,772	388	384
Hyosung Spandex (GuangDong) Co., Ltd.	229,388	155,394	73,994	171,761	(10,732)	(15,541)
Hyosung Spandex (Jiaxing) Co., Ltd.	236,038	128,136	107,902	118,895	1,755	(5,551)
Hyosung Spandex (Zhuhai) Co., Ltd.	62,953	34,540	28,413	68,977	(5,046)	(6,904)
Hyosung SRL	-	-	-	-	-	-

Hyosung Corporation and Subsidiaries

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(in millions of Korean won)

	2012					
	Asset	Liability	Equity	Sales	Net income(loss)	Total comprehensive income(loss)
Hyosung Steel Cord (Qingdao) Co., Ltd.	₩ 228,047	₩ 169,732	₩ 58,315	₩ 132,675	₩ (11,672)	₩ (15,510)
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.	98,293	70,969	27,324	46,476	665	(1,012)
Hyosung USA Inc.	336,409	274,242	62,168	625,134	(8,093)	(13,015)
Hyosung Vietnam Co., Ltd.	984,506	847,293	137,213	731,296	32,974	23,112
Hyosung Wire Luxembourg S.A	45,354	53,943	(8,589)	63,787	(25,037)	(25,267)
Nantong Hyosung Transformer Co., Ltd.	253,037	240,446	12,591	166,099	2,263	1,559
Nantong Transformer Co., Ltd.	1,706	(3,759)	5,464	-	-	(338)
Nantong Yaubong Transformer Co., Ltd.	2,918	471	2,446	-	(3,431)	(3,650)
Powertech Corporation	62	-	62	450	(10)	(15)
Xepix Corp.	3,932	47	3,885	342	(38)	(337)
Zhangjiagang Xiaosha Coil Service Co., Ltd.	20,296	2,089	18,207	26,480	739	(372)

¹ Consolidated financial information of Hyosung Capital Co., Ltd, which has Asia Pacific No.21 Ship Investment Co., Ltd.

² Consolidated financial information of GST Global GmbH, which has 12 subsidiaries.

(in millions of Korean won)

	2011					
	Asset	Liability	Equity	Sales	Net income(loss)	Total comprehensive income(loss)
Gangnung Wind Power Ltd.	₩ 774	₩ -	₩ 774	₩ -	₩ (25)	₩ (25)
Galaxia Photonics Co., Ltd.	35,723	26,170	9,554	12,002	(18,412)	(18,488)
Gumoknongsan Co., Ltd.	2,319	-	2,319	-	(16)	(16)
The Class Hyosung	81,937	66,581	15,356	307,222	887	1,020
Asia LngHub Co., Ltd	393	13	380	-	(852)	(852)
Flossom Corporation	120,198	99,155	21,043	41,776	(10,204)	(10,133)
Taeansolarfarm Corp.	9,586	8,028	1,558	1,344	(53)	122
Hongjin Data Service Co., Ltd.	9,027	822	8,205	5,466	1,085	1,041
Hyosung Goodsprings, Inc.	164,060	118,291	45,769	181,668	(22,634)	(23,012)
Hyosung Ebara Engineering Co., Ltd.	104,272	82,807	21,465	225,135	844	973
Hyosung Wind Power Holdings Ltd.	1,583	-	1,583	-	24	24
Hyosung Capital Co., Ltd.	2,272,500	1,941,598	330,902	296,983	24,809	14,483
Hyosung Investment & Development Corporation	60,920	2,606	58,314	588	(851)	(1,329)
Hyosung Trans World co., Ltd.	40,553	31,645	8,908	211,473	3,698	3,569
Baoding Hyosung Tianwei Transformer Co., Ltd.	37,163	33,339	3,824	22,460	(3,689)	(3,502)
Beijing Hyosung Container Co., Ltd.	13,589	2,321	11,268	6,057	(804)	(183)
GST Global GmbH ¹	410,574	230,840	179,734	-	-	2,439
HICO America Sales & Tech.	225,286	194,696	30,590	245,430	(6,271)	(6,057)
Hyosung (H.K) LIMITED	2,310	1,501	809	-	(4)	7
Hyosung Brasil industria e comercio de fibras LTDA	135,966	123,303	12,663	10,180	(16,651)	(18,835)
Hyosung Brasil industrial & commercial LTDA	9,929	3,491	6,438	22,644	(68)	(856)
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	386,687	208,821	177,866	312,809	12,727	22,153
Hyosung Chemicals (Jiaxing) Co., Ltd.	130,013	111,199	18,814	163,467	(1,351)	(327)
Hyosung Europe SRL	18,920	14,139	4,781	37,588	2	(63)
Hyosung Global Taiwan Co., Ltd.	572	-	572	-	-	13

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(in millions of Korean won)

2011

	Asset	Liability	Equity	Sales	Net income(loss)	Total comprehensive income(loss)
Hyosung Holdings USA	₩ 59,953	₩ 38,803	₩ 21,150	₩ 22,066	₩ (179)	₩ 80
Hyosung International Trade (Jiaxing) Co., Ltd.	48,367	46,928	1,439	217,081	(21)	58
Hyosung International (HK) Ltd.	8,746	6,840	1,906	66,744	161	192
Hyosung Istanbul TEKSTIL LTD.STI	152,253	137,824	14,429	129,308	(6,581)	(10,391)
Hyosung Japan Co., Ltd.	125,074	113,080	11,994	498,200	1,172	1,889
Hyosung Luxembourg S.A	113,297	93,029	20,268	231,016	480	207
Hyosung Power Holdings Co., Ltd.	53,094	7,644	45,450	-	(279)	302
Hyosung Resource (Australia) PTY Ltd.	15,856	10,789	5,067	-	(7)	272
Hyosung Singapore PTE Ltd.	22,635	23,198	(563)	138,553	(444)	(447)
Hyosung Spandex (GuangDong) Co., Ltd.	239,390	149,874	89,516	130,524	(33,673)	(29,547)
Hyosung Spandex (Jiaxing) Co., Ltd.	247,023	123,225	123,798	104,938	2,119	9,169
Hyosung Spandex (Zhuhai) Co., Ltd.	71,757	36,440	35,317	59,367	658	2,587
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.	107,261	78,925	28,336	42,273	(3,129)	(1,591)
Hyosung Steel Cord (Qingdao) Co., Ltd.	263,242	189,417	73,825	126,963	(2,228)	1,916
Hyosung USA Inc.	365,895	291,312	74,583	578,435	3,565	4,600
Hyosung Vietnam Co., Ltd.	763,638	649,536	114,102	587,300	16,733	21,094
Hyosung Wire Luxembourg S.A	51,681	35,003	16,678	38,224	(1,051)	(1,700)
Nantong Hyosung Transformer Co., Ltd.	299,065	311,053	(11,988)	129,329	(32,449)	(33,305)
Nantong Transformer Co., Ltd.	1,811	(3,991)	5,802	-	-	318
Nantong Yaubong Transformer Co., Ltd.	7,736	1,640	6,097	-	-	333
Powertech Corporation	77	-	77	582	141	146
Xepix Corp.	4,264	42	4,222	3,324	(410)	(369)
Zhangjiagang Xiaosha Coil Service Co., Ltd.	21,679	3,100	18,579	30,511	610	1,633

¹ Consolidated financial information of GST Global GmbH, which had 17 subsidiaries.

New subsidiaries included in the consolidation for the year ended December 31, 2012, are as follows:

Subsidiary	Description
Gongdeokgyeongwoo development corporation	Newly acquired
Asia Pacific No.21 Ship Investment Co., Ltd.	"
Hanadaol Landchip Private Real Estate Investment Trust No.39	"
Hyosung Corporation India Private Limited	"
Hyosung Composites (Guangdong) Co., Ltd.	"
Hyosung SRL	"

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Subsidiaries excluded from the consolidation for the year ended December 31, 2012, are as follows:

Subsidiary	Description
Gangnung Winder Power Ltd.	Merge into Hyosung Wind Power Holdings Ltd.
Global Safety Textiles Acquisition GmbH	Merge into GST Global GmbH
Global Safety Textiles HoldCo Two GmbH	Merge into GST Global GmbH
Global Safety Textiles HoldCo Three GmbH	Merge into GST Global GmbH
Global Safety Textiles U.S. Holdings One, Inc.	Merge into GST Global GmbHGlobal Safety Textiles U.S. Holdings, Inc.
GST Widefabric International GmbH	Merge into GST Global GmbH

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

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

2.1.1 Change of Accounting Principles and Notification

(a) New and amended standards adopted by the Group

The Group changed its accounting policy to present the operating income after deducting cost of sales, and selling and administrative expenses from revenue, in accordance with the amendment of Korean IFRS 1001, Presentation of Financial Statements.

The Group applies the accounting policy retroactively in accordance with the amended standards and the comparative consolidated statement of the comprehensive income is restated by reflecting adjustments resulting from the retrospective application.

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Results of the changes in the accounting policy for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012	
	Before	Effect ¹
Operating profit	₩ 291,174	₩ (101,867)
Profit for the year	107,376	-
Earnings per share	3,679	-

(In millions of Korean won)

	2011	
	Before	Effect ¹
Operating profit	₩ 288,838	₩ (11,266)
Profit for the year	(93,795)	-
Earnings per share	(1,407)	-

¹ Details classified as operating income under the previous standard and excluded from operating income under the new standard, are as follows:

(In millions of Korean won)

	December 31, 2012	December 31, 2011
Other income:		
Rent revenue	₩ 1,338	₩ 1,248
Gains on disposal of property, plant and equipment	3,297	3,392
Gains on disposal of intangible assets	21,279	14
Reversal of loss on impairment of intangible assets	-	19
Gains on disposal of investment real estate	62	113
Miscellaneous revenue	97,932	68,040
Gain on derivatives transactions	57,402	35,015
Gain on valuation of derivatives	65,974	5,981
Reversal of other bad debt expenses	444	1,431
Revenue from government grant	3,661	2,681
Dividend income	1,670	1,786
	<u>₩ 253,059</u>	<u>₩ 119,720</u>
Other expenses:		
Loss on valuation of inventories	₩ -	₩ 708
Loss on disposal of property, plant and equipment	9,313	2,446
Loss on impairment of property, plant and equipment	7,266	28,724
Loss on disposal of intangible assets	-	88
Loss on impairment of intangible assets	25,557	388
Loss on disposal of investment property	-	5
Loss on impairment of other assets	134	438
Miscellaneous losses	69,452	24,497
Loss on derivatives transactions	5,438	19,055
Loss on valuation of derivatives	418	20,215
Loss on disposal of inventories	721	233
Donations	2,982	3,205

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Other bad debts expense	5,700	-
Negotiation commission expenses	8,139	5,989
Loss on disposal of receivables	3,777	2,315
Commission for sales activities	298	148
Contribution to provision for guarantees	11,997	-
	<u>₩ 151,192</u>	<u>₩ 108,454</u>
Other income/expenses, net	101,867	11,266

(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Group are as follows:

- Amendment of Korean IFRS 1001, *Presentation of Financial Statements*

Korean-IFRS 1001, *Presentation of Financial Statements*, requires other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- 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 annual periods beginning on or after of January 1, 2013.

- 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 IFRS1113 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 annual periods beginning on or after January 1, 2013.

- Enactment of Korean IFRS 1111, *Joint Arrangements*

Korean IFRS 1111, *Joint Arrangements*, aims to reflect the substance of joint arrangements by focusing on the contractual rights and obligations that each party to the arrangement has rather than its legal form. Joint arrangements are classified as either joint operations or joint ventures. A joint operation is when joint operators have rights to the assets and obligations for the liabilities, and account for the assets, liabilities, revenues and expenses, while parties to the joint venture have rights to the net assets of the arrangement and account for their interest in the joint venture using the equity method. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

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

Korean IFRS 1112, *Disclosures of Interests in Other Entities*, provides the disclosure requirements for all forms of interests in other entities, including a subsidiary, a joint arrangement, an associate, a consolidated structured entity and an unconsolidated structured entity. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

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

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS1027, Consolidated and Separate Financial Statements.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean IFRS1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between the Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income (except for revaluation surplus) are reclassified to profit or loss (revaluation surplus is reclassified to retained earnings).

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the income statement.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in profit or loss.

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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 of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the controlling 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 that relate to borrowings and cash and cash equivalents are presented in the income statement within 'financial income or costs'.

(c) Translation to presentation currency

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the translation of borrowings designated for hedging the investment and other currency instruments are recognized in other comprehensive income. When foreign operations are wholly or partially sold, exchange differences recognized in equity are transferred to profit or loss in the statement of income. When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

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.

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2.6 Financial Assets

2.6.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired and the nature of the assets. 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 Group's loans and receivables comprise 'cash and cash equivalents', 'trade and other receivables', 'long-term trade and other receivables' and 'unbilled construction' in the statement of financial position.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group intends and is able to hold to maturity and are classified as 'other financial assets' and 'long-term other financial assets' in the statements of financial position. If the Group were to sell other than an insignificant amounts of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

(d) 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 statement of income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

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 'Financial income (expenses)' in the period in which they arise, including interest income. Dividend income from financial assets at

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fair value through profit or loss is recognized in the income statement as part of 'other income' when the Group's right to receive dividend payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income. 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 'Financial income (expenses)'

Interest on available-for-sale and held-to-maturity securities calculated using the effective interest method is recognized in the statement of income as part of 'other income'. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of 'other income' when the Group'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 from the investments have expired or have been transferred, and the Group has substantially transferred all risks and rewards of ownership or when the risk and rewards of ownership of transferred assets have not been substantially retained or transferred and the Group has not fed control over these assets.

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 Group's statement of financial position.

2.7 Impairment of Financial Assets

(a) Assets carried at amortized cost

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

The criteria that the Group 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 more than three months;
- 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;
- 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;

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- (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 Group 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 statement of income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group 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 statement of income. Impairment losses recognized in the consolidated 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 statement of income.

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 expenses'.

The Group 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);

The Group 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 Group 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 11. 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.

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2.9 Trade Receivables

Trade receivables are amounts due from customers for merchandises 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 allowance for doubtful accounts.

2.10 Inventories

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

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 Group 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 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	20 - 60 years
Structures	5 - 40 years
Machinery	3 - 25 years
Vehicles	3 - 10 years
Tools and equipment	3 - 15 years
Others	2 - 10 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 expenses' in the statement of income.

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

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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 Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the statement of income 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 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, 2012.

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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 included 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 Group 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 of 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 expenses' in the statements of income.

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-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

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives including bifurcated derivatives from financial instruments containing embedded derivatives are also categorized as held-for-trading unless they are designated as hedges.

(b) Financial liabilities carried at amortized cost

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial assets that arise when a transfer of a financial asset does not qualify for derecognition, as financial liabilities carried at amortized cost and as 'trade and other payables', 'borrowings', and 'other financial liabilities' in the statement of financial position. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities within 12 months after the end of the reporting period, which are classified as current liabilities.

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

- 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. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the borrowings for at least 12 months after the end of the reporting period.

2.21 Provisions

Provisions are recognized when: The Group 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 statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

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 Group operates and generates 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.

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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 consolidated 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 or 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 is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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) Retirement benefit obligations

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group 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 Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when 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.

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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, after elimination of intra-company transactions.

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

(a) 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 purchaser, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group 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 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 Group 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.

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

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 Group 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.

2.27 Earnings per Share

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

2.28 Dividend Distribution

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

2.29 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2012 consolidated financial statements of the Group was approved by the Board of Directors on February 26, 2013.

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3. Critical Accounting Estimates and Judgments

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

(a) Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recorded, based on its best estimate, current taxes and deferred taxes that The Group 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 Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(c) Provisions

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

(d) Defined benefit liability

The present value of 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 Group 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 Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in 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 Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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(a) Market risk

i) Foreign exchange risk

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

The Group's financial instruments denominated in major foreign currencies as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>		2012		2011
Assets denominated in foreign currencies				
USD	₩	402,899	₩	458,575
EUR		107,999		131,372
CNY		525,040		550,787
Others		165,545		88,662
Liabilities denominated in foreign currencies				
USD		1,229,126		1,051,089
EUR		90,592		118,513
CNY		1,053,826		1,118,038
Others		330,997		340,778

As of December 31, 2012 and 2011, if the foreign exchange rate of the Korean won fluctuated by 10%, the effects on net income (loss) would be as follows:

		2012		2011	
		10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩	(82,623)	₩ 82,623	₩ (59,251)	₩ 59,251
EUR		1,741	(1,741)	1,286	(1,286)
CNY		(52,879)	52,879	(56,725)	56,725

ii) Price risk

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

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

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

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	<i>(in millions of Korean won)</i>	Impact on post-tax profit		Impact on other components of equity	
		2012	2011	2012	2011
KOSPI	₩	- ₩	- ₩	34,070 ₩	21,785
KOSDAQ		-	-	1,112	1,472
Unlisted		-	-	-	2,379

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

The book values of borrowings exposed to cash flow interest rate risk as of December 31, 2012 and 2011, are as follows:

<i>(In millions of Korean won)</i>	2012	2011
Borrowings	₩ 5,843,138 ₩	4,765,853

At December 31, 2012, if interest rates on borrowings at that date had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been ₩ 58,431 million (2011: ₩ 47,659 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit Risk

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

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets and liabilities excluding equity investments.

(c) Liquidity Risk

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

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The analyses of the Group's liquidity risk for the financial liabilities as of December 31, 2012, and 2011, are as follows:

<i>(in millions of Korean won)</i>	Up to 1 year		Between 1 and 5 years		Over 5 years	Total
2012						
Trade and other payables	₩	1,452,521	₩	387,125	₩ -	₩ 1,839,646
Borrowings		4,591,578		3,393,381	387,623	8,372,582
Derivative liabilities ¹		654,931		322,830	-	977,761
Financial guarantee payment ²		404,714		145,200	-	549,914
PF guarantee payment ²		183,000		223,800	-	406,800
	₩	7,286,744	₩	4,472,336	₩ 387,623	₩ 12,146,703
2011						
Trade and other payables	₩	1,864,594	₩	350,123	₩ -	₩ 2,214,717
Borrowings		4,235,701		3,510,303	155,800	7,901,804
Derivative liabilities ¹		912,857		294,718	-	1,207,575
Financial guarantee payment ²		70,244		181,558	-	251,802
PF guarantee payment ²		148,000		120,000	-	268,000
	₩	7,231,396	₩	4,456,702	₩ 155,800	₩ 11,843,898

¹ 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.

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

4.2 Capital Management

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

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

The debt-to-equity ratio, net borrowing ratio and gearing ratios as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Debts (A)	₩ 10,749,598	₩ 10,662,828
Equity (B)	3,014,062	2,960,361
Total borrowings (C)	8,028,658	7,561,903
Cash and cash equivalent (D)	434,293	526,593
Debt-to-equity ratio (A/B)	356.65%	360.19%
Net borrowing ratio ((C-D)/B)	251.96%	237.65%
Gearing ratio ((C-D)/(B+C-D))	71.59%	70.38%

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4.3 Fair Value Estimation

The table below analyzes 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 Group's financial assets and financial liabilities that are measured at fair value as of December 31, 2012 and 2011:

		2012			
(In millions of Korean won)		Level 1	Level 2	Level 3	Total
Assets					
Available-for-sale financial assets	₩	150,351	₩ 7,586	₩ 64,837	₩ 222,774
Derivative assets		-	67,336	-	67,336
	₩	150,351	₩ 74,922	₩ 64,837	₩ 290,110
Liabilities					
Derivative liabilities	₩	-	₩ 5,293	₩ -	₩ 5,293
	₩	-	₩ 5,293	₩ -	₩ 5,293

		2011			
(in millions of Korean won)		Level 1	Level 2	Level 3	Total
Assets					
Financial assets at fair value through profit or loss	₩	-	₩ 13,542	₩ -	₩ 13,542
Available-for-sale financial assets		18,351	19,223	39,313	76,887
Derivative assets		-	9,223	-	9,223
	₩	18,351	₩ 41,988	₩ 39,313	₩ 99,652
Liabilities					
Derivative liabilities	₩	-	₩ 22,372	₩ -	₩ 22,372
	₩	-	₩ 22,372	₩ -	₩ 22,372

The following table presents available-for-sale financial assets that are valued at historical cost as of December 31, 2012 and 2011:

(in millions of Korean won)		Category	2012	2011
Available-for-sale financial assets (unlisted)	Maeil Business TV News ¹	₩	-	₩ 2,000
	Channel A Corporation ¹		-	2,000
	Korea Housing Guarantee Co., Ltd.		1,717	1,717
	TransLink Capital Partners 1, L.P.		1,916	1,690
	The Korea Economic Daily		1,354	1,354
	Others		1,483	1,532

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Available-for-sale financial assets (Investment in Capital)	Machinery financial Cooperative	4,300	4,300
	No.1 E-revolution Private Equity Fund ¹	-	2,000
	No.1 Conexs new development power Private Equity Fund ¹	-	2,000
	Construction Guarantee Cooperative	1,217	1,217
	Stonebridge New Growth Fund	1,579	-
	Miracle 2012 Private Equity Fund	2,000	-
	Others	2,086	3,056

¹ Excluded as the fair value is reliably measurable in current and prior period.

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 Group does not have any plans to dispose of the above-mentioned equities and derivative instruments in the near future. These instruments will be measured at fair value when the Group can develop a reliable estimate of the fair value.

5. Segment information

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

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

The following table presents segment information for the years ended December 31, 2012 and 2011:

(in millions of Korean won)	2012								Total
	Fabric	Industrial Materials	Chemical	Heavy industrial	Construction	Trading	Others	Adjustment	
Total revenue	₩2,481,717	₩ 3,547,103	₩ 1,847,543	₩ 2,989,992	₩ 772,156	₩ 3,630,419	₩ 338,242	₩ -	₩15,607,172
Inter-segment revenue	(476,953)	(1,135,649)	(302,628)	(375,064)	(95,670)	(606,077)	(3,381)	-	(2,995,422)
	2,004,764	2,411,454	1,544,915	2,614,928	676,486	3,024,342	334,861	-	12,611,750
Operating income	120,161	108,120	83,186	(171,985)	27,891	20,989	(2,288)	3,233	189,307
Depreciation and amortization	147,961	215,594	78,231	44,015	1,675	5,741	112,500	(205)	605,512
Assets									
Current assets	660,069	1,420,483	313,944	1,434,330	444,343	489,819	309,607	(562,121)	4,510,474
Non-current assets	1,122,207	1,765,452	992,232	1,221,983	433,352	73,769	5,233,489	(1,589,298)	9,253,186
Investments in associates	96,009	11,187	-	6,079	2,252	-	150,904	-	266,431
Acquisition of non-current	165,090	437,956	232,981	175,650	225,741	17,699	251,741	(125,416)	1,381,442

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(in millions of Korean won)	2011				
	Domestic	North and Central America	Asia	Europe	Total
Revenue					
External revenue	₩ 10,566,962	₩ 882,660	₩ 2,636,574	₩ 436,136	₩ 14,522,334
Inter-segment revenue	(1,220,408)	(294,953)	(1,642,880)	(21,952)	(3,180,193)
	₩ 9,346,556	₩ 587,707	₩ 993,694	₩ 414,184	₩ 11,342,141
Non-current assets ¹	₩ 3,723,198	₩ 166,479	₩ 1,524,068	₩ 353,759	₩ 5,767,504

¹ Includes all property, plant and equipment, intangible assets, and investment properties.

6. Transfers of Financial Assets

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

(In millions of Korean won)	2012	2011
Book value of assets	₩ 877,233	₩ 1,002,020
Book value of related liabilities	(877,233)	(1,002,020)
Net position	-	-

7. Financial Instruments by Category

Categorizations of financial assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012				
	Loans and receivables	Available-for-sale financial assets	Held to maturity financial assets	Derivative assets	Total
Cash and cash equivalents	₩ 434,293	₩ -	₩ -	₩ -	₩ 434,293
Trade and other receivables	2,167,867	-	-	-	2,167,867
Unbilled construction	51,607	-	-	-	51,607
Other financial assets	68,912	245	438	66,702	136,297
Long-term trade and other receivables	273,877	-	-	-	273,877
Other financial business assets	2,025,826	-	-	-	2,025,826
Long-term other financial assets	90	240,211	1,374	634	242,309
	₩ 5,022,472	₩ 240,456	₩ 1,812	₩ 67,336	₩ 5,332,076

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(in millions of Korean won)	2011						Total
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held to maturity financial assets	Derivative assets		
Cash and cash equivalents	₩ -	₩ 526,593	₩ -	₩ -	₩ -	₩ -	₩ 526,593
Trade and other receivables	-	2,408,053	-	-	-	-	2,408,053
Unbilled construction	-	102,790	-	-	-	-	102,790
Other financial assets	-	14,293	806	877	8,755	-	24,731
Long-term trade and other receivables	-	210,527	-	-	-	-	210,527
Other financial business assets	-	1,877,899	-	-	-	-	1,877,899
Long-term other financial assets	13,542	2,111	98,976	1,576	468	-	116,673
	₩ 13,542	₩ 5,142,266	₩ 99,782	₩ 2,453	₩ 9,223	₩ -	₩ 5,267,266

Categorizations of financial liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012			
	Financial liabilities at amortized cost	Financial guarantee liability	Derivative liabilities	Total
Trade and other payables	₩ 1,451,834	₩ 640	₩ -	₩ 1,452,474
Borrowings	4,700,640	-	-	4,700,640
Other financial liabilities	-	-	4,554	4,554
Long-term trade and other payables	382,131	-	-	382,131
Long-term borrowings	3,328,018	-	-	3,328,018
Long-term other financial liabilities	-	-	739	739
	₩ 9,862,623	₩ 640	₩ 5,293	₩ 9,868,556

(in millions of Korean won)	2011			
	Financial liabilities at amortized cost	Financial guarantee liability	Derivative liabilities	Total
Trade and other payables	₩ 1,862,850	₩ 1,722	₩ -	₩ 1,864,572
Borrowings	4,056,796	-	-	4,056,796
Other financial liabilities	-	-	21,486	21,486
Long-term trade and other payables	345,360	-	-	345,360
Long-term borrowings	3,505,107	-	-	3,505,107
Long-term other financial liabilities	-	-	886	886
	₩ 9,770,113	₩ 1,722	₩ 22,372	₩ 9,794,207

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Income and loss of financial instruments by category for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Financial assets at fair value through profit or loss		
Gain (Loss) on valuation (Other comprehensive income(loss))	₩ -	₩ (183)
Gain (Loss) on valuation (Profit or loss)	-	(7,247)
Interest income	185	865
Loans and receivables		
Gain (Loss) on disposal (Profit or loss)	(3,777)	(2,315)
Interest income	9,632	16,840
Gain on foreign currency translation	43,862	20,231
Loss on foreign currency translation	(41,627)	(39,362)
Bad debts expense	(13,865)	(249)
Reversal of allowance for bad debt	655	3,295
Available-for-sale financial assets		
Gain (Loss) on valuation (Other comprehensive income(loss))	29,208	(9,138)
Gain (Loss) on disposal (Profit or loss)	13,368	22,483
Impairment loss (net income)	(49)	(138,885)
Interest income	30	1,387
Dividends	1,670	1,786
Held-to-maturity financial assets		
Interest income	57	67
Financial liabilities at amortized cost		
Interest expenses	(246,607)	(210,174)
Gain on foreign currency translation	80,037	58,170
Loss on foreign currency translation	(34,830)	(105,701)
Derivative assets and liabilities		
Gain (Loss) on valuation (Other comprehensive income(loss))	143	175
Gain (Loss) on valuation (Profit or loss)	65,556	(14,234)
Gain (Loss) on transactions (Profit or loss)	51,964	15,960

8. Cash and Cash Equivalents

Cash and cash equivalents in the statements of financial position as of December 31, 2012 and 2011, are the same as the cash and cash equivalents in the statements of cash flows:

<i>(in millions of Korean won)</i>	2012	2011
Cash on hand	₩ 37,173	₩ 71,584
Bank deposits	397,120	455,009
	<u>₩ 434,293</u>	<u>₩ 526,593</u>

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9. Restricted Financial Instruments

Restricted financial instruments as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	Description	2012	2011
Cash and cash equivalents	Pledge for borrowings	₩ 1,632	₩ 5,870
	Others	330	297
Long-term other financial assets	Deposits for checking account	3,658	93
	Pledge for borrowings	-	1,681
		₩ 5,620	₩ 7,941

10. Trade and other receivables

Details of trade and other receivables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		
	Receivable amounts	Allowance for doubtful accounts	Net book value
Trade receivables	₩ 1,991,787	₩ (43,514)	₩ 1,948,273
Other receivables	229,574	(9,980)	219,594
Long-term trade receivables	5,542	(6)	5,536
Long-term other receivables	280,494	(12,153)	268,341
	₩ 2,507,397	₩ (65,653)	₩ 2,441,744

<i>(in millions of Korean won)</i>	2011		
	Receivable amounts	Allowance for doubtful accounts	Net book value
Trade receivables	₩ 2,148,937	₩ (20,707)	₩ 2,128,230
Other receivables	306,550	(26,727)	279,823
Long-term trade receivables	6,291	-	6,291
Long-term other receivables	211,468	(7,232)	204,236
	₩ 2,673,246	₩ (54,666)	₩ 2,618,580

Details of other receivables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Other receivables		
Non-trade receivables	₩ 154,414	₩ 132,009
Short-term loans ¹	29,256	114,510
Accrued income	31,293	30,006
Deposits	4,631	3,298
	219,594	279,823

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Long-term other receivables

Long-term loans	16,308		12,976
Deposits	252,033		191,260
	268,341		204,236
₩	487,935	₩	484,059

¹Short-term loan for Chin Hung International Inc. amounting to ₩90,000 million was converted into available-for-sale financial assets according to paid-in capital increase by Chin Hung International Inc. during the year ended December 31, 2012 (Note 11).

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.

	2012	2011
Discount rate	3.4% ~ 5.0%	3.4% ~ 5.0%

Meanwhile, the fair value of trade and other receivables as of December 31, 2012 and 2011, are the same as book value.

The aging analyses of trade and other receivables as of December 31, 2012 and 2011, are as follows:

(in millions of
Korean won)

in millions of Korean won)

		2012					
		Past due but not impaired					
	Receivables not past due	Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months	Impaired	Total
Trade receivables	₩ 1,569,777	₩ 222,570	₩ 51,110	₩ 29,270	₩ 77,659	₩ 41,401	₩ 1,991,787
Other receivables	214,591	8,475	502	902	4,263	841	229,574
Long-term trade receivables	3,131	-	-	-	2,405	6	5,542
Long-term other receivables	237,687	30,443	-	-	211	12,153	280,494
	₩ 2,025,186	₩ 261,488	₩ 51,612	₩ 30,172	₩ 84,538	₩ 54,401	₩ 2,507,397

(in millions of
Korean won)

		2011					
		Receivables not past due	Past due but not impaired				Impaired
		Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 1,810,914	₩154,750	₩ 78,723	₩ 37,320	₩ 63,418	₩ 3,812	₩2,148,937
Other receivables	280,498	5,349	1,112	558	3,367	15,666	306,550
Long-term trade receivables	3,298	-	-	13	2,974	6	6,291
Long-term other receivables	203,913	8	-	-	293	7,254	211,468
	₩ 2,298,623	₩ 160,107	₩ 79,835	₩ 37,891	₩ 70,052	₩ 26,738	₩2,673,246

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

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

Changes in provision for impairment of trade and other receivables for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012					
	Beginning	Provision for impairment	Reversal	Changes in scope of consolidation	Others	Ending
Trade and other receivables	₩ 54,666	₩ 13,865	₩ (655)	₩ -	₩ (2,222)	₩ 65,654

(in millions of Korean won)	2011					
	Beginning	Provision for impairment	Reversal	Changes in scope of consolidation	Others	Ending
Trade and other receivables	₩ 351,986	₩ 249	₩ (4,283)	₩ (302,824)	₩ 9,538	₩ 54,666

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

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

11. Other financial assets and liabilities

Other financial assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Financial assets at fair value through profit or loss	₩ -	₩ 13,542
Loans and receivables	69,002	16,404
Available-for-sale financial assets	240,456	99,782
Derivative assets	67,336	9,223
Held-to-maturity financial assets	1,812	2,453
	378,606	141,404
Less: Current portion	(136,297)	(24,731)
	₩ 242,309	₩ 116,673

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Other financial liabilities as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Derivative liabilities	₩ 5,293	₩ 22,372
	5,293	22,372
Less: Current portion	(4,554)	(21,486)
	₩ 739	₩ 886

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

<i>(in millions of Korean won)</i>	2011
Convertible bond investment ¹	₩ 13,542
	₩ 13,542

¹ 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. Convertible bond investment was converted into available-for-sale financial assets due to the paid-in capital increase by Chin Hung International Inc. during the year ended December 31, 2012.

Loans and receivables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Short-term financial instruments	₩ 68,912	₩ 14,293
Long-term financial instruments	90	2,111
	₩ 69,002	₩ 16,404

Changes in available-for-sale financial assets for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Beginning balance	₩ 99,782	₩ 217,875
Acquisition	48,721	38,138
Reclassification ¹	103,542	138,885
Disposals	(32,362)	(95,369)
Gain (Loss) on valuation of available-for-sale financial assets ²	26,267	(29,539)
Impairment loss of available-for-sale financial assets ¹	(49)	(138,885)
Changes in scope of consolidation	-	(34,487)
Others	(5,446)	3,164
Ending balance	₩ 240,455	₩ 99,782
Short-term available-for-sale financial assets	₩ 245	₩ 806
Long-term available-for-sale financial assets	240,210	98,976

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¹ The Group cannot exercise control due to the special agreement to fulfill plan for normalization of management of Chin Hung International Inc. during the year ended December 31, 2011. The investment in subsidiary, amounting to ₩ 84,099 million, was reclassified 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 Group owned on December 31, 2011 (Note 18).

² Loans and convertible bond investment were converted into available-for-sale financial assets, which were measured at the fair value according to the paid-in capital increase by Chin Hung International Inc. during the year ended December 31, 2012.

Short-term available-for-sale financial assets as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Government bond	₩ 245	₩ 806

Long-term available-for-sale financial assets as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012			2011
	Acquisition cost	Fair value / Net asset value ¹	Book value ²	Book value
Listed stock (except for investment in associates)	₩ 108,489	₩ 150,351	₩ 150,351	₩ 31,892
Unlisted stock ¹ (except for investment in associates)	13,470	17,106	16,993	21,731
Equity investments	76,980	71,908	71,908	45,015
Debt securities	958	958	958	338
	₩ 199,897	₩ 240,323	₩ 240,210	₩ 98,976

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

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

Details of listed stock ,excluding investments in associates, as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012				2011
Investee	Number of share	Percentage of ownership (%)	Acquisition cost	Fair value	Book value
KT CORP.	-	-	₩ -	₩ -	₩ 20,495
SBI Global Investment Co., Ltd.	202,839	0.44%	815	81	81
KTB Investment Securities Co., Ltd.	2,634	-	13	6	6
Savezone I&C Corp.	4,555	0.01%	30	12	12
Ultra Construction & Engineering Co., Ltd. (preferred share)	911	0.07%	5	2	2
Korea Environment Technology Co., Ltd.	814,280	1.63%	407	1,730	1,730
Hanshin Construction Co., Ltd.	712	0.01%	1	5	5
CJ E&M Corporation (formerly OnMedia Corp.)	19,055	0.05%	280	505	505
Kumho Tires Co., Inc	-	-	-	-	-
Chin Hung International Inc. ¹	221,578,080	49.21%	103,542	143,583	143,583

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Dong Yang Engineering and Construction Corporation	1,372	0.01%	14	4	4	-
FineTec Co., Ltd.	80,580	0.30%	1,145	604	604	1,134
Hwashin Precision Co., Ltd.	200,000	0.57%	-	266	266	314
Kiwoom No 1. SPAC	150,000	1.42%	300	300	300	275
HI Special Purpose Acquisition Company	15,920	0.22%	65	63	63	-
KB Global Star Game & Apps Special Purpose Acquisition Company	100,000	1.18%	250	230	230	-
LS Networks Co., Ltd.	45,666	0.12%	228	212	212	200
NICE Holdings Co., Ltd.	27,961	0.81%	614	1,778	1,778	-
NICE Information Service Co., Ltd.	177,500	0.58%	780	970	970	-
Others	-	-	-	-	-	2,541
			<u>₩ 108,489</u>	<u>₩ 150,351</u>	<u>₩ 150,351</u>	<u>₩ 31,892</u>

¹ 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. Loans and convertible bond investment were converted to available-for-sale financial assets due to the paid-in capital increase by Chin Hung International Inc. during the year ended December 31, 2012. 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 recognized as available-for-sale financial assets (Note 40).

Details of unlisted stock, excluding investments in associates, as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

Investee	Number of share	Percentage of ownership (%)	2012		Fair value / Net asset value		2011	
			Acquisition cost		Book value		Book value	
Doosan Capital Co., Ltd.	600,000	2.14%	₩ 3,000	₩	6,860	₩	6,860	₩ 6,860
TransLink Capital Partners 1, L.P.	-	-	1,916		1,744		1,916	1,690
Korea Housing Guarantee Co., Ltd.	343,380	0.05%	1,717		2,408		1,717	1,717
Hankook Economic Newspaper	124,308	0.66%	1,354		948		1,354	1,354
Maeil Business TV News (mbn)	266,667	0.48%	2,000		1,757		1,757	2,000
Channel A Co., LTD.	-	0.49%	2,000		1,906		1,906	2,000
Korea Money Brokerage Corporation	4,000	0.20%	20		20		20	-
Daewoo Electronics Corp.	30,500	0.03%	19		19		19	-
PPI CO, LTD.,	1,220	0.17%	6		6		6	-
Woori Housing Operation Management Co., LTD.	-	-	-		-		-	40
Others	-	-	1,438		1,438		1,438	6,070
			<u>₩ 13,470</u>	<u>₩</u>	<u>17,106</u>	<u>₩</u>	<u>16,993</u>	<u>₩ 21,731</u>

¹ 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 reclassified as available-for-sale financial assets. But the impairment loss of available-for-sale financial assets was recognized as Chin Hung International Inc. decided on a capital reduction without refund for fully all shares that the Company owned as of December 31, 2011 (Note 36).

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Details of equity investments as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

Investee	Percentage of ownership (%)	2012		2011	
		Acquisition cost	Fair value / Net asset value	Book value	Book value
Hyundai Financial Leasing Co., Ltd.	11.98%	₩ 16,512	₩ 17,001	₩ 17,001	₩ 17,249
Fund of Goldman Sachs Group	0.12%	3,865	3,609	3,609	3,394
Osan landmark Project Corporation	-	-	-	-	950
Conexs resource development No.1 Private Equity Fund	9.43%	4,443	5,292	5,292	5,044
Koston No.1 Private Equity Fund	18.20%	2,000	2,000	2,000	2,007
E-revolution No.1 Private Equity Fund	7.14%	2,000	1,869	1,869	2,000
Conexs new development power No.1 Private Equity Fund ¹	6.90%	1,310	1,399	1,399	2,000
Medici No.2 Investment Cooperative	13.33%	800	800	800	800
Shinyoung Private Equity No.1	10.14%	3,212	3,285	3,285	-
mvpc2012 Private Equity Fund	10.00%	2,000	2,300	2,300	-
Corstone Private Equity Fund IV	10.91%	3,000	3,072	3,072	-
Stonebridge New Growth Fund ¹	10.00%	1,579	1,579	1,579	-
Corstone Private Equity Fund V	16.53%	2,000	2,152	2,152	-
Glenwood Private Equity Fund I	8.58%	2,000	2,165	2,165	-
Dominus Strategic Growth Private Equity Fund 1	16.43%	4,000	4,081	4,081	-
mvpc2012-2 Private Equity Fund	12.42%	2,000	2,050	2,050	-
Miracle 2012 Private Equity Fund ¹	10.75%	2,000	2,000	2,000	-
NH-benex PEF No.1	14.92%	2,850	2,754	2,754	-
NH-Bennex Private Equity Fund	-	-	-	-	3,457
Machinery financial Cooperative ¹	-	4,480	4,512	4,512	4,512
Construction Guarantee Cooperative ¹	-	16,102	2,161	2,161	2,138
Electronic industry investment cooperative ¹	-	700	700	700	700
Others	-	127	7,127	7,127	764
		₩ 76,980	₩ 71,908	₩ 71,908	₩ 45,015

¹ Measured at acquisition cost since the fair value is not readily available and cannot be reliably estimable.

Fair values of derivatives assets and liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Current				
Forward exchange contracts	₩ 66,702	₩ 4,554	₩ 8,719	₩ 21,377
Foreign exchange risk insurance	-	-	36	109
	66,702	4,554	8,755	21,486
Non-current				
Forward exchange contracts	634	739	468	886
	634	739	468	886
	₩ 67,336	₩ 5,293	₩ 9,223	₩ 22,372

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The maximum exposure to credit risk at the reporting date is the carrying value of the derivatives. Details of derivative assets and liabilities as of December 31, 2012 and 2011, are as follows:

		Weighted average exchange rate based on contracts (in Korean won)	Weighted average expiry date as of December 31, 2012	Contract price of outstanding derivatives ¹ (in millions of Korean Won, thousands of USD)			
				2012		2011	
Forward exchange contracts	Sell	1,154.52	2013-06-07	USD	561,499	USD	870,754
Forward exchange contracts	Sell	1,027.85	2013-07-08	EUR	31,203	EUR	79,602
Forward exchange contracts	Sell	1,108.05	2013-06-20	CAD	4,476	CAD	21,256
Forward exchange contracts	Sell	1,142.18	2013-07-13	AUD	3,026	AUD	8,196
Forward exchange contracts	Sell	14.51	2013-10-20	JPY	419,600	JPY	1,680,217
Forward exchange contracts	Sell	1,813.47	2013-07-26	GBP	4,563	GBP	996
Forward exchange contracts	Sell	149.40	2013-08-31	HKD	3,562	HKD	3,562
Forward exchange contracts - Risk Aversion	Sell	1,118.24	2013-10-01	USD	510	USD	-
Forward exchange contracts	Buy	-	-	USD	-	USD	44,763
Forward exchange contracts	Buy	-	-	EUR	-	EUR	1,499
Foreign exchange risk insurance	Buy	-	-	JPY	-	JPY	166,714
Forward currency contracts	Buy	-	-	AUD	-	AUD	5,528
Foreign exchange risk insurance	Sell	-	-	USD	-	USD	318
Currency Swaps	-	1,416.00	2013-10-01	USD	55	USD	2,090
Currency Swaps	-	12.60	2015-11-14	JPY	18,471,801	JPY	-
Currency Swaps - Risk Aversion	-	1,120.00	2015-04-16	USD	7,000	USD	-
Currency Swaps - Risk Aversion	-	-	-	JPY	-	JPY	429,283
Interest rate swap	-	-	2013-10-08	KRW	6,573	KRW	21,112

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

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Details of held-to-maturity financial assets as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current portion of held-to-maturity financial assets	₩ 438	₩ 877
Held-to-maturity financial assets ¹	1,374	1,576
	<u>₩ 1,812</u>	<u>₩ 2,453</u>

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

12. Other financial business assets

Details of other financial business assets as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Loans and receivables	₩ 2,025,826	₩ 1,877,899
Operating lease assets	231,427	212,161
	<u>₩ 2,257,253</u>	<u>₩ 2,090,060</u>

Details of loans and receivables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Loans and receivables	₩ 2,120,753	₩ 1,950,870
Provision for impairment	(94,927)	(72,971)
	<u>₩ 2,025,826</u>	<u>₩ 1,877,899</u>

The aging analyses of loans and receivables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Up to 1 year	₩ 342,952	₩ 373,750
1 to 5 years	1,777,801	1,577,120
	<u>₩ 2,120,753</u>	<u>₩ 1,950,870</u>

Movements on the provision for impairment of trade receivables for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Beginning	₩ 72,971	₩ 43,075
Provision for receivables impairment	36,795	38,131
Write-off	(14,839)	(8,235)
Ending	<u>₩ 94,927</u>	<u>₩ 72,971</u>

The future minimum lease receipts under non-cancellable operating lease agreements as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Up to 1 year	₩ 132,106	₩ 80,720

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1 to 5 years	157,616	86,998
	₩ 289,722	₩ 167,718

13. Other assets

Details of other assets as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current		
Advance payments	₩ 130,380	₩ 158,662
Provision for impairment	(73)	(3,846)
Prepaid expenses	55,731	49,312
	186,038	204,128
Non-current		
Long-term prepaid expenses	11,842	14,962
Other investments	13,931	13,730
	25,773	28,692
	₩ 211,811	₩ 232,820

14. Inventories

Inventories as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		
	Acquisition cost	Valuation Allowance	Net book value
Merchandise	₩ 256,922	₩ (140)	₩ 256,782
Finished goods	515,389	(16,581)	498,808
Semi-finished goods	216,836	(1,431)	215,405
Work-in-process	80,648	-	80,648
Processing materials on consignment	4,475	-	4,475
Processing materials on trust	700	-	700
Raw materials	251,498	(3,922)	247,576
Sub-materials	25,963	-	25,963
Supplies	11,875	-	11,875
Packaging	3,981	-	3,981
Goods in transit	24,987	-	24,987
Cost accrued on construction contract	7,436	-	7,436
Temporary installations	34	-	34
Finished housing	40,102	(154)	39,948
Sites	107,955	(5,654)	102,301
Others	220	-	220
	₩ 1,549,021	₩ (27,882)	₩ 1,521,139

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(in millions of Korean won)	2011		
	Acquisition cost	Inventory valuation Reserve	Net book value
Merchandise	₩ 247,154	₩ -	₩ 247,154
Finished goods	541,756	(10,586)	531,170
Semi-finished goods	231,603	(112)	231,491
Work-in-process	107,533	-	107,533
Processing materials on consignment	4,164	-	4,164
Processing materials on trust	640	-	640
Raw materials	274,975	(1,951)	273,024
Sub-materials	28,133	-	28,133
Supplies	14,752	-	14,752
Packaging	3,623	-	3,623
Goods in transit	65,967	-	65,967
Cost accrued on construction contract	94,483	-	94,483
Temporary installations	20	-	20
Finished housing	35,299	(53)	35,246
Sites	214,555	(16,945)	197,610
Others	799	-	799
	₩ 1,865,456	₩ (29,647)	₩ 1,835,809

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 10,859,633 million (2011: ₩ 8,255,816 million) for the year ended December 31, 2012.

15. Property, plant and equipment

Changes in property, plant and equipment for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012									
	Land	Building	Structure	Machinery	Vehicle	Tool and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning	₩ 1,446,154	₩ 853,576	₩ 144,874	₩ 1,873,705	₩ 16,465	₩ 99,060	₩ 70,198	₩ 420,852	₩ 4,968	₩ 4,929,852
Acquisition	2,805	40,037	8,775	124,283	10,155	23,162	4,175	660,668	10,606	884,666
Disposal	(2,106)	(537)	(218)	(18,931)	(348)	(2,154)	(19,836)	(206)	-	(44,336)
Depreciation and others ¹	-	(39,129)	(8,439)	(405,759)	(4,371)	(31,341)	(6,039)	-	-	(495,078)
Impairment loss ²	-	-	(3)	(7,263)	-	-	-	-	-	(7,266)
Transfer ³	4,323	72,340	4,519	478,706	(6,031)	12,454	10,752	(537,625)	(13,686)	25,752
Government grants	-	-	-	(4,422)	-	(778)	-	-	-	(5,200)
Others (changes in exchange rate)	(3,158)	(31,025)	(2,557)	(89,907)	(367)	(4,080)	(2,398)	(4,147)	-	(137,639)
Changes in scope of consolidation	-	-	(763)	-	-	40	-	1,572	-	849
Ending	₩ 1,448,018	₩ 895,262	₩ 146,188	₩ 1,950,412	₩ 15,503	₩ 96,363	₩ 56,852	₩ 541,114	₩ 1,888	₩ 5,151,600

¹ Depreciation and others include ₩ 185 million of shrinkage loss from others and ₩ 1,452 million of supplies.

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

³ Transfer includes the transfer from construction in process and machinery in transit and investment property.

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(in millions of Korean won)	2011									
	Land	Building	Structure	Machinery	Vehicle	Tool and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning	₩ 1,427,359	₩ 762,815	₩ 134,036	₩ 1,605,958	₩ 11,640	₩ 68,070	₩ 37,158	₩ 156,355	₩ 519	₩ 4,203,910
Acquisition	14,785	19,758	15,755	144,118	13,825	27,665	27,336	771,574	31,711	1,066,527
Disposal	(4,038)	(4,682)	(2,447)	(3,460)	(6,774)	(270)	(857)	-	-	(22,528)
Depreciation and others ¹	-	(33,862)	(8,719)	(323,142)	(3,931)	(23,575)	(4,960)	-	-	(398,189)
Impairment loss ²	-	-	-	(28,724)	-	-	-	-	-	(28,724)
Transfer ³	(3,787)	75,754	5,488	376,212	1,520	29,641	10,473	(517,838)	(27,262)	(49,799)
Government grants	-	-	-	(648)	-	(554)	-	-	-	(1,202)
Others (changes in exchange rate)	15,308	35,051	830	102,196	193	(494)	1,048	10,834	-	164,966
Changes in scope of consolidation	(3,473)	(1,258)	(69)	1,195	(8)	(1,423)	-	(73)	-	(5,109)
Ending	₩ 1,446,154	₩ 853,576	₩ 144,874	₩ 1,873,705	₩ 16,465	₩ 99,060	₩ 70,198	₩ 420,852	₩ 4,968	₩ 4,929,852

¹ Depreciation and others include ₩ 348 million of shrinkage loss from others.

² Impairment loss is recognized due to a fire at a plant of Hyosung Spandex (GuangDong) Co., Ltd., a subsidiary.

³ Transfer includes the transfer from construction in process and machinery in transit and investment property.

Depreciation expense of ₩ 440,632 million (2011: ₩ 374,081 million) has been charged to 'cost of goods sold', ₩ 17,922 million (2011: ₩ 11,672 million) to 'selling and administrative expenses', and ₩ 14,205 million (2011: ₩ 12,088 million) to 'research expenses' for the year ended December 31, 2012.

The Group has capitalized borrowing costs amounting to ₩ 9,892 million (2011: ₩ 3,991 million) on qualifying assets for the year ended December 31, 2012. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 5.04% (2011: 5.57%) for the year ended December 31, 2012.

Bank borrowings are secured land, buildings and machinery (Notes 20 and 40).

16. Investment property

Changes in investment property for the years ended December 31, 2012 and 2011, are as follows:

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

(in millions of Korean won)	2011		
	Land	Building	Total
Beginning	₩ 210,492	₩ 133,998	₩ 344,490
Acquisition and transfer	38,690	24,443	63,133
Disposal	(20)	-	(20)

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Depreciation	-	(4,334)	(4,334)
Impairment loss	(3,521)	3,521	-
Changes in scope of consolidation	(3,853)	(12,565)	(16,418)
Ending	<u>₩ 241,788</u>	<u>₩ 145,063</u>	<u>₩ 386,851</u>

Rent income from investment property amounted to ₩ 21,780 million (2011: ₩ 19,749 million), and operating expenses (including repairs and maintenance) directly related to those investment property amounted to ₩ 11,100 million (2011: ₩ 13,719 million) for the year ended December 31, 2012.

17. Intangible assets

Changes in intangible assets for the years ended December 31, 2012 and 2011, are as follows:

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

(in millions of Korean won)	2011				
	Goodwill	Industrial property	Others	Memberships	Total
Beginning	₩ 90,900	₩ 7,129	₩ 133,114	₩ 30,999	₩ 262,142
Acquisition	-	13,754	40,236	408	54,398
Transfer	-	-	18,133	-	18,133
Disposal	-	-	(3,106)	(1,950)	(5,056)
Amortization	-	(1,901)	(8,698)	(2)	(10,601)
Impairment loss	-	-	(388)	-	(388)
Reversal of impairment loss	-	-	-	19	19
Others	58	592	3,028	(335)	3,343
Changes in scope of Consolidation ¹	53,878	(94)	76,575	(1,548)	128,811
Ending	<u>₩ 144,836</u>	<u>₩ 19,480</u>	<u>₩ 258,894</u>	<u>₩ 27,591</u>	<u>₩ 450,801</u>

¹ Includes net of an increase of ₩ 57,201 million and a decrease of ₩ 3,323 million.

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

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Amortization of ₩ 8,654 million (2011: ₩ 5,782 million) was included in the 'cost of goods sold', and ₩ 16,486 million (2011: ₩ 4,819 million) in the 'selling and administrative expenses' in the statement of income for the year ended December 31, 2012.

Impairment tests for goodwill

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

<i>(in millions of Korean won)</i>	2012	2011
Fabric	₩ 6,654	₩ 6,654
Industrial Materials	42,617	57,201
Chemical	-	-
Heavy Industrial	-	129
Construction	-	-
Trading	2,216	2,274
Others	77,505	78,578
	<u>₩ 128,992</u>	<u>₩ 144,836</u>

Goodwill impairment reviews are undertaken annually. Impairment test suggests that, the carrying value of industrial materials and other operating segments exceeded the value in use by ₩12,957 million and the amount exceeded carrying value is recognized as the other income/expenses, net in the consolidated statement of income. The recoverable amounts have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. In addition, a constant growth rate assumption is used for perpetual cash flow calculation. The key assumptions used for value-in-use calculations in 2012 are as follows:

	Fabric	Industrial Materials	Chemical	Heavy industrial	Construction	Trading	Others
Gross margin	14.0%	18.0%	15.0%	19.0%	3.0%	5.0%	34.0%
Growth rate ¹	7.0%	10.0%	8.0%	11.0%	16.0%	4.0%	23.0%
Perpetual growth rate ²	2.0%	3.0%	2.0%	2.0%	0.0%	0.0%	2.0%
Pre-tax discount rate ³	10.0%	14.0%	10.0%	10.0%	10.0%	10.0%	10.0%

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

² Projected growth rate over five years.

³ Pre-tax discount rate applied to the cash flow projections.

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18. Associates

Details of investments in associates as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	Location	Percentage of ownership	2012		
			Acquisition cost	Net asset value	Book value
Capro Corp.	Korea	21.04%	₩ 58,232	₩ 457,006	₩ 96,009
Nautilus Hyosung Inc.	Korea	43.50%	65,671	223,965	94,545
E-pia Tech Co., Ltd. ²	Korea	21.30%	1,088	(396)	-
Taebaek Wind Power Co., Ltd.	Korea	35.00%	5,301	14,913	5,220
Pyeongchang Wind Power Co., Ltd.	Korea	35.00%	893	2,454	859
Hyosung Information System Co., Ltd.	Korea	50.00%	24,754	81,749	40,874
Hyosung Toyota Corp. ³	Korea	40.00%	800	(6,362)	-
Hyosung ITX Co., Ltd.	Korea	34.99%	6,897	27,861	9,744
Sumiden Hyosung Steel Cord (THAILAND) Co., Ltd.	Thailand	30.00%	12,146	37,290	11,187
Soonchon Eco Green Corporation ¹	Korea	23.99%	2,248	7,407	2,252
No.2 Koston Private Equity Fund ¹	Korea	24.72%	2,800	11,175	2,802
Taiko Private Equity Fund	Korea	20.24%	3,000	14,109	2,939
			₩ 183,830	₩ 871,171	₩ 266,431

(in millions of Korean won)	2011		
	Acquisition cost	Net asset value	Book value
Capro Corp.	₩ 58,232	₩ 513,071	₩ 106,173
Nautilus Hyosung Inc.	65,671	200,688	83,343
E-pia Tech Co., Ltd.	1,088	(184)	59
Taebaek Wind Power Co., Ltd.	5,301	14,720	5,152
Pyeongchang Wind Power Co., Ltd.	893	2,507	877
Hyosung Information System Co., Ltd.	24,754	70,509	35,254
Hyosung Toyota Corp.	800	(4,154)	-
Hyosung ITX Co., Ltd.	6,897	21,561	7,989
Sumiden Hyosung Steel Cord (THAILAND) Co., Ltd.	12,146	41,025	12,307
Soonchon Eco Green Corporation ¹	2,103	5,954	2,081
No.2 Koston Private Equity Fund ¹	2,800	10,804	2,751
Taiko Private Equity Fund ¹	3,000	14,400	3,000
	₩ 183,685	₩ 890,901	₩ 258,986

¹ Percentage of ownership presents the combined effective percentage of interest of subsidiaries.

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² The equity method was discontinued as the book value of equity-method investments has decreased to zero. Unrealized equity resulting from discontinued equity method is ₩391 million.

³ The equity method was discontinued as the book value of equity-method investments has decreased to zero. Unrealized equity resulting from discontinued equity method is ₩2,545 million.

Changes in investments in associates for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Beginning	₩ 258,986	₩ 192,148
Acquisition	145	23,521
Transfer ¹	82	-
Share of associates' profit(loss)	16,691	48,189
Other Change ²	675	(636)
Dividends	(10,148)	(4,236)
Ending	₩ 266,431	₩ 258,986

¹ Transfer is recognized due to the increasing of the guarantees for Soonchon Eco Green Corporation.

² Includes the share of other comprehensive income of associates.

Summary of financial information as of and for the years ended December 31, 2012 and 2011, is as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Capro Corp.	₩ 734,636	₩277,630	₩ 887,539	₩ 374,468
Nautilus Hyosung Inc.	540,695	316,729	522,636	321,948
E-pia Tech. Co., Ltd.	440	836	475	659
Taebaek Wind Power Co., Ltd.	51,901	36,988	38,452	23,732
Pyeongchang Wind Power Co., Ltd.	2,455	1	2,922	415
Hyosung Information System Co., Ltd.	204,893	123,145	186,471	115,962
Hyosung Toyota Corp.	27,064	33,425	17,571	21,725
Hyosung ITX Co., Ltd.	71,689	43,827	61,726	40,165
Sumiden Hyosung Steel Cord (THAILAND) Co., Ltd.	93,550	56,260	41,770	745
Soonchon Eco Green Corporation	22,209	14,801	6,429	475
No.2 Koston Private Equity Fund	11,249	73	10,849	45
Taiko Private Equity Fund	14,173	64	14,400	-

<i>(in millions of Korean won)</i>	2012		2011	
	Sales	Net income (loss)	Sales	Net income (loss)
Capro Corp.	₩ 956,646	₩ (19,241)	₩1,172,755	₩ 156,956
Nautilus Hyosung Inc.	590,707	25,454	551,584	22,460
E-pia Tech.Co., Ltd.	-	(223)	-	(1,790)
Taebaek Wind Power Co., Ltd.	3,849	194	-	(315)
Pyeongchang Wind Power Co., Ltd.	-	(53)	-	(36)
Hyosung Information System Co., Ltd.	258,328	14,903	251,432	12,612
Hyosung Toyota Corp.	105,990	(2,189)	40,756	(4,317)
Hyosung ITX Co., Ltd.	213,327	4,431	197,872	5,775
Sumiden Hyosung Steel Cord	183	(2,296)	-	(18)

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(THAILAND) Co., Ltd.				
Soonchon Eco Green Corporation	14,548	(118)	4,672	(47)
No.2 Koston Private Equity Fund	116	203	84	(198)
Taiko Private Equity Fund	43	(292)	-	-

Fair value of marketable shares among associates as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012			
	Number of shares	Market price per share (in Korean won)	Market value	Book value
Capro Corp.	8,417,708	₩ 12,500	₩ 105,221	₩ 22,672
Hyosung ITX Co., Ltd.	4,349,000	3,955	17,200	6,961

(in millions of Korean won)	2011			
	Number of shares	Market price per share (in Korean won)	Market value	Book value
Capro Corp.	8,417,708	₩ 20,950	₩ 176,351	₩ 22,672
Hyosung ITX Co., Ltd.	4,349,000	3,020	13,134	6,961

19. Related party Transactions

Sales and purchases of goods and services

Sales and purchase of goods and services with related parties for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
	Sales	Purchases	Sales	Purchases
Associates	₩ 75,597	₩ 562,830	₩ 61,142	₩ 635,910
Other related parties	34,417	40,465	55,746	32,369
	₩ 110,014	₩ 603,295	₩ 116,888	₩ 668,279

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

Year-end balances arising from sales/purchases of goods/services with related parties as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
	Receivables	Payables	Receivables	Payables
Associates	₩ 11,910	₩ 113,570	₩ 24,766	₩ 155,578
Other related parties	136,263	6,619	190,788	17,065
	₩ 148,173	₩ 120,189	₩ 215,554	₩ 172,643

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Financial agreements with the related parties as of December 31, 2012, are as follows:

<i>(In millions of Korean won, in thousands of US dollars)</i>	Related party	Details	Foreign currency	Won equivalent
Other related parties	OpCo GmbH	Long-term borrowings ¹	EUR 2,505 USD 3,025	3,548 3,240

¹ There are no changes other than fluctuation in exchange rate during the year, and the Group accounted for the above whole amounts as bad debts.

The compensation paid or payable to key management for employee services as of December 31, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	2012	2011
Short-term salaries	₩ 6,040	₩ 5,891
Severance pension benefits	1,277	1,523
	<u>₩ 7,317</u>	<u>₩ 7,414</u>

20. Borrowings

Details of borrowings as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current		
Short-term borrowings	₩ 3,252,606	₩ 3,113,623
Current portion of long-term borrowings	1,448,034	943,173
	<u>4,700,640</u>	<u>4,056,796</u>
Non-current		
Long-term borrowings	1,857,785	1,887,770
Debentures	1,467,836	1,614,752
Redeemable preference shares	2,397	2,585
	<u>3,328,018</u>	<u>3,505,107</u>
	<u>₩ 8,028,658</u>	<u>₩ 7,561,903</u>

Details of short-term borrowings as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	Financial institutions	Interest rate	2012	2011
Bank overdrafts	Woori Bank and others	-	₩ -	₩ 8,918
General loan	Woori Bank and others	2.18%~5.72%	1,633,809	1,545,089
Collateralized borrowings ¹	Korea Development Bank and others	0.96%~5.62%	873,769	982,316
Other bill discount and others	TongYang securities Inc. and others	0.72%~4.54%	745,028	577,300
			<u>₩ 3,252,606</u>	<u>₩ 3,113,623</u>

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

Details of long-term borrowings as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	Bank	Interest rate	2012	2011
Hyosung Corp.				
Local currency long-term borrowings	Korea Development Bank	2.25%~5.25%	₩ 351,821	₩ 285,077
	Kwangju Bank	5.28%	10,000	10,000
	Jeon Buk Bank	5.06%	10,000	10,000
	Hana Bank	5.23%	50,000	20,000
	Kookmin Bank	5.17%~7.08%	33,333	70,000
	KDB Capital	1.75%~3.00%	14,430	15,776
	Korea Housing Guarantee Co., Ltd.	1.00%	4,400	4,400
	Korea Development Bank	4.76%~5.01%	80,000	110,000
	Woori Bank	5.60%~5.76%	70,000	70,000
	Korea Exchange Bank	4.45%	20,000	20,000
	Hana Bank	5.06%~5.43%	30,000	60,000
	Shinhan Bank	5.19%~5.68%	80,000	80,000
	Kookmin Bank	5.17%~7.08%	30,000	-
	Mineral Resource Corporation	1.20%	1,359	-
	KDB Capital	3.00~4.00%	2,187	4,388
Foreign currency long-term borrowings	The Export-Import Bank of Korea	2.78%~3.77%	160,065	192,103
	Hana Bank	3.27%	10,711	11,533
	Kookmin Bank	3.26%	10,711	6,343
	Korea Finance Corporation	2.98%	39,631	20,759
	Korea Exchange Bank	3.20%	21,422	-
	Korea Development Bank	2.87%~2.92%	24,950	-
	Shinhan Bank	3.01%	21,422	-
Subsidiaries				
Local currency long-term borrowings	Kwangju Bank	5.19%~7.48%	30,000	30,000
	Woori Bank	5.80%	30,000	31,186
	Shinhan Bank	3.65%~5.5%	30,000	-
	Korea finance corporation	3.95%	160,665	92,264
	Korea Development Bank	5.25%~5.66%	25,875	20,595
	Kookmin Bank	-	-	2,554
	Korea exchange Bank	6.45%~7.88%	6,266	27,917
	Suhyup Bank	-	-	20,000
	Jeon Buk Bank	-	-	10,000
	The Korea Development Bank Life Insurance	-	-	20,000
	Newstarhaechi 2 nd	5.60%~6.56%	79,900	-
	yekyoram 1st Ltd.	6.56%	10,000	-

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Foreign currency long-term borrowings	Island 1st Ltd.	6.56%	10,000	-
	China Construction Bank	5.84%	9,969	13,688
	Others	1.45%~6.45%	101,490	28,752
	Industrial Bank of Korea	2.70%	41,773	34,599
	SMBC sui branch	-	-	23,000
	The Export-Import Bank of Korea	2.55%~3.10%	61,375	99,001
	Woori Bank	3.00%~3.35%	74,977	23,731
	Korea Finance Corporation	2.30%~2.80%	86,759	80,731
	Bank of China	2.65%~4.51%	85,764	26,794
	Korea Development Bank	1.20%~3.55%	292,699	276,792
	Bank of America	3M LIBOR+2.1%	43,378	45,999
	Mizuho Corporate Bank	1.45%~2.78%	71,303	97,748
	Standard Chartered (Zhuhai)	-	-	11,500
	SMBC	0.90%~3M LIBOR+2.04%	21,422	59,410
	Others	1.63%~4.21%	205,222	159,459
			2,555,879	2,226,099
Less: Current portion			(698,034)	(338,173)
Present value discounts			(61)	(156)
			<u>₩ 1,857,784</u>	<u>₩ 1,887,770</u>

Above long-term borrowings are subject to installment repayment or lump-sum repayment at maturity date. Borrowings are collateralized with the Group's investments in associates and property, plant and equipment (Notes 15, 18 and 40).

Details of debentures as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	Maturity date	Interest rate	2012	2011
Hyosung Corp.				
232-2 nd Public subscription bond	2012.05.21	5.74%	₩ -	₩ 50,000
233-2 nd Public subscription bond	2012.07.11	6.02%	-	30,000
235-3 rd Public subscription bond	2013.03.13	6.06%	30,000	30,000
236-3 rd Public subscription bond	2013.07.24	7.00%	30,000	30,000
238-3 rd Public subscription bond	2012.01.22	8.70%	-	70,000
241-2 nd Public subscription bond	2012.03.19	6.60%	-	80,000
241-3 rd Public subscription bond	2013.03.19	6.90%	40,000	40,000
242-1 st Public subscription bond	2013.03.05	5.18%	80,000	80,000
242-2 nd Public subscription bond	2015.03.05	5.79%	70,000	70,000
243-1 st Public subscription bond	2013.07.12	4.93%	70,000	70,000
243-2 nd Public subscription bond	2015.07.12	5.75%	30,000	30,000
244-1 st Public subscription bond	2013.12.21	4.10%	30,000	30,000
244-2 nd Public subscription bond	2014.12.21	4.60%	30,000	30,000
244-3 rd Public subscription bond	2015.12.21	4.99%	40,000	40,000
245-1 st Public subscription bond	2014.01.17	4.25%	90,000	90,000

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245-2 nd Public subscription bond	2016.01.17	5.25%	60,000	60,000
246-1 st Public subscription bond	2014.06.24	4.33%	70,000	70,000
246-2 nd Public subscription bond	2016.06.24	4.94%	60,000	60,000
248 th Private bond	2014.09.30	5.32%	20,000	20,000
248-1 st Public subscription bond	2014.10.12	4.49%	40,000	40,000
248-2 nd Public subscription bond	2016.10.12	5.03%	50,000	50,000
249 th Private bond	2014.11.14	5.23%	40,000	40,000
250 th Private bond	2014.01.02	5.40%	20,000	-
251-1 st Public subscription bond	2015.02.07	4.26%	90,000	-
251-2 nd Public subscription bond	2017.02.07	4.70%	60,000	-
252 nd Private bond	2015.08.28	3M USD LIBOR +280bps	32,133	-
Hyosung Capital Co., Ltd.				
33 rd	2012.01.30	8.56%	-	30,000
39 th	2012.03.04	5.86%	-	30,000
43-2 nd	2012.08.31	6.75%	-	40,000
45 th Debenture	2012.04.28	6.40%	-	30,000
48 th Debenture	2013.02.25	6.40%	100,000	100,000
49 th Debenture	2013.03.26	5.87%	40,000	40,000
50-1 st Debenture	2013.04.23	5.60%	20,000	20,000
64 th Debenture	2014.01.12	5.20%	40,000	40,000
65 th Debenture	2014.02.09	5.60%	20,000	20,000
52 nd Debenture	2012.05.27	5.30%	-	20,000
53 rd Debenture	2013.06.22	5.90%	30,000	30,000
55 th Debenture	2013.06.30	5.90%	20,000	20,000
56-1 st Debenture	2012.07.14	5.50%	-	10,000
56-2 nd Debenture	2013.07.14	5.95%	20,000	20,000
57 th Debenture	2013.09.27	5.75%	30,000	30,000
58-1 st Debenture	2013.10.08	5.50%	40,000	40,000
87-2 nd Debenture	2014.03.28	4.58%	20,000	-
59-1 st Debenture	2013.10.28	5.30%	20,000	20,000
66 th Debenture	2014.04.04	5.28%	20,000	20,000
60-1 st Debenture	2012.11.23	5.10%	-	20,000
60-2 nd Debenture	2013.11.23	5.50%	30,000	30,000
61-2 nd Debenture	2013.12.09	5.15%	20,000	20,000
62 nd Debenture	2013.12.30	5.20%	30,000	30,000
67 th Debenture	2014.04.18	5.29%	20,000	20,000
69-2 nd Debenture	2014.05.30	5.24%	30,000	30,000
91 st Debenture	2015.06.22	4.30%	30,000	-
71-2 nd Debenture	2014.06.21	5.25%	10,000	10,000
68 th Debenture	2012.05.25	4.70%	-	30,000
69-1 st Debenture	2012.05.30	4.70%	-	20,000
72 nd Debenture	2014.07.13	5.32%	30,000	30,000
70 th Private placement bond	2012.06.16	5.86%	-	30,000

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71-1 st Debenture	2012.06.21	4.70%	-	10,000
76 th Debenture	2014.08.11	5.30%	10,000	10,000
78 th Debenture	2014.09.15	5.30%	20,000	20,000
73 rd Debenture	2012.07.25	4.80%	-	10,000
74 th Debenture	2012.07.29	4.80%	-	30,000
75 th Debenture	2012.08.02	4.85%	-	10,000
79 th Debenture	2014.09.26	5.40%	25,000	25,000
77 th Debenture	2012.08.18	4.70%	-	15,000
96-1 st Debenture	2014.09.27	3.80%	10,000	-
80 th Debenture	2014.09.29	5.40%	10,000	10,000
84 th Debenture	2014.11.28	5.25%	40,000	40,000
81 st Debenture	2012.10.14	4.90%	-	10,000
82 nd Debenture	2012.10.14	4.90%	-	10,000
83 rd Private placement bond	2012.11.19	5.77%	-	20,000
85 th Debenture	2015.02.20	5.03%	20,000	-
50-2 nd Debenture	2015.04.23	6.50%	20,000	20,000
51 st Debenture	2015.05.10	6.40%	20,000	20,000
87-1 st Debenture	2013.09.28	4.46%	20,000	-
92-1 st Debenture	2015.06.28	4.32%	20,000	-
93 rd Debenture	2013.07.30	3.49%	20,000	-
58-2 nd Debenture	2015.10.08	6.10%	10,000	10,000
90-1 st Debenture	2015.05.25	4.33%	20,000	-
59-2 nd Debenture	2015.10.28	5.80%	10,000	10,000
97 th Debenture	2015.10.29	3.80%	30,000	-
89 th Debenture	2015.11.07	4.56%	20,000	-
92-2 nd Debenture	2013.03.26	4.05%	10,000	-
86 th Debenture	2017.02.24	5.25%	30,000	-
94 th Debenture	2015.09.17	3.85%	40,000	-
95 th Debenture	2017.02.24	5.25%	30,000	-
96-2 nd Debenture	2015.09.27	3.74%	30,000	-
90-2 nd Debenture	2017.09.26	4.14%	10,000	-
98 th Debenture	2013.11.19	4.86%	20,000	-
88 th Debenture	2015.04.27	4.58%	20,000	-
The Class Hyosung Co., Ltd.				
Private placement bond	2014.09.30	5.52%	5,000	5,000
			2,222,133	2,225,000
Less: Current portion			(750,000)	(605,000)
Discount on bonds payable			(4,297)	(5,248)
			<u>₩ 1,467,836</u>	<u>₩ 1,614,752</u>

The Class Hyosung Co., Ltd., a subsidiary, issued 418,182 shares of non-cumulative and participating convertible preferred stock at ₩ 5,500 per share on December 28, 2007. The Group recognized ₩ 2,397 million as a liability as of December 31, 2012.

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

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

21. Trade and other payables

Details of trade and other payables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Trade payables	₩ 959,730	₩ 1,347,773
Other payables	492,744	516,799
Long-term other payables	382,131	345,360
	<u>₩ 1,834,605</u>	<u>₩ 2,209,932</u>

Details of other payables as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Other payables		
Non-trade payables	₩ 308,119	₩ 349,047
Accrued expenses	112,090	98,272
Dividend payables	84	-
Withholdings	36,139	43,645
Deposits received	36,312	25,835
	<u>492,744</u>	<u>516,799</u>
Long-term other payables		
Non-trade payables	11,704	15,011
Deposits received	370,427	330,349
	<u>382,131</u>	<u>345,360</u>
	<u>₩ 874,875</u>	<u>₩ 862,159</u>

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

	2012	2011
Discount rate	3.4% ~ 5%	3.4% ~ 5%

22. Retirement benefit obligation

Defined benefit liabilities recognized on the statements of financial position as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Present value of defined benefit payables	₩ 240,885	₩ 196,245
Fair value of plan assets ¹	(184,107)	(143,382)
	<u>₩ 56,778</u>	<u>₩ 52,863</u>

¹ The fair value of plan asset includes ₩ 610 million of deposits made to the National Pension Fund (2011: ₩ 655 million).

The amounts recognized on the income statements for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Current service cost	₩ 45,420	₩ 39,751
Interest expenses	8,372	7,789
Expected income of plan assets	(7,482)	(5,400)
	<u>₩ 46,310</u>	<u>₩ 42,140</u>

The expenses by nature for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Cost of goods sold	₩ 25,154	₩ 23,193
Selling and administrative expenses	18,492	16,693
Research and development costs	2,664	2,254
	<u>₩ 46,310</u>	<u>₩ 42,140</u>

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Beginning	₩ 196,245	₩ 160,022
Current service cost	45,420	39,751
Interest expenses	8,372	7,789
Payment	(16,208)	(15,814)
Actuarial gains and losses	5,528	14,587
Effect of pension system reduction/ settlement	(3,312)	(1,078)
Changes in scope of consolidation	-	(11,700)

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Others (changes in exchange rate and others)	4,840	2,688
	<u>₩ 240,885</u>	<u>₩ 196,245</u>

The changes in the fair value of plan assets for the years ended December 31, 2012 and 2011, is as follows:

<i>(in millions of Korean won)</i>	2012	2011
Beginning	₩ 143,382	₩ 105,751
Expected income of plan assets	7,482	5,400
Employer contribution	42,021	42,024
Benefits paid	(6,836)	(6,520)
Actuarial gains and losses	(1,301)	(834)
Effect of pension system reduction/ settlement	(2,467)	(656)
Changes in scope of consolidation	-	(3,256)
Others(changes in exchange rate and others)	1,826	1,473
	<u>₩ 184,107</u>	<u>₩ 143,382</u>

Plan assets consist of short-term financial instruments.

Actual return of plan assets amounted to ₩ 6,181 million (2011: ₩ 4,566 million) for the year ended December 31, 2012.

Actuarial gains and losses recognized as other comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Actuarial gains and losses before income tax	₩ (6,829)	₩ (15,421)
Income tax effects	1,804	700
Actuarial gains and losses after income tax	<u>₩ (5,025)</u>	<u>₩ (14,721)</u>

As of December 31, 2012, accumulated actuarial gains and losses recognized as other comprehensive income and expenses amount to ₩ 36,128 million (2011: ₩ 31,014 million).

The principal actuarial assumptions as of December 31, 2012 and 2011, were as follows:

	2012	2011
Discount rate	3.53%~3.66%	4.08%~5.46%
Inflation rate	2.30%~5.00%	2.33%~5.00%
Expected return on plan assets ¹	2.79%~4.80%	3.00%~5.50%
Future salary increases	2.66%~5.70%	2.78%~5.00%

¹ 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:

	Changes in principal assumption	Impact on overall liability
Discount rate	1.0% increase/decrease	6.4% decrease/7.3% increase
Inflation rate	1.0% increase/decrease	7.3% increase/6.5% decrease
Salary growth rate	1.0% increase/decrease	7.4% increase/6.5% decrease

Adjustments for the differences between initial assumptions and actual figures as of December 31, 2012, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit liability	₩ 240,885	₩ 196,245	₩ 160,022	₩ 164,559
Fair value of plan assets	(183,497)	(143,382)	(105,751)	(120,644)
Deficit(Surplus) of the funded plans	57,388	52,863	54,271	43,915
Defined benefit liability adjustments	2,559	4,289	5,666	-
Plan asset adjustments	1,233	834	1,008	-

23. Deferred Income Tax

The analyses of deferred tax assets and deferred tax liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 194,140	₩ 79,650
Deferred tax asset to be recovered within 12 months	37,286	96,102
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(504,809)	(512,363)
Deferred tax liability to be recovered within 12 months	(5,023)	(3,120)
Deferred tax assets(liabilities), net	₩ (278,406)	₩ (339,731)

The changes in the deferred income tax account for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Beginning balance	₩ (339,731)	₩ (313,148)
Income statement charge (Note 35)	44,874	3,239
Current income taxes charged to equity (Note 35)	16,451	1,525
Changes in scope of consolidation	-	(31,347)

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Ending balance	₩ (278,406)	₩ (339,731)
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The changes in deferred income tax assets and liabilities for the years ended December 31, 2012 and 2011, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(in millions of Korean won)	2012			
	Beginning	Income statement	Equity	Ending
Deferred tax liabilities				
Reserve for research and human resource development	₩ (31,130)	₩ (8,543)	₩ -	₩ (39,673)
Accrued income	(131)	(212)	-	(343)
Defined benefit pension plan assets	(34,032)	(9,649)	14	(43,667)
Investments in subsidiaries and associates	(29,464)	(50,905)	(2,546)	(82,915)
Gain (loss) from fire insurance policy	(2,669)	535	-	(2,134)
Revaluation of land	(293,095)	1,765	-	(291,330)
Losses on valuation of derivatives	(2,792)	2,778	(45)	(59)
Valuation on present value	(7,021)	1,084	-	(5,937)
Manufacturing cost	(1,818)	1,005	-	(813)
Others	(65,527)	(815)	16,846	(49,496)
	<u>(467,679)</u>	<u>(62,957)</u>	<u>14,269</u>	<u>(516,367)</u>
Deferred tax assets				
Available-for-sale financial assets	(3,718)	83,016	(5,573)	73,725
Trade accounts receivable	(1,294)	1,448	-	154
Guarantee payment	(297)	3,270	-	2,973
Defined benefit obligations	35,070	2,108	7,755	44,933
Construction contracts	3,686	(81)	-	3,605
Accrued compensated absences	4,159	(1,483)	-	2,676
Capitalized of financial cost	2,027	(276)	-	1,751
Impairment loss of available-for-sale financial assets	6,921	(102)	-	6,819
Loss on valuation of inventories	4,952	(3,040)	-	1,912
Accumulated impairment loss	319	-	-	319
Provision for impairment in excess of tax limit	19,814	5,718	-	25,532
Impairment loss on sites	1,654	(286)	-	1,368
Provision for construction warranties	2,432	41	-	2,473
Government grants	11,034	(2,366)	-	8,668
Provision for construction losses	4,355	(4,275)	-	80
Impairment loss of property, plant and equipment	3,251	247	-	3,498
Depreciation	1,951	(941)	-	1,010
Others	31,632	24,833	-	56,465
	<u>127,948</u>	<u>107,831</u>	<u>2,182</u>	<u>237,961</u>
	<u>₩ (339,731)</u>	<u>₩ 44,874</u>	<u>₩ 16,451</u>	<u>₩ (278,406)</u>

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(in millions of Korean won)	2011				
	Beginning	Income statement	Equity	Changes in scope of consolidation	Ending
Deferred tax liabilities					
Reserve for research and human resource development	₩ (19,690)	₩ (11,440)	₩ -	₩ -	₩ (31,130)
Accrued income	(264)	133	-	-	(131)
Available-for-sale financial assets	(13,176)	-	9,458	-	(3,718)
Defined benefit pension plan assets	(22,093)	(11,939)	-	-	(34,032)
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	(266,919)	(26,481)	305	-	(293,095)
Losses on valuation of derivatives	(2,736)	-	(56)	-	(2,792)
Trade accounts receivable	(933)	(361)	-	-	(1,294)
Valuation on present value	(5,937)	(1,084)	-	-	(7,021)
Guarantee payment	(282)	(15)	-	-	(297)
Manufacturing cost	-	(1,818)	-	-	(1,818)
Others	(20,939)	(4,195)	(8,882)	(31,347)	(65,527)
	<u>(430,244)</u>	<u>(12,222)</u>	<u>825</u>	<u>(31,347)</u>	<u>(472,988)</u>
Deferred tax assets					
Defined benefit obligations	27,441	6,929	700	-	35,070
Construction contracts	89	3,597	-	-	3,686
Accrued compensated absences	3,701	458	-	-	4,159
Capitalized of financial cost	2,098	(71)	-	-	2,027
Impairment loss of available-for-sale financial assets	5,649	1,272	-	-	6,921
Loss on valuation of inventories	4,072	880	-	-	4,952
Accumulated impairment loss	290	29	-	-	319
Provision for impairment in excess of tax limit	13,586	6,228	-	-	19,814
Impairment loss on sites	1,654	-	-	-	1,654
Provision for construction warranties	2,552	(120)	-	-	2,432
Government grants	7,905	3,129	-	-	11,034
Provision for construction losses	4,041	314	-	-	4,355
Impairment loss of	2,898	353	-	-	3,251

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property, plant and equipment					
Depreciation	1,789	162	-	-	1,951
Others	39,331	(7,699)	-	-	31,632
	<u>117,096</u>	<u>15,461</u>	<u>700</u>	<u>-</u>	<u>133,257</u>
	₩ (313,148)	₩ 3,239	₩ 1,525	₩ (31,347)	₩ (339,731)

Deferred income tax liabilities of ₩ 290,643 million have not been recognized for temporary differences investments in associates.

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of ₩ 30,202 million (2011: ₩ 55,449 million) in respect of losses that can be carried forward against future taxable income. Loss carryforwards amounting to ₩ 30,202 million expire in 2022.

24. Other liabilities

Details of other liabilities as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Other current liabilities		
Advances	₩ 304,740	₩ 347,796
Unearned revenues	30,536	33,490
Provision ¹	<u>1,212</u>	<u>1,284</u>
	<u>336,488</u>	<u>382,570</u>
Other non-current liabilities		
Long-term advances	₩ 32	₩ -
Government grants	1,731	1,584
Provision ¹	<u>23,424</u>	<u>10,657</u>
	<u>25,187</u>	<u>12,241</u>
	<u>₩ 361,675</u>	<u>₩ 394,811</u>

¹The Group establishes expenses, which are expected to be spent in the future such as repairs in relation to contract of construction work, as a provision based on the past experience rate. The Group also accrued provision for guarantee for the foreseeable expenses relating to PF (Note 40).

Changes in the Group's provision for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012				
	Provision for warranties	Provision for sales return	Provision for guarantee	Others	Total
Beginning	₩ 9,900	₩ 390	₩ -	₩ 367	₩ 10,657
Increase	7,320	402	11,997	260	19,979
Decrease	(6,876)	(83)	-	(253)	(7,212)
Ending	<u>₩ 10,344</u>	<u>₩ 709</u>	<u>₩ 11,997</u>	<u>₩ 374</u>	<u>₩ 23,424</u>

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(in millions of Korean won)	2011				
	Provision for warranties	Provision for sales return	Provision for guarantee	Others	Total
Beginning	₩ 42,517	₩ 293	₩ 277	₩ 249	₩ 43,336
Increase	8,492	142	-	118	8,752
Decrease	(11,243)	(45)	(277)	-	(11,565)
Changes in scope of consolidation	(29,866)	-	-	-	(29,866)
Ending	₩ 9,900	₩ 390	₩ -	₩ 367	₩ 10,657

25. Capital stock

The Group is authorized to issue 200,000,000 shares with the par value per share of ₩ 5,000. As of December 31, 2012, the Group has issued 35,117,455 shares of common stock. There is no change of capital stock for the year ended December 31, 2012.

26. Retained Earnings

Details of retained earnings as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Legal reserve ¹	₩ 17,450	₩ 14,124
Discretionary reserve		
Reserve for research and human resource development ²	120,000	80,000
Reserve for facility	2,092,000	699,000
Unappropriated retained earnings	65,802	1,420,125
	₩ 2,295,252	₩ 2,213,249

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

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

Changes in retained earnings for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Beginning	₩ 2,213,249	₩ 2,307,374
Net income	122,404	(44,987)
Actuarial gains and losses	(4,901)	(14,675)
Actuarial gains and losses of associates	(275)	358
Dividends	(33,269)	(41,586)
Others	(1,956)	6,765
Endings	₩ 2,295,252	₩ 2,213,249

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27. Other Components of Equity

Other components of equity as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Other additional capital	₩ 329,667	₩ 324,406
Treasury stock ¹	(34,204)	(34,204)
Gain (loss) on valuation of available-for-sale financial assets	28,041	8,131
Gain (loss) on valuation of derivatives	355	212
Change in equity from applying equity-method	16,479	13,309
Cumulative effect of foreign currency translation	(12,673)	37,800
Other capital adjustments	(974)	(474)
	<u>₩ 326,691</u>	<u>₩ 349,180</u>

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

28. Sales

Details of sales for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Sales-Merchandise	₩ 4,165,759	₩ 4,279,614
Sales-Finished goods	7,207,701	6,000,373
Sales-Construction	481,372	513,619
Sales-Real estate	389,199	152,752
Sales-Others	367,719	395,783
Sales-Continuing operations	12,611,750	11,342,141
Sales-Discontinued operations	-	101,036
	<u>₩ 12,611,750</u>	<u>₩ 11,443,177</u>

29. Construction contracts

Details of revenue and cost of construction for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Revenues of construction	₩ 870,571	₩ 780,515
Costs of construction	(805,245)	(727,302)
Gains and losses from continuing operations	65,326	53,213
Gains and losses from discontinued operations	-	(2,279)
	<u>₩ 65,326</u>	<u>₩ 50,934</u>

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The following table presents book value of gross amount due from and to customers for contract work related to construction as of December 31, 2012 and 2011:

<i>(in millions of Korean won)</i>		2012 ¹		2011
Gross amount due from customers	₩	51,607	₩	102,790
Gross amount due to customers		48,998		28,671

¹ The provisions for construction loss amounting to ₩ 330 million are included by estimating future construction loss in relation to the construction-in-progress of the Group.

Details of construction receivables and advance payments as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>		2012		2011
Construction receivables	₩	183,723	₩	248,094
Advance payments		-		641

Details of construction contracts as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>		2012		2011
Amounts after added(deducted) recognized profits(losses) on accumulated costs	₩	1,612,998	₩	1,178,731
Less: Progress billing		(1,610,389)		(1,104,612)
Net amounts of construction contracts	₩	2,609	₩	74,119

30. Expenses by Nature

Cost of sales and selling and administrative expenses by nature for the years ended December 31, 2012 and 2011, are as follows:

	2012		2011	
<i>(in millions of Korean won)</i>	Continuing operations	Continuing operations	Discontinued operations	Total
Changes in product and work in process	₩ (622,331)	₩ (1,454,419)	₩ 24,127	₩ (1,430,292)
Changes in merchandise	3,901,518	4,386,260	2,083	4,388,343
Usage of raw material and supplies	5,736,522	5,003,553	15,225	5,018,778
Salaries(Note 31)	920,663	744,011	9,132	753,143
Depreciation and amortization	609,486	412,777	598	413,375
Utility	326,214	199,127	-	199,127
Export expenses	122,361	94,080	-	94,080
Utilities	178,103	125,746	-	125,746
Service	115,460	108,045	1	108,046
Outsourcing	342,216	585,983	47,393	633,376
Others	792,231	859,406	43,486	902,892
Total ¹	₩ 12,422,443	₩ 11,064,569	₩ 142,045	₩ 11,206,614

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

31. Employee Benefit Expense

Details of employee benefit expense for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>		2012		2011
Salaries	₩	778,232	₩	616,568
Employee benefits		95,301		83,810
Pension costs - defined contribution plans		820		1,493
Pension costs - defined benefit plans (Note 22)		46,310		42,140
Employee benefit expense - continuing operations		920,663		744,011
Employee benefit expense – discontinued operations		-		9,132
	₩	920,663	₩	753,143

32. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>		2012		2011
Salaries	₩	225,997	₩	213,522
Export expenses		122,361		94,080
Transportation		62,939		52,687
Commissions and fees		54,527		66,183
Rent		29,357		23,633
Employee benefits		25,790		27,693
Travel		25,615		28,413
Operating expenses for overseas branches		19,412		20,282
Severance pension benefits		18,492		17,757
Taxes and dues		18,348		17,610
Advertising		18,286		21,205
Depreciation		17,922		11,672
Amortization		16,486		4,819
Entertainment		13,066		12,480
Communications		7,504		7,721
Training		3,279		4,260
Others		101,025		72,006
Selling and administrative expenses from continuing operations		780,406		696,023
Selling and administrative expenses from discontinued operations		-		39,172
	₩	780,406	₩	735,195

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33. Other Operation Income and Expenses

Other operating income and expenses for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Other operating income		
Miscellaneous revenue	₩ 97,932	₩ 68,040
Gain on valuation of derivatives	65,974	5,981
Gain on derivative transactions	57,402	35,015
Gain on disposal of intangible assets	21,279	14
Government grants	3,661	2,681
Gain on disposal of property, plant and equipment	3,297	3,392
Dividends	1,670	1,786
Rental income	1,338	1,248
Reversal of other assets' allowance for bad debts	444	1,431
Gains on disposal of investment properties	62	113
Reversal of impairment loss on intangible assets	-	19
	<u>253,059</u>	<u>119,720</u>
Other operating expenses		
Miscellaneous losses	69,452	24,497
Impairment loss of intangible assets	25,557	388
Additional provision	11,997	-
Loss on disposal of property, plant and equipment	9,313	2,446
Commissions	8,139	5,989
Impairment loss of property, plant and equipment	7,266	28,724
Other assets' allowance for bad debts	5,700	-
Loss on derivative transactions	5,438	19,055
Loss on disposal of trade receivables	3,777	2,315
Donations	2,982	3,205
Loss on scrap of inventories	721	233
Loss on valuation of derivatives	418	20,215
Sales promotion	298	148
Impairment loss of other assets	134	438
Loss on valuation of inventories	-	708
Loss on disposal of intangible assets	-	88
Loss on disposal of investment property	-	5
	<u>151,192</u>	<u>108,454</u>
	<u>₩ 101,867</u>	<u>₩ 11,266</u>

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34. Financial Income and Expenses

Details of financial income and expenses for the years ended December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Financial income		
Interest income		
Loans and receivables	₩ 7,699	₩ 14,835
Financial assets at fair value through profit or loss	185	865
Available-for-sale financial assets	30	1,387
Held-to-maturity financial assets	57	67
Other financial instruments	1,933	2,005
Gain on foreign currency transactions	102,109	148,056
Gain on foreign currency translation	123,899	78,401
Gain on disposal of financial assets		
Available-for-sale financial assets	13,525	23,624
	<u>249,437</u>	<u>269,240</u>
Financial expenses		
Interest expenses		
Financial liabilities at amortized cost	246,607	210,174
Loss on foreign currency transactions	82,611	113,699
Loss on foreign currency translation	76,457	145,063
Loss on disposal of financial assets		
Financial assets at fair value through profit or loss	156	1,141
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	49	138,885
	<u>405,880</u>	<u>616,209</u>
	<u>₩ (156,443)</u>	<u>₩ (346,969)</u>

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

35. Income Tax Expense

Income tax expense for the years ended December 31, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	2012	2011
Current tax:		
Current tax on profits for the year	₩ 107,768	₩ 52,202
Adjustments in respect of prior years	(2,362)	998
Total current tax	<u>105,406</u>	<u>53,200</u>
Deferred tax (Note 23):		
Origination and reversal of temporary differences	(61,325)	(4,764)

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Impact of change in Korean tax rate	(35)	23,345
Total deferred tax	(61,360)	18,581
Income tax expense from continuing operations	₩ 44,046	₩ 44,699
Income tax expense from discontinued operations	₩ -	₩ 27,082

The income tax (charged)/credited directly to equity as of December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	2012			2011		
	Before tax	Tax (charge) credit	After tax	Before tax	Tax (charge) credit	After tax
Gain (loss) on valuation of available-for-sale financial assets	₩ 36,994	₩ (8,953)	₩ 28,041	₩ 11,782	₩ (3,380)	₩ 8,402
Actuarial gains and losses	(47,662)	11,534	(36,128)	(34,780)	3,765	(31,015)
Gain (loss) on valuation of derivatives	468	(113)	355	280	(68)	212
Revaluation of land	852,863	(206,638)	646,225	852,863	(206,638)	646,225
Change in equity from applying equity method	21,740	(5,261)	16,479	16,024	(2,715)	13,309
Cumulative effect of foreign currency translation	(20,010)	4,842	(15,168)	50,460	(12,004)	38,456
	₩844,393	₩ (204,589)	₩639,804	₩ 896,629	₩ (221,040)	₩675,589

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

(in millions of Korean won)	2012	2011
Profit(Loss) before tax	₩ 151,422	₩ (9,942)
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩ 41,306	₩ 27,553
Tax effects of:		
Income not subject to tax	(3,066)	(37,625)
Expenses not deductible for tax purposes	9,653	62,398
Tax credits	16,235	4,126
Others	(19,361)	(13,215)
Re-measurement of deferred tax - change in the Korean tax rate	1,641	464
Adjustment in respect of prior years	(2,362)	998
Tax charge from continuing operations	₩ 44,046	₩ 44,699
Tax charge from discontinued operations	₩ -	₩ 27,082

The weighted average applicable tax rate was 29.1% (2011: - %) for the year ended December 31, 2012.

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

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36. Discontinued Operations

The Group lost control and significant influence over Chin Hung International Inc. through a special agreement on a management normalization plan of Chin Hung International Inc. on May 19, 2011 (Note 40). Thus, Chin Hung International Inc. was de-consolidated, and the investment was reclassified as available-for-sale financial asset. Income on the related operations is presented income from discontinued operations.

Also, the management and shareholder of the Group determined that it is not necessary to maintain Hyosung America Inc. due to reduction in its role, and liquidated it on June 30, 2011. Relevant income is presented as income from discontinued operations based on the Article 1105, "Non-current Assets Held for Sale and Discontinued Operations" of Korean IFRS.

Loss for the year from discontinued operations for the year ended December 31, 2011, is as follows:

<i>(in millions of Korean won)</i>	2011	
Revenue	₩	103,634
Costs		197,761
Profit for the year from discontinued operations before taxes		(94,127)
Income tax expenses		7,225
Profit for the year from discontinued operations after taxes		(101,352)
Gain on disposal of discontinued operation before taxes		82,055
Income tax expenses		19,857
Gain on disposal of discontinued operation after taxes		62,198
Loss for the year from discontinued operations	₩	(39,154)

37. Earnings per Share

Basic earnings(loss) per ordinary share for the years ended December 31, 2012 and 2011, is as follows:

<i>(in millions of Korean won, except per share amount)</i>	2012		2011	
Profit(loss) attributable to equity holders of the Group	₩	122,404	₩	(46,806)
Profit from discontinued operation attributable to equity holders of the Group		-		1,819
	₩	122,404	₩	(44,987)
Weighted average number of ordinary shares in issue ¹		33,268,604		33,268,604
Basic earnings per share				
Basic earnings(loss) per share from continuing operations <i>(in Korean won)</i>	₩	3,679	₩	(1,407)
Basic earnings per share from discontinued operations <i>(in Korean won)</i>	₩	-	₩	55

¹ The number of weighted average number of ordinary shares for the years ended December 31, 2012 and 2011, is 33,268,604 and there has been no change.

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38. Dividends

The dividends paid in 2012 and 2011 were ₩ 33,269 million (₩ 1,000 per share) and ₩ 41,586 million (₩ 1,250 per share), respectively. A dividend in respect of the year ended December 31, 2012, of ₩ 1,000 per share, amounting to total dividends of ₩ 33,269 million, is to be proposed at the annual general meeting on March 22, 2013. These financial statements do not reflect this dividend payable.

39. Cash generated from operations

Cash generated from operations for the years ended December 31, 2012 and 2011, is as follows:

<i>(in millions of Korean won)</i>	2012	2011
Profit(Loss) before income tax	₩ 151,422	₩ (9,942)
Adjustments for:		
Interest income and expenses	220,811	108,665
Gain (loss) on foreign currency translation	(46,025)	66,662
Gain (loss) on derivatives	(65,967)	14,234
Depreciation and amortization	605,512	412,777
Loss on valuation of inventories	8,218	-
Loss on disposal of property, plant, equipment, intangible assets and investment property	9,313	2,539
Gain on disposal of property, plant, equipment, intangible assets, and investment property	(24,639)	(3,519)
Impairment loss on property, plant, equipment, intangible assets, and investment property	33,009	29,112
Reversal of impairment loss on property, plant, equipment, and investment property	-	(19)
Bad debts expense	32,483	249
Reversal of allowance for bad debts	(655)	(4,283)
Loss on disposal of financial assets	1,195	1,141
Gain on disposal of financial assets	(18,189)	(23,624)
Impairment loss on financial assets	595	138,885
Loss on valuation of financial assets	-	7,247
Dividends	(1,670)	(1,786)
Severance pension benefits	46,310	42,140
Additional provisions adjustment	21,496	6,022
Loss on disposal of trade receivables	3,777	2,315
Gain (loss) on investments in associates	(16,691)	(48,189)
Others	938	2,014
Miscellaneous loss	14,511	-
Changes in assets and liabilities from operations:		
Increase (decrease) in trade receivables	135,027	(444,532)
Increase (decrease) in inventories	265,003	(446,269)
Increase in other receivables	(50,248)	(35,837)
Increase (decrease) in unbilled amount	48,486	(2,852)
Decrease in other financial assets	8,027	19,651
Increase (decrease) in other assets	38,785	(27,815)
Increase (decrease) in cumulative effect of foreign currency translation	2,364	(404)
Increase in other financial business assets	(267,052)	(341,244)

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Decrease (Increase) in trade payables	(350,754)	16,380
Decrease (Increase) in other payables	(113)	422,988
Decrease in other financial liabilities	(17,739)	(6,089)
Payment of warranty expenses	(6,876)	(8,025)
Payment of severance pension benefits	(53,702)	(52,321)
Others	(8,395)	(59,976)
Cash generated from operations	<u>₩ 718,567</u>	<u>₩ (223,705)</u>

Significant transactions not affecting cash flows are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Construction-in-progress transferred to property, plant and equipment	₩ 567,003	₩ 519,885
Reclassification of the current portion of long-term loans	391,749	266,697
Reclassification of the current portion of debentures	280,000	565,000
Debt-to-equity swap of Chin Heung International Inc.	103,542	-
Gain (loss) on valuation of available-for-sale financial assets	30,700	31,675
Account receivables from debt-equity swap	15,147	-
Machinery-in-transit transferred to property, plant and equipment	13,686	27,262
Replacement of inventories of property, plant and equipment	8,277	-
Reclassification of the current portion of long-term trade receivables	4,220	2,909
Reclassification of the current portion of long-term deposits received	2,668	-
Replacement of investment of associates	-	84,099
Offset of provision for guarantees	-	77,553
Accounts payables related to acquisition of property, plant and equipment	(16,238)	773
Advance payment related to acquisition of property, plant and equipment	(18,904)	17,175

40. Contingencies and Commitments

Guarantees of notes and checks provided as collaterals

Details of commitments and contingencies provided by the Group regarding accounts payable and trade terms as of December 31, 2012, are as follows:

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

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Loan agreement and others

The Group has general loans and open local L/C with a maximum limit of ₩ 6,922,368 million, including bank overdraft and trade bill discount. Also, the Group has accounts receivable discounting agreements with a maximum limit of ₩ 1,095,384 million with financial institutions as of December 31, 2012.

Guarantees provided to others

The Group provided guarantees for others, amounting to ₩ 537,473 million and USD 11,615 thousand as of December 31, 2012.

Guarantees provided to others in relation to Project Financing

Details of guarantees provided by the Group to developers as of December 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Acceptances for debts	₩ 308,800	₩ 210,000
Joint and several guarantees	98,000	58,000
	₩ 406,800	₩ 268,000

As of December 31, 2012, the Group 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	2007.10~2013.06
Guangjoo Taejeondong APT	Bank and insurance	90,000	90,000	Acceptances for debt	2010.04~2013.04
Reconstruction of Daegubongduk APT	Capital	30,000	18,362	Joint and several guarantees	2006.07~2013.01
Gangnam officetel	IB	85,800	78,000	Capital supplement	2011.12~2015.01
Naepo APT	IB	40,000	31,000	Capital supplement	2012.06~2014.12
Bundang Townhouse	IB	35,000	35,000	Capital supplement	2011.05~2013.05
Sangdodong APT	Bank	58,000	49,500	Acceptance for debt	2012.09~2015.10
Sunchun-si Resource Recycling Center BTO Project	Bank and insurance	40,000	14,800	Joint and several guarantees	2012.04~2014.01
		₩ 406,800	₩ 344,662		

The Group recognized ₩ 11,997 million as guarantee liability in relation to PF guarantee and ₩ 796 million as financial guarantee liability as of December 31, 2012.

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Guarantees provided by others

Guarantees provided by others as of December 31, 2012, are as follows:

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

Guarantor	Collaterals and guarantees provided	Currency	Amount
Kookmin Bank, Shinhan Bank, The Export-Import Bank of Korea, Korea exchange Bank, Hana Bank and others	Payment guarantee and others	KRW	560,884
		USD	34,151,568
		EUR	1,525,499
		DZD	201,124,798
	Others	KRW	33,124
		USD	750,000
		EUR	928,674
Korea Construction Financial Cooperative and others	Construction performance and others	KRW	336,737
Seoul Guarantee Insurance Company	Payment guarantee and others	KRW	22,558
Bank Mellat	Payment guarantee and others	EUR	307,376
Machinery Financial Cooperative	Payment guarantee and others	KRW	110,955
SH Corporation and others	Provide pledge of stock, others	KRW	7,920
Korea Trade Insurance Corporation	Export financing facility	USD	21,059,953
Others	Joint and several guarantees	KRW	3,900

Assets pledged as collaterals

As of December 31, 2012, the Group provided following assets as collaterals:

(in millions of Korean won,
in Euros and Singapore dollars)

Collateral	Lender	Descriptions	Maximum credit amount
Investments in associates	Woori Bank and others	General loans	₩ 89,760
Cash, and cash equivalents	Newstarhaechi 2 nd and others	General loans	1,625
Available-for-sale financial assets	Creditors of Chin Hung International Inc.	General loans	143,583
	DBS Bank	General loans	SGD 2,375,844.46
Long-term other financial assets	Mellat Bank	Foreign-currency payment guarantee	EUR 30,737.62
Property, plant, equipment and inventories	The Korea Development Bank and others	General loans and others	1,809,109

Pending Lawsuits

The Group is involved in various lawsuits and claims for damages aggregating to ₩ 144,888 million as of December 31, 2012. Management believes that these lawsuits and claims will not have a significant adverse effect on the Group's financial position, operating results or cash flows.

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41. Events after the Reporting Period

Guarantees provided to others

The Group has provided Newstarhaechi 2nd Limited with the payment guarantees amounting to ₩14,000 million in relation to the business of Flossom Corporation in January 2013.

Chin Hung International Inc

As a result of capital reduction by Chin Hung International Inc., the Group's percentage of ownership decreased from 49.3% to 46.1%.

Shinwha Intertek Corp.

The Group entered into a contract with Osung Lst Co., Ltd. to acquire 4,446,227 common shares of Shinwha Intertek Corp. and the due diligence is in progress.

Issuance of debentures

The Group has issued unsecured debentures amounting to ₩120,000 million in February 2013.