

Hyosung Chemical Corporation

**Separate Financial Statements
December 31, 2020 and 2019**

Hyosung Chemical Corporation

Index

December 31, 2020 and 2019

	Page(s)
Independent Auditor's Report	1-4
Separate Financial Statements	
Separate Statements of Financial Position.....	5
Separate Statements of Profit or loss.....	6
Separate Statements of Comprehensive Income.....	7
Separate Statements of Changes in Equity.....	8
Separate Statements of Cash Flows.....	9
Notes to the Separate Financial Statements.....	10-80
Report on Independent Auditor's Audit of Internal Control over Financial Reporting	81-82
Report on the Effectiveness of Internal Control over Financial Reporting	83



Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors of and Shareholders of
Hyosung Chemical Corporation

Opinion

We have audited the accompanying separate financial statements of Hyosung Chemical Corporation (the Company) which comprise the separate statement of financial position as at December 31, 2020, and the separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of Hyosung Chemical Corporation as at December 31, 2020, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

We also have audited, in accordance with Korean Standards on Auditing, the Company's Internal Control over Financial Reporting as of December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*, and our report dated March 10, 2021 expressed an unqualified opinion.

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the separate financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 3 to the separate financial statements of the Company. Note 3 to the separate financial statements describes uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Company's productivity and ability to satisfy customer's orders, and to solve these events or circumstances.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Impairment assessment on cash-generating units

Why we determined this matter as Key Audit Matter

A cash generating unit (CGU) is tested for impairment if events or changes in circumstances indicate that it might be impaired. 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 of disposal and value in use.

The Company determined that there is an indication of asset impairment in POK(POLYKETONE) segment's CGU. We focused on this area due to the significant size of this CGU and because the assessment of the 'value in use' of the Company's CGU involves management's judgements on the future results of the business and on the discount rates applied to future cash flow forecast. The Company engaged an independent external expert to assist the Company in valuation of the fair value of the POK(POLYKETONE) segment's CGU.

How our audit addressed the Key Audit Matter

Key audit procedures we have performed in relation to the impairment assessment on the CGU are as follows:

- We evaluated the appropriateness of determination of the CGU of the Company and the book amount of the CGU.
- We evaluated the eligibility of the external expert hired by the Company to assess the value in use.
- We evaluated the adequacy of the valuation model used in estimating value in use.
- We confirmed the consistency of the cash flow forecasts and the approved forecasts by management.
- We evaluated the reasonableness of key assumptions used in estimating value in use.
- We examined the accuracy of value in use calculations.

Other Matters

The separate financial statements of the Company for the year ended December 31, 2019, were audited by another auditor who expressed an unqualified opinion on those statements on March 9, 2020.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Youngseok Bae, Certified Public Accountant.

Seoul, Korea
March 10, 2021

This report is effective as of March 10, 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Hyosung Chemical Corporation
Separate Statements of Financial Position
December 31, 2020 and 2019

<i>(in Korean won)</i>	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	4,8,9	₩ 921,749,012	₩ 745,769,784
Trade and other receivables	4,7,8,11	148,411,931,404	148,241,912,548
Other financial assets	4,5,8,12	27,963,676	1,729,373,619
Other current assets	13	13,165,525,554	8,381,351,232
Inventories	14	108,288,598,694	127,510,171,001
		<u>270,815,768,340</u>	<u>286,608,578,184</u>
Non-current assets			
Long-term trade and other receivables	4,8,11	3,467,217,642	4,947,322,294
Property, plant and equipment	15,16,18,38	855,202,269,153	951,403,849,918
Intangible assets	17	13,402,791,077	14,187,371,471
Investments in subsidiaries and associates	19	408,887,024,961	283,575,638,205
Other non-current financial assets	4,5,8,10,12	15,500,000	8,579,983,713
Other non-current assets	13,23	3,472,209,496	1,990,886,026
Deferred tax assets	24	9,356,986,691	4,508,317,959
		<u>1,293,803,999,020</u>	<u>1,269,193,369,586</u>
Total assets		<u>₩ 1,564,619,767,360</u>	<u>₩ 1,555,801,947,770</u>
Liabilities			
Current liabilities			
Trade and other payables	4,8,21	₩ 206,643,701,405	₩ 203,933,372,036
Borrowings	4,7,8,22,38	250,716,014,288	185,915,655,777
Other financial liabilities	8,12,16	4,107,228,508	1,193,029,121
Current tax liabilities	24	15,735,276,890	20,442,749,505
Other current liabilities	25	6,963,076,349	3,887,327,210
		<u>484,165,297,440</u>	<u>415,372,133,649</u>
Non-current liabilities			
Long-term trade and other payables	4,8,21	13,185,579,107	12,518,989,095
Long-term borrowings	4,8,22,38	584,327,985,337	675,363,180,753
Net defined benefit liabilities	23	-	-
Other non-current financial liabilities	8,12,16	5,693,556,629	4,668,452,728
Other non-current liabilities	25	7,133,398,082	1,582,362,810
		<u>610,340,519,155</u>	<u>694,132,985,386</u>
Total liabilities		<u>1,094,505,816,595</u>	<u>1,109,505,119,035</u>
Equity			
Share capital	26	15,950,630,000	15,950,630,000
Share premium		327,697,938,702	327,697,938,702
Retained earnings	27	128,308,823,268	104,491,701,238
Other components of equity	28	(1,843,441,205)	(1,843,441,205)
Total equity		<u>470,113,950,765</u>	<u>446,296,828,735</u>
Total liabilities and equity		<u>₩ 1,564,619,767,360</u>	<u>₩ 1,555,801,947,770</u>

The above separate statements of financial position should be read in conjunction with the accompanying notes.

Hyosung Chemical Corporation
Separate Statements of Profit or Loss
Years Ended December 31, 2020 and 2019

<i>(in Korean won)</i>	Notes	2020	2019
Revenue	6,29	₩ 1,643,261,559,101	₩ 1,813,137,241,909
Cost of sales	30,31	<u>1,456,699,663,920</u>	<u>1,569,551,815,873</u>
Gross profit		186,561,895,181	243,585,426,036
Selling, general and administrative expenses	30,31,32	64,040,215,395	64,415,546,578
Research and development expenses	30,31	<u>20,203,161,536</u>	<u>20,993,052,234</u>
Operating profit		102,318,518,250	158,176,827,224
Other income	33	7,273,708,013	5,151,618,514
Other expenses	33	17,378,190,809	6,238,371,226
Finance income	34	46,321,686,005	42,971,943,230
Finance expenses	34	81,873,152,263	88,422,630,362
Reversal of impairment loss from subsidiaries and associates	19	<u>-</u>	<u>4,046,066,710</u>
Profit before income tax		56,662,569,196	115,685,454,090
Income tax expense	24	<u>13,881,350,536</u>	<u>23,518,645,189</u>
Profit for the year		<u>₩ 42,781,218,660</u>	<u>₩ 92,166,808,901</u>
Earnings per share			
Basic earnings per share	35	₩ 13,463	₩ 29,003

The above separate statements of profit or loss should be read in conjunction with the accompanying notes.

Hyosung Chemical Corporation
Separate Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

(in Korean won)

	Notes	2020	2019
Profit for the year		₩ 42,781,218,660	₩ 92,166,808,901
Other comprehensive loss			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liabilities	23,24	(3,075,121,630)	(4,764,235,627)
<i>Items that may be subsequently reclassified to profit or loss</i>		-	-
Other comprehensive loss for the year, net of tax		(3,075,121,630)	(4,764,235,627)
Total comprehensive income for the year		₩ 39,706,097,030	₩ 87,402,573,274

The above separate statements of comprehensive income should be read in conjunction with the accompanying notes.

Hyosung Chemical Corporation
Separate Statements of Changes in Equity
Years Ended December 31, 2020 and 2019

(in Korean won)

	Share capital	Share premium	Retained Earnings	Other Components of Equity	Total Equity
Balance at January 1, 2019	₩ 15,950,630,000	₩ 327,697,938,702	₩ 20,266,922,964	₩ (1,843,441,205)	₩ 362,072,050,461
Total comprehensive income					
Profit for the year	-	-	92,166,808,901	-	92,166,808,901
Remeasurements of net defined benefit liabilities	-	-	(4,764,235,627)	-	(4,764,235,627)
Annual dividends	-	-	(3,177,795,000)	-	(3,177,795,000)
Balance at December 31, 2019	<u>₩ 15,950,630,000</u>	<u>₩ 327,697,938,702</u>	<u>₩ 104,491,701,238</u>	<u>₩ (1,843,441,205)</u>	<u>₩ 446,296,828,735</u>
Balance at January 1, 2020	₩ 15,950,630,000	₩ 327,697,938,702	₩ 104,491,701,238	₩ (1,843,441,205)	₩ 446,296,828,735
Total comprehensive income					
Profit for the year	-	-	42,781,218,660	-	42,781,218,660
Remeasurements of net defined benefit liabilities	-	-	(3,075,121,630)	-	(3,075,121,630)
Annual dividends	-	-	(15,888,975,000)	-	(15,888,975,000)
Balance at December 31, 2020	<u>₩ 15,950,630,000</u>	<u>₩ 327,697,938,702</u>	<u>₩ 128,308,823,268</u>	<u>₩ (1,843,441,205)</u>	<u>₩ 470,113,950,765</u>

The above separate statements of changes in equity should be read in conjunction with the accompanying notes.

Hyosung Chemical Corporation
Separate Statements of Cash Flows
Years Ended December 31, 2020 and 2019

<i>(in Korean won)</i>	Note	2020	2019
Cash flows from operating activities			
Cash generated from operations	37	₩ 275,826,118,169	₩ 295,466,227,766
Income taxes paid		(23,437,491,883)	(5,553,589,642)
Interest paid		(30,301,769,679)	(36,099,832,847)
Interest received		146,316,469	177,022,199
Dividends received		222,311,350	-
Net cash inflow from operating activities		<u>222,455,484,426</u>	<u>253,989,827,476</u>
Cash flows from investing activities			
Collection of long-term loans		237,306,430	140,719,996
Proceeds from disposal of property, plant and equipment		201,847,336	7,322,219
Increase in long-term loans		(740,066,434)	(387,690,000)
Decrease in long-term guarantees		446,618,065	-
Increase in long-term guarantees		(287,708,200)	(27,684,832)
Payments for property, plant and equipment		(47,734,730,651)	(40,626,098,295)
Payments for intangible assets		(123,047,781)	(671,315,846)
Proceeds from disposal of long-term financial instruments		487,400,000	-
Payments for long-term financial instruments		-	(487,400,000)
Payments for investments in subsidiaries and associates		(125,311,386,756)	(78,204,000,000)
Proceeds from disposal of derivative financial assets		8,809,605,173	-
Payments for derivative financial liabilities		(426,672,760)	-
Receipt of government grants		-	427,000,000
Increase in prepaid expenses		(3,852,609,000)	-
Net cash outflow from investing activities		<u>(168,293,444,578)</u>	<u>(119,829,146,758)</u>
Cash flows from financing activities			
Proceeds from issuance of bonds		193,345,846,994	299,000,000,000
Repayments of bonds		(120,000,000,000)	(120,000,000,000)
Proceeds from short-term borrowings		2,430,523,978,297	2,638,458,583,190
Repayments of short-term borrowings		(2,333,760,967,870)	(2,852,046,518,060)
Repayments of current portion of borrowings		(74,275,260,000)	-
Proceeds from long-term borrowings		90,000,000,000	-
Repayments of long-term borrowings		(220,540,000,000)	(93,755,125,000)
Payments of dividends		(15,888,975,000)	(3,177,795,000)
Repayments of lease liabilities		(3,390,683,041)	(4,083,856,314)
Net cash outflow from financing activities		<u>(53,986,060,620)</u>	<u>(135,604,711,184)</u>
Net increase (decrease) in cash and cash equivalents		175,979,228	(1,444,030,466)
Cash and cash equivalents at the beginning of the year		745,769,784	2,189,800,250
Cash and cash equivalents at the end of the year		<u>₩ 921,749,012</u>	<u>₩ 745,769,784</u>

The above separate statements of cash flows should be read in conjunction with the accompanying notes.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

1. General Information

Hyosung Chemical Corporation (the “Company”) was spun off on June 1, 2018, from Hyosung Corporation to engage in chemical related business.

As at December 31, 2020, the Company has plants in Yongyeon, Gumi, Oksan and Daejeon, etc. In addition, the Company has a subsidiary in Vietnam.

As at December 31, 2020, the Company’s major shareholders are as follows:

	Number of shares	Percentage of ownership (%)
Hyosung Corporation	643,481	20.17
Seok-Rae Cho	213,849	6.70
Hyun-Joon Cho	279,355	8.76
Hyun-Sang Cho	233,663	7.32
Gwang-Ja Song	23,445	0.73
Yang-Rae Cho, etc.	2,755	0.08
Others	1,793,578	56.24
	<u>3,190,126</u>	<u>100.00</u>

2. Significant Accounting Policies

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

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

The separate financial statements of the Company 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.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less costs to sell, and
- defined benefit pension plans – plan assets measured at fair value

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

2.2 Changes in Accounting Policies and Disclosures

2.2.1 New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020.

(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements and Korean IFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material

The amendments clarify the definition of material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments do not have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1103 Business Combination – Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Company of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments do not have a significant impact on the financial statements.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

(c) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement and Korean IFRS 1107 Financial Instruments: Disclosure – Interest Rate Benchmark Reform

The amendments allow to apply the exceptions in relation the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions require the Company assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. The amendments do not have a significant impact on the financial statements.

2.2.2 New standards and interpretations not yet adopted by the Company

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting periods and have not been early adopted by the Company.

(a) Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Exemption, Concessions, Suspension

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

(c) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(d) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(e) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(f) Annual improvements to Korean IFRS 2018-2020

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards*
– Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 *Leases* – Lease incentives

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

· Korean IFRS 1041 *Agriculture* – Measuring fair value

(g) *Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

2.3 Subsidiaries, Joint Ventures and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 *Separate Financial Statements*. Investments in subsidiaries, joint ventures and associates are recognized at cost under the direct equity method. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established.

2.4 Foreign Currency Translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

Non-monetary items in foreign currency that are measured as historical cost are recognized using the exchange rate as at the date of initial transaction. Non-monetary items in foreign currency measured at fair value are recognized using the exchange rate at the date of the fair value measurement. The gain or loss arising from translation of non-monetary items is treated in line with the recognition of gain or loss on the change in fair value of the item, as either profit or loss or other comprehensive income or loss.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

2.5 Financial Assets

(a) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss
- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of non-designated equity investment are recognized in profit or loss.

(b) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'finance income or expenses' and impairment losses are presented in 'other expenses'.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or expenses' in the year in which it arises.

B. Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments, which held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'finance income or expenses' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Company applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables. (Note 11 provides more detail of how the Company determines there has been a significant increase in credit risk.)

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

(d) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as “borrowings” in the statement of financial position (Note 22).

(e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where 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 assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within ‘finance income (expenses)’ based on the nature of transactions.

2.7 Trade Receivables

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method except for in-transit inventories which are determined using the specific identification method.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

2.9 Property, Plant and Equipment

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

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Useful lives
Buildings	40 years
Structures	20 - 40
Machinery	8 - 10
Vehicles	5
Tools and equipment	5
Right-of-use assets	1 - 36
Others	5

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.10 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.11 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

2.12 Intangible Assets

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

Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful lives
Industrial rights	5 - 10 years
Facility usage rights	10
Other intangible assets	5

2.13 Impairment of Non-financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.14 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.15 Financial Liabilities

(a) Classification and measurement

The Company's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as other financial liabilities.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade and other payables', and 'borrowings' in the statement of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.16 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of following and recognized in the statement of financial position within 'accrued expenses'.

- the amount determined in accordance with the expected credit loss model under Korean IFRS 1109 *Financial Instruments* and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*

2.17 Greenhouse Gas Emission Permits and Obligations

With enforcement of *The Act on the Allocation and Trading of Greenhouse Gas Emission Permits*, the allowances that are received free of charge from the government are measured at zero while allowances purchased are measured at acquisition cost and stated net of accumulated impairment loss. Emissions obligations are measured as the sum of the carrying amount of the allocated allowances that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of reporting period for any excess emission. The allowances and emissions obligations are classified as 'intangible assets' and 'provisions', respectively, in the statement of financial position.

2.18 Provisions

Provisions for restoration and others are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

2.19 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, deferred income tax is not accounted for if it arises 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 profit nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset when the Company has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the assets and settle the liability simultaneously.

2.20 Employee Benefits

The Company operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Company pays contribution to publicly or privately administered

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

pension insurance plans on mandatory, contractual or voluntary basis. The Company has no further payment obligation once the contribution has been paid. The contribution is recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

The Company provides long-term employee benefits that are entitled to employees with service period for ten years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Company recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by an independent qualified actuary.

2.21 Revenue Recognition

The Company manufactures and sells a variety of products and merchandises including polypropylene, TPA, film, NF3, optical film and polyketone.

Sales are recognized when control of products and merchandises has transferred, being when the products and the merchandises are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products and the merchandises. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. Also, when the Company exports products and merchandises under the terms of Incoterms Group C, the Company identifies the transportation service as a separate performance obligation since the transportation service is carried out after the control of products and merchandises has been transferred to the customer.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

2.22 Leases

(a) Lessee

The Company leases various offices, warehouses, vehicles, facilities and others. Lease contracts are typically made for fixed periods, but may have extension options or termination options as described in (b) below.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is lessee, the Company applies the practical expedient which has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Company determines the lease term as the non-cancellable period of a lease, together with both (i) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (ii) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Company should consider a termination penalty in determining the period for which the contract is enforceable.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Company (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Each lease payment is allocated between the liability and finance expense. The finance expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT-equipment and small items.

(b) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

(c) Residual value guarantees

To optimize lease costs during the contract period, the Company sometimes provides residual value guarantees in relation to leases.

2.23 Segment Reporting

The Company has a single operating segment in accordance with Korean IFRS 1108 *Operating Segments*.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

2.24 Approval of Issuance of the Financial Statements

The separate financial statements 2020 were approved for issue by the Board of Directors on January 29, 2021 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

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 discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Impact of Coronavirus disease 2019 ("COVID-19")

During 2020, the spread of Coronavirus disease 2019 ("COVID-19") has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Company. The Company has not identified any risks that could impact the financial performance or position of the Company as at December 31, 2020. It has sufficient working capital and undrawn financing facilities to support smooth operating activities and ongoing investments. However, significant accounting estimates and assumptions applied in the preparation of the separate financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Company's business, financial position and financial performance cannot presently be determined.

(b) Impairment of assets

The Company considers value-in-use when calculating recoverable amount for the impairment test of investments in subsidiaries and cash generating units (CGU). The value-in-use is calculated by discounting estimated future cash flows of investments in subsidiaries and CGU with the appropriate discount rates (Notes 15 and 19).

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2020 and 2019

(c) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 24).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System for Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(d) Impairment of financial assets

The provisions for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 11).

(e) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 23).

(f) Lease

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

4. Financial Risk Management

4.1 Financial Risk Factors

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

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Risk management is carried out under policies approved by the management committee within the Board of Directors. The committee reviews and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investments exceeding liquidity.

4.1.1 Market Risk

(a) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk, primarily the US dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions, recognized assets liabilities and net investments in foreign operations.

Management has set up a policy to require operations to manage their foreign exchange risk against their functional currency.

The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

The table below summarizes the impact of weakened/strengthened Korean won by 10% against foreign currencies on the Company's pre-tax profit for the period, with all other variables held constant.

<i>(in millions of Korean won)</i>		Impact on post-tax profit			
		2020		2019	
USD	Strengthened	₩	(6,649)	₩	(23,478)
	Weakened		6,649		23,478
EUR	Strengthened		(135)		549
	Weakened		135		(549)
JPY	Strengthened		(36)		59
	Weakened		36		(59)
Others	Strengthened		(17)		-
	Weakened		17		-

(b) Price risk

The Company is not exposed to price risk as the Company does not hold equity securities measured at fair value in the separate statement of financial position.

(c) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate due to changes in future market interest rate. The interest rate risk

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

mainly arises through floating rate deposits and borrowings. The objective of the Company's interest rate risk management lies in maximizing corporate value by minimizing uncertainty in interest rates fluctuations and net interest expense.

The Company holds fixed and floating interest rate borrowings and is exposed to interest rate risk from the floating interest rate borrowings. The Company's management reviews interest rate fluctuation periodically and manages the interest rate risk by repaying or refinancing the borrowings.

The table below summarizes the impact of increase/decrease of interest rate by 100 basis points on the Company's pre-tax profit for the period, with all other variable held constant.

<i>(in millions of Korean won)</i>	Impact on post-tax profit			
	2020		2019	
Increase	₩	(461)	₩	(1,843)
Decrease		461		1,843

4.1.2 Credit Risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, financial assets and outstanding receivables, etc. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The compliance with credit limit is regularly monitored by line management. See Note 11 for more information about credit risk.

The maximum exposure to credit risk as at December 31, 2020 and 2019, is as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Cash and cash equivalents	₩	922	₩	746
Trade and other receivables		148,412		148,242
Other financial assets		28		1,729
Long-term trade and other receivables		3,467		4,947
Other non-current financial assets		15		8,580
Financial guarantee contracts ¹		1,082,540		729,414

¹ The maximum risk exposed in relation to financial guarantee contracts is the maximum amount that the Company should pay when the guarantee is charged.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

4.1.3 Liquidity Risk

The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company's liquidity forecast comprehensively considers short-term and long-term financing plan, compliance of covenants, and target financial ratios.

Details of the Company's liquidity risk analysis as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

	2020			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	₩ 206,643	₩ 13,186	₩ -	₩ 219,829
Lease liabilities	3,378	5,480	688	9,546
Borrowings (including interest expense)	260,737	617,288	-	878,025
Derivative instruments ¹	729	-	-	729
Financial guarantee contracts	1,082,540	-	-	1,082,540
Total	<u>₩ 1,554,027</u>	<u>₩ 635,954</u>	<u>₩ 688</u>	<u>₩ 2,190,669</u>

¹ Trading portfolio derivative instruments are included at their fair value within the less than 1 year time bucket. This is because the contractual maturities are not essential to understand the timing of the cash flows. These contracts are managed on a net fair value basis rather than by maturity date.

(in millions of Korean won)

	2019			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	₩ 203,933	₩ 12,519	₩ -	₩ 216,452
Lease liabilities	37	4,308	745	5,090
Borrowings (including interest expense)	197,553	739,269	-	936,822
Derivative instruments ¹	1,156	-	-	1,156
Financial guarantee contracts	729,414	-	-	729,414
Total	<u>₩ 1,132,093</u>	<u>₩ 756,096</u>	<u>₩ 745</u>	<u>₩ 1,888,934</u>

¹ Trading portfolio derivative instruments are included at their fair value within the less than 1 year time bucket. This is because the contractual maturities are not essential to understand the timing of the cash flows. These contracts are managed on a net fair value basis rather than by maturity date.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

4.2 Capital Risk Management

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is total borrowings (including 'short and long-term borrowings' as shown in the separate statement of financial position) less cash and cash equivalents. Total capital is 'equity' as shown in the separate statement of financial position plus net debt.

The gearing ratio as at December 31, 2020 and 2019, is as follows:

<i>(in millions of Korean won)</i>	2020	2019
Total borrowings	₩ 835,044	₩ 861,279
Less: cash and cash equivalents	<u>(922)</u>	<u>(746)</u>
Net debt	834,122	860,533
Total equity	<u>470,114</u>	<u>446,297</u>
Total capital	<u>₩ 1,304,236</u>	<u>₩ 1,306,830</u>
Gearing ratio	63.95%	65.85%

5. Fair Value

5.1 Financial Instruments Measured at Fair value

The book value is similar to the fair value of financial instruments measured at amortized cost.

5.2 Fair Value Hierarchy

Items that are measured at fair value of for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

- Unobservable inputs for the asset or liability (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

	2020			
	Level 1	Level 2 ¹	Level 3	Total
Assets				
Financial assets at fair value through profit or loss (derivative financial assets)	₩ -	₩ 28	₩ -	₩ 28
Total	₩ -	₩ 28	₩ -	₩ 28
Liabilities				
Financial liabilities at fair value through profit or loss (derivative financial liabilities)	₩ -	₩ 729	₩ -	₩ 729
Total	₩ -	₩ 729	₩ -	₩ 729

¹ The Company uses market approach as valuation technique for derivative financial assets and liabilities classified as level 2 in fair value hierarchy. Inputs are exchange rates and others.

(in millions of Korean won)

	2019			
	Level 1	Level 2 ¹	Level 3	Total
Assets				
Financial assets at fair value through profit or loss (derivative financial assets)	₩ -	₩ 9,806	₩ -	₩ 9,806
Total	₩ -	₩ 9,806	₩ -	₩ 9,806
Liabilities				
Financial liabilities at fair value through profit or loss (derivative financial liabilities)	₩ -	₩ 1,156	₩ -	₩ 1,156
Total	₩ -	₩ 1,156	₩ -	₩ 1,156

¹ The Company uses market approach as valuation technique for derivative financial assets and liabilities classified as level 2 in fair value hierarchy. Inputs are exchange rates and others.

5.3 Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

There were no transfers between fair value hierarchy levels for the year ended December 31, 2020.

5.4 Valuation Techniques and the Inputs

Valuation techniques and inputs used in fair value measurements categorized within Level 2 of the fair value hierarchy as at December 31, 2020, are as follows:

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(in millions of Korean
won)

	2020					
	Fair value	Level	Valuation techniques	Inputs	Level 3 Range of inputs (weighted average)	
Derivatives						
Assets	₩ 28	2	Market approach	Exchange rate, discount rate	N/A	
Liabilities	729	2	Market approach	Exchange rate, discount rate	N/A	

5.5 Impairment of Financial Assets

The provisions for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 11).

6. Segment Information

The Company has a single operating segment in accordance with Korean IFRS 1108 *Segment Reporting*.

Details of revenue broken down by location of the customers for the years ended December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	2020		2019	
Korea	₩	688,876	₩	806,153
North America		24,486		30,272
Asia		620,503		663,622
Europe		263,209		274,239
South America		10,807		6,427
Africa		29,405		24,749
Others		5,976		7,675
	₩	<u>1,643,262</u>	₩	<u>1,813,137</u>

There is no key customer who contributes more than 10% of the Company's revenue for the year ended December 31, 2020. Information on key customer who contributed more than 10% of the Company's revenue for the year ended December 31, 2019, is as follows:

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(in millions of Korean won)

	2019	
	Revenue amount	Revenue %
Hyosung TNC Corporation	₩ 238,054	13.13%

7. Transfer of Financial Assets

Under factoring arrangement, the Company sells trade receivables at a discount to the financial institutions for the years ended December 31, 2020 and 2019. The Company may retain an obligation to compensate a financial institution for debtors' failure to make payment when they become due, an obligation known as a 'recourse obligation'. Recourse obligations related to the sales of receivables with recourse are accounted for as collateralized borrowings (Notes 11, 22 and 38).

Details of transferred financial assets that are not derecognized in their entirety as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

	Loans and receivables	
	2020	2019
Carrying amount of assets	₩ 47,603	₩ 33,420
Carrying amount of the associated liabilities	(47,603)	(33,600)
Net position	₩ -	₩ (180)

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

8. Financial Instruments by Categories

(a) Carrying Amounts of Financial Instruments by Category

Carrying amounts of financial assets and liabilities by category as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

	2020				
	Financial instruments at amortized cost		Financial assets measured at FVTPL		Total
Assets					
Cash and cash equivalents	₩	922	₩	-	₩ 922
Trade and other receivables		129,621		18,791	148,412
Other financial assets		-		28	28
Long-term trade and other receivables		3,467		-	3,467
Other non-current financial assets		16		-	16
	<u>₩</u>	<u>134,026</u>	<u>₩</u>	<u>18,819</u>	<u>₩ 152,845</u>

(in millions of Korean won)

	2020					
	Financial liabilities at amortized cost		Other financial liabilities		Financial liabilities measured at FVTPL	Total
Liabilities						
Trade and other payables	₩	198,557	₩	8,087	₩ -	₩ 206,644
Borrowings		202,475		48,241	-	250,716
Other financial liabilities		-		3,378	729	4,107
Long-term trade and other payables		13,186		-	-	13,186
Long-term borrowings		584,328		-	-	584,328
Other non-current financial liabilities		-		5,694	-	5,694
	<u>₩</u>	<u>998,546</u>	<u>₩</u>	<u>65,400</u>	<u>₩ 729</u>	<u>₩ 1,064,675</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(in millions of Korean won)

	2019				
	Financial instruments at amortized cost		Financial assets measured at FVTPL		Total
Assets					
Cash and cash equivalents	₩	746	₩	-	₩ 746
Trade and other receivables		148,242		-	148,242
Other financial assets		-		1,729	1,729
Long-term trade and other receivables		4,947		-	4,947
Other non-current financial assets		503		8,077	8,580
	₩	<u>154,438</u>	₩	<u>9,806</u>	₩ <u>164,244</u>

(in millions of Korean won)

	2019					
	Financial liabilities at amortized cost		Other financial liabilities		Financial liabilities measured at FVTPL	Total
Liabilities						
Trade and other payables	₩	203,358	₩	575	₩ -	₩ 203,933
Borrowings		152,271		33,645	-	185,916
Other financial liabilities		-		37	1,156	1,193
Long-term trade and other payables		12,519		-	-	12,519
Long-term borrowings		675,363		-	-	675,363
Other non-current financial liabilities		-		4,668	-	4,668
	₩	<u>1,043,511</u>	₩	<u>38,925</u>	₩ <u>1,156</u>	₩ <u>1,083,592</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(b) Net Gains or Losses by Category of Financial Instruments

Net gains or losses on each category of financial instruments for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Financial assets measured at amortized cost:		
Interest income	₩ 202	₩ 142
Gain on foreign currency translation	2,421	2,652
Loss on foreign currency translation	(4,199)	(2,399)
Reverse of bad debt expenses (bad debt expense)	(304)	66
Financial liabilities measured at amortized cost:		
Interest expense	(30,170)	(34,434)
Gain on foreign currency translation	8,229	11,832
Loss on foreign currency translation	(12,338)	(16,221)
Other financial liabilities ¹ :		
Interest expense	(892)	(1,477)
Gain on foreign currency translation	1,770	230
Loss on foreign currency translation	(644)	(1,191)
Financial assets/liabilities at FVTPL		
Gain (loss) on transaction (profit or loss for the year)	(1,425)	2,217
Gain (loss) on valuation (profit or loss for the year)	(969)	6,195

¹ Other financial liabilities include financial liabilities that are related to transfer transactions of financial assets not derecognized in their entirety. Such financial liabilities are not subject to application of financial liability categorization.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

9. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Bank deposits	₩	922	₩	746

10. Restricted Financial Instruments

Restricted financial instruments as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019		Description
Other non-current financial assets	₩	15	₩	15	Checking account deposits

11. Trade and Other Receivables

Details of trade and other receivables as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020					
	Receivable amount		Provision for impairment		Book amount	
Trade receivables	₩	146,455	₩	(1,360)	₩	145,095
Other receivables		3,340		(22)		3,318
Long-term other receivables		3,467		-		3,467
	₩	<u>153,262</u>	₩	<u>(1,382)</u>	₩	<u>151,880</u>

<i>(in millions of Korean won)</i>	2019					
	Receivable amount		Provision for impairment		Book amount	
Trade receivables	₩	144,600	₩	(1,056)	₩	143,544
Other receivables		4,720		(22)		4,698
Long-term other receivables		4,947		-		4,947
	₩	<u>154,267</u>	₩	<u>(1,078)</u>	₩	<u>153,189</u>

The Company has transferred trade receivables amounting to ₩ 47,603 million (2019: ₩ 33,600 million) to banks in exchange for cash as at December 31, 2020. The Company may retain an

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

obligation to compensate a bank for debtors' failure to make payment when they become due; therefore, the transaction has been accounted for as a collateralized borrowing (Notes 7 and 22).

Details of other receivables as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Other receivables		
Non-trade receivables	₩ 1,586	₩ 4,695
Loans	4	-
Deposits provided	1,727	-
Accrued income	1	3
	<u>3,318</u>	<u>4,698</u>
Long-term other receivables		
Long-term loans	1,364	879
Long-term deposits provided	2,103	4,068
	<u>3,467</u>	<u>4,947</u>
	<u>₩ 6,785</u>	<u>₩ 9,645</u>

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

<i>(in percentage)</i>	2020	2019
Discount rate	1.60%~4.00%	1.60%~4.00%

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

The aging analysis of trade and other receivables as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020							
	Receivables not past due	Past due but not impaired					Impaired	Total
		Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months			
Trade receivables	₩ 106,894	₩ 37,737	₩ 177	₩ 205	₩ 248	₩ 1,194	₩ 146,455	
Loss allowance provision	(9)	(7)	(4)	(14)	(132)	(1,194)	(1,360)	
Expected loss rate	0.01%	0.02%	2.26%	6.83%	53.23%	100%	0.93%	
	106,885	37,730	173	191	116	-	145,095	
Other receivables	3,318	-	-	-	-	22	3,340	
Loss allowance provision	-	-	-	-	-	(22)	(22)	
	3,318	-	-	-	-	-	3,318	
Long-term other receivables	3,467	-	-	-	-	-	3,467	
	₩ 113,670	₩ 37,730	₩ 173	₩ 191	₩ 116	₩ -	₩ 151,880	

<i>(in millions of Korean won)</i>	2019							
	Receivables not past due	Past due but not impaired					Impaired	Total
		Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months			
Trade receivables	₩ 134,962	₩ 8,016	₩ 395	₩ -	₩ 418	₩ 809	₩ 144,600	
Other receivables	4,698	-	-	-	-	22	4,720	
Long-term other receivables	4,947	-	-	-	-	-	4,947	
	₩ 144,607	₩ 8,016	₩ 395	₩ -	₩ 418	₩ 831	₩ 154,267	

The above amounts do not reflect the present value discount and provisions for impairment.

Individually impaired receivables mainly relate to customers that are experiencing unexpected economic difficulties. The Company expects that a portion of their receivables will be recovered. If the Company determines that no objective evidence of impairment exists for an individually assessed receivable, it collectively assesses them for impairment. The collective impairment

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

assessment is calculated based on credit loss information from sales and related payment data for 24 months as of the end of the reporting period.

Movements on the provisions for impairment of receivables for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			
	Beginning balance	Bad debt expense	Write-off	Ending balance
Trade receivables and long-term trade receivables	₩ 1,056	₩ 304	₩ -	₩ 1,360
Other receivables and long-term other receivables	22	-	-	22
	<u>₩ 1,078</u>	<u>₩ 304</u>	<u>₩ -</u>	<u>₩ 1,382</u>

<i>(in millions of Korean won)</i>	2019			
	Beginning balance	Bad debt expense	Write-off	Ending balance
Trade receivables and long-term trade receivables	₩ 1,122	₩ (66)	₩ -	₩ 1,056
Other receivables and long-term other receivables	22	-	-	22
	<u>₩ 1,144</u>	<u>₩ (66)</u>	<u>₩ -</u>	<u>₩ 1,078</u>

Provision for impaired trade receivables and unused amounts reversed are included in the separate statement of profit or loss within 'selling, general and administrative expenses' (Note 32). Provision for impaired other receivables and unused amounts reversed are included in the separate statement of profit or loss within 'other income and expenses' (Note 33). Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

12. Other Financial Assets and Liabilities

Other financial assets and liabilities as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Other financial assets				
Long-term financial assets	₩	15	₩	503
Derivative financial assets		28		9,806
		43		10,309
Less: current portion		(28)		(1,729)
	₩	15	₩	8,580
Other financial liabilities				
Lease liabilities	₩	9,072	₩	4,705
Derivative financial liabilities		729		1,156
		9,801		5,861
Less: current portion		(4,107)		(1,193)
	₩	5,694	₩	4,668

The Company has entered into currency swap contracts to hedge the risk of foreign currency exchange rate fluctuations relating to borrowings as at December 31, 2020. The Company recognizes gain or loss on valuation of derivatives in profit or loss.

Valuation of derivative financial assets and liabilities as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Current derivative financial assets and liabilities				
Currency swap	₩ 19	₩ -	₩ 1,709	₩ -
Forward exchange	9	729	20	1,156
	28	729	1,729	1,156
Non-current derivative financial assets and liabilities				
Currency swap	-	-	8,077	-
	-	-	8,077	-
	₩ 28	₩ 729	₩ 9,806	₩ 1,156

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

13. Other Assets

Details of other assets as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Other current assets				
Advance payments	₩	1,735	₩	1,348
Prepaid expenses		11,430		7,033
		<u>13,165</u>		<u>8,381</u>
Other non-current assets				
Long-term prepaid expenses		36		54
Other investment assets		3,436		1,937
		<u>3,472</u>		<u>1,991</u>
	₩	<u>16,637</u>	₩	<u>10,372</u>

14. Inventories

Details of inventories as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			2019		
	Cost	Provision	Book amount	Cost	Provision	Book amount
Merchandise	₩ 2,330	₩ (12)	₩ 2,318	₩ 2,779	₩ -	₩ 2,779
Finished goods	68,405	(1,192)	67,213	85,308	(3,881)	81,427
Semi-finished goods	7,066	(135)	6,931	15,580	(489)	15,091
Raw materials	11,108	(158)	10,950	10,468	(123)	10,345
Sub-materials	12,295	(639)	11,656	13,541	(638)	12,903
Supplies	2,927	(380)	2,547	2,414	(38)	2,376
Packaging	1,016	(35)	981	756	(37)	719
Goods in transit	5,693	-	5,693	1,870	-	1,870
	<u>₩ 110,840</u>	<u>₩ (2,551)</u>	<u>₩ 108,289</u>	<u>₩ 132,716</u>	<u>₩ (5,206)</u>	<u>₩ 127,510</u>

Inventories recognized as an expense for the year ended December 31, 2020 amount to ₩ 1,388,679 million (2019: ₩ 1,511,776 million), which is included in 'cost of sales'. Also, the Company recognized reversal of provisions for inventories amounting to ₩ 2,655 million (2019: ₩ 4,329 million) for the year ended December 31, 2020, which is included in the statement of profit or loss within 'cost of sales'.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

15. Property, Plant and Equipment

Details of property, plant and equipment as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			2019		
	Cost	Accumulated depreciation ¹	Book amount	Cost	Accumulated depreciation ¹	Book amount
Land	₩ 138,770	₩ -	₩ 138,770	₩ 138,770	₩ -	₩ 138,770
Building	175,115	(44,470)	130,645	174,191	(40,293)	133,898
Structures	181,818	(51,946)	129,872	180,351	(47,411)	132,940
Machinery	1,737,221	(1,344,649)	392,572	1,719,922	(1,217,256)	502,666
Vehicles	5,749	(4,637)	1,112	5,461	(4,452)	1,009
Tools and equipment	67,969	(53,697)	14,272	61,142	(48,079)	13,063
Others	30,935	(235)	30,700	15,751	(3,841)	11,910
Construction in progress	7,910	-	7,910	12,367	-	12,367
Machinery in transit	101	-	101	80	-	80
Right-of-use assets	12,112	(2,864)	9,248	7,737	(3,036)	4,701
	<u>₩ 2,357,700</u>	<u>₩ (1,502,498)</u>	<u>₩ 855,202</u>	<u>₩ 2,315,772</u>	<u>₩ (1,364,368)</u>	<u>₩ 951,404</u>

¹ Accumulated impairment losses are included.

Changes in property, plant and equipment for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020						
	Beginning balance	Additions	Disposal ¹	Depreciation and others ²	Transfers ³	Impairment loss ⁴	Ending balance
Land	₩ 138,770	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 138,770
Buildings	133,898	257	-	(4,178)	668	-	130,645
Structures	132,940	-	-	(4,536)	1,468	-	129,872
Machinery	502,666	1,129	(171)	(124,944)	23,692	(9,800)	392,572
Vehicles	1,009	-	(4)	(526)	633	-	1,112
Tools and equipment	13,063	162	-	(6,021)	7,068	-	14,272
Others	11,910	17,285	-	(4,349)	5,854	-	30,700
Construction in progress	12,367	14,561	-	-	(19,018)	-	7,910
Machinery in transit	80	14,531	-	-	(14,510)	-	101
Right-of-use assets	4,701	8,596	(781)	(3,268)	-	-	9,248
	<u>₩ 951,404</u>	<u>₩ 56,521</u>	<u>₩ (956)</u>	<u>₩ (147,822)</u>	<u>₩ 5,855</u>	<u>₩ (9,800)</u>	<u>₩ 855,202</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

¹ Disposal of right-of-use assets include effect of lease contract changes.

² Others include loss of other tangible assets of ₩ 772 million and supplies expenses for process of ₩ 3,577 million.

³ Transfers include transfer of construction in progress, transfer of machinery in transit, and transfer between property, plant and equipment and intangible assets. Transfer amount of other property, plant and equipment include ₩ 4,153 million of accumulated loss of other property, plant and equipment transferred to provision for loss and ₩ 1,701 million of prepaid expenses related to acquisitions on property, plant and equipment as at December 31, 2019 transferred to other property, plant and equipment.

⁴ Due to cumulative operating losses, impairment test on POK business was performed, and impairment loss amounting to ₩ 9,800 million is recognized, included in 'other expenses' in the statement of profit or loss.

(in millions of
Korean won)

	2019										
	Beginning balance	Additions	Disposal ¹	Depreciation and others ²	Government grants	Transfers and others ³	Effect of accounting changes ⁴	Ending balance			
Land	₩ 138,770	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 138,770			
Buildings	137,602	-	-	(4,167)	-	463	-	133,898			
Structures	136,045	-	-	(4,508)	-	1,403	-	132,940			
Machinery	604,803	1,764	-	(131,024)	(427)	27,550	-	502,666			
Vehicles	1,351	-	(4)	(529)	-	191	-	1,009			
Tools and equipment	15,638	161	(3)	(6,240)	-	3,507	-	13,063			
Others	9,772	5,619	-	(3,481)	-	-	-	11,910			
Construction in progress	12,096	31,792	-	-	-	(31,521)	-	12,367			
Machinery in transit	383	1,290	-	-	-	(1,593)	-	80			
Right-of-use assets	-	7,467	(253)	(4,124)	-	-	1,611	4,701			
	<u>₩ 1,056,460</u>	<u>₩ 48,093</u>	<u>₩ (260)</u>	<u>₩ (154,073)</u>	<u>₩ (427)</u>	<u>₩ -</u>	<u>₩ 1,611</u>	<u>₩ 951,404</u>			

¹ Disposal of right-of-use assets include effect of lease contract changes.

² Others include loss of other tangible assets of ₩ 1,222 million and supplies expenses for process of ₩ 2,259 million.

³ Transfers include transfer of construction in progress, transfer of machinery in transit, and transfer between property, plant and equipment and intangible assets.

⁴ Effect of accounting changes includes the amount of right-of use assets with implementation of Korean IFRS 1116 Leases.

Depreciation includes ₩ 140,277 million (2019: ₩ 136,504 million) in manufacturing costs, ₩ 3,164 million (2019: ₩ 3,466 million) in 'selling, general and administrative expenses' and ₩ 804 million (2019: ₩ 844 million) in 'research and development expenses'.

Certain amounts of the property, plant and equipment are provided as collaterals to financial

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

institutions for borrowings (Note 38).

Government grants

The Company entered into development agreements with Korea Evaluation Institute of Industrial Technology and others for various national research projects, including development of materials related to Polyketone and High-Purity Hydrogen Chloride.

As at December 31, 2020, the balance of government grants related to asset acquisition is ₩ 436 million (2019: ₩ 886 million), and the balance of liabilities related to government grants is ₩ 89 million (2019: ₩ 71 million).

Fair value of land as at December 31, 2020, is ₩ 157,479 million (2019: ₩ 156,420 million) and the fair value is estimated based on the value determined by the Korean government, which is announced for property tax assessment purposes, etc.

Impairment Test on Cash Generating Unit (CGU)

The Company performed impairment test on CGU of POK business that had an indication of impairment, and cash flows were estimated assuming that COVID-19 will end within the estimated period upon measurement of value-in use. In addition, when estimating the recovery rate, the recovery period and the discount rate of cash flows, the industry characteristics and historical data of the CGU were comprehensively considered. The assumptions applied for the estimate of value-in-use of CGU as at December 31, 2020, are as follows:

	POK business
Sales growth rate	0.0 ~ 76.3%
Gross margin	-8.1 ~ 24.6%
Perpetual growth rate	0.0%
Discount rate	11.6%

As a result, the book amount of property, plant and equipment exceeded the recoverable amount, and impairment loss of ₩ 9,800 million was recognized on the allocated property, plant, and equipment of the CGU.

The expected impairment loss upon fluctuation in perpetual growth rate and discount rate are as follows:

	Impairment	
Decrease in perpetual growth rate by 0.5%pt	₩	(2,874)
Increase in discount rate by 0.5%pt		(4,172)

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

16. Leases

(a) Amounts recognized in the statements of financial position

The statements of financial position shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	2020		2019	
Right-of-use assets ¹				
Real estate	₩	8,146	₩	3,542
Facility equipment		32		22
Vehicles		378		407
Others		692		730
	₩	<u>9,248</u>	₩	<u>4,701</u>

¹ Included in 'property, plant and equipment' in the statements of financial position.

<i>(in millions of Korean won)</i>	2020		2019	
Lease liabilities ¹				
Current	₩	3,378	₩	37
Non-current		5,694		4,669
	₩	<u>9,072</u>	₩	<u>4,706</u>

¹ Included in 'other non-current financial liabilities' in the statements of financial position.

Additions to right-of-use assets due to new contracts and changes in lease contracts amount to ₩ 8,596 million for the year ended December 31, 2020.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(b) Amount recognized in the statements of profit or loss

The amounts recognized in the statements of profit or loss in relation to leases are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Depreciation of right-of-use assets				
Real estate	₩	2,953	₩	2,869
Facility equipment		6		5
Vehicles		268		242
Others		41		40
	₩	<u>3,268</u>	₩	<u>3,156</u>
Interest expense (included in financial cost)	₩	143	₩	205
Expense relating to short-term leases and leases of low-value assets (included in 'cost of sales' and 'selling, general and administrative expenses')		3,342		3,627

The total cash outflow for leases in 2020 was ₩ 6,733 million.

17. Intangible Assets

Changes in intangible assets for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			
	Industrial rights	Other intangible assets¹	Membership	Total
Beginning balance	₩ 1,969	₩ 5,018	₩ 7,200	₩ 14,187
Additions	48	75	-	123
Disposals	-	-	-	-
Amortization	(415)	(492)	-	(907)
Ending balance	<u>₩ 1,602</u>	<u>₩ 4,601</u>	<u>₩ 7,200</u>	<u>₩ 13,403</u>

¹ Facility usage rights and etc. are included.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

<i>(in millions of Korean won)</i>	2019			
	Industrial rights	Other intangible assets ¹	Membership	Total
Beginning balance	₩ 2,315	₩ 4,715	₩ 7,200	₩ 14,230
Additions	108	563	-	671
Disposals	-	-	-	-
Amortization	(454)	(260)	-	(714)
Ending balance	₩ 1,969	₩ 5,018	₩ 7,200	₩ 14,187

¹ Facility usage rights and etc. are included.

Amortization of ₩ 263 million (2019: ₩ 259 million) is included in manufacturing costs, ₩ 279 million (2019: ₩ 314 million) in 'research and development expenses', and ₩ 365 million (2019: ₩ 140 million) in 'selling, general and administrative expenses'

18. Insurance Coverage

As at December 31, 2020, property, plant and equipment are insured, and details of insurance are as follows:

<i>(in millions of Korean won)</i>	Insured assets	Book amount	Insured amount	Insurance company
Package insurance	Property, plant and equipment	₩ 807,452	₩ 3,774,620	Samsung Fire and Marine Insurance Co., Ltd. and others

19. Investments in Subsidiaries and Associates

Changes in investments in subsidiaries and associates for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Beginning balance	₩ 283,576	₩ 201,325
Acquisitions	3,541	-
Impairment loss	-	4,046
Additional investment ¹	121,770	78,205
Ending balance	₩ 408,887	₩ 283,576

¹ The Company made an additional investment of ₩ 121,770 million to Hyosung Vina Chemicals

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Co., Ltd., 100% owned subsidiary, on February 25, 2020.

Details of investments in subsidiaries as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	Location	Ownership (%)		Book Amount	
		2020		2020	2019
Hyosung Vina Chemicals Co., Ltd.	Vietnam	100%	₩	394,608 ₩	272,839

Details of investments in associates as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	Location	Ownership (%)		Book Amount	
		2020		2020	2019
Shinwha Intertek Corp.	Korea	20%	₩	14,279 ₩	10,738

Impairment Test on Investments in Subsidiaries

The Company performed an impairment test on investments in subsidiaries that had an indication of impairment, and cash flows were estimated assuming that COVID-19 will end within the estimated period upon measurement of value-in use. In addition, when estimating the recovery rate, recovery period and discount rate of cash flows, the industry characteristics and historical data of the subsidiary were comprehensively considered. The assumptions applied for estimate of value-in-use of investments in subsidiaries as at December 31, 2020, are as follows:

Hyosung Vina Chemicals Co., Ltd.

Sales growth rate	2.2~90.4%
Gross margin	4.6~16.3%
Perpetual growth rate	1.00%
Discount rate	8.62%

As a result, the book amount of investments in subsidiaries does not exceed the recoverable amount.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Details of reversal of impairment losses recognized in relation to investments in associates for the year ended December 31, 2019, are as follows:

<i>(in millions of Korean won)</i>	2019				Method used
	Book amount before recognizing impairment loss	Recoverable amount	Reversal of impairment loss		
Shinwha Intertek Corp.	₩ 6,692	₩ 10,738	₩ 4,046		Fair value less costs to sell

The Company considered fair value less costs to sell and value in use in calculating the recoverable amount of investments in associates. The fair value less costs to sell was estimated based on the best information available to calculate the amount of consideration that could be received in a sale of assets between independent parties with reasonable judgment and intentions, less costs of disposal.

Fair value of marketable investments in associates as at December 31, 2020 and 2019, is as follows:

<i>(in millions of Korean won)</i>	2020			
	Number of shares	Market price per share (in Korean won)	Fair value	Book value
Shinwha Intertek Corp.	5,827,100	₩ 3,285	₩ 19,142	₩ 14,279

<i>(in millions of Korean won)</i>	2019			
	Number of shares	Market price per share (in Korean won)	Fair value	Book value¹
Shinwha Intertek Corp.	4,446,227	₩ 3,880	₩ 17,251	₩ 10,738

¹ The book value of Shinwha Intertek Corp. as of June 1, 2018, the spun-off date, amounting to ₩ 10,738 million, was considered as the acquisition cost and was set as the limit of reversal of impairment loss.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

20. Related Party Transactions

Details of subsidiaries, associates and other related parties as at December 31, 2020, are as follows:

Significant Influence over the Company

Location	Related party
Domestic	Hyosung Corporation

Subsidiaries

Location	Related party
Asia	Hyosung Vina Chemicals Co., Ltd.

Associates

Location	Related party
Domestic	Shinwha Intertek Corp.

Other related parties

Location	Related party
Domestic	Galaxia Device Co., Ltd., Galaxia Micro Payments Co., Ltd., GALAXIA ELECTRONICS CO.,LTD., Kongduk Development Co., Ltd., THE CLASS HYOSUNG, THE PREMIUM HYOSUNG Co., Ltd., Dong Ryung Co., Ltd., Shin Dong Jin Co., Ltd., A-Seung Automotive Group, Trinity Asset Management Co., Ltd, Hyosung Premier Motors Corporation, ASC Co. Ltd, Hyosung GoodSprings, Inc., Hyosung Trans World Co., Ltd., HYOSUNG TNS INC., atmplus,Inc, NAUTILUS HYOSUNG CMS INC., Forza Motors Korea Corp., HYOSUNG FMS INC. and others
China	Huizhou Galaxia Device Electronics., Co.Ltd, Weihai newsolim Electronics., Co.Ltd, Qingdao Galaxia Device Electronics., Co.Ltd, Tianjin Galaxia Device Electronics., Co.Ltd, DONGGUAN SHINWHA INTERTEK CORP., SHINWHA INTERTEK(SUZHOU), DNS Technology Co., Ltd and others
Asia	Galaxia Japan, VINA ASC AUTOMOTIVE COMPANY LIMITED, Hyosung (H.K) LIMITED and others
Europe	SHINWHA INTERTEK SLOVAKIA S.R.O, Hyosung RUS and others
America	HICO America Sales & Tech., Hyosung Holdings USA, Inc., Hyosung Mexico S. de R.L. de C.V., and others

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Others	Hyosung Resource (Australia) PTY Ltd. and others
<i>Others¹</i>	
Location	Related party
Domestic	Hyosung Heavy Industries Corporation, Hyosung Advanced Materials Corporation, Hyosung TNC Corporation, CHINHUNG INTERNATIONAL INC., Taebaek Wind Power Co., Ltd., PyeongChang Wind Power Co., Ltd., Galaxia SM, INC., Galaxia Moneytree Co., Ltd., THE KWANGJUILBO, Somesevit Corporation, HYOSUNG ITX.CO.,LTD, HYOSUNG INFORMATION SYSTEMS CO.,LTD and others
China	GST Automotive Safety(Changshu) Co. Ltd, Hyosung Spandex (Jiaxing) Co., Ltd., Hyosung Chemical Fiber(Jiaxing) Co., Ltd., Hyosung Spandex (Quzhou) Co., Ltd., Hyosung Chemicals(Jiaxing) Co., Ltd., Hyosung International Trade(Jiaxing) Co., Ltd., Hyosung Spandex (GuangDong) Co., Ltd., Hyosung NEW Material & High Technology(Quzhou) Co., Ltd and others
Asia	GST China Investment Limited, Hyosung (H.K) LIMITED, Hyosung (Taiwan) Corporation, HYOSUNG INDIA Pvt Ltd, Hyosung Corporation India Private Limited., Hyosung DongNai Co,LTD, Hyosung International(HK) Ltd., Hyosung Japan Co., Ltd., Hyosung Singapore PTE Ltd., PT. HYOSUNG JAKARTA, Hyosung Vietnam Co., Ltd., HYOSUNG T&D INDIA Pvt Ltd,
America	Global Safety Textiles U.S. Holdings, Inc., GST Automotive Safety Components International LLC, Nautilus Hyosung America Inc., GST Safety Textiles Mexico S. de R.L. de C.V, HICO America Sales & Tech., Hyosung Holdings USA, Inc., Hyosung Mexico S. de R.L. de C.V., Hyosung Mexico CITY S.A de C.V. and others
Europe	Global Safety Textiles GmbH, Green Plan Energy(Wellingborough) Limited, GST Automotive Safety Poland Sp.z.oo, GST Global GmbH, Hyosung Europe SRL, Hyosung Istanbul TEKSTIL LTD.STI, Hyosung Luxembourg S.A and others
Others	GST Automotive Safety South Africa(Proprietary) Limited, Hyosung South Africa (PTY) LTD. and others

¹ Although the entities are not related parties of the Company in accordance with Korean IFRS 1024, the entities belong to the large enterprise group that the Company also belongs to in accordance with the Monopoly Regulation and Fair Trade Act.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Sales and purchases with related parties for the years ended December 31, 2020 and 2019, are as follows:

(in millions of Korean won)		2020						
		Sales and others ¹	Dividend income	Purchases and others ¹	Acquisition of property, plant and equipment and intangible assets	Acquisition of right-of-use assets	Interest expense ²	
Related party								
Significant influence over the Company	Hyosung Corporation	₩ 9	₩ -	₩ 27,898	₩ -	₩ -	₩ -	
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.	3,861	-	989	-	-	-	
Associates	Shinwha Intertek Corp.	17,026	222	21	-	-	-	
Other related parties	Shin Dong Jin Co., Ltd.	-	-	105	-	4,539	50	
	Kongduk Development Co., Ltd.	-	-	100	-	936	8	
	Hyosung Trans World Co., Ltd.	-	-	42,941	-	-	-	
	Hyosung Holdings USA	4,474	-	315	-	-	-	
	Others	-	-	583	421	-	1	
		4,474	-	44,044	421	5,475	59	
Others	Hyosung TNC Corporation	130,800	-	69,951	-	2,769	44	
	Hyosung Heavy Industries Corporation	-	-	685	1,927	-	-	
	Hyosung Advanced Materials Corporation	-	-	430	-	-	-	
	Hyosung Japan Co., Ltd.	53,053	-	14	-	-	-	
	Hyosung NEW Material & High Technology(Quzhou) Co., Ltd	16,475	-	-	-	-	-	
	Hyosung International(HK) Ltd.	15,173	-	-	-	-	-	
	Hyosung Chemical Fiber(Jiaxing) Co., Ltd.	2,135	-	30,769	-	-	-	

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Others	2,554	-	4,262	1,757	42	1
	220,190	-	106,111	3,684	2,811	45
	₩ 245,560	₩ 222	₩ 179,063	₩ 4,105	₩ 8,286	₩ 104

¹ Sales, other income, interest income and others are included in sales and others. Purchase of raw materials, selling, general and administrative expenses, other expenses and others are included in purchases and others.

² Interest expense recognized in accordance with lease contracts of buildings is ₩ 104 million for the year ended December 31, 2020.

(in millions of
Korean won)

		2019		
Related party		Sales and others ¹	Purchases and others ¹	Acquisition of property, plant and equipment and intangible assets
Significant influence over the Company	Hyosung Corporation	₩ 8	₩ 29,364	₩ -
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.	1,238	-	-
Associates	Shinwha Intertek Corp.	12,690	-	-
Other related parties	Hyosung Trans World Co., Ltd.	-	36,323	-
	Shin Dong Jin Co., Ltd.	-	476	-
	Hyosung GoodSprings, Inc.	671	144	-
	Hyosung Holdings USA	2,050	169	-
	Others	-	176	1
		2,721	37,288	1
Others	Hyosung TNC Corporation	238,054	88,426	-
	Hyosung Heavy Industries Corporation	-	272	3,280
	Hyosung Advanced Materials Corporation	-	345	-
	Hyosung Japan Co., Ltd.	52,614	74	-
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	2,620	24,203	-
	Hyosung International(HK) Ltd.	11,828	-	-
	Others	11,782	4,888	912
		316,898	118,208	4,192
		₩ 333,555	₩ 184,860	₩ 4,193

¹ Sales, other income, interest income and others are included in sales and others. Purchase of raw materials, export fees, service fees, other expenses and others are included in purchases and others.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)		2020									
		Trade receivables	Other receivables ¹	Trade payables	Other payables ¹	Lease liabilities ²					
Significant influence over the Company	Hyosung Corporation	₩	-	₩	371	₩	86	₩	2,501	₩	-
	Subsidiaries	Hyosung Vina Chemicals Co., Ltd.			189		237		-		-
Associates	Shinwha Intertek Corp.		2,732		-		-		-		-
Other related parties	Shin Dong Jin Co., Ltd.		-		1,343		-		220		4,646
	Kongduk Development Co., Ltd.		-		-		-		-		860
Others	Hyosung Trans World Co., Ltd.		-		-		2,850		6,296		-
	Hyosung Holdings USA		-		-		-		110		-
	Others		-		-		-		90		-
			-		1,343		2,850		6,716		5,506
	Hyosung TNC Corporation		14,864		524		6,672		614		2,395
Others	Hyosung Heavy Industries Corporation ³		-		-		-		66		-
	Hyosung Advanced Materials Corporation		-		366		36		-		-
	Hyosung Chemical Fiber(Jiaxing) Co., Ltd.		459		107		3,526		-		-
	Hyosung Japan Co., Ltd.		1,440		-		165		-		-
	Hyosung NEW Material & High Technology(Quzho u) Co., Ltd		4,912		-		-		-		-
	Hyosung Chemical		526		18		-		-		-

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(Jiaxing) Co., Ltd.					
Others	190	8	102	649	37
	22,391	1,023	10,501	1,329	2,432
	₩ 25,123	₩ 2,926	₩ 13,674	₩ 10,546	₩ 7,938

¹ Non-trade receivables, advance payments, guarantee deposits and others are included in other receivables. Non-trade payables, deposits received, provisions for restoration and others are included in other payables.

² The balance of lease liabilities recognized in accordance with lease contracts of buildings amount to ₩ 7,938 million as at December 31, 2020.

³ The Company recognized ₩ 7,200 million of memberships for Hyosung Heavy Industries Corporation as memberships.

(in millions of Korean won)		2019			
		Trade receivables	Other receivables ¹	Trade payables	Other payables ¹
Significant influence over the Company	Hyosung Corporation	₩ 1	₩ 55	₩ 261	₩ 2,398
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.	542	572	-	-
Associates	Shinwha Intertek Corp.	2,580	-	-	-
Other related parties	Hyosung Holdings USA	65	-	-	14
	Shin Dong Jin Co., Ltd.	-	1,721	-	3,451
	Kongduk Development Co., Ltd.	-	117	-	278
	Hyosung Trans World Co., Ltd.	-	-	2,060	4,256
	Others	-	692	-	87
		65	2,530	2,060	8,086
Others	Hyosung TNC Corporation	5,300	527	7,056	712
	Hyosung Heavy Industries Corporation ²	-	-	-	1,434
	Hyosung Advanced Materials Corporation	-	366	33	-
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	723	-	3,713	-
	Hyosung Japan Co., Ltd.	3,614	-	289	6
	Hyosung NEW Material & High Technology (Quzhou) Co., Ltd	434	-	-	-
	Hyosung Chemical	1,197	-	-	-

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(Jiaxing) Co., Ltd.					
Others	-	141	32	728	
	11,268	1,034	11,123	2,880	
	₩ 14,456	₩ 4,191	₩ 13,444	₩ 13,364	

¹ Non-trade receivables, advance payments, guarantee deposits and others are included in other receivables. Non-trade payables, deposits received and others are included in other payables.

² The Company recognized ₩ 7,200 million of memberships for Hyosung Heavy Industries Corporation as memberships.

Fund transactions with related parties for the year ended December 31, 2020, are as follows:

(in millions of Korean won)		2020				
		Borrowing transactions		Cash	Dividends	Acquisition of
Related party		Borrowings	Repayments ³	contribution	paid	shares
Significant influence over the Company	Hyosung Corporation	₩ -	₩ -	₩ -	₩ 3,217	₩ -
Associates	Shinwha Intertek Corp. ¹	-	-	-	-	3,541
Subsidiaries	Hyosung Vina Chemicals Co., Ltd. ²	-	-	121,770	-	-
Other related parties	Shin Dong Jin Co., Ltd.	4,405	2,285	-	-	-
	Kongduk Development Co., Ltd. ³	914	340	-	-	-
	Gongdeok Gyeongwoo Development Corporation	-	27	-	-	-
		5,319	2,652	-	-	-
Others	Hyosung TNC Corporation ⁴	2,645	294	-	-	-
	KB Wise Star Professional Investment Private Real Estate Investment Trust #11	40	3	-	-	-
		2,685	297	-	-	-
	₩ 8,004	₩ 2,949	₩ 121,770	₩ 3,217	₩ 3,541	

¹ The Company acquired additional 1,380,873 shares of Shinwha Intertek Corp. for the year ended December 31, 2020.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

² The Company made an investment of USD 100 million (₩ 121,770 million) (2019: USD 70 million (₩ 78,204 million) to Hyosung Vina Chemicals Co., Ltd. for the year ended December 31, 2020.

³ The Company additionally recognized right-of-use assets and lease liabilities amounting to ₩ 936 million and ₩ 914 million, respectively, due to change in office lease contract as at December 31, 2020. The repayments of lease liabilities and interest expense amount to ₩ 340 million and ₩ 8 million, respectively, for the year ended December 31, 2020.

⁴ The Company recognized right-of-use assets and lease liabilities amounting to ₩ 2,769 million and ₩ 2,645 million, respectively, due to lease contract of the plant as at December 31, 2020. The repayments of lease liabilities and interest expense amount to ₩ 294 million and ₩ 44 million, respectively, for the year ended December 31, 2020.

The compensation paid or payable to key management who are executive directors for employee services for the years ended December 31, 2020 and 2019, consists of:

<i>(in millions of Korean won)</i>	2020		2019	
Salaries and other short-term employee benefits	₩	654	₩	474
Post-employment benefits		117		94
	₩	<u>771</u>	₩	<u>568</u>

The Company is providing payment guarantees amounting to ₩ 1,082,540 million for Hyosung Vina Chemicals Co., Ltd. in relation to facility borrowings amounting to ₩ 750,742 million from Korea Development Bank and others as at December 31, 2020.

There are no collaterals provided by the Company to the related parties as at December 31, 2020.

21. Trade Payables and Other Payables

Trade payables and other payables as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Trade payables	₩	122,337	₩	132,026
Other payables		84,306		71,907
Long-term other payables		13,186		12,519
	₩	<u>219,829</u>	₩	<u>216,452</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Details of other payables as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Other payables				
Non-trade payables	₩	61,930	₩	59,451
Accrued expenses		21,299		10,669
Withholdings		1,020		1,730
Deposits received		57		57
		<u>84,306</u>		<u>71,907</u>
Long-term other payables				
Non-trade payables		2		2
Accrued expenses		1,476		1,099
Deposits received		11,708		11,418
		<u>13,186</u>		<u>12,519</u>
	₩	<u>97,492</u>	₩	<u>84,426</u>

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

<i>(in percentage)</i>	2020		2019	
Discount rate		1.80%~2.50%		2.10%~2.50%

The fair value of trade and other payables are similar to the book amount as at December 31, 2020.

22. Borrowings

Borrowings as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Short-term borrowings	₩	91,057	₩	9,421
Borrowings on trade receivables sales ¹		48,241		33,600
Long-term borrowings		105,940		302,340
Debentures		589,806		515,918
		<u>835,044</u>		<u>861,279</u>
Less: current portion		<u>(250,716)</u>		<u>(185,916)</u>
	₩	<u>584,328</u>	₩	<u>675,363</u>

¹ The Company sells trade receivables in foreign currency to financial institutions and accounts for as collateralized borrowings for transactions in which the Company has recourse to pay the

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

relevant amount to the bank when the sales customers go bankrupt. (Notes 7 and 38)

The Company provides a part of the Company's property, plant and equipment as collateral for the above borrowings. (Notes 15 and 38)

Details of carrying amount of short-term borrowings as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	Creditor	Latest maturity date	Annual interest rate (2020) (%)			2020			2019
Short-term borrowings denominated in Korean won									
General loan	Shinhan Bank and others	2021-11-12	1.89~2.47%	₩	85,300	₩	9,421		
Others	Shinhan Bank and others	2021-11-09	2.61~2.72%		5,757		-		
Short-term borrowings denominated in foreign currency									
Borrowings on trade receivables sales	Woori Bank and others	-	-		48,241		33,600		
					₩ 139,298		₩ 43,021		

Details of carrying amount of long-term borrowings as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	Creditor	Latest maturity date	Annual interest rate (2020) (%)			2020			2019
Long-term borrowings denominated in Korean won									
General loan	Industrial and Commercial Bank of China and others	2023-03-29	2.36~2.48%	₩	88,000	₩	51,000		
Facility loan	Korea Development Bank and others	2023-07-27	2.93~3.60%		12,500		75,000		
Long-term borrowings denominated in foreign currency									
General loan	KEB Hana Bank	2021-03-04	1.75%		5,440		176,340		
					105,940		302,340		
Less: current portion					(13,440)		(22,934)		
					₩ 92,500		₩ 279,406		

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Details of carrying amount of debentures as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

		Latest maturity date	Annual interest rate (%)		2020		2019
Public bond	256-3	2020-02-25	-	₩	-	₩	50,000
Public bond	257-2	2020-06-26	-		-		70,000
Public bond	259-2	2021-04-25	3.43%		98,000		98,000
Private bond	1	2022-03-08	3.19%		30,000		30,000
Public bond	2-1	2022-05-10	2.55%		85,000		85,000
Public bond	2-2	2024-05-10	3.03%		50,000		50,000
Public bond	3-1	2022-12-02	2.49%		80,000		80,000
Public bond	3-2	2024-12-03	2.89%		54,000		54,000
Public bond	4-1	2023-02-17	2.47%		117,000		-
Public bond	4-2	2025-02-19	2.74%		67,000		-
Private bond	5	2023-09-22	2.42%		10,000		-
					591,000		517,000
Discount on debentures					(1,194)		(1,082)
Less: current portion					(97,978)		(119,962)
					₩ 491,828		₩ 395,956

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

23. Net Defined Benefit Liabilities

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Present value of defined benefit obligations	₩	65,126	₩	56,437
Fair value of plan assets ¹		<u>(68,562)</u>		<u>(58,374)</u>
Net defined benefit liabilities (assets)	₩	<u>(3,436)</u>	₩	<u>(1,937)</u>

¹ The contributions to the National Pension Fund of ₩ 34 million (2019: ₩ 37 million) are included in the fair value of plan assets as at December 31, 2020.

The amounts of defined benefit plan recognized in the statements of income for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Current service cost	₩	7,838	₩	6,890
Interest expense		1,199		1,079
Interest income		<u>(1,423)</u>		<u>(1,231)</u>
Total expense included in employee benefit	₩	<u>7,614</u>	₩	<u>6,738</u>

Line items including total expense of defined benefit plan in the statements of income for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Cost of sales	₩	5,015	₩	2,315
Selling, general and administrative expenses		<u>2,599</u>		<u>4,423</u>
	₩	<u>7,614</u>	₩	<u>6,738</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Movements in the defined benefit obligations for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	56,437	₩	44,749
Current service cost		7,838		6,890
Interest expense		1,199		1,079
Benefit payments		(4,547)		(1,936)
Remeasurements:				
Change in demographic assumptions		-		(154)
Change in financial assumptions		2,118		3,538
Experience adjustments		1,442		2,406
Transfer from (to) associates		639		(135)
Ending balance	₩	65,126	₩	56,437

Movements in the fair value of plan assets for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	58,374	₩	43,239
Interest income		1,423		1,231
Employer's contributions		12,300		16,100
Benefit payments		(3,727)		(1,646)
Remeasurements		(497)		(495)
Transfer from (to) associates		689		(55)
Ending balance	₩	68,562	₩	58,374

Plan assets as at December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
	Amount	Portion (%)	Amount	Portion (%)
Deposits	₩ 47,883	69.84	₩ 40,529	69.43
Debt instruments	20,679	30.16	17,845	30.57
	₩ 68,562	100.00	₩ 58,374	100.00

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Remeasurements of net defined benefit liabilities recognized as other comprehensive income (expenses) for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Before income tax effects	₩	(4,057)	₩	(6,285)
Income tax effects		981		1,521
After income tax effects	₩	<u>(3,076)</u>	₩	<u>(4,764)</u>

Accumulated remeasurements of net defined benefit liabilities recognized as retained earnings is ₩ 9,850 million (2019: ₩ 6,774 million) as at December 31, 2020.

The significant actuarial assumptions as at December 31, 2020 and 2019, are as follows:

<i>(in percentage)</i>	2020		2019	
Discount rate		2.49%		2.39%
Salary growth rate		2.93%		2.52%

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	Changes in assumption	Impact on defined benefit obligation
Discount rate	1.0% Increase/Decrease	9.6% Decrease / 11.5% Increase
Salary growth rate	1.0% Increase/Decrease	11.3% Increase / 9.6% Decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

Effect of defined benefit obligation on future cash flows

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2021, are ₩ 7,760 million and the expected balance of plan assets is ₩ 73,587 million as at December 31, 2021.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

The expected maturity analysis of undiscounted pension benefits as at December 31, 2020, is as follows:

<i>(in millions of Korean won)</i>		Less than 1 year		Between 1~2 years		Between 2~5 years		Over 5 years		Total
Pension benefits	₩	4,423	₩	5,941	₩	16,207	₩	129,299	₩	155,870

The weighted average duration of the defined benefit obligations is 10.5 years.

The expense recognized in the current period in relation to defined contribution plan was ₩ 1,064 million (2019: ₩ 838 million).

24. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2020 and 2019, consists of:

<i>(in millions of Korean won)</i>		2020		2019
Current tax				
Current tax on profit for the year	₩	18,011	₩	22,390
Claim for tax return and others		(263)		(2,661)
		<u>17,748</u>		<u>19,729</u>
Deferred tax				
Increase (decrease) in temporary differences		(3,867)		3,790
		<u>(3,867)</u>		<u>3,790</u>
Income tax expense	₩	<u>13,881</u>	₩	<u>23,519</u>

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

<i>(in millions of Korean won)</i>		2020		2019
Profit before income tax expense	₩	56,663	₩	115,685
Tax at domestic tax rates		13,287		27,534
Income tax effects:				
- Income not subject to tax		(3)		-
- Expenses not deductible for tax purposes		192		454
- Unrecognized deferred income tax assets		-		(979)

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

- Claim for tax return and others	(407)	(2,661)
- Tax credits	(712)	(1,005)
- Others	1,524	176
Income tax expense	<u>₩ 13,881</u>	<u>₩ 23,519</u>

The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2020 and 2019, is as follows:

<i>(in millions of Korean won)</i>	2020			2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liabilities	₩ 4,057	₩ (982)	₩ 3,075	₩ 6,285	₩ (1,521)	₩ 4,764

The analysis of deferred tax assets and deferred tax liabilities as at December 31, 2020 and 2019, is as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	₩	34,214	₩	15,911
Deferred tax assets to be recovered within 12 months		2,596		16,424
		<u>36,810</u>		<u>32,335</u>
Deferred tax liabilities				
Deferred tax liabilities be recovered after more than 12 months		(27,448)		(11,156)
Deferred tax liabilities to be recovered within 12 months		(5)		(16,671)
		<u>(27,453)</u>		<u>(27,827)</u>
Deferred tax assets, net	₩	<u>9,357</u>	₩	<u>4,508</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

The movements in the deferred income tax account for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	4,508	₩	8,298
Tax charged to the statement of profit or loss		3,867		(5,311)
Tax charged to components of other comprehensive income		982		1,521
Ending balance	₩	<u>9,357</u>	₩	<u>4,508</u>

The movement in deferred tax assets and liabilities for the years ended December 31, 2020 and 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

<i>(in millions of Korean won)</i>	2020			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Deferred tax liabilities				
Surplus on revaluation of land	₩ (11,133)	₩ -	₩ -	₩ (11,133)
Defined benefit pension plan assets	(13,568)	(3,669)	982	(16,255)
Others	(3,126)	3,061	-	(65)
	<u>(27,827)</u>	<u>(608)</u>	<u>982</u>	<u>(27,453)</u>
Deferred tax assets				
Post-employment benefit obligation	13,267	1,977	-	15,244
Provision for receivables in excess of tax limit	-	84	-	84
Government grants	17	4	-	21
Loss on valuation of inventories	1,260	(643)	-	617
Impairment loss on property, plant and equipment	14,496	2,370	-	16,866
Accrued compensated absence	1,317	(532)	-	785
Long-term employment allowance	266	91	-	357
Others	1,712	1,124	-	2,836
	<u>32,335</u>	<u>4,475</u>	<u>-</u>	<u>36,810</u>
	₩ 4,508	₩ 3,867	₩ 982	₩ 9,357

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(in millions of Korean won)

	2019			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
Deferred tax liabilities				
Surplus on revaluation of land	₩ (11,133)	₩ -	₩ -	₩ (11,133)
Defined benefit pension plan assets	(10,454)	(4,635)	1,521	(13,568)
Others	(96)	(3,030)	-	(3,126)
	<u>(21,683)</u>	<u>(7,665)</u>	<u>1,521</u>	<u>(27,827)</u>
Deferred tax assets				
Post-employment benefit obligation	10,234	3,033	-	13,267
Provision for receivables in excess of tax limit	27	(27)	-	-
Government grants	4	13	-	17
Loss on valuation of inventories	2,307	(1,047)	-	1,260
Impairment loss on property, plant and equipment	14,496	-	-	14,496
Accrued compensated absence	996	321	-	1,317
Long-term employment allowance	222	44	-	266
Others	1,695	17	-	1,712
	<u>29,981</u>	<u>2,354</u>	<u>-</u>	<u>32,335</u>
	<u>₩ 8,298</u>	<u>₩ (5,311)</u>	<u>₩ 1,521</u>	<u>₩ 4,508</u>

The Company did not recognize deferred tax assets if it is not probable that the temporary difference will reverse in the foreseeable future, and also the Company did not recognize deferred tax assets for taxable temporary differences associated with investments in subsidiaries and associates, where deferred tax assets are unrealizable due to low possibility of potential dividend payment and disposal of investments in the foreseeable future. Accordingly, the Company did not recognize deferred tax assets amounting to ₩ 21,262 million (2019: ₩ 21,262 million) as at December 31, 2020.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

25. Other Liabilities

Details of other liabilities as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Other current liabilities				
Provision for greenhouse gas emission ¹	₩	2,960	₩	-
Other provisions		1		-
Advances from customers		4,002		3,887
		<u>6,963</u>		<u>3,887</u>
Other non-current liabilities				
Unearned revenues		1,292		1,582
Provision for loss		5,782		-
Provision for restoration		59		-
		<u>7,133</u>		<u>1,582</u>
	₩	<u>14,906</u>	₩	<u>5,469</u>

Regarding greenhouse gas emissions, the Company sets provision for the expected expenses arising from emissions exceeding the Company's emission rights capacity in a given year. The expected emissions as at December 31, 2020 is 128,678 tCO₂-eq.

Changes in provisions for the year ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	Greenhouse gas emission		Loss	Restoration	Others	Total
Beginning balance	₩	-	₩	-	₩	-
Profit or loss:		2,960		1,628		59
Additional provisions		2,960		2,135		59
Used during the year		-		(507)		-
Transfers		-		4,154		-
Ending balance	₩	<u>2,960</u>	₩	<u>5,782</u>	₩	<u>59</u>
Current	₩	2,960	₩	-	₩	1
Non-current		-		5,782		59

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

The Company's free allocation of emission rights and the estimated quantity of greenhouse gas emission as at December 31, 2020, are as follows:

<i>(in tCO2-eq)</i>	2019	2020
Beginning balance	-	-
Free allocation	747,499	748,187
Provision	26,379	(26,379)
Purchases ¹	56,000	128,678
Submission to the government ²	(829,878)	(850,486)
Carryforward	-	-
Ending balance	<u>-</u>	<u>-</u>

¹ The actual quantity of emissions purchased is written for 2019, and the expected quantity of emissions to purchase is written for 2020. The emission rights purchased by the Company is 56,000 tCO2-eq for the year ended December 31, 2020.

² The actual quantity of emissions submitted is written for 2019, and the expected quantity of emissions to submit is written for 2020. The expected emissions as at December 31, 2020 is 128,678 tCO2-eq.

26. Share Capital

The Company's total number of authorized shares is 200,000,000 shares and the total number of ordinary shares issued is 3,190,126 shares with a par value of ₩ 5,000 per share. There is no change in share capital for the year ended December 31, 2020.

27. Retained Earnings

Retained earnings as at December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019		Remark
Legal reserves	₩	1,907	₩	318	1
Retained earnings before appropriation		<u>126,402</u>		<u>104,174</u>	
	<u>₩</u>	<u>128,309</u>	<u>₩</u>	<u>104,492</u>	

¹ The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

The appropriation of retained earnings for the years ended December 31, 2020 and 2019, is as follows:

<i>(in millions of Korean won)</i>	2020	2019
Retained earnings available for appropriation		
Unappropriated retained earnings carried over from prior year	₩ 86,696	₩ 16,771
Remeasurements of net defined benefit liabilities	(3,075)	(4,764)
Profit for the year	42,781	92,167
	126,402	104,174
Appropriation of retained earnings		
Legal reserves	-	1,589
Dividends (cash dividend (%)):		
Ordinary share: ₩ 5,000 (100%) in 2019	-	15,889
	-	17,478
Unappropriated retained earnings to be carried forward	₩ 126,402	₩ 86,696

28. Other Components of Equity

Other components of equity as at December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020	2019
Treasury shares ¹	₩ (1,843)	₩ (1,843)

¹ The Company holds 12,331 treasury shares due to spin-off in 2018.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

29. Revenue

Details of revenue for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Merchandise	₩	45,436	₩	31,471
Finished goods		1,551,297		1,739,125
Others		46,529		42,541
	₩	<u>1,643,262</u>	₩	<u>1,813,137</u>

30. Expenses by Nature

Cost of sales, selling, general and administrative expenses and research and development expenses by nature for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Changes in inventories of finished goods and work in process and others	₩	(36,816)	₩	(66,719)
Sales of merchandise		39,911		28,055
Raw materials and consumables used		935,176		1,094,605
Employee benefits expenses (Note 31)		99,230		94,563
Depreciation and amortization		145,152		154,787
Electricity expense		119,573		114,134
Export expense		10,932		9,646
Fuel expense		11,768		10,973
Service expense		35,047		30,647
Outsourcing expense		3,767		3,162
Other expenses		177,203		181,107
Total ¹	₩	<u>1,540,943</u>	₩	<u>1,654,960</u>

¹ Total of cost of sales, selling, general and administrative expenses and research and development expenses in the separate statements of income.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

31. Employee Benefits Expenses

Employee benefits expenses for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Salaries	₩	80,408	₩	77,634
Employee welfare benefits		10,144		9,353
Pension costs – defined contribution plans (Note 23)		1,064		838
Pension costs – defined benefit plans (Note 23)		7,614		6,738
	₩	99,230	₩	94,563

32. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Salaries	₩	20,869	₩	19,526
Post-employment benefits		2,733		2,433
Employee welfare benefits		2,104		1,846
Training		371		581
Service expenses		2,588		2,712
Transportation		722		2,409
Communications		381		448
Taxes and dues		1,294		1,248
Rental expenses		237		497
Depreciation		3,161		3,466
Amortization		365		140
Bad debt expenses (reversal)		304		(66)
Advertising expenses		182		1,188
Commission expenses		13,047		13,469
Export expenses		10,932		9,646
Others		4,750		4,873
	₩	64,040	₩	64,416

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

33. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Other operating income		
Rental income	₩ 292	₩ 286
Gain on disposal of property, plant and equipment	199	53
Gain on disposal of lease assets	22	3
Dividend income	222	-
Miscellaneous gains	6,538	4,810
	<u>7,273</u>	<u>5,152</u>
Other operating expenses		
Donations	470	387
Loss on disposal of property, plant and equipment	171	3
Loss on disposal of lease assets	1	3
Impairment loss on property, plant and equipment	9,800	-
Miscellaneous expenses	6,936	5,845
	<u>17,378</u>	<u>6,238</u>
	<u>₩ (10,105)</u>	<u>₩ (1,086)</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

34. Finance Income and Expenses

Details of finance income and expenses for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Finance income		
Interest income		
- Financial assets at amortized costs	₩ 202	₩ 142
Gain on foreign currency transactions	25,797	15,859
Gain in foreign currency translation	12,420	14,484
Gain on derivative transactions	7,894	4,828
Gain on valuation of derivatives	9	7,659
	<u>46,322</u>	<u>42,972</u>
Finance expenses		
Interest income		
- Financial liabilities at amortized costs	30,170	34,434
- Other financial liabilities	892	2,082
Loss on foreign currency transactions	20,654	25,080
Loss on foreign currency translation	17,181	18,620
Loss on derivative transactions	9,319	2,611
Loss on valuation of derivatives	978	1,464
Others	2,679	4,132
	<u>81,873</u>	<u>88,423</u>
	<u>₩ (35,551)</u>	<u>₩ (45,451)</u>

The Company recognizes income and expenses related to exchange differences as finance income and expenses.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

35. Earnings Per Share

Basic earnings per ordinary share is calculated as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Profit attributable to the ordinary equity holders ¹	₩	42,781	₩	92,167
Weighted average number of ordinary shares outstanding ²		3,177,795		3,177,795
Earnings per share <i>(in Korean won)</i>	₩	13,463	₩	29,003

¹ Profit attributable to the ordinary equity holders is equal to the profit for the year.

² Weighted average number of ordinary shares outstanding for the year ended December 31, 2020 is 3,177,795 shares. The Company purchased treasury shares of 12,331 as odd shares, which resulted from spin-off, after the Company got re-listed on July 13, 2018.

36. Dividends

The dividends in respect of the year ended December 31, 2019, amounting to a total dividend of ₩ 15,889 million was paid in 2020. There are no dividends in respect of the year ended December 31, 2020.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

37. Statement of Cash Flows

Details of cash generated from operations for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Profit before income tax	₩	56,663	₩	115,685
Adjustments for:		210,342		189,014
Interest income and expenses		30,860		36,374
Loss on foreign currency translation		4,761		4,136
Reversal on provision for valuation loss of inventories		(2,657)		(4,328)
Valuation and scrap loss of inventories		2,880		1,660
Loss (gain) on valuation of derivatives		969		(6,195)
Depreciation and amortization		145,152		154,787
Gain on disposition of property, plant and equipment and investment property		(28)		-
Impairment loss on property, plant and equipment and intangible assets		9,800		-
Bad debt expense and other bad debt expense (reversal)		304		(66)
Post-employment benefits		7,614		6,738
Reversal of impairment loss on investments in subsidiaries and associates		-		(4,046)
Others		10,687		(46)
Changes in operating assets and liabilities:		8,821		(9,233)
Decrease (increase) in trade receivables		(701)		29,456
Decrease in inventories		18,998		452
Decrease (increase) in other receivables		3,128		(2,233)
Decrease in other financial assets		-		2,037
Increase in other assets		(9,712)		(2,002)
Decrease in trade payables		(8,127)		(30,097)
Increase in other payables		18,405		6,950
Increase in other financial liabilities		-		1,156
Payment of defined benefit liabilities		(870)		1,148
Payment of plan assets		(12,300)		(16,100)
Cash generated from operations	₩	<u>275,826</u>	₩	<u>295,466</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

Changes in liabilities arising from financial activities for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020					
	Short-term borrowings	Current portion of long-term borrowings	Debentures	Long-term borrowings	Lease liabilities	Total
Beginning balance	₩ 43,021	₩ 142,896	₩ 395,956	₩ 279,407	₩ 4,706	₩ 865,984
Cash flows	96,763	(194,275)	193,346	(130,540)	(3,391)	(38,097)
Gain (loss) on foreign currency translation	(486)	5,669	-	2,746	-	7,929
Amortization of discount on debentures	-	-	542	-	-	542
Effect of non-cash transactions	-	157,128	(98,016)	(59,113)	7,757	7,758
Ending balance	₩ 139,298	₩ 111,418	₩ 491,828	₩ 92,500	₩ 9,072	₩ 844,116

<i>(in millions of Korean won)</i>	2019				
	Short-term borrowings	Current portion of long-term borrowings	Debentures	Long-term borrowings	Total
Beginning balance	₩ 255,239	₩ 144,636	₩ 217,551	₩ 365,260	₩ 982,686
Cash flows	(213,588)	-	179,000	(93,755)	(128,343)
Gain on foreign currency translation	1,370	-	-	6,199	7,569
Amortization of discount on debentures	-	(38)	(595)	-	(633)
Effect of non-cash transactions	-	(1,702)	-	1,702	-
Ending balance	₩ 43,021	₩ 142,896	₩ 395,956	₩ 279,406	₩ 861,279

Details of major transactions without cash inflows and outflows for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Transfer of construction in progress	₩ 33,529	₩ 31,560
Transfer of borrowings and bonds to current portion	157,128	1,702
Acquisition of right-of-use assets	8,596	9,078

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

38. Contingencies and Commitments

(1) There are no notes provided as collateral as at December 31, 2020.

(2) Commitment contracted with financial institutions

The Company entered into agreements such as bank overdrafts, trade bill discounts, open local L/C, general loans and others with financial institutions with a limit of ₩ 577,889 million. Also, the Company entered into trade receivables discount agreements with a limit of ₩ 3,150 million as at December 31, 2020.

(3) Guarantees provided for others

The Company has provided payment guarantees in relation to Hyosung Vina Chemicals Co., Ltd., a subsidiary, amounting to ₩ 1,082,540 million (USD 994,981 thousand).

For syndicated loan of USD 660 million, the Company is obliged to repay the borrowings if the Company cannot meet the following requirements:

- The Company is to maintain a debt ratio less than 400%
- Subsidiary is to maintain a net debt/EBITDA ratio at the end of each year
 (2021: 4.8:1 / 2022: 4:1 / 2023: 3:1 / 2024: 2:1 / 2025: 2:1)

(4) Guarantees provided by others

Details of payment guarantees provided by others as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	Guaranteed amount	Details
Kookmin Bank	₩ 33,510	Performance guarantee and others
Nonghyup Bank	32,640	Performance guarantee and others
Woori Bank	21,760	Performance guarantee and others
Shinhan Bank	15,231	Performance guarantee and others
Seoul Guarantee Insurance Company	46,697	Performance guarantee and others
	₩ 149,838	

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(5) Assets pledged as collaterals

Details of assets pledged as collaterals as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	Related		Executed amount		Provided to
	borrowings		of agreement		
Property, plant and equipment	₩	11,357	₩	60,000	Woori Bank
Property, plant and equipment		70,500		420,000	Korea Development Bank
Property, plant and equipment		5,000		55,000	Shinhan Bank
Trade receivables		48,241		48,241	Woori Bank and others
	₩	<u>135,098</u>	₩	<u>583,241</u>	

(6) Pending lawsuits

There are no pending lawsuits as at December 31, 2020.

(7) Liability of the Company due to spin-off

The Company spun off by a special resolution of the shareholders in accordance with Paragraph 1 of Article 530-9 of the Commercial Code of Korea. The Company or newly established entity from the spin-off is jointly and severally liable for payables of the company before the spin-off, in accordance with Paragraph 1 of Article 530-9 of the Commercial Code of Korea.

39. Events After the Reporting Period

Payment guarantee for subsidiaries

The Company decided to provide a debt guarantee for Hyosung Vina Chemicals Co., Ltd., a 100% owned subsidiary, on January 29, 2021 (₩ 78,394 million), February 1, 2021 (₩ 70,607 million) and February 18, 2021 (₩ 22,154 million) (Total: ₩ 171,155 million).



**Report on Independent Auditor's
Audit of Internal Control over Financial Reporting**

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
Hyosung Chemical Corporation

Opinion on Internal Control over Financial Reporting

We have audited Hyosung Chemical Corporation's (the Company) Internal Control over Financial Reporting as at December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We also have audited, in accordance with Korean Standards on Auditing, the separate financial statements of the Company, which comprise the separate statement of financial position as at December 31, 2020, and the separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flow for the year then ended, and notes to the separate financial statements including a summary of significant accounting policies, and our report dated March 10, 2021 expressed an unqualified opinion.

Basis for Opinion on Internal Control over Financial Reporting

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibility under these standards are further described in the *Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of internal control over financial reporting and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Report on the Effectiveness of Internal Control over Financial Reporting*.

Those charged with governance have the responsibilities for overseeing internal control over financial reporting.

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our responsibility is to express opinion on the Company's internal control over financial reporting based on our audit. We conducted the audit in accordance with Korean Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditor's report is Youngseok Bae, Certified Public Accountant.

Seoul, Korea
March 10, 2021

This report is effective as at March 10, 2021, 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 Company's internal control over financial reporting 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.

**Report on the Effectiveness of
Internal Control over Financial Reporting**

(English Translation of a Report Originally Issued in Korean)

To the Shareholders, Board of Directors and Audit Committee of
Hyosung Chemical Corporation

We, as the Chief Executive Officer ("CEO") and the Internal Control over Financial Reporting Officer of Hyosung Chemical Corporation ("the Company"), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting ("ICFR") for the year ended December 31, 2020.

The Company's management, including ourselves, is responsible for designing and operating ICFR. We assessed the design and operating effectiveness of ICFR in the prevention and detection of an error or fraud which may cause material misstatements in the preparation and disclosure of reliable financial statements. We designed and operated ICFR in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting* established by the Operating Committee of Internal Control over Financial Reporting in Korea (the ICFR Committee). And, we conducted an evaluation of ICFR based on *Best Practice Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting* established by the ICFR Committee.

Based on the assessment results, we believe that the Company's ICFR, as at December 31, 2020, is designed and operating effectively, in all material respects, in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care.

January 29, 2021

Kun-jong Lee,
Chief Executive Officer



Bo-young Yoon,
Internal Control over Financial Reporting Officer

