

# **Hyosung Chemical Corporation**

**Separate Financial Statements  
December 31, 2021 and 2020**

**Hyosung Chemical Corporation**

**Index**

**December 31, 2021 and 2020**

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|   | <b>Page(s)</b> |
|---|----------------|
| <b>Independent Auditor’s Report</b> .....   | 1-4            |
| <b>Separate Financial Statements</b>  |                |
| 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.....   | 10-86          |
| <b>Report on Independent Auditor’s Audit of Internal Control over Financial Reporting</b> ..... | 87-88          |
| <b>Report on the Effectiveness of Internal Control over Financial Reporting</b> .....           | 89             |



## 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 statements of financial position as at December 31, 2021 and 2020, and the separate statements of profit or loss, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years 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, 2021 and 2020, and its separate financial performance and its separate cash flows for the years 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, 2021, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*, and our report dated March 8, 2022 expressed an unqualified opinion.

### Basis for Opinion

We conducted our audits 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 independence and 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 compared current year actual results with the prior year forecast.
- We evaluated the reasonableness of key assumptions used in estimating value in use.
- We examined the accuracy of value in use calculations.

#### **Other Matters**

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 8, 2022

This report is effective as of March 8, 2022, 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, 2021 and 2020**

| <i>(in Korean won)</i>                     | <b>Notes</b> | <b>2021</b>                | <b>2020</b>                |
|--|--------------|----------------------------|----------------------------|
| <b>Assets</b>                              |              |                            |                            |
| <b>Current assets</b>                      |              |                            |                            |
| Cash and cash equivalents                  | 4,8,9        | ₩ 1,045,954,389            | ₩ 921,749,012              |
| Trade and other receivables                | 4,7,8,11     | 210,222,393,062            | 148,411,931,404            |
| Other financial assets                     | 4,5,8,12     | 45,120,271                 | 27,963,676                 |
| Other current assets                       | 13           | 40,212,636,219             | 13,165,525,554             |
| Other intangible assets                    | 17           | 7,343,879                  | -                          |
| Inventories                                | 14           | 171,939,817,246            | 108,288,598,694            |
|  |              | <u>423,473,265,066</u>     | <u>270,815,768,340</u>     |
| <b>Non-current assets</b>                  |              |                            |                            |
| Long-term trade and other receivables      | 4,8,11       | 24,906,396,032             | 3,467,217,642              |
| Property, plant and equipment              | 15,16,18,38  | 757,157,518,697            | 855,202,269,153            |
| Intangible assets                          | 17           | 11,647,015,049             | 13,402,791,077             |
| Investments in subsidiaries and associates | 19           | 408,887,024,961            | 408,887,024,961            |
| Other non-current financial assets         | 4,5,8,10,12  | 60,812,000                 | 15,500,000                 |
| Other non-current assets                   | 13,23        | 5,212,879,120              | 3,472,209,496              |
| Deferred tax assets                        | 24           | 10,631,926,966             | 9,356,986,691              |
|  |              | <u>1,218,503,572,825</u>   | <u>1,293,803,999,020</u>   |
| <b>Total assets</b>                        |              | <u>₩ 1,641,976,837,891</u> | <u>₩ 1,564,619,767,360</u> |
| <b>Liabilities</b>                         |              |                            |                            |
| <b>Current liabilities</b>                 |              |                            |                            |
| Trade and other payables                   | 4,8,21       | ₩ 330,142,543,931          | ₩ 206,643,701,405          |
| Borrowings                                 | 4,7,8,22,38  | 326,477,147,688            | 250,716,014,288            |
| Other financial liabilities                | 8,12,15      | 4,250,708,286              | 4,107,228,508              |
| Current tax liabilities                    | 24           | 39,421,732,107             | 15,735,276,890             |
| Other current liabilities                  | 25,39        | 12,711,347,029             | 6,963,076,349              |
|  |              | <u>713,003,479,041</u>     | <u>484,165,297,440</u>     |
| <b>Non-current liabilities</b>             |              |                            |                            |
| Long-term trade and other payables         | 4,8,21       | 13,269,714,535             | 13,185,579,107             |
| Long-term borrowings                       | 4,8,22,38    | 299,436,019,023            | 584,327,985,337            |
| Other non-current financial liabilities    | 8,12,16      | 2,713,434,439              | 5,693,556,629              |
| Other non-current liabilities              | 25           | 13,295,302,650             | 7,133,398,082              |
|  |              | <u>328,714,470,647</u>     | <u>610,340,519,155</u>     |
| <b>Total liabilities</b>                   |              | <u>1,041,717,949,688</u>   | <u>1,094,505,816,595</u>   |
| <b>Equity</b>                              |              |                            |                            |
| Share capital                              | 26           | 15,950,630,000             | 15,950,630,000             |
| Share premium                              |              | 327,697,938,702            | 327,697,938,702            |
| Retained earnings                          | 27           | 258,442,117,826            | 128,308,823,268            |
| Other components of equity                 | 28           | (1,831,798,325)            | (1,843,441,205)            |
| <b>Total equity</b>                        |              | <u>600,258,888,203</u>     | <u>470,113,950,765</u>     |
| <b>Total liabilities and equity</b>        |              | <u>₩ 1,641,976,837,891</u> | <u>₩ 1,564,619,767,360</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, 2021 and 2020**

| <i>(in Korean won)</i>                      | <b>Notes</b> | <b>2021</b>              | <b>2020</b>              |
|---|--------------|--------------------------|--------------------------|
| <b>Revenue</b>                              | 6,20,29      | ₩ 2,108,872,039,217      | ₩ 1,643,261,559,101      |
| <b>Cost of sales</b>                        | 20,30,31     | <u>1,826,175,938,291</u> | <u>1,456,699,663,920</u> |
| <b>Gross profit</b>                         |              | 282,696,100,926          | 186,561,895,181          |
| Selling general and administrative expenses | 30,31,32     | 70,018,727,366           | 64,040,215,395           |
| Research and development expenses           | 30,31        | <u>21,782,796,209</u>    | <u>20,203,161,536</u>    |
| <b>Operating profit</b>                     |              | 190,894,577,351          | 102,318,518,250          |
| Other income                                | 33           | 7,592,904,587            | 7,273,708,013            |
| Other expenses                              | 33           | 2,217,918,391            | 17,378,190,809           |
| Finance income                              | 34           | 29,245,305,932           | 46,321,686,005           |
| Finance expenses                            | 34           | <u>51,538,393,585</u>    | <u>81,873,152,263</u>    |
| Profit before income tax                    |              | 173,976,475,894          | 56,662,569,196           |
| Income tax expense                          | 24           | <u>43,956,293,060</u>    | <u>13,881,350,536</u>    |
| <b>Profit for the year</b>                  |              | <u>₩ 130,020,182,834</u> | <u>₩ 42,781,218,660</u>  |
| <b>Earnings per share</b>                   |              |                          |                          |
| Basic earnings per share                    | 35           | ₩ 40,915                 | ₩ 13,463                 |

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, 2021 and 2020**

(in Korean won)

|  | Notes | 2021              | 2020             |
|--|-------|-------------------|------------------|
| <b>Profit for the year</b>   |       | ₩ 130,020,182,834 | ₩ 42,781,218,660 |
| <b>Other comprehensive income (loss)</b>   |       |                   |                  |
| <i>Items that will not be reclassified to profit or loss</i>                           |       |                   |                  |
| Remeasurements of net defined benefit liabilities                                      | 23,24 | 113,111,724       | (3,075,121,630)  |
| Gain on valuation of financial assets at fair value through other comprehensive income | 12    | 11,642,880        | -                |
| <i>Items that may be subsequently reclassified to profit or loss</i>                   |       | -                 | -                |
| <b>Other comprehensive income (loss) for the year, net of tax</b>                      |       | 124,754,604       | (3,075,121,630)  |
| <b>Total comprehensive income for the year</b>   |       | ₩ 130,144,937,438 | ₩ 39,706,097,030 |

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, 2021 and 2020**

(in Korean won)

|  | Share capital           | Share premium            | Retained Earnings        | Other Components of Equity | Total Equity             |
|--|-------------------------|--------------------------|--------------------------|----------------------------|--------------------------|
| <b>Balance at January 1, 2020</b>  | ₩ 15,950,630,000        | ₩ 327,697,938,702        | ₩ 104,491,701,238        | ₩ (1,843,441,205)          | ₩ 446,296,828,735        |
| <b>Total comprehensive income</b>  |                         |                          |                          |                            |                          |
| 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)         |
| <b>Balance at December 31, 2020</b>  | <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> |
| <b>Balance at January 1, 2021</b>  | ₩ 15,950,630,000        | ₩ 327,697,938,702        | ₩ 128,308,823,268        | ₩ (1,843,441,205)          | ₩ 470,113,950,765        |
| <b>Total comprehensive income</b>  |                         |                          |                          |                            |                          |
| Profit for the year  | -                       | -                        | 130,020,182,834          | -                          | 130,020,182,834          |
| Remeasurements of net defined benefit liabilities                                      | -                       | -                        | 113,111,724              | -                          | 113,111,724              |
| Gain on valuation of financial assets at fair value through other comprehensive income | -                       | -                        | -                        | 11,642,880                 | 11,642,880               |
| <b>Balance at December 31, 2021</b>  | <u>₩ 15,950,630,000</u> | <u>₩ 327,697,938,702</u> | <u>₩ 258,442,117,826</u> | <u>₩ (1,831,798,325)</u>   | <u>₩ 600,258,888,203</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, 2021 and 2020**

| <i>(in Korean won)</i>  | Note | 2021                     | 2020                     |
|---|------|--------------------------|--------------------------|
| <b>Cash flows from operating activities</b>                                     |      |                          |                          |
| Cash generated from operations  | 37   | ₩ 330,642,302,871        | ₩ 275,826,118,169        |
| Income taxes paid   |      | (21,544,778,118)         | (23,437,491,883)         |
| Interest paid   |      | (18,863,506,284)         | (30,301,769,679)         |
| Interest received   |      | 64,477,800               | 146,316,469              |
| Dividends received  |      | 291,355,000              | 222,311,350              |
| <b>Net cash inflow from operating activities</b>                                |      | <u>290,589,851,269</u>   | <u>222,455,484,426</u>   |
| <b>Cash flows from investing activities</b>                                     |      |                          |                          |
| Collection of long-term loans   |      | 243,642,518              | 237,306,430              |
| Proceeds from disposal of property plant and equipment                          |      | 295,745,770              | 201,847,336              |
| Proceeds from disposal of intangible assets                                     |      | 1,200,000,000            | -                        |
| Payments for financial assets at fair value through other comprehensive income  |      | (29,952,000)             | -                        |
| Increase in long-term loans   |      | (340,000,000)            | (740,066,434)            |
| Decrease in long-term guarantees  |      | 253,704,104              | 446,618,065              |
| Increase in long-term guarantees  |      | (67,901,844)             | (287,708,200)            |
| Payments for property, plant and equipment                                      |      | (55,759,928,915)         | (47,734,730,651)         |
| Payments for intangible assets  |      | (299,956,553)            | (123,047,781)            |
| Proceeds from disposal of long-term financial instruments                       |      | -                        | 487,400,000              |
| Payments for investments in subsidiaries and associates                         |      | -                        | (125,311,386,756)        |
| Proceeds from disposal of derivative financial assets                           |      | 27,963,676               | 8,809,605,173            |
| Payments for derivative financial liabilities                                   |      | (729,070,682)            | (426,672,760)            |
| Increase in prepaid expenses  |      | (9,940,458,329)          | (3,852,609,000)          |
| Payments for leased assets  |      | (43,000,000)             | -                        |
| Increase in short-term guarantees   |      | (18,000,000)             | -                        |
| Decrease in short-term guarantees   |      | 1,000,000,000            | -                        |
| Receipt of government grants  |      | 346,468,089              | -                        |
| Increase in advance payments  |      | (12,557,079,800)         | -                        |
| Payments for financial assets at fair value through profit or loss              |      | (73,206,000)             | -                        |
| Proceeds from disposal of financial assets at fair value through profit or loss |      | 74,823,000               | -                        |
| <b>Net cash outflow from investing activities</b>                               |      | <u>(76,416,206,966)</u>  | <u>(168,293,444,578)</u> |
| <b>Cash flows from financing activities</b>                                     |      |                          |                          |
| Proceeds from issuance of bonds   |      | 20,867,968               | 193,345,846,994          |
| Repayments of bonds   |      | (98,000,000,000)         | (120,000,000,000)        |
| Proceeds from short-term borrowings   |      | 996,967,474,379          | 2,430,523,978,297        |
| Repayments of short-term borrowings   |      | (1,053,327,805,635)      | (2,333,760,967,870)      |
| Repayments of current portion of borrowings                                     |      | (43,614,540,000)         | (74,275,260,000)         |
| Proceeds from long-term borrowings  |      | -                        | 90,000,000,000           |
| Repayments of long-term borrowings  |      | (12,500,000,000)         | (220,540,000,000)        |
| Payments of dividends   |      | -                        | (15,888,975,000)         |
| Repayments of lease liabilities   |      | (3,595,435,638)          | (3,390,683,041)          |
| <b>Net cash outflow from financing activities</b>                               |      | <u>(214,049,438,926)</u> | <u>(53,986,060,620)</u>  |
| <b>Net increase in cash and cash equivalents</b>                                |      | 124,205,377              | 175,979,228              |
| Cash and cash equivalents at the beginning of the year                          |      | 921,749,012              | 745,769,784              |
| <b>Cash and cash equivalents at the end of the year</b>                         |      | <u>₩ 1,045,954,389</u>   | <u>₩ 921,749,012</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, 2021 and 2020

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#### 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, 2021, the Company has plants in Yongyeon, Gumi, Oksan and Daejeon, etc. In addition, the Company has a subsidiary in Vietnam.

As at December 31, 2021, 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.  | 5,193            | 0.17                        |
| Others              | 1,778,809        | 55.76                       |
| Treasury shares     | 12,331           | 0.39                        |
|                     | 3,190,126        | 100.00                      |

#### 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

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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Korea.

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, 2021.

#### *(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. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. The amendment does not 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 (Phase 2 amendments)*

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 amendment does not have a significant impact on the financial statements.

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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#### 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, 2021 reporting periods and have not been early adopted by the Company.

##### *(a) 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.

##### *(b) 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.

##### *(c) 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.

##### *(d) 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

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

---

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.

#### *(e) New Standard: Korean IFRS 1117 Insurance Contract*

Korean IFRS 1117 *Insurance Contracts* replaces Korean IFRS 1104 *Insurance Contracts*. This Standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. This Standard should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted for entities that applied Korean IFRS 1109 *Financial Instruments*. The Company is in review for the impact of this new standard on the financial statements.

#### *(f) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies*

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The IASB amended IFRS Practice Statement 2 *Disclosure of Accounting Policies* to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

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.

#### *(g) Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates*

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, 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, 2021 and 2020

---

*(h) Korean IFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. 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.

*(i) 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
- Korean IFRS 1041 *Agriculture* – Measuring fair value

*(j) Amendment to Korean IFRS 1116 - Covid-19 - Related Rent Concessions beyond June 30, 2021*

The application of the 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, is extended to lease payments originally due on or before June 30, 2022. The amendment should be applied for annual periods beginning on or after April 1, 2021, and earlier application is permitted. The Company does not expect that these amendments have a significant impact 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. Management applied the carrying amounts under the previous K-GAAP at the time of transition to Korean IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established.



# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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#### 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 the Company 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.

#### 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

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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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.
- **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.

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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#### *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.)

#### *(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

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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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.

#### 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            |

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

---

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.

#### 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:

|                         | <b>Useful lives</b> |
|-------------------------|---------------------|
| 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.

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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#### 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 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*

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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#### 2.17 Greenhouse Gas Emission Permits and Obligations

With enforcement of *The Act on the Allocation and Trading of Greenhouse Gas Emission Permits*, emission permits that are allocated free of charge from the government are measured at zero, and emission permits purchased are recognized at acquisition cost by including any directly attributable costs incurred during the normal course of business. Emission permits are carried at cost less accumulated impairment losses, and those to be submitted to the government within one year from the end of reporting period are classified as current assets.

Emission obligation is a present obligation of submitting the allowances to the government. 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 emission obligations to be settled within one year from the end of the reporting period are classified as current liabilities.

The Company derecognizes the emission permits when the emission allowance is disposed or submitted to the government or becomes unable to be disposed or submitted, and accordingly, the future economic benefits are no longer expected to be probable. The Company derecognizes the emission obligations when the Company submits the emission permits to the government. The emission permits and emission 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.

#### 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.

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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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 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



# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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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.

#### **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.

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

---

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 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

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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- 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*.

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

The separate financial statements 2021 were approved for issue by the Board of Directors on January 26, 2022 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

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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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 2021, 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, 2021. 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).

#### *(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.

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

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#### *(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.

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.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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> |              | <b>Impact on post-tax profit</b> |          |             |         |
|------------------------------------|--------------|----------------------------------|----------|-------------|---------|
|                                    |              | <b>2021</b>                      |          | <b>2020</b> |         |
| USD                                | Strengthened | ₩                                | (10,465) | ₩           | (6,649) |
|                                    | Weakened     |                                  | 10,465   |             | 6,649   |
| EUR                                | Strengthened |                                  | (274)    |             | (135)   |
|                                    | Weakened     |                                  | 274      |             | 135     |
| JPY                                | Strengthened |                                  | 10       |             | (36)    |
|                                    | Weakened     |                                  | (10)     |             | 36      |
| Others                             | Strengthened |                                  | -        |             | (17)    |
|                                    | Weakened     |                                  | -        |             | 17      |

*(b) Price risk*

The Company is exposed to equity securities price risk arises from investments held by the Company that are classified as at fair value through other comprehensive income in the separate statement of financial position.

The Company's equity investments are publicly traded and are included in the KOSPI index.

The table below summarizes the impact of increases/decreases of this index on the Company's equity and post-tax profit for the year. The analysis is based on the assumption that the equity indexes has increased/decreased by 10% with all other variables held constant.

| <i>(in millions of Korean won)</i> |              | <b>Impact on equity</b> |     |             |   |
|------------------------------------|--------------|-------------------------|-----|-------------|---|
|                                    |              | <b>2021</b>             |     | <b>2020</b> |   |
| KOSPI                              | Increase 10% | ₩                       | 5   | ₩           | - |
|                                    | Decrease 10% |                         | (5) |             | - |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

*(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 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> | <b>Impact on post-tax profit</b> |       |             |       |
|------------------------------------|----------------------------------|-------|-------------|-------|
|                                    | <b>2021</b>                      |       | <b>2020</b> |       |
| Increase                           | ₩                                | (506) | ₩           | (461) |
| Decrease                           |                                  | 506   |             | 461   |

**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, 2021 and 2020, is as follows:

| <i>(in millions of Korean won)</i>         | <b>2021</b> |           | <b>2020</b> |           |
|--|-------------|-----------|-------------|-----------|
| Cash and cash equivalents                  | ₩           | 1,046     | ₩           | 922       |
| Trade and other receivables                |             | 210,222   |             | 148,412   |
| Other financial assets                     |             | 45        |             | 28        |
| Long-term trade and other receivables      |             | 24,906    |             | 3,467     |
| Other non-current financial assets         |             | 61        |             | 15        |
| Financial guarantee contracts <sup>1</sup> |             | 1,544,829 |             | 1,082,540 |

<sup>1</sup> 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, 2021 and 2020**

**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, 2021 and 2020, are as follows:

*(in millions of Korean won)*

|   | <b>2021</b>                 |                                  |                         |                    |
|---|-----------------------------|----------------------------------|-------------------------|--------------------|
|   | <b>Less than 1<br/>year</b> | <b>Between 1<br/>and 5 years</b> | <b>Over 5<br/>years</b> | <b>Total</b>       |
| Trade and other payables                | ₩ 330,142                   | ₩ 13,270                         | ₩ -                     | ₩ 343,412          |
| Lease liabilities                       | 3,715                       | 2,444                            | 686                     | 6,845              |
| Borrowings (including interest expense) | 338,998                     | 309,916                          | -                       | 648,914            |
| Derivative instruments <sup>1</sup>     | 535                         | -                                | -                       | 535                |
| Financial guarantee contracts           | <u>1,544,829</u>            | <u>-</u>                         | <u>-</u>                | <u>1,544,829</u>   |
| Total                                   | <u>₩ 2,218,219</u>          | <u>₩ 325,630</u>                 | <u>₩ 686</u>            | <u>₩ 2,544,535</u> |

<sup>1</sup> 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)*

|   | <b>2020</b>                 |                                  |                         |                    |
|---|-----------------------------|----------------------------------|-------------------------|--------------------|
|   | <b>Less than 1<br/>year</b> | <b>Between 1<br/>and 5 years</b> | <b>Over 5<br/>years</b> | <b>Total</b>       |
| 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 <sup>1</sup>     | 729                         | -                                | -                       | 729                |
| Financial guarantee contracts           | <u>1,082,540</u>            | <u>-</u>                         | <u>-</u>                | <u>1,082,540</u>   |
| Total                                   | <u>₩ 1,554,027</u>          | <u>₩ 635,954</u>                 | <u>₩ 688</u>            | <u>₩ 2,190,669</u> |

<sup>1</sup> 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, 2021 and 2020**

---

**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, 2021 and 2020, is as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b>        | <b>2020</b>        |
|------------------------------------|--------------------|--------------------|
| Total borrowings                   | ₩ 625,913          | ₩ 835,044          |
| Less: cash and cash equivalents    | <u>(1,046)</u>     | <u>(922)</u>       |
| Net debt                           | 624,867            | 834,122            |
| Total equity                       | <u>600,259</u>     | <u>470,114</u>     |
| Total capital                      | <u>₩ 1,225,126</u> | <u>₩ 1,304,236</u> |
| Gearing ratio                      | 51.00%             | 63.95%             |

**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, 2021 and 2020**

---

•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, 2021 and 2020, are as follows:

*(in millions of Korean won)*

|   | <b>2021</b>    |                |                |              |
|---|----------------|----------------|----------------|--------------|
|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Assets</b>   |                |                |                |              |
| Financial assets at fair value through profit or loss (derivative financial assets)               | ₩ -            | ₩ 45           | ₩ -            | ₩ 45         |
| Financial assets at fair value through other comprehensive income (available-for-sale securities) | 45             | -              |                | 45           |
| Total   | <u>₩ 45</u>    | <u>₩ 45</u>    | <u>₩ -</u>     | <u>₩ 90</u>  |
| <b>Liabilities</b>  |                |                |                |              |
| Financial liabilities at fair value through profit or loss (derivative financial liabilities)     | ₩ -            | ₩ 536          | ₩ -            | ₩ 536        |
| Total   | <u>₩ -</u>     | <u>₩ 536</u>   | <u>₩ -</u>     | <u>₩ 536</u> |

*(in millions of Korean won)*

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

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

---

**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, 2021.

**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, 2021, are as follows:

*(in millions of Korean won)*

|             |   | <b>2021</b>       |              |                             |                              |   |
|-------------|---|-------------------|--------------|-----------------------------|------------------------------|---|
|             |   | <b>Fair value</b> | <b>Level</b> | <b>Valuation techniques</b> | <b>Inputs</b>                | <b>Level 3 Range of inputs (weighted average)</b> |
| Derivatives |   |                   |              |                             |                              |   |
| Assets      | ₩ | 45                | 2            | Market approach             | Exchange rate, discount rate | N/A   |
| Liabilities |   | 536               | 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).

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**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, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |           | <b>2020</b> |           |
|------------------------------------|-------------|-----------|-------------|-----------|
| Korea                              | ₩           | 855,274   | ₩           | 688,876   |
| North America                      |             | 74,549    |             | 24,486    |
| Asia                               |             | 653,501   |             | 620,503   |
| Europe                             |             | 450,698   |             | 263,209   |
| South America                      |             | 16,712    |             | 10,807    |
| Africa                             |             | 49,891    |             | 29,405    |
| Others                             |             | 8,247     |             | 5,976     |
|                                    | ₩           | 2,108,872 | ₩           | 1,643,262 |

The key customer who contributed more than 10% of the Company's revenue is Hyosung TNC Corporation. Details for the year ended December 31, 2021, is as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b>           |                  |
|------------------------------------|-----------------------|------------------|
|                                    | <b>Revenue amount</b> | <b>Revenue %</b> |
| Hyosung TNC Corporation            | ₩ 224,615             | 10.65%           |

There is no key customer who contributes more than 10% of the Company's revenue for the year ended December 31, 2020.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**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, 2021 and 2020. 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, 2021 and 2020, are as follows:

*(in millions of Korean won)*

|   | <b>Loans and receivables</b> |          |             |          |
|---|------------------------------|----------|-------------|----------|
|   | <b>2021</b>                  |          | <b>2020</b> |          |
| Carrying amount of assets                     | ₩                            | 65,517   | ₩           | 47,603   |
| Carrying amount of the associated liabilities |                              | (65,517) |             | (47,603) |
| Net position                                  | ₩                            | -        | ₩           | -        |

**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, 2021 and 2020, are as follows:

*(in millions of Korean won)*

|                                       | <b>2021</b>                                    |         |   |        |  |    |              |
|---------------------------------------|--|---------|---|--------|--|----|--------------|
|                                       | <b>Financial instruments at amortized cost</b> |         | <b>Financial assets measured at FVTPL</b> |        | <b>Financial assets measured at FVTOCI</b> |    | <b>Total</b> |
| Assets                                |  |         |   |        |  |    |              |
| Cash and cash equivalents             | ₩  | 1,046   | ₩   | -      | ₩  | -  | ₩ 1,046      |
| Trade and other receivables           |  | 186,616 |   | 23,606 |  | -  | 210,222      |
| Other financial assets                |  | -       |   | 45     |  | -  | 45           |
| Long-term trade and other receivables |  | 24,906  |   | -      |  | -  | 24,906       |
| Other non-current financial assets    |  | 16      |   | -      |  | 45 | 61           |
|                                       | ₩  | 212,584 | ₩   | 23,651 | ₩  | 45 | ₩ 236,280    |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

(in millions of Korean won)

|   | <b>2021</b>                                    |                                    |  |              |
|---|--|------------------------------------|--|--------------|
|   | <b>Financial liabilities at amortized cost</b> | <b>Other financial liabilities</b> | <b>Financial liabilities measured at FVTPL</b> | <b>Total</b> |
| Liabilities                             |  |                                    |  |              |
| Trade and other payables                | ₩ 311,604                                      | ₩ 9,235                            | ₩ -  | ₩ 320,839    |
| Borrowings                              | 258,523  | 67,954                             | -  | 326,477      |
| Other financial liabilities             | -  | 3,715                              | 536  | 4,251        |
| Long-term trade and other payables      | 13,270   | -                                  | -  | 13,270       |
| Long-term borrowings                    | 299,436  | -                                  | -  | 299,436      |
| Other non-current financial liabilities | -  | 2,713                              | -  | 2,713        |
|   | ₩ 882,833                                      | ₩ 83,617                           | ₩ 536  | ₩ 966,986    |

(in millions of Korean won)

|                                       | <b>2020</b>                                    |   |              |
|---------------------------------------|--|---|--------------|
|                                       | <b>Financial instruments at amortized cost</b> | <b>Financial assets measured at FVTPL</b> | <b>Total</b> |
| 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           |
|                                       | ₩ 134,026                                      | ₩ 18,819                                  | ₩ 152,845    |

(in millions of Korean won)

|                                    | <b>2020</b>                                    |                                    |  |              |
|------------------------------------|--|------------------------------------|--|--------------|
|                                    | <b>Financial liabilities at amortized cost</b> | <b>Other financial liabilities</b> | <b>Financial liabilities measured at FVTPL</b> | <b>Total</b> |
| 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      |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

(in millions of Korean won)

|   | <b>2020</b>                                    |                                    |  |              |
|---|--|------------------------------------|--|--------------|
|   | <b>Financial liabilities at amortized cost</b> | <b>Other financial liabilities</b> | <b>Financial liabilities measured at FVTPL</b> | <b>Total</b> |
| Other non-current financial liabilities | -  | 5,694                              | -  | 5,694        |
|   | ₩ 998,546                                      | ₩ 65,400                           | ₩ 729  | ₩ 1,064,675  |

*(a) 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, 2021 and 2020, are as follows:

(in millions of Korean won)

|  | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|
| Financial assets measured at amortized cost:             |             |             |
| Interest income  | ₩ 199       | ₩ 202       |
| Gain on foreign currency translation                     | 3,563       | 2,421       |
| Loss on foreign currency translation                     | (744)       | (4,199)     |
| Reverse of bad debt expenses (bad debt expense)          | (151)       | (304)       |
| Financial liabilities measured at amortized cost:        |             |             |
| Interest expense   | (18,288)    | (30,170)    |
| Gain on foreign currency translation                     | 616         | 8,229       |
| Loss on foreign currency translation                     | (5,010)     | (12,338)    |
| Other financial liabilities <sup>1</sup> :               |             |             |
| Interest expense   | (680)       | (892)       |
| Gain on foreign currency translation                     | 200         | 1,770       |
| Loss on foreign currency translation                     | (1,243)     | (644)       |
| Financial assets/liabilities at FVTPL                    |             |             |
| Gain (loss) on transaction (profit or loss for the year) | 8,930       | (1,425)     |
| Loss on valuation (loss for the year)                    | (489)       | (969)       |
| Financial assets/liabilities at FVTOCI                   |             |             |
| Gain on valuation (other comprehensive income)           | 12          | -           |

<sup>1</sup> 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, 2021 and 2020**

**9. Cash and Cash Equivalents**

Cash and cash equivalents as at December 31, 2021 and 2020, consist of:

| <i>(in millions of Korean won)</i> | <b>2021</b> |       | <b>2020</b> |     |
|------------------------------------|-------------|-------|-------------|-----|
| Bank deposits                      | ₩           | 1,046 | ₩           | 922 |

**10. Restricted Financial Instruments**

Restricted financial instruments as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>Description</b>        | <b>2021</b> |    | <b>2020</b> |    |
|------------------------------------|---------------------------|-------------|----|-------------|----|
| Other non-current financial assets | Checking account deposits | ₩           | 15 | ₩           | 15 |

**11. Trade and Other Receivables**

Details of trade and other receivables as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b>              |                |                                 |                |                    |                |
|------------------------------------|--------------------------|----------------|---------------------------------|----------------|--------------------|----------------|
|                                    | <b>Receivable amount</b> |                | <b>Provision for impairment</b> |                | <b>Book amount</b> |                |
| Trade receivables                  | ₩                        | 199,301        | ₩                               | (1,378)        | ₩                  | 197,923        |
| Other receivables                  |                          | 12,322         |                                 | (22)           |                    | 12,300         |
| Long-term other receivables        |                          | 24,906         |                                 | -              |                    | 24,906         |
|                                    | ₩                        | <u>236,529</u> | ₩                               | <u>(1,400)</u> | ₩                  | <u>235,129</u> |

| <i>(in millions of Korean won)</i> | <b>2020</b>              |                |                                 |                |                    |                |
|------------------------------------|--------------------------|----------------|---------------------------------|----------------|--------------------|----------------|
|                                    | <b>Receivable amount</b> |                | <b>Provision for impairment</b> |                | <b>Book amount</b> |                |
| 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> |

The Company has transferred trade receivables amounting to ₩ 65,517 million (2020: ₩ 47,603 million) to banks in exchange for cash as at December 31, 2021. The Company may retain an



**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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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, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>  | <b>2021</b>     | <b>2020</b>    |
|-------------------------------------|-----------------|----------------|
| Other receivables                   |                 |                |
| Non-trade receivables               | ₩ 5,772         | ₩ 1,586        |
| Loans                               | 12              | 4              |
| Deposits provided                   | 704             | 1,727          |
| Accrued income                      | -               | 1              |
| Finance lease receivables           | 5,811           | -              |
|                                     | <u>12,299</u>   | <u>3,318</u>   |
| Long-term other receivables         |                 |                |
| Long-term loans                     | 1,406           | 1,364          |
| Long-term deposits provided         | 2,003           | 2,103          |
| Long-term finance lease receivables | 21,498          | -              |
|                                     | <u>24,907</u>   | <u>3,467</u>   |
|                                     | <u>₩ 37,206</u> | <u>₩ 6,785</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> | <b>2021</b> | <b>2020</b> |
|------------------------|-------------|-------------|
| Discount rate          | 1.60%~3.36% | 1.60%~4.00% |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

The aging analysis of trade and other receivables as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | 2021                     |                           |                |                |                |            |                  |
|------------------------------------|--------------------------|---------------------------|----------------|----------------|----------------|------------|------------------|
|                                    | 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                  | ₩ 148,887                | ₩ 46,496                  | ₩ 1,194        | ₩ 1,132        | ₩ 425          | ₩ 1,167    | ₩ 199,301        |
| Loss allowance provision           | (17)                     | (12)                      | (34)           | (54)           | (94)           | (1,167)    | (1,378)          |
| Expected loss rate                 | 0.01%                    | 0.02%                     | 2.85%          | 4.80%          | 22.18%         | 100%       | 0.69%            |
|                                    | <u>148,870</u>           | <u>46,484</u>             | <u>1,160</u>   | <u>1,078</u>   | <u>331</u>     | <u>-</u>   | <u>197,923</u>   |
| Other receivables                  | 12,300                   | -                         | -              | -              | -              | 22         | 12,322           |
| Loss allowance provision           | -                        | -                         | -              | -              | -              | (22)       | (22)             |
|                                    | <u>12,300</u>            | <u>-</u>                  | <u>-</u>       | <u>-</u>       | <u>-</u>       | <u>-</u>   | <u>12,300</u>    |
| Long-term other receivables        | 24,906                   | -                         | -              | -              | -              | -          | 24,906           |
|                                    | <u>₩ 186,076</u>         | <u>₩ 46,484</u>           | <u>₩ 1,160</u> | <u>₩ 1,078</u> | <u>₩ 331</u>   | <u>₩ -</u> | <u>₩ 235,129</u> |

| <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%            |
|                                    | <u>106,885</u>           | <u>37,730</u>             | <u>173</u>    | <u>191</u>     | <u>116</u>     | <u>-</u>   | <u>145,095</u>   |
| Other receivables                  | 3,318                    | -                         | -             | -              | -              | 22         | 3,340            |
| Loss allowance provision           | -                        | -                         | -             | -              | -              | (22)       | (22)             |
|                                    | <u>3,318</u>             | <u>-</u>                  | <u>-</u>      | <u>-</u>       | <u>-</u>       | <u>-</u>   | <u>3,318</u>     |
| Long-term other receivables        | 3,467                    | -                         | -             | -              | -              | -          | 3,467            |
|                                    | <u>₩ 113,670</u>         | <u>₩ 37,730</u>           | <u>₩ 173</u>  | <u>₩ 191</u>   | <u>₩ 116</u>   | <u>₩ -</u> | <u>₩ 151,880</u> |

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

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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 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, 2021 and 2020, are as follows:

| <i>(in millions of<br/>Korean won)</i> | <b>2021</b>                  |                             |                  |                           |
|--|------------------------------|-----------------------------|------------------|---------------------------|
|  | <b>Beginning<br/>balance</b> | <b>Bad debt<br/>expense</b> | <b>Write-off</b> | <b>Ending<br/>balance</b> |
| Trade receivables                      | ₩ 1,360                      | ₩ 151                       | ₩ (133)          | ₩ 1,378                   |
| Other receivables                      | 22                           | -                           | -                | 22                        |
|  | <u>₩ 1,382</u>               | <u>₩ 151</u>                | <u>₩ (133)</u>   | <u>₩ 1,400</u>            |

| <i>(in millions of<br/>Korean won)</i> | <b>2020</b>                  |                             |                  |                           |
|--|------------------------------|-----------------------------|------------------|---------------------------|
|  | <b>Beginning<br/>balance</b> | <b>Bad debt<br/>expense</b> | <b>Write-off</b> | <b>Ending<br/>balance</b> |
| Trade receivables                      | ₩ 1,056                      | ₩ 304                       | ₩ -              | ₩ 1,360                   |
| Other receivables                      | 22                           | -                           | -                | 22                        |
|  | <u>₩ 1,078</u>               | <u>₩ 304</u>                | <u>₩ -</u>       | <u>₩ 1,382</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, 2021 and 2020**

**12. Other Financial Assets and Liabilities**

Other financial assets and liabilities as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                                | <b>2021</b> |         | <b>2020</b> |         |
|---|-------------|---------|-------------|---------|
| Other financial assets  |             |         |             |         |
| Long-term financial assets  | ₩           | 15      | ₩           | 15      |
| Derivative financial assets                                       |             | 45      |             | 28      |
| Financial assets at fair value through other comprehensive income |             | 46      |             | -       |
|   |             | 106     |             | 43      |
| Less: current portion   |             | (45)    |             | (28)    |
|   | ₩           | 61      | ₩           | 15      |
| Other financial liabilities                                       |             |         |             |         |
| Lease liabilities   | ₩           | 6,428   | ₩           | 9,072   |
| Derivative financial liabilities                                  |             | 536     |             | 729     |
|   |             | 6,964   |             | 9,801   |
| Less: current portion   |             | (4,251) |             | (4,107) |
|   | ₩           | 2,713   | ₩           | 5,694   |

Details of financial assets at fair value through other comprehensive income as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |    | <b>2020</b> |   |
|------------------------------------|-------------|----|-------------|---|
| <b>Listed equity securities</b>    |             |    |             |   |
| Kakao Bank Co., Ltd                | ₩           | 46 | ₩           | - |

Changes in financial assets at fair value through other comprehensive income for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>             | <b>2021</b> |    | <b>2020</b> |   |
|--|-------------|----|-------------|---|
| <b>Beginning balance</b>                       | ₩           | -  | ₩           | - |
| Acquisitions                                   |             | 31 |             | - |
| Disposals                                      |             | -  |             | - |
| Gain on valuation (other comprehensive income) |             | 15 |             | - |
| <b>Ending balance</b>                          | ₩           | 46 | ₩           | - |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Changes in gain on financial assets at fair value through other comprehensive income for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

|            | 2021              |                            |                |                |
|------------|-------------------|----------------------------|----------------|----------------|
|            | Beginning balance | Other comprehensive income | Profit or loss | Ending balance |
| Before tax | ₩ -               | ₩ 15                       | ₩ -            | ₩ 15           |
| Tax effect | -                 | (3)                        | -              | (3)            |
| After tax  | ₩ -               | ₩ 12                       | ₩ -            | ₩ 12           |

Valuation of derivative financial assets and liabilities as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

|   | 2021   |             | 2020   |             |
|---|--------|-------------|--------|-------------|
|   | Assets | Liabilities | Assets | Liabilities |
| Current derivative financial assets and liabilities |        |             |        |             |
| Currency swap                                       | ₩ -    | ₩ -         | ₩ 19   | ₩ -         |
| Forward exchange                                    | 45     | 536         | 9      | 729         |
|   | ₩ 45   | ₩ 536       | ₩ 28   | ₩ 729       |

### 13. Other Assets

Details of other assets as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

|                               | 2021     | 2020     |
|-------------------------------|----------|----------|
| Other current assets          |          |          |
| Advance payments              | ₩ 17,167 | ₩ 1,735  |
| Prepaid expenses <sup>1</sup> | 23,046   | 11,430   |
|                               | ₩ 40,213 | ₩ 13,165 |
| Other non-current assets      |          |          |
| Long-term prepaid expenses    | 92       | 36       |
| Other investment assets       | 5,121    | 3,436    |
|                               | ₩ 5,213  | ₩ 3,472  |
|                               | ₩ 45,426 | ₩ 16,637 |

<sup>1</sup> In relation to the performance obligation satisfied over time, contract assets of ₩ 8,607 million are included.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**14. Inventories**

Details of inventories as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of<br/>Korean won)</i> | 2021             |                  |                  | 2020             |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | Cost             | Provision        | Book<br>amount   | Cost             | Provision        | Book<br>amount   |
| Merchandise                            | ₩ 2,369          | ₩ (55)           | ₩ 2,314          | ₩ 2,330          | ₩ (12)           | ₩ 2,318          |
| Finished goods                         | 119,366          | (5,350)          | 114,016          | 68,405           | (1,192)          | 67,213           |
| Semi-finished<br>goods                 | 10,863           | (159)            | 10,704           | 7,066            | (135)            | 6,931            |
| Raw materials                          | 17,740           | (186)            | 17,554           | 11,108           | (158)            | 10,950           |
| Sub-materials                          | 16,395           | (982)            | 15,413           | 12,295           | (639)            | 11,656           |
| Supplies                               | 3,889            | (263)            | 3,626            | 2,927            | (380)            | 2,547            |
| Packaging                              | 878              | (48)             | 830              | 1,016            | (35)             | 981              |
| Goods in transit                       | 7,483            | -                | 7,483            | 5,693            | -                | 5,693            |
|  | <u>₩ 178,983</u> | <u>₩ (7,043)</u> | <u>₩ 171,940</u> | <u>₩ 110,840</u> | <u>₩ (2,551)</u> | <u>₩ 108,289</u> |

Inventories recognized as an expense for the year ended December 31, 2021 amount to ₩ 1,719,379 million (2020: ₩ 1,388,679 million), which is included in 'cost of sales'. Also, the Company recognized loss on valuation of inventories amounting to ₩ 4,492 million (2020: reversal of provisions for inventories ₩ 2,655 million) for the year ended December 31, 2021, 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, 2021 and 2020**

**15. Property, Plant and Equipment**

Details of property, plant and equipment as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of<br/>Korean won)</i> | 2021               |  |                  | 2020               |  |                  |
|--|--------------------|--|------------------|--------------------|--|------------------|
|  | Cost               | Accumulated<br>depreciation <sup>1</sup> | Book amount      | Cost               | Accumulated<br>depreciation <sup>1</sup> | Book<br>amount   |
| Land                                   | ₩ 138,770          | ₩ -                                      | ₩ 138,770        | ₩ 138,770          | ₩ -                                      | ₩ 138,770        |
| Building                               | 177,424            | (48,699)                                 | 128,725          | 175,115            | (44,470)                                 | 130,645          |
| Structures                             | 182,126            | (56,488)                                 | 125,638          | 181,818            | (51,946)                                 | 129,872          |
| Machinery                              | 1,739,791          | (1,443,360)                              | 296,431          | 1,737,221          | (1,344,649)                              | 392,572          |
| Vehicles                               | 5,875              | (5,140)                                  | 735              | 5,749              | (4,637)                                  | 1,112            |
| Tools and<br>equipment                 | 72,053             | (59,350)                                 | 12,703           | 67,969             | (53,697)                                 | 14,272           |
| Others                                 | 16,412             | (459)                                    | 15,953           | 30,935             | (235)                                    | 30,700           |
| Construction in<br>progress            | 31,538             | -  | 31,538           | 7,910              | -  | 7,910            |
| Machinery in transit                   | 146                | -  | 146              | 101                | -  | 101              |
| Right-of-use assets                    | 10,355             | (3,838)                                  | 6,517            | 12,112             | (2,864)                                  | 9,248            |
|  | <u>₩ 2,374,490</u> | <u>₩ (1,617,334)</u>                     | <u>₩ 757,156</u> | <u>₩ 2,357,700</u> | <u>₩ (1,502,498)</u>                     | <u>₩ 855,202</u> |

<sup>1</sup> Accumulated impairment losses and government grants are included.

Changes in property, plant and equipment for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of<br/>Korean won)</i> | 2021                 |                 |                       |   |                        |                   |
|--|----------------------|-----------------|-----------------------|---|------------------------|-------------------|
|  | Beginning<br>balance | Additions       | Disposal <sup>1</sup> | Depreciation<br>and others <sup>2</sup> | Transfers <sup>3</sup> | Ending<br>balance |
| Land                                   | ₩ 138,770            | ₩ -             | ₩ -                   | ₩ -                                     | ₩ -                    | ₩ 138,770         |
| Buildings                              | 130,645              | 121             | -                     | (4,229)                                 | 2,188                  | 128,725           |
| Structures                             | 129,872              | -               | (18)                  | (4,564)                                 | 349                    | 125,639           |
| Machinery                              | 392,572              | 1,742           | (68)                  | (118,783)                               | 20,968                 | 296,431           |
| Vehicles                               | 1,112                | -               | -                     | (502)                                   | 126                    | 736               |
| Tools and equipment                    | 14,272               | 334             | (9)                   | (5,956)                                 | 4,062                  | 12,703            |
| Others                                 | 30,700               | 3,473           | -                     | (3,733)                                 | (14,487)               | 15,953            |
| Construction in progress               | 7,910                | 32,834          | -                     | -                                       | (9,206)                | 31,538            |
| Machinery in transit                   | 101                  | 18,489          | -                     | -                                       | (18,444)               | 146               |
| Right-of-use assets                    | 9,248                | 1,272           | (282)                 | (3,721)                                 | -                      | 6,517             |
|  | <u>₩ 855,202</u>     | <u>₩ 58,265</u> | <u>₩ (377)</u>        | <u>₩ (141,488)</u>                      | <u>₩ (14,444)</u>      | <u>₩ 757,158</u>  |

<sup>1</sup> Disposal of right-of-use assets include effect of lease contract changes.

<sup>2</sup> Others include loss of other tangible assets of ₩ 160 million and supplies expenses for process

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

of ₩ 3,572 million.

<sup>3</sup> Transfers include transfer of construction in progress and machinery in transit transferred to property, plant and equipment, transfers between other tangible assets and finance lease receivables (₩ 14,487 million), transfers between property, plant and equipment and intangible assets, and others.

| (in millions of<br>Korean won) | 2020                 |                 |                       |   |                        |                                 |                   |  |
|--------------------------------|----------------------|-----------------|-----------------------|---|------------------------|---------------------------------|-------------------|--|
|                                | Beginning<br>balance | Additions       | Disposal <sup>1</sup> | Depreciation<br>and others <sup>2</sup> | Transfers <sup>3</sup> | Impairment<br>loss <sup>4</sup> | Ending<br>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<br>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>  |  |

<sup>1</sup> Disposal of right-of-use assets include effect of lease contract changes.

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

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

<sup>4</sup> 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.

Depreciation includes ₩ 134,238 million (2020: ₩ 140,277 million) in manufacturing costs, ₩ 2,976 million (2020: ₩ 3,164 million) in 'selling, general and administrative expenses' and ₩ 541 million (2020: ₩ 804 million) in 'research and development expenses'.

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



**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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As at December 31, 2021, the balance of government grants related to asset acquisition is ₩ 610 million (2020: ₩ 436 million), and there is no balance of liabilities related to government grants (2020: ₩ 89 million).

Fair value of land as at December 31, 2021, is ₩ 165,669 million (2020: ₩ 157,479 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, 2021, are as follows:

|                       | <b>POK business</b> |
|-----------------------|---------------------|
| Sales growth rate     | 0.0 ~ 59.6%         |
| Gross margin          | -5.8% ~ 20.1%       |
| Perpetual growth rate | 0.0%                |
| Discount rate         | 15.13%              |

As a result, the book amount of property, plant and equipment is not expected to exceed the recoverable amount.

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

|   | <b>Impairment</b> |
|---|-------------------|
| Decrease in perpetual growth rate by 0.5%pt | ₩ -               |
| Increase in discount rate by 0.5%pt         | -                 |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**16. Leases**

(a) Lessee - 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> | <b>2021</b>    | <b>2020</b>    |
|------------------------------------|----------------|----------------|
| Right-of-use assets <sup>1</sup>   |                |                |
| Real estate                        | ₩ 5,011        | ₩ 8,146        |
| Facility equipment                 | 11             | 32             |
| Vehicles                           | 580            | 378            |
| Others                             | 915            | 692            |
|                                    | <u>₩ 6,517</u> | <u>₩ 9,248</u> |

<sup>1</sup> Included in 'property, plant and equipment' in the statements of financial position.

| <i>(in millions of Korean won)</i> | <b>2021</b>    | <b>2020</b>    |
|------------------------------------|----------------|----------------|
| Lease liabilities <sup>1</sup>     |                |                |
| Current                            | ₩ 3,715        | ₩ 3,378        |
| Non-current                        | 2,713          | 5,694          |
|                                    | <u>₩ 6,428</u> | <u>₩ 9,072</u> |

<sup>1</sup> Included in 'other 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 ₩ 1,273 million for the year ended December 31, 2021 (2020: ₩ 8,596 million).

(b) Lessee - 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>  | <b>2021</b>    | <b>2020</b>    |
|-------------------------------------|----------------|----------------|
| Depreciation of right-of-use assets |                |                |
| Real estate                         | ₩ 3,317        | ₩ 2,953        |
| Facility equipment                  | 21             | 6              |
| Vehicles                            | 311            | 268            |
| Others                              | 72             | 41             |
|                                     | <u>₩ 3,721</u> | <u>₩ 3,268</u> |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

| <i>(in millions of Korean won)</i>  | <b>2021</b> | <b>2020</b> |
|---|-------------|-------------|
| Interest expense (included in financial cost)   | ₩ 179       | ₩ 143       |
| Expense relating to short-term leases and leases of low-value assets (included in 'cost of sales' and 'selling, general and administrative expenses') | 2,937       | 3,342       |

The total cash outflow for leases in 2021 was ₩ 6,711 million (2020: ₩ 6,733million).

*(b) Lessor under finance lease*

Details of gross investment, net investment and loss allowance in the finance lease as at December 31, 2021 is as follows:

| <i>(in millions of Korean won)</i>    | <b>2021</b>                  |                          |                       |                       |                    |
|---------------------------------------|------------------------------|--------------------------|-----------------------|-----------------------|--------------------|
|                                       | <b>Initial lease payment</b> | <b>Unearned interest</b> | <b>Net investment</b> | <b>Loss allowance</b> | <b>Book amount</b> |
| Current finance lease receivables     | ₩ 5,928                      | ₩ (117)                  | ₩ 5,811               | ₩ -                   | ₩ 5,811            |
| Non-current finance lease receivables | 24,142                       | (2,644)                  | 21,498                | -                     | 21,498             |
|                                       | <u>₩ 30,070</u>              | <u>₩ (2,761)</u>         | <u>₩ 27,309</u>       | <u>₩ -</u>            | <u>₩ 27,309</u>    |

There are no changes in loss allowance of finance lease receivables for the year ended December 31.

The maturity of finance lease receivables as at December 31, 2021 is as follows:

| <i>(in millions of Korean won)</i>     | <b>2021</b>              |               |
|--|--------------------------|---------------|
|  | <b>Platinum catalyst</b> |               |
| Within 1 year                          | ₩                        | 5,928         |
| Over 1 year                            |                          | 24,142        |
| Undiscounted total lease payments      |                          | 30,070        |
| Unrealized finance income              |                          | (2,761)       |
| <b>Net investment in finance lease</b> | <u>₩</u>                 | <u>27,309</u> |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Lease payments expected to be received due to the finance lease contract as at December 31, are as follows:

(in millions of Korean won)

|                                   | 2021                  |        |                                 |        |
|-----------------------------------|-----------------------|--------|---------------------------------|--------|
|                                   | Initial lease payment |        | Net investment in finance lease |        |
| Within 1 year                     | ₩                     | 5,928  | ₩                               | 5,811  |
| 1 ~ 2 years                       |                       | 5,928  |                                 | 5,548  |
| 2 ~ 3 years                       |                       | 5,928  |                                 | 5,367  |
| 3 ~ 4 years                       |                       | 5,928  |                                 | 5,193  |
| 4 ~ 5 years                       |                       | 6,358  |                                 | 5,390  |
| Undiscounted total lease payments | ₩                     | 30,070 | ₩                               | 27,309 |

The Company recognized ₩ 76 million as interest income of finance lease receivables for the year ended December 31.

**17. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

|                   | 2021              |       |                                      |         |            |         |   |         |
|-------------------|-------------------|-------|--------------------------------------|---------|------------|---------|---|---------|
|                   | Industrial rights |       | Other intangible assets <sup>1</sup> |         | Membership | Total   |   |         |
| Beginning balance | ₩                 | 1,602 | ₩                                    | 4,601   | ₩          | 7,200   | ₩ | 13,403  |
| Additions         |                   | 69    |                                      | 2,745   |            | -       |   | 2,814   |
| Disposals         |                   | -     |                                      | (2,507) |            | (1,200) |   | (3,707) |
| Amortization      |                   | (366) |                                      | (447)   |            | -       |   | (813)   |
| Transfers         |                   | -     |                                      | (43)    |            | -       |   | (43)    |
| Ending balance    | ₩                 | 1,305 | ₩                                    | 4,349   | ₩          | 6,000   | ₩ | 11,654  |

<sup>1</sup> Facility usage rights, Greenhouse Gas Emission Permits and etc. are included.

(in millions of Korean won)

|                   | 2020              |       |                                      |       |            |       |   |        |
|-------------------|-------------------|-------|--------------------------------------|-------|------------|-------|---|--------|
|                   | Industrial rights |       | Other intangible assets <sup>1</sup> |       | Membership | Total |   |        |
| Beginning balance | ₩                 | 1,969 | ₩                                    | 5,018 | ₩          | 7,200 | ₩ | 14,187 |
| Additions         |                   | 48    |                                      | 75    |            | -     |   | 123    |
| Amortization      |                   | (415) |                                      | (492) |            | -     |   | (907)  |
| Ending balance    | ₩                 | 1,602 | ₩                                    | 4,601 | ₩          | 7,200 | ₩ | 13,403 |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

<sup>1</sup> Facility usage rights and etc. are included.

Amortization of ₩ 257 million (2020: ₩ 263 million) is included in manufacturing costs, ₩ 253 million (2020: ₩ 279 million) in 'research and development expenses', and ₩ 303 million (2020: ₩ 365 million) in 'selling, general and administrative expenses'

**18. Insurance Coverage**

As at December 31, 2021, property, plant and equipment are insured, and details of insurance are as follows:

| <i>(in millions of Korean won)</i> | <b>Insured assets</b>                    | <b>Book amount</b> | <b>Insured amount</b> | <b>Insurance company</b>                               |
|------------------------------------|--|--------------------|-----------------------|--|
| Package insurance                  | Property, plant and equipment and others | ₩ 752,116          | ₩ 3,767,434           | 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, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |                | <b>2020</b> |                |
|------------------------------------|-------------|----------------|-------------|----------------|
| Beginning balance                  | ₩           | 408,887        | ₩           | 283,576        |
| Acquisitions                       |             | -              |             | 3,541          |
| Additional investment <sup>1</sup> |             | -              |             | 121,770        |
| Ending balance                     | ₩           | <u>408,887</u> | ₩           | <u>408,887</u> |

<sup>1</sup> The Company made an additional investment of ₩ 121,770 million to Hyosung Vina Chemicals Co., Ltd., 100% owned subsidiary, on February 25, 2020.

Details of investments in subsidiaries as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>Location</b> | <b>Ownership (%)</b> |             | <b>Book Amount</b> |             |
|------------------------------------|-----------------|----------------------|-------------|--------------------|-------------|
|                                    |                 | <b>2021</b>          | <b>2021</b> | <b>2020</b>        | <b>2020</b> |
| Hyosung Vina Chemicals Co., Ltd.   | Vietnam         | 100%                 | ₩ 394,608   | ₩                  | 394,608     |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

---

Details of investments in associates as at December 31, 2021 and 2020, are as follows:

| (in millions of Korean won) | Location | Ownership (%) | Book Amount |          |
|-----------------------------|----------|---------------|-------------|----------|
|                             |          | 2021          | 2021        | 2020     |
| Shinwha Intertek Corp.      | Korea    | 20%           | ₩ 14,279    | ₩ 14,279 |

*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, 2021, are as follows:

**Hyosung Vina Chemicals Co., Ltd.**

|                       |               |
|-----------------------|---------------|
| Sales growth rate     | 0% ~ 252.1%   |
| Gross margin          | -0.4% ~ 13.4% |
| Perpetual growth rate | 1.0%          |
| Discount rate         | 8.28%         |

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

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

**Impairment**

|  |   |   |
|--|---|---|
| Decrease in perpetual growth rate 0.5%pt | ₩ | - |
| Increase in discount rate 0.5%pt         |   | - |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

---

Fair value of marketable investments in associates as at December 31, 2021 and 2020, is as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b>             |   |                   |                    |
|------------------------------------|-------------------------|---|-------------------|--------------------|
|                                    | <b>Number of shares</b> | <b>Market price per share (in Korean won)</b> | <b>Fair value</b> | <b>Book amount</b> |
| Shinwha Intertek Corp.             | 5,827,100 ₩             | 3,055 ₩                                       | 17,802 ₩          | 14,279             |

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

**20. Related Party Transactions**

Details of subsidiaries, associates and other related parties as at December 31, 2021, are as follows:

*Significant Influence over the Company*

| <b>Location</b> | <b>Related party</b> |
|-----------------|----------------------|
| Domestic        | Hyosung Corporation  |

*Subsidiaries*

| <b>Location</b> | <b>Related party</b>             |
|-----------------|----------------------------------|
| Asia            | Hyosung Vina Chemicals Co., Ltd. |

*Associates*

| <b>Location</b> | <b>Related party</b>   |
|-----------------|------------------------|
| Domestic        | Shinwha Intertek Corp. |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

*Other related parties*

| <b>Location</b> | <b>Related party</b>   |
|-----------------|--|
| Domestic        | Galaxia Device Co., Ltd., GALAXIA ELECTRONICS CO.,LTD., Hyosung Trans World Co., Ltd <sup>1</sup> , 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 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          | Hyosung RUS and others   |
| America         | Hyosung Holdings USA, Inc., Hyosung Mexico S. de R.L. de C.V., and others  |
| Others          | Hyosung Resource (Australia) PTY Ltd. and others   |

<sup>1</sup>Hyosung Trans World Co., Ltd was excluded from the related parties due to the merger with Hyosung Corporation in February 2021.

*Others<sup>1</sup>*

| <b>Location</b> | <b>Related party</b>   |
|-----------------|--|
| 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 Spandex (Zhuhai) 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   |



**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

|         |  |
|---------|--|
|         | 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 , Hyosung RUS and others   |
| Others  | GST Automotive Safety South Africa(Proprietary) Limited, Hyosung Resource (Australia) PTY Ltd., Hyosung South Africa (PTY) LTD. and others   |

<sup>1</sup> 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.

Sales and purchases with related parties for the years ended December 31, 2021 and 2020, are as follows:

| (in millions of Korean won)            |  | 2021                          |                 |                                   |  |                                    |                               |  |
|--|--|-------------------------------|-----------------|-----------------------------------|--|------------------------------------|-------------------------------|--|
|  |  | Sales and others <sup>1</sup> | Dividend income | Purchases and others <sup>1</sup> | Acquisition of property, plant and equipment and intangible assets | Acquisition of right-of-use assets | Interest expense <sup>2</sup> |  |
| Significant influence over the Company | Hyosung Corporation                        | ₩ 6                           | ₩ -             | ₩ 125,176                         | ₩ -  | ₩ -                                | ₩ -                           |  |
| Subsidiaries                           | Hyosung Vina Chemicals Co., Ltd.           | 4,160                         | -               | 22                                | -  | -                                  | -                             |  |
| Associates                             | Shinwha Intertek Corp.                     | 11,869                        | 291             | 113                               | -  | -                                  | -                             |  |
| Other related parties                  | Shin Dong Jin Co., Ltd.                    | -                             | -               | 97                                | -  | 37                                 | 55                            |  |
|  | Kongduk Development Co., Ltd.              | -                             | -               | 8                                 | -  | -                                  | 6                             |  |
|  | Hyosung Trans World Co., Ltd. <sup>3</sup> | -                             | -               | 5,310                             | -  | -                                  | -                             |  |
|  | Hyosung Holdings USA                       | 7,208                         | -               | 32                                | -  | -                                  | -                             |  |
|  | Others                                     | -                             | -               | 915                               | -  | -                                  | -                             |  |
|  |  | <u>7,208</u>                  | <u>-</u>        | <u>6,362</u>                      | <u>-</u>   | <u>37</u>                          | <u>61</u>                     |  |
| Others                                 | Hyosung TNC Corporation                    | 224,615                       | -               | 94,542                            | -  | -                                  | 64                            |  |

# Hyosung Chemical Corporation

## Notes to the Separate Financial Statements

### December 31, 2021 and 2020

(in millions of  
Korean won)

| Related party   | 2021                          |                 |                                   |  |                                    |                               |   |
|---|-------------------------------|-----------------|-----------------------------------|--|------------------------------------|-------------------------------|---|
|   | Sales and others <sup>1</sup> | Dividend income | Purchases and others <sup>1</sup> | Acquisition of property, plant and equipment and intangible assets | Acquisition of right-of-use assets | Interest expense <sup>2</sup> |   |
| Hyosung Heavy Industries Corporation                    | -                             | -               | 429                               | 13,309   | -                                  | -                             | - |
| Hyosung Advanced Materials Corporation                  | -                             | -               | 356                               | -  | -                                  | -                             | - |
| Hyosung Japan Co., Ltd.                                 | 53,683                        | -               | 18                                | -  | -                                  | -                             | - |
| Hyosung NEW Material & High Technology(Quzhou) Co., Ltd | 8,523                         | -               | -                                 | -  | -                                  | -                             | - |
| Hyosung International(HK) Ltd.                          | 13,307                        | -               | -                                 | -  | -                                  | -                             | - |
| Hyosung Chemical Fiber(Jiaxing) Co., Ltd.               | 4,209                         | -               | 35,824                            | -  | -                                  | -                             | - |
| Others  | 2,191                         | -               | 6,461                             | -  | 115                                | 1                             |   |
|   | 306,528                       | -               | 137,630                           | 13,309   | 115                                | 65                            |   |
|   | ₩ 329,771                     | ₩ 291           | ₩ 269,303                         | ₩ 13,309   | ₩ 152                              | ₩ 126                         |   |

<sup>1</sup> Sales, other income, interest income and others are included in sales and others.

<sup>2</sup> Interest expense recognized in accordance with lease contracts of buildings is ₩ 126 million for the year ended December 31, 2021.

<sup>3</sup> It represented the transaction amounts before the merger with Hyosung Corporation in February 2021.

(in millions of  
Korean won)

| Related party                          | 2020                             |                 |                                   |  |                                    |                               |     |
|--|----------------------------------|-----------------|-----------------------------------|--|------------------------------------|-------------------------------|-----|
|  | Sales and others <sup>1</sup>    | Dividend income | Purchases and others <sup>1</sup> | Acquisition of property, plant and equipment and intangible assets | Acquisition of right-of-use assets | Interest expense <sup>2</sup> |     |
| 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   | -                                  | -                             | -   |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

(in millions of  
Korean won)

|                          |  | 2020                             |                    |                                      |  |   |                                  |
|--------------------------|--|----------------------------------|--------------------|--------------------------------------|--|---|----------------------------------|
| Related party            |  | Sales and<br>others <sup>1</sup> | Dividend<br>income | Purchases<br>and others <sup>1</sup> | Acquisition of<br>property, plant<br>and equipment<br>and intangible<br>assets | Acquisition<br>of<br>right-of-use<br>assets | Interest<br>expense <sup>2</sup> |
| Other related<br>parties | Shin Dong Jin Co., Ltd.  | -                                | -                  | 105                                  | -  | 4,539                                       | 50                               |
|                          | Kongduk Development<br>Co., Ltd.                                 | -                                | -                  | 100                                  | -  | 936   | 8                                |
|                          | Hyosung Trans World<br>Co., Ltd.                                 | -                                | -                  | 42,941                               | -  | -   | -                                |
|                          | Hyosung Holdings USA   | 4,474                            | -                  | 315                                  | -  | -   | -                                |
|                          | Others   | -                                | -                  | 583                                  | 421  | -   | 1                                |
|                          |  | <u>4,474</u>                     | <u>-</u>           | <u>44,044</u>                        | <u>421</u>   | <u>5,475</u>                                | <u>59</u>                        |
| Others                   | Hyosung TNC<br>Corporation                                       | 130,800                          | -                  | 69,951                               | -  | 2,769                                       | 44                               |
|                          | Hyosung Heavy<br>Industries<br>Corporation                       | -                                | -                  | 685                                  | 1,927  | -   | -                                |
|                          | Hyosung Advanced<br>Materials<br>Corporation                     | -                                | -                  | 430                                  | -  | -   | -                                |
|                          | Hyosung Japan Co.,<br>Ltd.                                       | 53,053                           | -                  | 14                                   | -  | -   | -                                |
|                          | Hyosung NEW Material<br>& High<br>Technology(Quzhou)<br>Co., Ltd | 16,475                           | -                  | -                                    | -  | -   | -                                |
|                          | Hyosung<br>International(HK) Ltd.                                | 15,173                           | -                  | -                                    | -  | -   | -                                |
|                          | Hyosung Chemical<br>Fiber(Jiaxing) Co.,<br>Ltd.                  | 2,135                            | -                  | 30,769                               | -  | -   | -                                |
|                          | Others   | 2,554                            | -                  | 4,262                                | 1,757  | 42  | 1                                |
|                          | <u>220,190</u>   | <u>-</u>                         | <u>106,111</u>     | <u>3,684</u>                         | <u>2,811</u>   | <u>45</u>                                   |                                  |
|                          | <u>₩ 245,560</u>   | <u>₩ 222</u>                     | <u>₩ 179,063</u>   | <u>₩ 4,105</u>                       | <u>₩ 8,286</u>   | <u>₩ 104</u>                                |                                  |

<sup>1</sup> 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.

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

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2021 and 2020, are as follows:

| (in millions of<br>Korean won)               |   | 2021                 |                                   |                 |                                |                                   |  |
|--|---|----------------------|-----------------------------------|-----------------|--------------------------------|-----------------------------------|--|
|  |   | Trade<br>receivables | Other<br>receivables <sup>1</sup> | Trade payables  | Other<br>payables <sup>1</sup> | Lease<br>liabilities <sup>2</sup> |  |
|  | Related party   |                      |                                   |                 |                                |                                   |  |
| Significant<br>influence over<br>the Company | Hyosung<br>Corporation  | ₩ -                  | ₩ 52                              | ₩ 342           | ₩ 26,637                       | ₩ -                               |  |
| Subsidiaries                                 | Hyosung Vina<br>Chemicals Co.,<br>Ltd.                            | 886                  | 27,624                            | -               | -                              | -                                 |  |
| Associates                                   | Shinwha Intertek<br>Corp.   | 1,417                | -                                 | -               | -                              | -                                 |  |
| Other related<br>parties                     | Shin Dong Jin Co.,<br>Ltd.  | -                    | 1,122                             | -               | -                              | 2,444                             |  |
|  | Kongduk<br>Development Co.,<br>Ltd.                               | -                    | 151                               | -               | -                              | 360                               |  |
|  | PT.Hyosung Jakarta.   | -                    | -                                 | -               | 35                             | -                                 |  |
|  | Hyosung Holdings<br>USA   | 2,647                | -                                 | -               | 2                              | -                                 |  |
|  | Others  | -                    | -                                 | -               | 184                            | -                                 |  |
|  |   | <u>2,647</u>         | <u>1,273</u>                      | <u>-</u>        | <u>221</u>                     | <u>2,804</u>                      |  |
| Others                                       | Hyosung TNC<br>Corporation  | 22,648               | 524                               | 9,144           | 935                            | 1,880                             |  |
|  | Hyosung Heavy<br>Industries<br>Corporation                        | -                    | -                                 | 242             | 6,623                          | -                                 |  |
|  | Hyosung Advanced<br>Materials<br>Corporation                      | -                    | 366                               | 38              | -                              | -                                 |  |
|  | Hyosung Chemical<br>Fiber(Jiaying) Co.,<br>Ltd.                   | 1,787                | -                                 | 7,743           | -                              | -                                 |  |
|  | Hyosung Japan Co.,<br>Ltd.  | 921                  | -                                 | 10              | -                              | -                                 |  |
|  | Hyosung NEW<br>Material & High<br>Technology(Quzho<br>u) Co., Ltd | 499                  | -                                 | -               | -                              | -                                 |  |
|  | Hyosung Chemical<br>(Jiaying) Co., Ltd.                           | 656                  | 18                                | -               | -                              | -                                 |  |
|  | Others  | 1,922                | 8                                 | -               | 1,044                          | 149                               |  |
|  |   | <u>28,433</u>        | <u>916</u>                        | <u>17,177</u>   | <u>8,602</u>                   | <u>2,029</u>                      |  |
|  |   | <u>₩ 33,383</u>      | <u>₩ 29,865</u>                   | <u>₩ 17,519</u> | <u>₩ 35,460</u>                | <u>₩ 4,833</u>                    |  |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

<sup>1</sup> 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.

<sup>2</sup> The balance of lease liabilities recognized in accordance with lease contracts of buildings amount to ₩ 4,883 million as at December 31, 2021.

<sup>3</sup> The Company recognized ₩ 6,000 million of memberships for Hyosung Heavy Industries Corporation as memberships.

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

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

(in millions of  
Korean won)

| Related party                        | 2020              |                                |                |                             |                                |
|--------------------------------------|-------------------|--------------------------------|----------------|-----------------------------|--------------------------------|
|                                      | Trade receivables | Other receivables <sup>1</sup> | Trade payables | Other payables <sup>1</sup> | Lease liabilities <sup>2</sup> |
| u) Co., Ltd                          |                   |                                |                |                             |                                |
| Hyosung Chemical (Jiaxing) Co., Ltd. | 526               | 18                             | -              | -                           | -                              |
| Others                               | 190               | 8                              | 102            | 649                         | 37                             |
|                                      | <u>22,391</u>     | <u>1,023</u>                   | <u>10,501</u>  | <u>1,329</u>                | <u>2,432</u>                   |
|                                      | ₩ 25,123          | ₩ 2,926                        | ₩ 13,674       | ₩ 10,546                    | ₩ 7,938                        |

<sup>1</sup> 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.

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

<sup>3</sup> 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, 2021, are as follows:

(in millions of  
Korean won)

| Related party   | 2021                    |                         |               |                |
|---|-------------------------|-------------------------|---------------|----------------|
|   | Borrowing transactions  |                         | Contributions | Acquisition of |
|   | Borrowings <sup>1</sup> | Repayments <sup>1</sup> | in cash       | shares         |
| Other related parties   |                         |                         |               |                |
| Shin Dong Jin Co., Ltd.   | ₩ 37                    | ₩ 2,239                 | ₩ -           | ₩ -            |
| Kongduk Development Co., Ltd.   | -                       | 500                     | -             | -              |
|   | <u>37</u>               | <u>2,739</u>            | <u>-</u>      | <u>-</u>       |
| Others  |                         |                         |               |                |
| Hyosung TNC Corporation   | -                       | 515                     | -             | -              |
| KB Wise Star Professional Investment Private Real Estate Investment Trust #11 | 113                     | 29                      | -             | -              |
|   | <u>113</u>              | <u>544</u>              | <u>-</u>      | <u>-</u>       |
|   | ₩ 150                   | ₩ 3,283                 | ₩ -           | ₩ -            |

<sup>1</sup> The Company recognized additional lease liabilities amounting to ₩ 150 million, due to lease contract of the office as at December 31, 2021. The repayments of lease liabilities and interest expense amount to ₩ 3,283 million and ₩ 126 million, respectively, for the year ended December 31, 2021.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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

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

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

The compensation paid or payable to key management who are executive directors for employee services for the years ended December 31, 2021 and 2020, consists of:

| <i>(in millions of Korean won)</i>              | <b>2021</b> |            | <b>2020</b> |            |
|---|-------------|------------|-------------|------------|
| Salaries and other short-term employee benefits | ₩           | 782        | ₩           | 654        |
| Post-employment benefits                        |             | 93         |             | 117        |
|   | ₩           | <u>875</u> | ₩           | <u>771</u> |

The Company is providing payment guarantees amounting to ₩ 1,544,829 million for Hyosung Vina Chemicals Co., Ltd. in relation to facility borrowings amounting to ₩ 1,307,692 million from Korea Development Bank and others as at December 31, 2021.

In relation to Hyosung Vina Chemicals Co., Ltd.'s borrowings, the Company has an obligation to supplement the access financing in case of non-compliance with covenants (Note 38).

There are no collaterals provided by the Company to the related parties as at December 31, 2021.

**21. Trade Payables and Other Payables**

Trade payables and other payables as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |                | <b>2020</b> |                |
|------------------------------------|-------------|----------------|-------------|----------------|
| Trade payables                     | ₩           | 190,667        | ₩           | 122,337        |
| Other payables                     |             | 139,475        |             | 84,306         |
| Long-term other payables           |             | 13,270         |             | 13,186         |
|                                    | ₩           | <u>343,412</u> | ₩           | <u>219,829</u> |

Details of other payables as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |                | <b>2020</b> |               |
|------------------------------------|-------------|----------------|-------------|---------------|
| Other payables                     |             |                |             |               |
| Non-trade payables                 | ₩           | 105,110        | ₩           | 61,930        |
| Accrued expenses                   |             | 32,186         |             | 21,299        |
| Withholdings                       |             | 2,122          |             | 1,020         |
| Deposits received                  |             | 57             |             | 57            |
|                                    |             | <u>139,475</u> |             | <u>84,306</u> |
| Long-term other payables           |             |                |             |               |
| Non-trade payables                 |             | 2              |             | 2             |



**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

| <i>(in millions of Korean won)</i> | <b>2021</b>   | <b>2020</b>   |
|------------------------------------|---------------|---------------|
| Accrued expenses                   | 1,264         | 1,476         |
| Deposits received                  | 12,004        | 11,708        |
|                                    | <u>13,270</u> | <u>13,186</u> |
|                                    | ₩ 152,745     | ₩ 97,492      |

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> | <b>2021</b> | <b>2020</b> |
|------------------------|-------------|-------------|
| Discount rate          | 1.20%~2.50% | 1.80%~2.50% |

The fair value of trade and other payables are similar to the book amount as at December 31, 2021.

## **22. Borrowings**

Borrowings as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                 | <b>2021</b>      | <b>2020</b>      |
|--|------------------|------------------|
| Short-term borrowings                              | ₩ 15,642         | ₩ 91,057         |
| Borrowings on trade receivables sales <sup>1</sup> | 67,954           | 48,241           |
| Long-term borrowings                               | 50,000           | 105,940          |
| Debentures   | <u>492,317</u>   | <u>589,806</u>   |
|  | 625,913          | 835,044          |
| Less: current portion                              | <u>(326,477)</u> | <u>(250,716)</u> |
|  | ₩ 299,436        | ₩ 584,328        |

<sup>1</sup> 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 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)

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Details of carrying amount of short-term borrowings as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                    | <b>Creditor</b>          | <b>Latest maturity date</b> | <b>Annual interest rate (2021) (%)</b> |   |          | <b>2021</b> |  |           | <b>2020</b> |
|---|--------------------------|-----------------------------|--|---|----------|-------------|--|-----------|-------------|
| Short-term borrowings denominated in Korean won       |                          |                             |  |   |          |             |  |           |             |
| General loan  | Nonghyup Bank and others | 2022-01-07                  | 2.38~2.53%                             | ₩ | 7,900    | ₩           |  |           | 85,300      |
| Others  | Shinhan Bank and others  | 2022-11-09                  | 3.40~3.51%                             |   | 7,742    |             |  |           | 5,757       |
| Short-term borrowings denominated in foreign currency |                          |                             |  |   |          |             |  |           |             |
| Borrowings on trade receivables sales                 | Woori Bank and others    | -                           | -                                      |   | 67,954   |             |  |           | 48,241      |
|   |                          |                             |  |   | ₩ 83,596 |             |  | ₩ 139,298 |             |

Details of carrying amount of long-term borrowings as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                   | <b>Creditor</b>                                    | <b>Latest maturity date</b> | <b>Annual interest rate (2021) (%)</b> |   |          | <b>2021</b> |  |          | <b>2020</b> |
|--|--|-----------------------------|--|---|----------|-------------|--|----------|-------------|
| Long-term borrowings denominated in Korean won       |  |                             |  |   |          |             |  |          |             |
| General loan   | Industrial and Commercial Bank of China and others | 2023-03-29                  | 2.48~2.95%                             | ₩ | 50,000   | ₩           |  |          | 88,000      |
| Facility loan  | -  | -                           | -                                      |   | -        |             |  |          | 12,500      |
| Long-term borrowings denominated in foreign currency |  |                             |  |   |          |             |  |          |             |
| General loan   | -  | -                           | -                                      |   | -        |             |  |          | 5,440       |
|  |  |                             |  |   | 50,000   |             |  | 105,940  |             |
| Less: current portion                                |  |                             |  |   | (48,000) |             |  |          | (13,440)    |
|  |  |                             |  |   | ₩ 2,000  |             |  | ₩ 92,500 |             |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Details of carrying amount of debentures as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

|                        |       | Latest<br>maturity date | Annual<br>interest rate<br>(2021) (%) | 2021      | 2020      |
|------------------------|-------|-------------------------|---------------------------------------|-----------|-----------|
| Public bond            | 259-2 | 2021-04-25              | -                                     | -         | 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   | 117,000   |
| Public bond            | 4-2   | 2025-02-19              | 2.74%                                 | 67,000    | 67,000    |
| Private bond           | 5     | 2023-09-22              | 2.42%                                 | 10,000    | 10,000    |
|                        |       |                         |                                       | 493,000   | 591,000   |
| Discount on debentures |       |                         |                                       | (683)     | (1,194)   |
| Less: current portion  |       |                         |                                       | (194,881) | (97,978)  |
|                        |       |                         |                                       | ₩ 297,436 | ₩ 491,828 |

**23. Post-employment Benefits**

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

|  | 2021 |          | 2020 |          |
|--|------|----------|------|----------|
| Present value of defined benefit obligations | ₩    | 68,443   | ₩    | 65,126   |
| Fair value of plan assets <sup>1</sup>       |      | (73,564) |      | (68,562) |
| Net defined benefit liabilities (assets)     | ₩    | (5,121)  | ₩    | (3,436)  |

<sup>1</sup> The contributions to the National Pension Fund of ₩ 34 million (2020: ₩ 34 million) are included in the fair value of plan assets as at December 31, 2021.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

The amounts of defined benefit plan recognized in the statements of income for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>         | <b>2021</b> |              | <b>2020</b> |              |
|--|-------------|--------------|-------------|--------------|
| Current service cost                       | ₩           | 8,201        | ₩           | 7,838        |
| Interest expense                           |             | 1,449        |             | 1,199        |
| Interest income                            |             | (1,744)      |             | (1,423)      |
| Total expense included in employee benefit | ₩           | <u>7,906</u> | ₩           | <u>7,614</u> |

Line items including total expense of defined benefit plan in the statements of income for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>           | <b>2021</b> |              | <b>2020</b> |              |
|--|-------------|--------------|-------------|--------------|
| Cost of sales                                | ₩           | 5,269        | ₩           | 4,959        |
| Selling, general and administrative expenses |             | 2,531        |             | 2,599        |
| Research and development expenses            |             | 106          |             | 56           |
|  | ₩           | <u>7,906</u> | ₩           | <u>7,614</u> |

Movements in the defined benefit obligations for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |               | <b>2020</b> |               |
|------------------------------------|-------------|---------------|-------------|---------------|
| Beginning balance                  | ₩           | 65,126        | ₩           | 56,437        |
| Current service cost               |             | 8,201         |             | 7,838         |
| Interest expense                   |             | 1,449         |             | 1,199         |
| Benefit payments                   |             | (4,722)       |             | (4,547)       |
| Remeasurements:                    |             |               |             |               |
| Change in demographic assumptions  |             | (1,431)       |             | -             |
| Change in financial assumptions    |             | (1,278)       |             | 2,118         |
| Experience adjustments             |             | 1,615         |             | 1,442         |
| Transfer from (to) associates      |             | (517)         |             | 639           |
| Ending balance                     | ₩           | <u>68,443</u> | ₩           | <u>65,126</u> |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Movements in the fair value of plan assets for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |               | <b>2020</b> |               |
|------------------------------------|-------------|---------------|-------------|---------------|
| Beginning balance                  | ₩           | 68,562        | ₩           | 58,374        |
| Interest income                    |             | 1,744         |             | 1,423         |
| Employer's contributions           |             | 7,900         |             | 12,300        |
| Benefit payments                   |             | (3,265)       |             | (3,727)       |
| Remeasurements                     |             | (944)         |             | (497)         |
| Transfer from (to) associates      |             | (433)         |             | 689           |
| Ending balance                     | ₩           | <u>73,564</u> | ₩           | <u>68,562</u> |

Plan assets as at December 31, 2021 and 2020, consist of:

| <i>(in millions of Korean won)</i>   | <b>2021</b>     |                    | <b>2020</b>     |                    |
|--------------------------------------|-----------------|--------------------|-----------------|--------------------|
|                                      | <b>Amount</b>   | <b>Portion (%)</b> | <b>Amount</b>   | <b>Portion (%)</b> |
| Fixed interest financial instruments | ₩ 66,768        | 90.8               | ₩ 57,280        | 83.5               |
| Deposits and others                  | 6,796           | 9.2                | 11,282          | 16.5               |
|                                      | <u>₩ 73,564</u> | <u>100.0</u>       | <u>₩ 68,562</u> | <u>100.0</u>       |

Remeasurements of net defined benefit liabilities recognized as other comprehensive income (expenses) for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |            | <b>2020</b> |                |
|------------------------------------|-------------|------------|-------------|----------------|
| Before income tax effects          | ₩           | 149        | ₩           | (4,057)        |
| Income tax effects                 |             | (36)       |             | 981            |
| After income tax effects           | ₩           | <u>113</u> | ₩           | <u>(3,076)</u> |

Accumulated remeasurements of net defined benefit liabilities recognized as retained earnings is ₩ 9,737 million (2020: ₩ 9,850 million) as at December 31, 2021.

The significant actuarial assumptions as at December 31, 2021 and 2020, are as follows:

| <i>(in percentage)</i> | <b>2021</b> | <b>2020</b> |
|------------------------|-------------|-------------|
| Discount rate          | 2.98%       | 2.49%       |
| Salary growth rate     | 3.22%       | 2.93%       |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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

|                    | Impact on defined benefit obligation |                |                |
|--------------------|--------------------------------------|----------------|----------------|
|                    | Changes in assumption                | Increase       | Decrease       |
| Discount rate      | 1.0%                                 | 8.45% Decrease | 9.94% Increase |
| Salary growth rate | 1.0%                                 | 9.82% Increase | 8.51% 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, 2022, are ₩ 7,660 million and the expected balance of plan assets is ₩ 78,406 million as at December 31, 2022.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2021, is as follows:

| (in millions of Korean won) | Less than 1 year | Between 1~2 years | Between 2~5 years | Over 5 years | Total     |
|-----------------------------|------------------|-------------------|-------------------|--------------|-----------|
| Pension benefits            | ₩ 4,971          | ₩ 6,395           | ₩ 18,782          | ₩ 115,467    | ₩ 145,615 |

The weighted average duration of the defined benefit obligations is 9.38 years.

The expense recognized in the current period in relation to defined contribution plan was ₩ 1,421 million (2020: ₩ 1,064 million).

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**24. Tax Expense and Deferred Tax**

Income tax expense for the years ended December 31, 2021 and 2020, consists of:

| <i>(in millions of Korean won)</i>           | <b>2021</b> |                | <b>2020</b> |                |
|--|-------------|----------------|-------------|----------------|
| <b>Current tax</b>                           |             |                |             |                |
| Current tax on profit for the year           | ₩           | 47,280         | ₩           | 18,011         |
| Claim for tax return and others              |             | (2,009)        |             | (263)          |
|  |             | <u>45,271</u>  |             | <u>17,748</u>  |
| <b>Deferred tax</b>                          |             |                |             |                |
| Increase (decrease) in temporary differences |             | (1,315)        |             | (3,867)        |
|  |             | <u>(1,315)</u> |             | <u>(3,867)</u> |
| Income tax expense                           | ₩           | <u>43,956</u>  | ₩           | <u>13,881</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>                               | <b>2021</b> |               | <b>2020</b> |               |
|--|-------------|---------------|-------------|---------------|
| Profit before income tax expense                                 | ₩           | 173,976       | ₩           | 56,663        |
| Tax at domestic tax rates  |             | 41,711        |             | 13,287        |
| Income tax effects:  |             |               |             |               |
| - Income not subject to tax                                      |             | (41)          |             | (3)           |
| - Expenses not deductible for tax purposes                       |             | 415           |             | 192           |
| - Claim for tax return and others                                |             | (1,957)       |             | (407)         |
| - Tax credits  |             | (697)         |             | (712)         |
| - Effect of the tax system for recirculation of corporate income |             | 4,525         |             | 1,524         |
| Income tax expense   | ₩           | <u>43,956</u> | ₩           | <u>13,881</u> |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2021 and 2020, is as follows:

| <i>(in millions of Korean won)</i>   | 2021           |             |                | 2020           |                |                |
|--|----------------|-------------|----------------|----------------|----------------|----------------|
|  | Before tax     | Tax effect  | After tax      | Before tax     | Tax effect     | After tax      |
| Remeasurements of net defined benefit liabilities                                      | ₩ (149)        | ₩ 36        | ₩ (113)        | ₩ 4,057        | ₩ (982)        | ₩ 3,075        |
| Gain on valuation of financial assets at fair value through other comprehensive income | (15)           | 4           | (11)           | -              | -              | -              |
|  | <u>₩ (164)</u> | <u>₩ 40</u> | <u>₩ (124)</u> | <u>₩ 4,057</u> | <u>₩ (982)</u> | <u>₩ 3,075</u> |

The analysis of deferred tax assets and deferred tax liabilities as at December 31, 2021 and 2020, is as follows:

| <i>(in millions of Korean won)</i>                              | 2021            | 2020            |
|---|-----------------|-----------------|
| Deferred tax assets   |                 |                 |
| Deferred tax assets to be recovered after more than 12 months   | ₩ 37,001        | ₩ 34,214        |
| Deferred tax assets to be recovered within 12 months            | 3,423           | 2,596           |
|   | <u>40,424</u>   | <u>36,810</u>   |
| Deferred tax liabilities  |                 |                 |
| Deferred tax liabilities be recovered after more than 12 months | (28,944)        | (27,448)        |
| Deferred tax liabilities to be recovered within 12 months       | (848)           | (5)             |
|   | <u>(29,792)</u> | <u>(27,453)</u> |
| Deferred tax assets, net  | <u>₩ 10,632</u> | <u>₩ 9,357</u>  |



**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

The movements in the deferred income tax account for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                      | <b>2021</b> |               | <b>2020</b> |              |
|---|-------------|---------------|-------------|--------------|
| Beginning balance                                       | ₩           | 9,357         | ₩           | 4,508        |
| Tax charged to the statement of profit or loss          |             | 1,315         |             | 3,867        |
| Tax charged to components of other comprehensive income |             | (40)          |             | 982          |
| Ending balance  | ₩           | <u>10,632</u> | ₩           | <u>9,357</u> |

The movement in deferred tax assets and liabilities for the years ended December 31, 2021 and 2020, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| <i>(in millions of Korean won)</i>               | <b>2021</b>              |                       |                                   |                       |
|--|--------------------------|-----------------------|-----------------------------------|-----------------------|
|  | <b>Beginning balance</b> | <b>Profit or loss</b> | <b>Other comprehensive income</b> | <b>Ending balance</b> |
| <b>Deferred tax liabilities</b>                  |                          |                       |                                   |                       |
| Surplus on revaluation of land                   | ₩ (11,133)               | ₩ -                   | ₩ -                               | ₩ (11,133)            |
| Defined benefit pension plan assets              | (16,255)                 | (1,503)               | (36)                              | (17,794)              |
| Others   | (65)                     | (800)                 | -                                 | (865)                 |
|  | <u>(27,453)</u>          | <u>(2,303)</u>        | <u>(36)</u>                       | <u>(29,792)</u>       |
| <b>Deferred tax assets</b>                       |                          |                       |                                   |                       |
| Post-employment benefit obligation               | 15,244                   | 1,062                 | -                                 | 16,306                |
| Provision for receivables in excess of tax limit | 84                       | (84)                  | -                                 | -                     |
| Government grants                                | 21                       | 124                   | -                                 | 145                   |
| Loss on valuation of inventories                 | 617                      | 1,087                 | -                                 | 1,704                 |
| Impairment loss on property, plant and equipment | 16,866                   | -                     | -                                 | 16,866                |
| Accrued compensated absence                      | 785                      | 166                   | -                                 | 951                   |
| Long-term employment allowance                   | 357                      | (51)                  | -                                 | 306                   |
| Others   | 2,836                    | 1,314                 | (4)                               | 4,146                 |
|  | <u>36,810</u>            | <u>3,618</u>          | <u>(4)</u>                        | <u>40,424</u>         |
|  | ₩ 9,357                  | ₩ 1,315               | ₩ (40)                            | ₩ 10,632              |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

(in millions of Korean won)

|   | <b>2020</b>                  |                       |   |                           |
|---|------------------------------|-----------------------|---|---------------------------|
|   | <b>Beginning<br/>balance</b> | <b>Profit or loss</b> | <b>Other<br/>comprehensive<br/>income</b> | <b>Ending<br/>balance</b> |
| <b>Deferred tax liabilities</b>                     |                              |                       |   |                           |
| Surplus on revaluation of land                      | ₩ (11,133)                   | ₩ -                   | ₩ -                                       | ₩ (11,133)                |
| Defined benefit pension plan<br>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>           |
| <b>Deferred tax assets</b>                          |                              |                       |   |                           |
| Post-employment benefit<br>obligation               | 13,267                       | 1,977                 | -   | 15,244                    |
| Provision for receivables in<br>excess of tax limit | -                            | 84                    | -   | 84                        |
| Government grants                                   | 17                           | 4                     | -   | 21                        |
| Loss on valuation of inventories                    | 1,260                        | (643)                 | -   | 617                       |
| Impairment loss on property,<br>plant and equipment | 14,496                       | 2,370                 | -   | 16,866                    |
| Accrued compensated absence                         | 1,317                        | (532)                 | -   | 785                       |
| Long-term employment<br>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>             |
|   | <u>₩ 4,508</u>               | <u>₩ 3,867</u>        | <u>₩ 982</u>                              | <u>₩ 9,357</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 (2020: ₩ 21,262 million) as at December 31, 2021.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**25. Other Liabilities**

Details of other liabilities as at December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                 | <b>2021</b> |               | <b>2020</b> |               |
|--|-------------|---------------|-------------|---------------|
| <b>Other current liabilities</b>                   |             |               |             |               |
| Unearned revenues <sup>1</sup>                     | ₩           | 8,607         | ₩           | -             |
| Provision for greenhouse gas emission <sup>2</sup> |             | 76            |             | 2,960         |
| Other provisions                                   |             | -             |             | 1             |
| Advances from customers                            |             | 4,028         |             | 4,002         |
|  |             | <u>12,711</u> |             | <u>6,963</u>  |
| <b>Other non-current liabilities</b>               |             |               |             |               |
| Unearned revenues                                  |             | 996           |             | 1,292         |
| Provision for loss                                 |             | 12,240        |             | 5,782         |
| Provision for restoration                          |             | 59            |             | 59            |
|  |             | <u>13,295</u> |             | <u>7,133</u>  |
|  | ₩           | <u>26,006</u> | ₩           | <u>14,906</u> |

<sup>1</sup> In relation to the performance obligation satisfied over time, contract liabilities of ₩ 8,607 million are included.

<sup>2</sup> 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 (Note 39).

Changes in provisions for the year ended December 31, 2021, are as follows:

| <i>(in millions of Korean won)</i> | <b>Greenhouse gas</b> |                 |                    |               |                 |  |
|------------------------------------|-----------------------|-----------------|--------------------|---------------|-----------------|--|
|                                    | <b>emission</b>       | <b>Loss</b>     | <b>Restoration</b> | <b>Others</b> | <b>Total</b>    |  |
| Beginning balance                  | ₩ 2,960               | ₩ 5,782         | ₩ 59               | ₩ 1           | ₩ 8,802         |  |
| Profit or loss:                    | (2,884)               | 6,458           | -                  | (1)           | 3,573           |  |
| Additional provisions              | 76                    | 6,511           | -                  | -             | 6,587           |  |
| Used during the year               | <u>(2,960)</u>        | <u>(53)</u>     | <u>-</u>           | <u>(1)</u>    | <u>(3,014)</u>  |  |
| Ending balance                     | <u>₩ 76</u>           | <u>₩ 12,240</u> | <u>₩ 59</u>        | <u>₩ -</u>    | <u>₩ 12,375</u> |  |
| Current                            | ₩ 76                  | ₩ -             | ₩ -                | ₩ -           | ₩ 76            |  |
| Non-current                        | -                     | 12,240          | 59                 | -             | 12,299          |  |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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

| <i>(in millions of Korean won)</i> | <b>Greenhouse gas</b> |             |                    |               |     | <b>Total</b> |
|------------------------------------|-----------------------|-------------|--------------------|---------------|-----|--------------|
|                                    | <b>emission</b>       | <b>Loss</b> | <b>Restoration</b> | <b>Others</b> |     |              |
| Beginning balance                  | ₩ -                   | ₩ -         | ₩ -                | ₩ -           | ₩ - | -            |
| Profit or loss:                    | 2,960                 | 1,628       | 59                 | 1             |     | 4,648        |
| Additional provisions              | 2,960                 | 2,135       | 59                 | 1             |     | 5,155        |
| Used during the year               | -                     | (507)       | -                  | -             |     | (507)        |
| Transfers                          | -                     | 4,154       | -                  | -             |     | 4,154        |
| Ending balance                     | ₩ 2,960               | ₩ 5,782     | ₩ 59               | ₩ 1           | ₩   | 8,802        |
| Current                            | ₩ 2,960               | ₩ -         | ₩ -                | ₩ 1           | ₩   | 2,961        |
| Non-current                        | -                     | 5,782       | 59                 | -             |     | 5,841        |

**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, 2021.

**27. Retained Earnings**

Retained earnings as at December 31, 2021 and 2020, consist of:

| <i>(in millions of Korean won)</i>     | <b>2021</b> | <b>2020</b> | <b>Remark</b> |
|--|-------------|-------------|---------------|
| Legal reserves                         | ₩ 1,907     | ₩ 1,907     | 1             |
| Retained earnings before appropriation | 256,535     | 126,402     |               |
|  | ₩ 258,442   | ₩ 128,309   |               |

<sup>1</sup> 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. 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, 2021 and 2020, is as follows:

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

| <i>(in millions of Korean won)</i>                            | <b>2021</b>      | <b>2020</b>      |
|---|------------------|------------------|
| <b>Retained earnings available for appropriation</b>          |                  |                  |
| Unappropriated retained earnings carried over from prior year | ₩ 126,402        | ₩ 86,696         |
| Remeasurements of net defined benefit liabilities             | 113              | (3,075)          |
| Profit for the year   | 130,020          | 42,781           |
|   | <u>256,535</u>   | <u>126,402</u>   |
| <b>Appropriation of retained earnings</b>                     | <u>-</u>         | <u>-</u>         |
| <b>Unappropriated retained earnings to be carried forward</b> | <u>₩ 256,535</u> | <u>₩ 126,402</u> |

**28. Other Components of Equity**

Other components of equity as at December 31, 2021 and 2020, consist of:

| <i>(in millions of Korean won)</i>   | <b>2021</b>      | <b>2020</b>      |
|--|------------------|------------------|
| Treasury shares <sup>1</sup>   | ₩ (1,843)        | ₩ (1,843)        |
| Gain on valuation of financial assets at fair value through other comprehensive income | 11               | -                |
|  | <u>₩ (1,832)</u> | <u>₩ (1,843)</u> |

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

**29. Revenue**

Details of revenue for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                             | <b>2021</b>        | <b>2020</b>        |
|--|--------------------|--------------------|
| Revenue from contracts with customers                          | ₩ 2,101,319        | ₩ 1,637,063        |
| Performance obligation satisfied at a point in time            | 2,017,369          | 1,604,215          |
| Performance obligation satisfied over time                     | 83,950             | 32,848             |
| Revenue from other sources: rental and sub-lease rental income | 7,553              | 6,199              |
|  | <u>₩ 2,108,872</u> | <u>₩ 1,643,262</u> |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**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, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                                      | <b>2021</b>        | <b>2020</b>        |
|---|--------------------|--------------------|
| Changes in inventories of finished goods and work in process and others | ₩ (50,576)         | ₩ 22,374           |
| Sales of merchandise  | 51,929             | 39,911             |
| Raw materials and consumables used                                      | 1,191,858          | 935,176            |
| Employee benefits expenses (Note 31)                                    | 114,265            | 99,230             |
| Depreciation and amortization   | 142,301            | 145,152            |
| Electricity expense   | 120,568            | 119,573            |
| Export expense  | 116,675            | 62,971             |
| Fuel expense  | 17,027             | 11,768             |
| Service expense   | 17,824             | 16,809             |
| Outsourcing expense   | 5,557              | 3,767              |
| Other expenses  | 190,549            | 84,212             |
| Total <sup>1</sup>  | <u>₩ 1,917,977</u> | <u>₩ 1,540,943</u> |

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

**31. Employee Benefits Expenses**

Employee benefits expenses for the years ended December 31, 2021 and 2020, consist of:

| <i>(in millions of Korean won)</i>                   | <b>2021</b>      | <b>2020</b>     |
|--|------------------|-----------------|
| Salaries   | ₩ 94,338         | ₩ 80,408        |
| Employee welfare benefits                            | 10,600           | 10,144          |
| Pension costs – defined contribution plans (Note 23) | 1,421            | 1,064           |
| Pension costs – defined benefit plans (Note 23)      | 7,906            | 7,614           |
|  | <u>₩ 114,265</u> | <u>₩ 99,230</u> |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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

Selling, general and administrative expenses for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |        | <b>2020</b> |        |
|------------------------------------|-------------|--------|-------------|--------|
| Salaries                           | ₩           | 24,168 | ₩           | 20,869 |
| Post-employment benefits           |             | 2,817  |             | 2,733  |
| Employee welfare benefits          |             | 2,253  |             | 2,104  |
| Training                           |             | 468    |             | 371    |
| Service expenses                   |             | 2,809  |             | 2,588  |
| Transportation                     |             | 536    |             | 722    |
| Communications                     |             | 327    |             | 381    |
| Taxes and dues                     |             | 1,380  |             | 1,294  |
| Rental expenses                    |             | 278    |             | 237    |
| Depreciation                       |             | 2,976  |             | 3,161  |
| Amortization                       |             | 303    |             | 365    |
| Bad debt expenses                  |             | 151    |             | 304    |
| Advertising expenses               |             | 225    |             | 182    |
| Commission expenses                |             | 15,338 |             | 13,047 |
| Export expenses                    |             | 11,953 |             | 10,932 |
| Others                             |             | 4,037  |             | 4,750  |
|                                    | ₩           | 70,019 | ₩           | 64,040 |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

**33. Other Income and Other Expenses**

Details of other income and other expenses for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                | <b>2021</b>    | <b>2020</b>       |
|---|----------------|-------------------|
| Other operating income                            |                |                   |
| Rental income                                     | ₩ 298          | ₩ 292             |
| Gain on disposal of property, plant and equipment | 275            | 199               |
| Gain on disposal of leased assets                 | 1              | 22                |
| Dividend income                                   | 291            | 222               |
| Miscellaneous gains                               | 6,728          | 6,538             |
|   | <u>7,593</u>   | <u>7,273</u>      |
| Other operating expenses                          |                |                   |
| Donations   | 422            | 470               |
| Loss on disposal of property, plant and equipment | 74             | 171               |
| Loss on disposal of lease assets                  | 4              | 1                 |
| Impairment loss on property, plant and equipment  | -              | 9,800             |
| Miscellaneous expenses                            | 1,718          | 6,936             |
|   | <u>2,218</u>   | <u>17,378</u>     |
|   | <u>₩ 5,375</u> | <u>₩ (10,105)</u> |

**34. Finance Income and Expenses**

Details of finance income and expenses for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>    | <b>2021</b>   | <b>2020</b>   |
|---------------------------------------|---------------|---------------|
| Finance income                        |               |               |
| Interest income                       |               |               |
| - Financial assets at amortized costs | ₩ 199         | ₩ 202         |
| Gain on foreign currency transactions | 14,342        | 25,797        |
| Gain in foreign currency translation  | 4,379         | 12,420        |
| Gain on derivative transactions       | 10,278        | 7,894         |
| Gain on valuation of derivatives      | 45            | 9             |
| Others                                | 2             | -             |
|                                       | <u>29,245</u> | <u>46,322</u> |



**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

| <i>(in millions of Korean won)</i>         | <b>2021</b>   | <b>2020</b>   |
|--|---------------|---------------|
| Finance expenses                           |               |               |
| Interest income                            |               |               |
| - Financial liabilities at amortized costs | 18,288        | 30,170        |
| - Other financial liabilities              | 680           | 892           |
| Loss on foreign currency transactions      | 20,892        | 20,654        |
| Loss on foreign currency translation       | 6,997         | 17,181        |
| Loss on derivative transactions            | 1,348         | 9,319         |
| Loss on valuation of derivatives           | 536           | 978           |
| Others                                     | 2,797         | 2,679         |
|  | <u>51,538</u> | <u>81,873</u> |
|  | ₩ (22,293)    | ₩ (35,551)    |

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

### 35. Earnings Per Share

Basic earnings per ordinary share is calculated as follows:

| <i>(in millions of Korean won)</i>                                  | <b>2021</b>      | <b>2020</b>      |
|---|------------------|------------------|
| Profit attributable to the ordinary equity holders <sup>1</sup>     | ₩ 130,020        | ₩ 42,781         |
| Weighted average number of ordinary shares outstanding <sup>2</sup> | <u>3,177,795</u> | <u>3,177,795</u> |
| Earnings per share <i>(in Korean won)</i>                           | <u>₩ 40,915</u>  | <u>₩ 13,463</u>  |

<sup>1</sup> Profit attributable to the ordinary equity holders is equal to the profit for the year.

<sup>2</sup> Weighted average number of ordinary shares outstanding for the year ended December 31, 2021 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.

The Company has not issued the potential ordinary shares and accordingly diluted earnings per share is identical to basic earnings per share.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**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, 2021.

**37. Statement of Cash Flows**

Details of cash generated from operations for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>   | <b>2021</b> |          | <b>2020</b> |          |
|--|-------------|----------|-------------|----------|
| Profit before income tax   | ₩           | 173,976  | ₩           | 56,663   |
| Adjustments for:   |             | 189,407  |             | 210,342  |
| Interest income and expenses   |             | 18,768   |             | 30,860   |
| Loss on foreign currency translation   |             | 2,618    |             | 4,761    |
| Provision for loss on valuation of inventories (reversal)                    |             | 4,492    |             | (2,657)  |
| Valuation and scrap loss of inventories                                      |             | 1,074    |             | 2,880    |
| Loss on valuation of derivatives   |             | 491      |             | 969      |
| Depreciation and amortization  |             | 142,301  |             | 145,152  |
| Gain on disposition of property, plant and equipment and investment property |             | (201)    |             | (28)     |
| Impairment loss on property, plant and equipment and intangible assets       |             | -        |             | 9,800    |
| Bad debt expense and other bad debt expense                                  |             | 151      |             | 304      |
| Post-employment benefits   |             | 7,906    |             | 7,614    |
| Others   |             | 11,807   |             | 10,687   |
| Changes in operating assets and liabilities:                                 |             | (32,741) |             | 8,821    |
| Increase in trade receivables  |             | (49,980) |             | (701)    |
| Decrease (increase) in inventories   |             | (69,218) |             | 18,998   |
| Decrease (increase) in other receivables                                     |             | (4,181)  |             | 3,128    |
| Increase in other assets   |             | (10,668) |             | (9,712)  |
| Increase (decrease) in trade payables  |             | 63,532   |             | (8,127)  |
| Increase in other payables   |             | 47,216   |             | 18,405   |
| Payment of defined benefit liabilities                                       |             | (1,542)  |             | (870)    |
| Payment of plan assets   |             | (7,900)  |             | (12,300) |
| Cash generated from operations   | ₩           | 330,642  | ₩           | 275,826  |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

Changes in liabilities arising from financial activities for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of<br/>Korean won)</i>         | <b>2021</b>                      |  |                   |                                 |                              |              |
|--|----------------------------------|--|-------------------|---------------------------------|------------------------------|--------------|
|  | <b>Short-term<br/>borrowings</b> | <b>Current<br/>portion of<br/>long-term<br/>borrowings</b> | <b>Debentures</b> | <b>Long-term<br/>borrowings</b> | <b>Lease<br/>liabilities</b> | <b>Total</b> |
| Beginning balance                              | ₩ 139,298                        | ₩ 111,418  | ₩ 491,828         | ₩ 92,500                        | ₩ 9,072                      | ₩ 844,116    |
| Cash flows                                     | (56,360)                         | (141,615)  | 21                | (12,500)                        | (3,595)                      | (214,049)    |
| Gain (loss) on foreign<br>currency translation | 657                              | 175  | -                 | -                               | -                            | 832          |
| Amortization of discount<br>on debentures      | -                                | -  | 490               | -                               | -                            | 490          |
| Effect of non-cash<br>transactions             | -                                | 272,903  | (194,903)         | (78,000)                        | 952                          | 952          |
| Ending balance                                 | ₩ 83,595                         | ₩ 242,881  | ₩ 297,436         | ₩ 2,000                         | ₩ 6,429                      | ₩ 632,341    |

| <i>(in millions of<br/>Korean won)</i>         | <b>2020</b>                      |  |                   |                                 |                              |              |
|--|----------------------------------|--|-------------------|---------------------------------|------------------------------|--------------|
|  | <b>Short-term<br/>borrowings</b> | <b>Current<br/>portion of<br/>long-term<br/>borrowings</b> | <b>Debentures</b> | <b>Long-term<br/>borrowings</b> | <b>Lease<br/>liabilities</b> | <b>Total</b> |
| 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<br>currency translation | (486)                            | 5,669  | -                 | 2,746                           | -                            | 7,929        |
| Amortization of discount<br>on debentures      | -                                | -  | 542               | -                               | -                            | 542          |
| Effect of non-cash<br>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    |

Details of major transactions without cash inflows and outflows for the years ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i>                  | <b>2021</b> | <b>2020</b> |
|---|-------------|-------------|
| Transfer of construction in progress                | ₩ 27,650    | ₩ 33,529    |
| Transfer of borrowings and bonds to current portion | 272,903     | 157,128     |
| Acquisition of right-of-use assets                  | 1,273       | 8,596       |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**38. Contingencies and Commitments**

(1) There are no notes provided as collateral as at December 31, 2021.

(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 ₩ 573,989 million. Also, the Company entered into trade receivables discount agreements with a limit of ₩ 3,150 million as at December 31, 2021.

(3) Guarantees provided for others

The Company has provided payment guarantees in relation to Hyosung Vina Chemicals Co., Ltd., a subsidiary, amounting to ₩ 1,544,829 million (USD 1,273,103 thousand, VND 700 billion). The Company must maintain Debt-Equity Ratio under 400% regarding USD 925 million of syndicated loans and USD 70 million of other operating funds. For USD 925 million of syndicated loan, the Company has an obligation to supplement the access financing in case of non-compliance with following covenants:

| <b>Syndicated loans</b> | <b>Covenants</b>   | <b>Year</b> | <b>Ratio</b> |
|-------------------------|--|-------------|--------------|
| USD 710 million         | Maintaining the subsidiary's 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          |
| USD 215 million         | Maintaining the subsidiary's net debt/EBITDA ratio at the end of each year | 2022        | 4:1          |
|                         |  | 2023        | 3:1          |
|                         |  | 2024        | 2:1          |
|                         |  | 2025        | 2:1          |

In 2021, regarding USD 710 million of syndicated loans, the Company violated the maintenance of the subsidiaries' net debt/EBITDA ratio as at December 31, 2021, but received the waiver consents from the lender in relation to this violation.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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(4) Guarantees provided by others

Details of payment guarantees provided by others as at December 31, 2021, are as follows:

| <i>(in millions of Korean won)</i> | <b>Guaranteed amount</b> |                | <b>Details</b>                   |
|------------------------------------|--------------------------|----------------|----------------------------------|
| Kookmin Bank                       | ₩                        | 36,513         | Performance guarantee and others |
| Nonghyup Bank                      |                          | 35,565         | Performance guarantee and others |
| Woori Bank                         |                          | 35,565         | Performance guarantee and others |
| Shinhan Bank                       |                          | 20,154         | Performance guarantee and others |
| Hana Bank                          |                          | 5,928          | Performance guarantee and others |
| Seoul Guarantee Insurance Company  |                          | 63,681         | Performance guarantee and others |
|                                    | <u>₩</u>                 | <u>197,406</u> |                                  |

(5) Assets pledged as collaterals

Details of assets pledged as collaterals as at December 31, 2021, are as follows:

| <i>(in millions of Korean won)</i> | <b>Related borrowings</b> |               | <b>Executed amount of agreement</b> |                | <b>Provided to</b>     |
|------------------------------------|---------------------------|---------------|-------------------------------------|----------------|------------------------|
| Property, plant and equipment      | ₩                         | -             | ₩                                   | 420,000        | Korea Development Bank |
| Property, plant and equipment      |                           | 4,143         |                                     | 60,000         | Woori Bank             |
| Property, plant and equipment      |                           | 5,000         |                                     | 55,000         | Shinhan Bank           |
| Trade receivables                  |                           | 67,954        |                                     | 67,954         | Woori Bank and others  |
|                                    | <u>₩</u>                  | <u>77,097</u> | <u>₩</u>                            | <u>602,954</u> |                        |

(6) Pending lawsuits

There are no pending lawsuits as at December 31, 2021.

(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.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

(8) Purchase agreements of property, plant and equipment

The Company decided to expand the PP polymerization facilities and NF3 Oksan plant in September 2021. Details of purchase agreements of the property, plant, and equipment as at December 31, 2021, are as follows:

|                 |   | <b>2021</b> |
|-----------------|---|-------------|
| Contract amount | ₩ | 71,637      |
| Amount paid     |   | 15,489      |
| Amount payable  |   | 22          |

**39. Greenhouse Gas Emission Permits and Obligation**

The quantities of emission permits which are allocated free of charge for the 3rd planning period (2021~2025) are as follows.

| <i>(in tCO<sub>2</sub>-eq)</i>    | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> | <b>2025</b> | <b>Total</b> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Allocation with nil consideration | 860,616     | 860,616     | 860,616     | 852,555     | 852,555     | 4,286,958    |

The Company's free allocation of emission rights and the estimated quantity of greenhouse gas emission as at December 31, 2021, are as follows:

| <i>(in tCO<sub>2</sub>-eq, in millions of Korean won)</i> | <b>2021</b>     |                           |                 |                           |
|---|-----------------|---------------------------|-----------------|---------------------------|
|   | <b>2020</b>     |                           | <b>2021</b>     |                           |
|   | <b>Quantity</b> | <b>Amount<sup>3</sup></b> | <b>Quantity</b> | <b>Amount<sup>3</sup></b> |
| Beginning balance   | -               | ₩ -                       | -               | ₩ -                       |
| Free allocation   | 748,305         | -                         | 860,616         | -                         |
| Provision   | (26,379)        | -                         | -               | -                         |
| Purchases <sup>1</sup>                                    | 140,000         | 2,513                     | -               | -                         |
| Submission to the government <sup>2</sup>                 | (861,517)       | (2,506)                   | (863,181)       | (7)                       |
| Carryforward  | (409)           | (7)                       | 409             | 7                         |
| Ending balance  | -               | ₩ -                       | (2,156)         | ₩ -                       |

<sup>1</sup> The actual quantity of emissions purchased is written for 2020, and the expected quantity of emissions to purchase is written for 2021. The emission rights purchased by the Company is 140,000 tCO<sub>2</sub>-eq for the year ended December 31, 2021.

<sup>2</sup> The actual quantity of emissions submitted is written for 2020, and the expected quantity of emissions to submit is written for 2021. The expected emissions as at December 31, 2021 is 863,181 tCO<sub>2</sub>-eq.

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

<sup>3</sup> The amounts of emission rights purchased are included in other intangible assets.

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, in millions of Korean won)</i> | <b>2020</b>     |                           |                 |                           |
|--|-----------------|---------------------------|-----------------|---------------------------|
|  | <b>2019</b>     |                           | <b>2020</b>     |                           |
|  | <b>Quantity</b> | <b>Amount<sup>3</sup></b> | <b>Quantity</b> | <b>Amount<sup>3</sup></b> |
| Beginning balance                              | -               | ₩ -                       | -               | ₩ -                       |
| Free allocation                                | 747,499         | -                         | 748,187         | -                         |
| Provision                                      | 26,379          | -                         | (26,379)        | -                         |
| Purchases <sup>1</sup>                         | 56,000          | 1,204                     | -               | -                         |
| Submission to the government <sup>2</sup>      | (829,878)       | (1,204)                   | (850,486)       | -                         |
| Carryforward                                   | -               | -                         | -               | -                         |
| Ending balance                                 | -               | ₩ -                       | (128,678)       | ₩ -                       |

<sup>1</sup> The actual quantity of emissions purchased is written for 2019. The emission rights purchased by the Company is 56,000 tCO2-eq for the year ended December 31, 2020.

<sup>2</sup> 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 850,486 tCO2-eq.

Changes in provisions for the year ended December 31, 2021 and 2020, are as follows:

| <i>(in millions of Korean won)</i> | <b>2021</b> |         | <b>2020</b> |       |
|------------------------------------|-------------|---------|-------------|-------|
| Beginning balance                  | ₩           | 2,960   | ₩           | -     |
| Profit or loss:                    |             | (2,884) |             | 2,960 |
| Additional provisions              |             | 76      |             | 2,960 |
| Used during the year               |             | (2,960) |             | -     |
| Ending balance                     | ₩           | 76      | ₩           | 2,960 |
| Current                            | ₩           | 76      | ₩           | 2,960 |
| Non-current                        |             | -       |             | -     |

**Hyosung Chemical Corporation**  
**Notes to the Separate Financial Statements**  
**December 31, 2021 and 2020**

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**40. Events After the Reporting Period**

*(a) Payment guarantee for subsidiaries*

The Company decided to provide a debt guarantee for Hyosung Vina Chemicals Co., Ltd., a 100% owned subsidiary, on January 28, 2022 (₩ 52,305 million (USD 43,500 thousand)), February 7, 2022 (₩ 28,788 million (USD 24,000 thousand)), February 21, 2022 (₩ 47,856 million (USD 40,000 thousand)), and February 23, 2022 (₩84,468 million (USD 40,000 thousand, VND 700,000 million)).

*(b) Establishment of new subsidiary*

On January 14, 2022, the Company contributed ₩ 23,764 million (USD 20 million) to Hyosung Film(Quzhou) Co., Ltd, a 100% subsidiary newly established on January 6, 2022.





**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, 2021, 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, 2021, 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 statements of financial position as at December 31, 2021, and the separate statements of profit or loss, separate statements of comprehensive income, separate statements of changes in equity and separate statements 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 8, 2022 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 8, 2022

This report is effective as at March 8, 2022, 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, 2021.

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, 2021, 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 26, 2022

Kun-jong Lee,  
Chief Executive Officer



Bo-young Yoon,  
Internal Control over Financial Reporting Officer

