

Hyosung Chemical Corporation

**Separate Financial Statements
December 31, 2023 and 2022**

Hyosung Chemical Corporation

Index

December 31, 2023 and 2022

	Page(s)
Independent Auditor’s Report	1-5
Separate Financial Statements	
Separate Statements of Financial Position.....	6
Separate Income statements.....	7
Separate Statements of Comprehensive Income.....	8
Separate Statements of Changes in Equity.....	9
Separate Statements of Cash Flows.....	10
Notes to the Separate Financial Statements.....	11-98
Independent Auditor’s Report on Internal Control over Financial Reporting	99-100
Report on the Effectiveness of Internal Control over Financial Reporting	101



Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors 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, 2023 and 2022, and the separate income statements, 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 material accounting policy information.

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, 2023 and 2022, 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, 2023, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*, and our report dated March 6, 2024 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.

Key Audit Matters

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 there is an indication of impairment. 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 about the expectations for the future business and on the discount rates. 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

We have performed audit procedures 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.

(2) Impairment assessment of investments in subsidiaries

Why we determined this matter as Key Audit Matter

Investments in subsidiaries amount to ₩ 741,253 million as at December 31, 2023. Investments in subsidiaries are tested for impairment if there is an indication of impairment. 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 investments in subsidiaries of Hyosung Vina Chemicals Co., Ltd. We focused on this area due to the significant size of this investment in Hyosung Vina Chemicals Co., Ltd. (December 31, 2023: ₩ 691,857 million) and because the future cash flow forecast included in the assessment of the 'value in use' of the Company's investments in subsidiaries involves management's judgements about the expectations for future results of the business and on the discount rates. The Company engaged an independent external expert to assist the Company in valuation of the fair value of the investment in Hyosung Vina Chemicals Co., Ltd.

How our audit addressed the Key Audit Matter

We have performed the audit procedures in relation to impairment assessment on investment in Hyosung Vina Chemicals Co., Ltd. are as follows:

- We obtained an understanding of and evaluated the controls related to impairment assessment on investments in subsidiaries of the Company.
- We evaluated the appropriateness of identification of investments in subsidiaries with any indication of impairment in accordance with accounting policy of the Company.
- 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 Matter

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 separate 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 Seongpil Hwang, Certified Public Accountant.

Seoul, Korea
March 6, 2024

This report is effective as of March 6, 2024, 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, 2023 and 2022

<i>(in Korean won)</i>	Notes	2023	2022
Assets			
Current assets			
Cash and cash equivalents	4,8,9	₩ 2,997,672,517	₩ 25,765,384,899
Trade and other receivables	4,7,8,11	189,807,121,091	220,067,936,333
Other financial assets	4,5,8,12	764,234,465	751,009,948
Other current assets	13	28,425,426,739	31,256,923,272
Inventories	14	150,364,881,421	202,453,027,338
Current tax assets	24	552,082,645	226,994,870
		<u>372,911,418,878</u>	<u>480,521,276,660</u>
Non-current assets			
Long-term trade and other receivables	4,8,11	22,073,611,174	148,635,036,409
Property, plant and equipment	15,16,18,38	939,513,711,421	774,545,204,648
Intangible assets	17	10,485,440,921	11,079,782,179
Investments in subsidiaries and associates	19	755,531,524,961	458,283,024,961
Other non-current financial assets	4,5,8,10,12,38	2,787,388,000	1,534,162,400
Other non-current assets	13	83,777,747	108,306,127
Net defined benefit assets	23	5,165,272,318	11,233,909,373
Deferred tax assets	24	17,033,988,713	36,659,551,361
		<u>1,752,674,715,255</u>	<u>1,442,078,977,458</u>
Total assets		<u>₩ 2,125,586,134,133</u>	<u>₩ 1,922,600,254,118</u>
Liabilities			
Current liabilities			
Trade and other payables	4,8,21	₩ 415,000,083,386	₩ 358,185,663,563
Borrowings	4,7,8,22,38	582,673,652,242	395,253,769,610
Other financial liabilities	8,12,15	6,142,040,276	12,936,807,875
Provisions	25,39	1,207,516,728	3,441,606,201
Other current liabilities	25	10,567,246,918	7,040,474,927
		<u>1,015,590,539,550</u>	<u>776,858,322,176</u>
Non-current liabilities			
Long-term trade and other payables	4,8,21	14,074,849,395	13,594,408,420
Long-term borrowings	4,8,22,38	448,122,064,776	600,817,592,980
Other non-current financial liabilities	8,12,16	1,718,726,831	5,153,542,554
Non-current provisions	25	10,165,668,782	10,480,560,599
Other non-current liabilities	25	464,912,741	779,030,095
		<u>474,546,222,525</u>	<u>630,825,134,648</u>
Total liabilities		<u>1,490,136,762,075</u>	<u>1,407,683,456,824</u>
Equity			
Share capital	26	18,959,055,000	15,950,630,000
Share premium		374,675,055,762	327,697,938,702
Retained earnings (accumulated deficit)	27	(7,253,236,683)	173,120,340,210
Other components of equity	28	249,068,497,979	(1,852,111,618)
Total equity		<u>635,449,372,058</u>	<u>514,916,797,294</u>
Total liabilities and equity		<u>₩ 2,125,586,134,133</u>	<u>₩ 1,922,600,254,118</u>

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

Hyosung Chemical Corporation
Separate Income Statements
Years Ended December 31, 2023 and 2022

<i>(in Korean won)</i>	Notes	2023		2022	
Revenue	6,20,29	₩	2,011,883,834,521	₩	2,287,412,310,278
Cost of sales	20,30,31		<u>1,980,447,599,037</u>		<u>2,295,599,783,948</u>
Gross profit (loss)			31,436,235,484		(8,187,473,670)
Selling general and administrative expenses	30,31,32		77,755,864,566		75,221,524,305
Research and development expenses	30,31		<u>20,245,427,242</u>		<u>20,882,685,874</u>
Operating loss			(66,565,056,324)		(104,291,683,849)
Other income	33		6,946,582,922		10,454,931,069
Other expenses	33		99,947,097,921		4,789,546,726
Finance income	34		81,142,307,997		121,276,503,056
Finance expenses	34		<u>125,218,295,036</u>		<u>153,182,854,032</u>
Loss before income tax			(203,641,558,362)		(130,532,650,482)
Income tax benefit	24		<u>(25,684,078,981)</u>		<u>(35,379,131,528)</u>
Loss for the year		₩	<u>(177,957,479,381)</u>	₩	<u>(95,153,518,954)</u>
Losses per share					
Basic losses per share	35	₩	(55,054)	₩	(29,943)

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, 2023 and 2022

<i>(in Korean won)</i>	Notes	2023	2022
Loss for the year		<u>₩ (177,957,479,381)</u>	<u>₩ (95,153,518,954)</u>
Other comprehensive income (loss)			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liabilities	23,24	(341,097,512)	9,831,741,338
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	12,24	2,469,198	(20,313,293)
Revaluation surplus through other comprehensive income	15,24	150,918,140,399	-
<i>Items that may be subsequently reclassified to profit or loss</i>		<u>-</u>	<u>-</u>
Other comprehensive income for the year, net of tax		<u>150,579,512,085</u>	<u>9,811,428,045</u>
Total comprehensive loss for the year		<u>₩ (27,377,967,296)</u>	<u>₩ (85,342,090,909)</u>

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, 2023 and 2022

(in Korean won)

	Share capital	Share premium	Retained Earnings	Other Components of Equity	Total Equity
Balance at January 1, 2022	₩ 15,950,630,000	₩ 327,697,938,702	₩ 258,442,117,826	₩ (1,831,798,325)	₩ 600,258,888,203
Total comprehensive income					
Loss for the year	-	-	(95,153,518,954)	-	(95,153,518,954)
Remeasurements of net defined benefit liabilities	-	-	9,831,741,338	-	9,831,741,338
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	-	(20,313,293)	(20,313,293)
Balance at December 31, 2022	<u>₩ 15,950,630,000</u>	<u>₩ 327,697,938,702</u>	<u>₩ 173,120,340,210</u>	<u>₩ (1,852,111,618)</u>	<u>₩ 514,916,797,294</u>
Balance at January 1, 2023	₩ 15,950,630,000	₩ 327,697,938,702	₩ 173,120,340,210	₩ (1,852,111,618)	₩ 514,916,797,294
Total comprehensive income					
Loss for the year	-	-	(177,957,479,381)	-	(177,957,479,381)
Remeasurements of net defined benefit liabilities	-	-	(341,097,512)	-	(341,097,512)
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	-	2,469,198	2,469,198
Revaluation surplus through other comprehensive income	-	-	-	150,918,140,399	150,918,140,399
Transactions with the owners					
Capital increase with consideration	3,008,425,000	46,977,117,060	-	-	49,985,542,060
Issuance of hybrid securities and others	-	-	(2,075,000,000)	100,000,000,000	97,925,000,000
Balance at December 31, 2023	<u>₩ 18,959,055,000</u>	<u>₩ 374,675,055,762</u>	<u>₩ (7,253,236,683)</u>	<u>₩ 249,068,497,979</u>	<u>₩ 635,449,372,058</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, 2023 and 2022

<i>(in Korean won)</i>	Note	2023	2022
Cash flows from operating activities			
Cash generated from operations	37	₩ 169,545,836,537	₩ 44,671,266,626
Income taxes paid		(264,218,531)	(33,429,777,210)
Interest paid		(46,409,573,798)	(21,827,490,175)
Interest received		2,620,390,872	1,159,036,417
Dividends received		61,440	-
Net cash inflow (outflow) from operating activities		<u>125,492,496,520</u>	<u>(9,426,964,342)</u>
Cash flows from investing activities			
Collection of long-term loans		476,593,000	337,710,000
Proceeds from disposal of property plant and equipment		290,083,300	2,630,949,674
Proceeds from disposal of intangible assets		14,813,998	-
Increase in long-term loans		(1,134,327,000)	(134,162,950,000)
Decrease in long-term guarantees		13,216,170	6,742,830
Increase in long-term guarantees		(271,167,810)	(40,028,350)
Payments for property, plant and equipment		(59,641,946,910)	(173,611,338,904)
Payments for intangible assets		(149,634,675)	(277,628,471)
Payments for investments in subsidiaries and associates		(257,497,500,000)	(49,396,000,000)
Increase (decrease) in derivatives		(5,146,166,127)	20,735,843,390
Increase in prepaid expenses		-	(11,330,118,243)
Increase in short-term guarantees		(286,760,000)	(105,000,000)
Decrease in short-term guarantees		174,172,400	236,888,200
Receipt of government grants		-	3,467,034,851
Decrease in advance payments		-	12,557,079,800
Payments for financial assets at fair value through profit or loss		(1,368,883,448)	(1,610,985,920)
Proceeds from disposal of financial assets at fair value through profit or loss		-	136,950,000
Net cash outflow from investing activities		<u>(324,527,507,102)</u>	<u>(330,424,851,143)</u>
Cash flows from financing activities			
Proceeds from issuance of bonds		149,292,510,000	169,673,740,000
Repayments of bonds		(127,000,000,000)	(195,000,000,000)
Proceeds from short-term borrowings		1,187,329,034,469	1,488,042,560,008
Repayments of short-term borrowings		(1,235,430,063,756)	(1,306,597,450,326)
Repayments of current portion of borrowings		(1,999,980,000)	(27,999,970,000)
Proceeds from long-term borrowings		60,000,000,000	240,235,400,000
Issuance of hybrid securities		100,000,000,000	-
Capital increase with consideration		50,000,023,500	-
Issuance cost of new shares		(14,481,440)	-
Interest payments for hybrid securities		(2,075,000,000)	-
Repayments of lease liabilities		(3,834,744,573)	(3,783,033,687)
Net cash inflow from financing activities		<u>176,267,298,200</u>	<u>364,571,245,995</u>
Net increase (decrease) in cash and cash equivalents		(22,767,712,382)	24,719,430,510
Cash and cash equivalents at the beginning of the year		25,765,384,899	1,045,954,389
Cash and cash equivalents at the end of the year		<u>₩ 2,997,672,517</u>	<u>₩ 25,765,384,899</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, 2023 and 2022

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, 2023, the Company has plants in Yongyeon, Gumi, Oksan and etc. In addition, the Company has a subsidiary in Vietnam and China.

As at December 31, 2023, the Company's major shareholders are as follows:

	Number of shares	Percentage of ownership (%)
Hyosung Corporation	1,245,166	32.84
Seok-Rae Cho	238,707	6.16
Hyun-Joon Cho	279,355	7.37
Hyun-Sang Cho	233,663	6.30
Gwang-Ja Song	23,445	0.62
Yang-Rae Cho, etc.	11,367	0.30
Others	1,747,777	46.08
Treasury shares	12,331	0.33
	3,791,811	100.00

2. Material 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, 2023 and 2022

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
- 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, 2023.

(a) 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 policy information (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements). The amendments do not have a significant impact on the financial statements.

(b) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of gain or loss on valuation of financial liabilities subject to adjustment of exercise price

If the entire or a part of financial instrument, whose exercise price is subject to change due to the issuer's share price, is classified as a financial liability, the carrying amount of the financial liability and related gains and losses shall be disclosed. The amendments do not have a significant impact on the financial statements.

(c) 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 do not have a significant impact on the financial statements.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

(d) 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 do not have a significant impact 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 does not have a significant impact on the financial statements.

(f) Korean IFRS 1012 Income Taxes – International Tax Reform – Pillar Two Model Rules

The amendments provide a temporary relief from the accounting for deferred taxes arising from legislation enacted to implement the Pillar Two model rules, which aim to reform international corporate taxation for multinational enterprises, and require disclosure of related current tax effects, etc. The Company applies the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. Since the Pillar Two legislation is scheduled to be effective from January 1, 2024, the Company has no current tax expense related to Pillar Two.

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, 2023 reporting periods and have not been early adopted by the Company.

(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current, Non-current Liabilities with Covenants

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. In addition, covenants that an entity is required to comply with after the end of the reporting period would not affect classification of a liability as current or non-current at the reporting date. When an entity classifies a liability that is subject to the covenants which an entity is required to comply with within twelve months of the reporting date as non-current at the end of the reporting period, the entity shall disclose information in the notes to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(b) Amendments to Korean IFRS 1007 Statement of Cash Flows, Korean IFRS 1107 Financial Instruments: Disclosures – Supplier finance arrangements

When applying supplier finance arrangements, an entity shall disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The amendments should be applied for annual periods beginning on or after January 1, 2024, 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 1116 Leases – Lease Liability in a Sale and Leaseback

When subsequently measuring lease liabilities arising from a sale and leaseback, a seller-lessee shall determine lease payments or revised lease payments in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(d) Amendments to Korean IFRS 1001 Presentation of Financial Statements – Disclosure of Cryptographic Assets

The amendments require an additional disclosure if an entity holds cryptographic assets, or holds cryptographic assets on behalf of the customer, or issues cryptographic assets. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The amendments do not have a significant impact on the financial statements.

(e) Amendments to Korean IFRS 1021 The Effects of Changes in Foreign Exchange Rates and 1101 First-time Adoption of International Financial Reporting Standards – Lack of Exchangeability

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

When an entity estimates a spot exchange rate because exchangeability between two currencies is lacking, the entity shall disclose related information. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

2.3 Subsidiaries, Joint Ventures and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 *Separate Financial Statements*. Investments in subsidiaries, joint ventures and associates are recognized at cost under the direct equity method. 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.

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

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

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

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

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

(b) Measurement

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

A. Debt instruments

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

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

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 income statements within 'finance income or expenses' in the year in which it arises.

B. Equity instruments

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

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'finance income or expenses' in the income statements 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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as “borrowings” in the statement of financial position (Note 22).

(e) Offsetting of financial instruments

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

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Derivatives that do not qualify for hedge accounting are classified as held for trading and 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

Land is measured at fair value based on valuations by external independent valuers. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Increases in the carrying amount arising on revaluation of land are credited to other comprehensive income and shown as other reserves in equity. Decreases that offset previous increases of the same asset are charged to other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the income statements.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

Property, plant and equipment, except for land, is stated at cost, and after initial recognition, carrying amount is presented with acquisition cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment is directly attributable to its purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as a consolidated asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized. When revalued assets are sold, the amounts included in revaluation reserves are transferred to retained earnings.

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

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:

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

2.13 Impairment of Non-financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.14 Trade and Other Payables

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

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.

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Preferred shares that require mandatory redemption on a specific date are classified as liabilities. Interest expenses on these preferred shares using the effective interest method are recognized in the income statements as 'finance costs', together with interest expenses recognized from other financial liabilities.

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

(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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

recognized in the statement of financial position within 'accrued expenses'.

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

2.17 Greenhouse Gas Emission Permits and Obligations

With enforcement of *The Act on the Allocation and Trading of Greenhouse Gas Emission Permits*, 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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

comprehensive income or directly in equity, respectively.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

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

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

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

2.20 Employee Benefits

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

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

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

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

2.21 Revenue Recognition

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

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

2.22 Leases

(a) Lessor

Lease income from operating leases where the Company is a lessor is recognized in income on a

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature.

(b) 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.

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

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

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

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

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

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
- 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.

(c) 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.

(d) Residual value guarantees

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

2.23 Segment Reporting

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

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

2.24 Changes in Accounting Policy

The Company changed its accounting policy from the cost model to the revaluation model for the subsequent measurement method for the land classified as property, plant and equipment during the year ended December 31, 2023. These changes in the standards have been applied as changes of accounting policies to provide more reliable and relevant information on the Company's financial status, financial performance or cash flows by measuring land in fair value. In accordance with Korean IFRS 1016 *Property, Plant and Equipment*, when applying the accounting policy to revalue assets for the first time, it is not applied retroactively, so the Company did not restate the comparison financial statements for the prior period. Details of financial effects in accordance with the changes in accounting policy are as follows:

(in millions of Korean won)	2023					
	Assets	Liabilities	Equity	Sales	Loss for the year	Total comprehensive loss for the year
Before change	₩ 1,929,334	₩ 1,444,803	₩ 484,531	₩ 2,011,884	₩ (177,957)	₩ (178,296)
Adjustments:						
Korean IFRS 1016 Revaluation model of property, plant and equipment	196,252	45,334	150,918	-	-	150,918
After change	₩ 2,125,586	₩ 1,490,137	₩ 635,449	₩ 2,011,884	₩ (177,957)	₩ (27,378)

2.25 Approval of Issuance of the Financial Statements

The separate financial statements 2023 were approved for issue by the Board of Directors on January 31, 2024 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

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

The estimates and assumptions that have a significant risk of causing a material adjustment to the

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

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) 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).

(b) 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.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

(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).

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

(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) (Note 16).

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.

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.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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

<i>(in millions of Korean won)</i>		Impact on post-tax profit			
		2023		2022	
USD	Strengthened	₩	(8,490)	₩	(1,822)
	Weakened		8,490		1,822
EUR	Strengthened		(285)		(125)
	Weakened		285		125
JPY	Strengthened		(334)		(21)
	Weakened		334		21
Others	Strengthened		(474)		(290)
	Weakened		474		290

(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>		Impact on equity			
		2023		2022	
KOSPI	Increase 10%	₩	2	₩	2
	Decrease 10%		(2)		(2)

(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.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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

<i>(in millions of Korean won)</i>	Impact on post-tax profit			
		2023		2022
Increase	₩	(2,969)	₩	(1,340)
Decrease		2,969		1,340

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, 2023 and 2022, is as follows:

<i>(in millions of Korean won)</i>		2023		2022
Cash and cash equivalents	₩	2,998	₩	25,765
Trade and other receivables		189,807		220,068
Other financial assets		764		751
Long-term trade and other receivables		22,074		148,635
Other non-current financial assets		2,787		1,534
Financial guarantee contracts ¹		1,842,137		1,756,710

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

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.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Details of the Company's liquidity risk analysis as at December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	₩ 415,000	₩ 14,075	₩ -	₩ 429,075
Lease liabilities	4,275	1,319	1,121	6,715
Borrowings (including interest expense)	619,685	469,164	-	1,088,849
Derivative instruments ¹	2,007	-	-	2,007
Financial guarantee contracts	1,842,137	-	-	1,842,137
Total	<u>₩ 2,883,104</u>	<u>₩ 484,558</u>	<u>₩ 1,121</u>	<u>₩ 3,368,783</u>

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

(in millions of Korean won)

	2022			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	₩ 358,185	₩ 13,594	₩ -	₩ 371,779
Lease liabilities	3,794	4,545	1,199	9,538
Borrowings (including interest expense)	426,266	640,389	-	1,066,655
Derivative instruments ¹	9,215	278	-	9,493
Financial guarantee contracts	1,756,710	-	-	1,756,710
Total	<u>₩ 2,554,170</u>	<u>₩ 658,806</u>	<u>₩ 1,199</u>	<u>₩ 3,214,175</u>

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

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.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022, is as follows:

<i>(in millions of Korean won)</i>	2023	2022
Total borrowings	₩ 1,030,796	₩ 996,071
Less: cash and cash equivalents	<u>(2,998)</u>	<u>(25,765)</u>
Net debt	1,027,798	970,306
Total equity	<u>728,818</u>	<u>514,917</u>
Total capital	<u>₩ 1,756,616</u>	<u>₩ 1,485,223</u>
Gearing ratio	58.51%	65.33%

5. Fair Value

During the year ended December 31, 2023, there have been no significant changes in the business and economic environment affecting the fair value of the Company's financial assets and liabilities.

5.1 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).
- Unobservable inputs for the asset or liability (Level 3).

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

5.2 Valuation Techniques and the Inputs

Valuation techniques and inputs within Level 2 and Level 3 of the fair value hierarchy as at December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

		2023				
	Fair value	Level	Valuation techniques	Inputs	Level 3 Range of inputs (weighted average)	
Derivatives						
Assets	₩ 764	2	Market approach	Exchange rate, discount rate	N/A	
Liabilities	2,007	2	Market approach	Exchange rate, discount rate	N/A	
Debt securities						
Corporate bonds subordinated debt ¹	₩ 1,950	3	Asset value approach	N/A	N/A	
Hyosung CVC Scale-Up Fund I	800	3	Asset value approach	N/A	N/A	

¹ Kodit 2022 the 15th Securitization Specialty Co., Ltd. and Kodit 2023 the 1th Securitization Specialty Co., Ltd. established the right of pledge for the entire amount of the receivables (Note 38).

(in millions of Korean won)

		2022				
	Fair value	Level	Valuation techniques	Inputs	Level 3 Range of inputs (weighted average)	
Derivatives						
Assets	₩ 751	2	Market approach	Exchange rate, discount rate	N/A	
Liabilities	9,493	2	Market approach	Exchange rate, discount rate	N/A	
Debt securities						
Corporate bonds subordinated debt ¹	₩ 1,500	3	Asset value approach	N/A	N/A	

¹ Kodit 2022 the 15th Securitization Specialty Co.,Ltd. established the right of pledge for the entire amount of the receivables (Note 38).

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

5.3 Fair value hierarchy classifications of the financial instruments that are measured at fair value as at December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

		2023			
		Level 1	Level 2¹	Level 3	Total
Assets					
Financial assets at fair value through profit or loss (derivative financial assets, debt securities)					
	₩	-	₩ 764	₩ 2,750	₩ 3,514
Financial assets at fair value through other comprehensive income (equity securities)					
		22	-	-	22
Total	₩	22	₩ 764	₩ 2,750	₩ 3,536
Liabilities					
Financial liabilities at fair value through profit or loss (derivative financial liabilities)					
	₩	-	₩ 2,007	₩ -	₩ 2,007
Total	₩	-	₩ 2,007	₩ -	₩ 2,007

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

(in millions of Korean won)

		2022			
		Level 1	Level 2¹	Level 3	Total
Assets					
Financial assets at fair value through profit or loss (derivative financial assets, debt securities)					
	₩	-	₩ 751	₩ 1,500	₩ 2,251
Financial assets at fair value through other comprehensive income (equity securities)					
		19	-	-	19
Total	₩	19	₩ 751	₩ 1,500	₩ 2,270
Liabilities					
Financial liabilities at fair value through profit or loss (derivative financial liabilities)					
	₩	-	₩ 9,493	₩ -	₩ 9,493
Total	₩	-	₩ 9,493	₩ -	₩ 9,493

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

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

5.4 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, 2023.

5.5 Land Valuation Techniques and the Inputs

Valuation techniques used to measure fair value of land by the appraiser and relationship between unobservable inputs that are significant to measure the fair value and fair value, are as follows:

1) Official standard land price valuation method

It is determined based on the official standard land price of the land nearby the subject land to be measured. Although, the official standard land price reflects the point-in-time correction from the base date, corrections for individual factors and other factors, and measures the fair value.

2) Relationship between unobservable inputs that are significant to measure the fair value and fair value

- Fixed point of view (land price change rate): When land price change rate rises (falls), fair value increases (decreases)

- Local factors: When the regional factor increases (decreases), fair value increases (decreases)

- Individual factors: When the correction value such as the ground condition increases (decreases), fair value increases (decreases)

- Other factors: The correction for land price level etc. increases (decrease), fair value increases (decreases)

5.6 Details by fair value hierarchy level for fair value measurement of land as at December 31, 2023, are as follows:

(in millions of Korean won)

	2023							
	Level 1	Level 2	Level 3¹	Total				
Land	₩	-	₩	-	₩	335,022	₩	335,022

¹ Fair value of land applying revaluation model is classified to level 3 of fair value hierarchy.

5.7 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, 2023 and 2022

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, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Korea	₩	966,126	₩	1,070,967
North America		50,886		71,110
Asia		505,379		608,116
Europe		413,172		435,776
South America		21,016		21,397
Africa		45,004		70,418
Others		10,302		9,628
	₩	2,011,885	₩	2,287,412

The key customer who contributed more than 10% of the Company's revenue is Hyosung TNC Corporation. Details for the year ended December 31, 2023 and 2022, is as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Hyosung TNC Corporation and its subsidiaries				
Hyosung TNC Corporation	₩	232,139		311,664
Hyosung Chemicals (Jiaxing) Co., Ltd.		6,663		3,555
Hyosung Europe S.R.L		352		-
Hyosung International (HK) Limited		9,841		8,538
Hyosung Japan Co., Ltd.		48,235		60,445
Hyosung New Material & High Technology (Quzhou) Co., Ltd.		5,096		-
	₩	302,326	₩	384,202

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, 2023 and 2022. 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

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022, are as follows:

(in millions of Korean won)

	Loans and receivables	
	2023	2022
Carrying amount of assets	₩ 43,483	₩ 68,506
Carrying amount of the associated liabilities	(43,483)	(68,506)
Net position	₩ -	₩ -

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023			
	Financial assets at amortized cost	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Total
Assets				
Cash and cash equivalents	₩ 2,998	₩ -	₩ -	₩ 2,998
Trade and other receivables	175,043	14,764	-	189,807
Other financial assets	-	764	-	764
Long-term trade and other receivables	22,074	-	-	22,074
Other non-current financial assets	15	2,750	22	2,787
	<u>₩ 200,130</u>	<u>₩ 18,278</u>	<u>₩ 22</u>	<u>₩ 218,430</u>

(in millions of Korean won)

	2023			
	Financial liabilities at amortized cost	Other financial liabilities	Financial liabilities measured at FVTPL	Total
Liabilities				
Trade and other payables ¹	₩ 399,425	₩ 5,499	₩ -	₩ 404,924
Borrowings	535,423	47,251	-	582,674
Other financial liabilities	-	4,135	2,007	6,142
Long-term trade and other payables	14,075	-	-	14,075
Long-term borrowings	448,122	-	-	448,122
Other non-current financial liabilities	-	1,719	-	1,719
	<u>₩ 1,397,045</u>	<u>₩ 58,604</u>	<u>₩ 2,007</u>	<u>₩ 1,457,656</u>

¹ The liabilities related to employee benefits are excluded from above trade and other payables.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

(in millions of Korean won)

	2022			
	Financial assets at amortized cost	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Total
Assets				
Cash and cash equivalents	₩ 25,765	₩ -	₩ -	₩ 25,765
Trade and other receivables	201,295	18,773	-	220,068
Other financial assets	-	751	-	751
Long-term trade and other receivables	148,635	-	-	148,635
Other non-current financial assets	15	1,500	19	1,534
	<u>₩ 375,710</u>	<u>₩ 21,024</u>	<u>₩ 19</u>	<u>₩ 396,753</u>

(in millions of Korean won)

	2022			
	Financial liabilities at amortized cost	Other financial liabilities	Financial liabilities measured at FVTPL	Total
Liabilities				
Trade and other payables ¹	₩ 339,446	₩ 8,905	₩ -	₩ 348,351
Borrowings	324,472	70,782	-	395,254
Other financial liabilities	-	3,722	9,215	12,937
Long-term trade and other payables	13,594	-	-	13,594
Long-term borrowings	600,818	-	-	600,818
Other non-current financial liabilities	-	4,875	278	5,153
	<u>₩ 1,278,330</u>	<u>₩ 88,284</u>	<u>₩ 9,493</u>	<u>₩ 1,376,107</u>

¹ The liabilities related to employee benefits are excluded from above trade and other payables.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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

Net gains or losses on each category of financial instruments for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Financial assets measured at amortized cost:		
Interest income	₩ 5,418	₩ 2,636
Gain on foreign currency translation	13,982	17,392
Loss on foreign currency translation	(4,666)	(19,395)
Loss on foreign currency transaction	(14,228)	(17,730)
Gain on foreign currency transaction	10,297	18,608
Bad debt expense	(2,749)	(2,589)
Financial liabilities measured at amortized cost:		
Interest expense	(44,386)	(22,290)
Gain on foreign currency translation	8,883	23,586
Loss on foreign currency translation	(12,676)	(24,404)
Loss on foreign currency transaction	(16,594)	(37,311)
Gain on foreign currency transaction	21,783	23,310
Other financial liabilities ¹		
Interest expense	(3,526)	(2,039)
Gain on foreign currency translation	1,501	4,231
Loss on foreign currency translation	(2,731)	(5,468)
Financial assets/liabilities at FVTPL		
Gain on transaction (profit or loss for the year)	3,220	21,252
Loss on valuation (profit or loss for the year)	(986)	(8,742)
Interest income	353	-
Financial assets/liabilities at FVTOCI		
Gain (loss) on valuation (other comprehensive income)	2	(20)

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

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

9. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2023 and 2022, consist of:

<i>(in millions of Korean won)</i>		2023		2022
Bank deposits	₩	2,998	₩	25,765

10. Restricted Financial Instruments

Restricted financial instruments as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	Description		2023		2022
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, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		
	Receivable amount	Provision for impairment	Book amount
Trade receivables	₩ 159,668	₩ (6,710)	₩ 152,958
Other receivables	36,871	(22)	36,849
Long-term other receivables	22,074	-	22,074
	<u>₩ 218,613</u>	<u>₩ (6,732)</u>	<u>₩ 211,881</u>

<i>(in millions of Korean won)</i>	2022		
	Receivable amount	Provision for impairment	Book amount
Trade receivables	₩ 203,334	₩ (3,967)	₩ 199,367
Other receivables	20,723	(22)	20,701
Long-term other receivables	148,635	-	148,635
	<u>₩ 372,692</u>	<u>₩ (3,989)</u>	<u>₩ 368,703</u>

The Company has transferred trade receivables amounting to ₩ 43,483 million (2022: ₩ 68,506 million) to banks in exchange for cash as at December 31, 2023. The Company may retain an

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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, 22 and 38).

Details of other receivables as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Other receivables		
Non-trade receivables	₩ 27,939	₩ 13,908
Short-term loans	-	5
Deposits provided	760	676
Accrued income	-	277
Financial lease receivables	8,150	5,835
	<u>36,849</u>	<u>20,701</u>
Long-term other receivables		
Long-term loans	2,487	128,561
Long-term deposits provided	2,182	1,885
Long-term financial lease receivables	17,405	18,189
	<u>22,074</u>	<u>148,635</u>
	<u>₩ 58,923</u>	<u>₩ 169,336</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>	2023	2022
Discount rate	1.20%~5.97%	1.20%~4.35%

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The aging analysis of trade and other receivables as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023							
	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	₩ 120,257	₩ 32,120	₩ 981	₩ 1,990	₩ 2,599	₩ 1,721	₩ 159,668	
Loss allowance provision	(368)	(360)	(381)	(1,397)	(2,483)	(1,721)	(6,710)	
Expected loss rate	0.31%	1.12%	38.85%	70.21%	95.54%	100.00%	4.20%	
	<u>119,889</u>	<u>31,760</u>	<u>600</u>	<u>593</u>	<u>116</u>	<u>-</u>	<u>152,958</u>	
Other receivables	36,849	-	-	-	-	22	36,871	
Loss allowance provision	-	-	-	-	-	(22)	(22)	
	<u>36,849</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,849</u>	
Long-term other receivables	22,074	-	-	-	-	-	22,074	
	<u>₩ 178,812</u>	<u>₩ 31,760</u>	<u>₩ 600</u>	<u>₩ 593</u>	<u>₩ 116</u>	<u>₩ -</u>	<u>₩ 211,881</u>	

<i>(in millions of Korean won)</i>	2022							
	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	₩ 151,367	₩ 42,774	₩ 3,895	₩ 3,283	₩ 835	₩ 1,180	₩ 203,334	
Loss allowance provision	(326)	(188)	(555)	(1,252)	(466)	(1,180)	(3,967)	
Expected loss rate	0.22%	0.44%	14.24%	38.14%	55.82%	100.00%	1.95%	
	<u>151,041</u>	<u>42,586</u>	<u>3,340</u>	<u>2,031</u>	<u>369</u>	<u>-</u>	<u>199,367</u>	
Other receivables	20,701	-	-	-	-	22	20,723	
Loss allowance provision	-	-	-	-	-	(22)	(22)	
	<u>20,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,701</u>	
Long-term other receivables	148,635	-	-	-	-	-	148,635	
	<u>₩ 320,377</u>	<u>₩ 42,586</u>	<u>₩ 3,340</u>	<u>₩ 2,031</u>	<u>₩ 369</u>	<u>₩ -</u>	<u>₩ 368,703</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, 2023 and 2022

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, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023			
	Beginning balance	Bad debt expense	Write-off	Ending balance
Trade receivables	₩ 3,967	₩ 2,749	₩ (6)	₩ 6,710
Other receivables	22	-	-	22
	<u>₩ 3,989</u>	<u>₩ 2,749</u>	<u>₩ (6)</u>	<u>₩ 6,732</u>

<i>(in millions of Korean won)</i>	2022			
	Beginning balance	Bad debt expense	Write-off	Ending balance
Trade receivables	₩ 1,378	₩ 2,589	₩ -	₩ 3,967
Other receivables	22	-	-	22
	<u>₩ 1,400</u>	<u>₩ 2,589</u>	<u>₩ -</u>	<u>₩ 3,989</u>

Provision for impaired trade receivables and unused amounts reversed are included in the separate income statements within 'selling, general and administrative expenses' (Note 32). Provision for impaired other receivables and unused amounts reversed are included in the separate income statements 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, 2023 and 2022

12. Other Financial Assets and Liabilities

Other financial assets and liabilities as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Other financial assets		
Long-term financial assets	₩ 2,766	₩ 1,515
Derivative financial assets	764	751
Financial assets at fair value through other comprehensive income	22	19
	<u>3,552</u>	<u>2,285</u>
Less: current portion	<u>(764)</u>	<u>(751)</u>
	<u>₩ 2,788</u>	<u>₩ 1,534</u>
Other financial liabilities		
Lease liabilities	₩ 5,853	₩ 8,597
Derivative financial liabilities	2,007	9,493
	<u>7,860</u>	<u>18,090</u>
Less: current portion	<u>(6,142)</u>	<u>(12,937)</u>
	<u>₩ 1,718</u>	<u>₩ 5,153</u>

The Company has entered into currency swap contracts to hedge the risk of foreign currency exchange rate fluctuations relating to borrowings as at December 31, 2023. The Company recognizes gain or loss on valuation of derivatives in profit or loss.

Details of financial assets at fair value through other comprehensive income as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Listed equity securities		
Kakao Bank Co., Ltd	₩ 22	₩ 19

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Changes in financial assets at fair value through other comprehensive income for the years ended December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
Beginning balance	₩	19	₩	46
Acquisitions		-		-
Gain (loss) on valuation (other comprehensive income)		3		(27)
Ending balance	₩	22	₩	19

Changes in gain or loss on financial assets at fair value through other comprehensive income for the years ended December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		
	Beginning balance	Other comprehensive income	Ending balance
Before tax	₩ (11)	₩ 3	₩ (8)
Tax effect	3	(1)	2
After tax	₩ (8)	₩ 2	₩ (6)

(in millions of Korean won)

	2022		
	Beginning balance	Other comprehensive income	Ending balance
Before tax	₩ 15	₩ (27)	₩ (12)
Tax effect	(3)	7	4
After tax	₩ 12	₩ (20)	₩ (8)

Valuation of derivative financial assets and liabilities as at December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Current derivative financial assets and liabilities				
Currency swap	₩ 653	₩ 746	₩ 676	₩ 258
Forward exchange	112	1,261	75	8,956
	₩ 765	₩ 2,007	₩ 751	₩ 9,214
Non - current derivative financial assets and liabilities				
Currency swap	-	₩ -	-	₩ 278
	-	-	-	278
	₩ 765	₩ 2,007	₩ 751	₩ 9,492

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

13. Other Assets

Details of other assets as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Other current assets				
Advance payments	₩	8,319	₩	5,175
Prepaid expenses ¹		20,106		26,082
		<u>28,425</u>		<u>31,257</u>
Other non-current assets				
Long-term prepaid expenses		84		108
		<u>84</u>		<u>108</u>
	₩	<u>28,509</u>	₩	<u>31,365</u>

¹ In relation to the performance obligation satisfied over time, contract assets of ₩ 2,561 million million (2022: ₩ 4,165 million) are included.

14. Inventories

Details of inventories as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023			2022		
	Cost	Provision	Book amount	Cost	Provision	Book amount
Merchandise	₩ 4,236	₩ (173)	₩ 4,063	₩ 3,038	₩ (144)	₩ 2,894
Finished goods	90,462	(8,607)	81,855	144,223	(14,544)	129,679
Semi-finished goods	11,942	(552)	11,390	14,426	(190)	14,236
Raw materials	31,982	(32)	31,950	21,164	(1,163)	20,001
Sub-materials	11,699	(562)	11,137	19,175	(1,650)	17,525
Supplies	2,967	(191)	2,776	3,978	(491)	3,487
Packaging	602	(51)	551	1,020	(47)	973
Goods in transit	5,462	-	5,462	10,398	-	10,398
Rights of return assets	1,181	-	1,181	3,260	-	3,260
	<u>₩ 160,533</u>	<u>₩ (10,168)</u>	<u>₩ 150,365</u>	<u>₩ 220,682</u>	<u>₩ (18,229)</u>	<u>₩ 202,453</u>

Inventories recognized as an expense for the year ended December 31, 2023 amount to ₩ 1,902,139 million (2022: ₩ 2,125,144 million), which is included in 'cost of sales'. Also, the Company recognized reversal of loss on valuation of inventories amounting to ₩ 8,060 million (2022: provisions for inventories ₩ 11,185 million) for the year ended December 31, 2023, which is

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

included in the income statements within 'cost of sales'.

15. Property, Plant and Equipment

Details of property, plant and equipment as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023			2022		
	Cost	Accumulated depreciation ¹	Book amount	Cost	Accumulated depreciation ¹	Book amount
Land	₩ 335,022	₩ -	₩ 335,022	₩ 138,770	₩ -	₩ 138,770
Building	176,984	(57,003)	119,982	176,984	(52,766)	124,218
Structures	182,782	(65,623)	117,159	182,635	(61,048)	121,587
Machinery	1,717,116	(1,584,257)	132,859	1,734,223	(1,529,101)	205,122
Vehicles	6,075	(5,589)	486	6,076	(5,324)	752
Tools and equipment	81,352	(67,444)	13,908	75,623	(62,601)	13,022
Others	22,483	(871)	21,612	17,856	(652)	17,204
Construction in progress	195,626	(3,200)	192,426	148,321	(3,200)	145,121
Machinery in transit	146	-	146	67	-	67
Right-of-use assets	10,260	(4,346)	5,914	13,322	(4,640)	8,682
	<u>₩ 2,727,846</u>	<u>₩ (1,788,333)</u>	<u>₩ 939,514</u>	<u>₩ 2,493,877</u>	<u>₩ (1,719,332)</u>	<u>₩ 774,545</u>

¹ Accumulated impairment losses and government grants are included.

Changes in property, plant and equipment for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023							Ending balance
	Beginning balance	Additions ¹	Revaluation of land	Disposal ¹	Depreciation and others ²	Transfers ³		
Land	₩ 138,770	₩ -	₩ 196,252	₩ -	₩ -	₩ -	335,022	
Buildings	124,218	-	-	-	(4,237)	-	119,981	
Structures	121,587	-	-	-	(4,574)	147	117,160	
Machinery	205,122	463	-	(3,766)	83,078	14,119	132,860	
Vehicles	752	-	-	-	(266)	-	486	
Tools and equipment	13,022	42	-	(21)	(5,326)	6,191	13,908	
Others	17,204	8,048	-	-	(3,639)	-	21,613	
Construction in progress	145,121	37,512	-	-	-	9,792	192,425	
Machinery in transit	67	30,327	-	-	-	(30,249)	145	
Right-of-use assets	8,682	5,562	-	(4,394)	(3,936)	-	5,914	
	<u>₩ 774,545</u>	<u>₩ 81,954</u>	<u>₩ 196,252</u>	<u>₩ (8,181)</u>	<u>₩ (105,056)</u>	<u>₩ -</u>	<u>₩ 939,514</u>	

¹ Additions and disposal of right-of-use assets include effect of lease contract changes.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

² Others include loss of other tangible assets of ₩ 240 million and supplies expenses for process of ₩ 3,399 million.

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

(in millions of Korean won)	2022					
	Beginning balance	Additions	Disposal ¹	Depreciation and others ²	Transfers ³	Ending balance
Land	₩ 138,770	₩ -	₩ -	₩ -	₩ -	₩ 138,770
Buildings	128,725	-	(410)	(4,255)	158	124,218
Structures	125,639	-	(53)	(4,577)	578	121,587
Machinery	296,431	2,862	(2,247)	(118,395)	26,471	205,122
Vehicles	736	-	-	(350)	366	752
Tools and equipment	12,703	758	(25)	(5,253)	4,839	13,022
Others	15,953	10,613	-	(3,777)	(5,585)	17,204
Construction in progress	31,538	104,627	-	-	8,956	145,121
Machinery in transit	146	41,275	-	-	(41,354)	67
Right-of-use assets	6,517	6,169	(111)	(3,893)	-	8,682
	<u>₩ 757,158</u>	<u>₩ 166,304</u>	<u>₩ (2,846)</u>	<u>₩ (140,500)</u>	<u>₩ (5,571)</u>	<u>₩ 774,545</u>

¹ Additions and disposal of right-of-use assets include effect of lease contract changes.

² Others include loss of other tangible assets of ₩ 232 million and supplies expenses for process of ₩ 3,545 million.

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

Depreciation includes ₩ 98,214 million (2022: ₩ 133,540 million) in manufacturing costs, ₩ 3,032 million (2022: ₩ 3,059 million) in 'selling, general and administrative expenses' and ₩ 172 million (2022: ₩ 122 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).

The Company applied revaluation model to land during the year ended December 31, 2023. Land was revalued on May 2, 2023, using valuation amount measured by an external independent valuation specialist.

The evaluation method applied the official land price standard has been applied and it is decided to review final amount by comparing amount measured by sales comparison approach and reviewing rationality.

The carrying amount of land in accordance with revaluation and book value if the cost model has

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

been applied as at December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>	Revaluation model		Cost model	
Land	₩	335,022	₩	138,769

From land revaluation above, gain on valuation of ₩ 196,252 million (before tax effect of ₩ 45,334 million deduction) has been recognized in other comprehensive income for the year ended December 31, 2023.

Government grants

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

As at December 31, 2023, the balance of government grants related to asset acquisition is ₩ 3,748 million (2022: ₩ 3,924 million), and there is no balance of liabilities related to government grants.

Impairment Test on Cash Generating Unit (CGU)

The Company performed impairment test on CGU of POK business that had an indication of impairment. 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, 2023, are as follows:

	POK business
Sales growth rate	0.0 ~ 33.3%
Gross margin	6.9% ~ 17.8%
Perpetual growth rate	0.00%
Discount rate	11.58%

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

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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

	<u>Impairment</u>	
	POK business	
Decrease in perpetual growth rate by 0.5%pt	₩	-
Increase in discount rate by 0.5%pt		-

16. Leases

(a) Lessee – amount recognized in financial position

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

<i>(in millions of Korean won)</i>	2023		2022	
Right-of-use assets ¹				
Real estate	₩	4,562	₩	7,166
Facility equipment		320		260
Vehicles		399		467
Others		633		789
	₩	<u>5,914</u>	₩	<u>8,682</u>

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

<i>(in millions of Korean won)</i>	2023		2022	
Lease liabilities ¹				
Current	₩	4,135	₩	3,722
Non-current		1,719		4,875
	₩	<u>5,854</u>	₩	<u>8,597</u>

¹ 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 ₩ 5,562 million for the year ended December 31, 2023 (2022: ₩ 6,169 million).

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The amounts recognized in the income statements in relation to leases are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Depreciation of right-of-use assets				
Real estate	₩	3,457	₩	3,405
Facility equipment		17		10
Vehicles		327		342
Others		135		136
	₩	<u>3,936</u>	₩	<u>3,893</u>
Interest expense ¹	₩	288	₩	318
Expense relating to short-term leases and leases of low-value assets ²		1,358		2,247
Expense relating to variable lease payments ³		1,322		1,215

¹ Included in 'financial cost'.

² Included in 'cost of sales' and 'administrative expenses'.

³ Included in 'cost of sales' and 'administrative expenses'.

The total cash outflow for leases in 2023 was ₩ 6,802 million (2022: ₩ 7,563 million).

(b) Lessor under finance leases

Details of gross investment, net investment and loss allowance in the finance leases as at December 31, 2023 is as follows:

<i>(in millions of Korean won)</i>	2023				
	Initial lease payment	Unearned interest	Net investment	Loss allowance	Book amount
Current financial lease receivables	₩ 8,766	₩ (616)	₩ 8,150	₩ -	₩ 8,150
Non-current financial lease receivables	18,045	(640)	17,405	-	17,405
	₩ 26,811	₩ (1,256)	₩ 25,555	₩ -	₩ 25,555

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

(in millions of Korean won)

	2022				
	Initial lease payment	Unearned interest	Net investment	Loss allowance	Book amount
Current financial lease receivables	₩ 6,336	₩ (501)	₩ 5,835	₩ -	₩ 5,835
Non-current financial lease receivables	18,943	(754)	18,189	-	18,189
	<u>₩ 25,279</u>	<u>₩ (1,255)</u>	<u>₩ 24,024</u>	<u>₩ -</u>	<u>₩ 24,024</u>

There are no changes in loss allowance of financial lease receivables for the year ended December 31, 2023 and 2022.

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

(in millions of Korean won)

	2023	
	Initial lease payment	Net investment in finance leases
Within 1 year	₩ 8,766	₩ 8,150
1 ~ 2 years	8,806	8,385
2 ~ 3 years	9,239	9,020
3 ~ 4 years	-	-
Undiscounted total lease payments	<u>₩ 26,811</u>	<u>₩ 25,555</u>

(in millions of Korean won)

	2022	
	Initial lease payment	Net investment in finance leases
Within 1 year	₩ 6,336	₩ 5,835
1 ~ 2 years	6,336	5,958
2 ~ 3 years	6,375	6,122
3 ~ 4 years	6,232	6,109
Undiscounted total lease payments	<u>₩ 25,279</u>	<u>₩ 24,024</u>

The interest income from financial lease receivables recognized in the income statements for the years ended December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023		2022	
Interest income	₩	732	₩	605

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

17. Intangible Assets

Changes in intangible assets for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023			
	Industrial rights	Other intangible assets¹	Membership	Total
Beginning balance	₩ 1,041	₩ 4,038	₩ 6,000	₩ 11,079
Additions	36	115	-	151
Disposals	-	(15)	-	(15)
Amortization	(298)	(433)	-	(731)
Transfers	-	-	-	-
Ending balance	<u>₩ 779</u>	<u>₩ 3,705</u>	<u>₩ 6,000</u>	<u>₩ 10,484</u>

¹ Construction in progress assets, Greenhouse Gas Emission Permits and etc. are included.

<i>(in millions of Korean won)</i>	2022			
	Industrial rights	Other intangible assets¹	Membership	Total
Beginning balance	₩ 1,305	₩ 4,349	₩ 6,000	₩ 11,654
Additions	58	220	-	278
Disposals	-	-	-	-
Amortization	(322)	(454)	-	(776)
Transfers	-	(77)	-	(77)
Ending balance	<u>₩ 1,041</u>	<u>₩ 4,038</u>	<u>₩ 6,000</u>	<u>₩ 11,079</u>

¹ Facility usage rights, Greenhouse Gas Emission Permits and etc. are included.

Amortization of ₩ 184 million (2022: ₩ 212 million) is included in manufacturing costs, ₩ 201 million (2022: ₩ 231 million) in 'research and development expenses', and ₩ 346 million (2022: ₩ 332 million) in 'selling, general and administrative expenses'

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

18. Insurance Coverage

As at December 31, 2023, property, plant and equipment are insured, and details of insurance are as follows:

<i>(in millions of Korean won)</i>	Insured assets	Book amount	Insured amount	Insurance company
Package insurance	Property, plant and equipment and others	₩ 556,362	₩ 3,877,745	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, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Beginning balance	₩	458,283	₩	408,887
Acquisitions ¹		-		23,764
Additional investment ²		390,618		25,632
Impairment assessment		(93,369)		-
Ending balance	₩	<u>755,532</u>	₩	<u>458,283</u>

¹ The Company contributed ₩ 23,764 million (USD 20 million) to Hyosung Film (Quzhou) Co., Ltd., 100% owned subsidiary which was newly established on January 14, 2022.

² The Company made an additional investment of ₩ 25,632 million (USD 20 million) to Hyosung Film (Quzhou) Co., Ltd., 100% owned subsidiary, on May 17, 2022.

On May 22, 2023, the Company converted ₩ 133,120 million (USD 100 million) to investment regarding the loan to Hyosung Vina Chemicals Co., Ltd., 100% owned subsidiary, on November 14, 2022.

The Company made an additional investment of ₩ 158,100 million (USD 120 million) to Hyosung Vina Chemicals Co., Ltd., 100% owned subsidiary, on May 25, 2023.

The Company made an additional investment of ₩ 66,880 million (USD 50 million) to Hyosung Vina Chemicals Co., Ltd., 100% owned subsidiary, on September 25, 2023.

The Company made an additional investment of ₩ 32,518 million (USD 25 million) to Hyosung Vina Chemicals Co., Ltd., 100% owned subsidiary, on December 26, 2023.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Details of investments in subsidiaries as at December 31, 2023 and 2022, are as follows:

(in millions of Korean won)	Location	Ownership (%)	Book Amount	
		2023	2023	2022
Hyosung Vina Chemicals Co., Ltd.	Vietnam	100%	₩ 691,857	₩ 394,608
Hyosung Film(Quzhou) Co., Ltd.	China	100%	49,396	49,396
			₩ 741,253	₩ 444,004

Details of investments in associates as at December 31, 2023 and 2022, are as follows:

(in millions of Korean won)	Location	Ownership (%)	Book Amount	
		2023	2023	2022
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. The assumptions applied for estimate of value-in-use of investments in subsidiaries as at December 31, 2023, are as follows:

Hyosung Vina Chemicals Co., Ltd.

Sales growth rate	1.0% ~ 53.4%
Gross margin	1.5% ~ 13.5%
Perpetual growth rate	1.0%
Discount rate	8.68%

As a result, the book amount of investments in subsidiaries exceeds the recoverable amount, and the book value of excess is recognized as impairment loss.

Impairment

Book amount	₩	752,708
Recoverable amount		659,339
Book amount exceeding recoverable amount	₩	(93,369)

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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	₩	(167,217)
Increase in discount rate 0.5%pt		(204,894)

Fair value of marketable investments in associates as at December 31, 2023 and 2022, is as follows:

<i>(in millions of Korean won)</i>	2023			
	Number of shares	Market price per share (in Korean won)	Fair value	Book amount
Shinwha Intertek Corp.	5,827,100	₩ 2,185	₩ 12,732	₩ 14,279

<i>(in millions of Korean won)</i>	2022			
	Number of shares	Market price per share (in Korean won)	Fair value	Book amount
Shinwha Intertek Corp.	5,827,100	₩ 3,365	₩ 19,608	₩ 14,279

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

20. Related Party Transactions

Details of subsidiaries, associates and other related parties as at December 31, 2023, are as follows:

Significant Influence over the Company

Location	Related party
Korea	Hyosung Corporation

Subsidiaries

Location	Related party
Asia	Hyosung Vina Chemicals Co., Ltd., Hyosung Film(Quzhou) Co., Ltd.

Associates

Location	Related party
Korea	Shinwha Intertek Corp.

Other related parties

Location	Related party
Korea	Galaxia Device Co., Ltd., GALAXIA ELECTRONICS CO.,LTD., Kongduk Development Co., Ltd., THE CLASS HYOSUNG, THE PREMIUM HYOSUNG Co., Ltd., Dong Ryung Co., Ltd., Shin Dong Jin Co., Ltd., A-Seung Automotive Group, Trinity Asset Management Co., Ltd, Hyosung Premier Motors Corporation, ASC Co. Ltd, Hyosung GoodSprings, Inc., HYOSUNG TNS INC., atmpius,Inc, NAUTILUS HYOSUNG CMS INC., Forza Motors Korea Corp., HYOSUNG FMS INC. and others
China	DONGGUAN SHINWHA INTERTEK CORP., SHINWHA INTERTEK(SUZHOU) CO.,LTD. and others
Asia	HYOSUNG FINANCIAL SYSTEM VINA Co.,Ltd. and others
Europe	Hyosung RUS and others
America	Hyosung Holdings USA, Inc., Hyosung Mexico S. de R.L. de C.V., GST Safety Textiles Mexico S. de R.L. de C.V, and others
Others	Hyosung Resource (Australia) PTY Ltd. and others

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Others¹

Location	Related party
Korea	Hyosung Heavy Industries Corporation, Hyosung Advanced Materials Corporation, Hyosung TNC Corporation, KB Wise Star Professional Investment Private Real Estate Investment Trust #11, CHINHUNG INTERNATIONAL INC., Taebaek Wind Power Co., Ltd., PyeongChang Wind Power Co., Ltd., THE KWANGJUILBO, Somesevit Corporation, HYOSUNG ITX.CO.,LTD, HYOSUNG INFORMATION SYSTEMS CO.,LTD, Hyosung CVC Scale-Up Fund I 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 New Material & High Technology (Quzhou) Co., Ltd., Hyosung Spandex (Guangdong) Co., Ltd., Hyosung Spandex (Zhuhai) Co., Ltd. and others
Asia	Hyosung TNC (Taiwan) Corporation, Hyosung India Private Limited, Hyosung Corporation India Private Limited, Hyosung Dong Nai Co., Ltd., Hyosung International (HK) Limited, Hyosung Japan Co., Ltd., PT. HYOSUNG JAKARTA, Hyosung Singapore Pte. Ltd., Hyosung Vietnam Co., Ltd., HYOSUNG T&D INDIA Pvt Ltd. and others
America	GST Automotive Safety Components International LLC, HICO America Sales & Tech., Hyosung Brasil Industria e Comercio de Fibras Ltda., Hyosung Mexico City S.A de C.V. and others
Europe	Global Safety Textiles GmbH, Green Plan Energy (Wellingborough) Limited, GST Global GmbH, Hyosung Europe S.R.L, Hyosung Istanbul TEKSTIL LTD.STI, Hyosung Luxembourg S.A and others
Others	GST Automotive Safety South Africa(Proprietary) Limited, Hyosung South Africa (PTY) LTD. and others

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

Sales and purchases with related parties for the years ended December 31, 2023 and 2022, are as follows:

(in millions of Korean won)		2023									
		Sales and others ¹		Purchases and others ¹		Acquisition of property, plant and equipment and intangible assets	Acquisition of right-of-use assets	Interest expense ²			
Related party											
Significant influence over the Company	Hyosung Corporation	₩	8	₩	100,066	₩	-	₩	151	₩	-
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.		10,364		-		-		-		-
	Hyosung Film(Quzhou) Co., Ltd.		513		-		-		-		-
			10,877		-		-		-		-
Associates	Shinwha Intertek Corp.		11,296		-		-		-		-
Other related parties	Shin Dong Jin Co., Ltd.		-		(1)		-		40		148
	Kongduk Development Co., Ltd.		-		8		-		49		23
	Hyosung Holdings USA		12,659		2,596		-		-		-
	Others		-		26		-		-		-
			12,659	2,629		-		89		171	
Others	Hyosung TNC Corporation		232,139		70,034		-		-		33
	Hyosung Heavy Industries Corporation		70		10,388		1,356		-		-
	Hyosung Advanced Materials Corporation		-		429		-		-		-
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.		859		38,903		-		-		-
	Hyosung Chemicals (Jiaxing) Co., Ltd.		6,663		791		-		-		-
	Hyosung International Trade (Jiaxing) Co., Ltd.		-		23,987		-		-		-
	Hyosung International (HK) Limited		9,841		-		-		-		-
	Hyosung NEW Material & High Technology (Quzhou) Co., Ltd.		5,096		-		-		-		-
	Hyosung Japan Co., Ltd.		48,235		17,045		-		-		-
	PT. HYOSUNG JAKARTA		-		521		-		-		-
	Others		352		4,806		-		100		2
		303,255	166,904		1,356		100		35		
		₩	338,095	₩	269,599	₩	1,356	₩	340	₩	206

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

² Interest expense recognized in accordance with lease contracts of buildings is ₩ 206 million for the year ended December 31, 2023.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

(in millions of
Korean won)

		2022					
Related party		Sales and others ¹	Purchases and others ¹	Acquisition of property, plant and equipment and intangible assets	Acquisition of right-of-use assets	Interest expense ²	
Significant influence over the Company	Hyosung Corporation	₩ 15	₩ 176,532	₩ -	₩ -	₩ -	
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.	7,277	-	-	-	-	
	Hyosung Film(Quzhou) Co., Ltd.	200	-	-	-	-	
		<u>7,477</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Associates	Shinwha Intertek Corp.	11,916	-	-	-	-	
Other related parties	Shin Dong Jin Co., Ltd.	-	122	-	4,462	178	
	Kongduk Development Co., Ltd.	-	6	-	516	24	
	PT. HYOSUNG JAKARTA ³	-	249	-	-	-	
	Hyosung Holdings USA	18,671	27	-	-	-	
	Others	-	501	-	-	-	
		<u>18,671</u>	<u>905</u>	<u>-</u>	<u>4,978</u>	<u>202</u>	
Others	Hyosung TNC Corporation	311,665	111,797	-	-	48	
	Hyosung Heavy Industries Corporation	-	3,389	9,706	-	-	
	Hyosung Advanced Materials Corporation	-	367	-	-	-	
	Hyosung Japan Co., Ltd.	60,445	2,305	-	-	-	
	Hyosung NEW Material & High Technology(Quzhou) Co., Ltd.	-	150	-	-	-	
	Hyosung International (HK) Ltd.	8,538	-	-	-	-	
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	7,080	49,654	-	-	-	
	Others	4,003	12,148	-	45	2	
		<u>391,731</u>	<u>179,810</u>	<u>9,706</u>	<u>45</u>	<u>50</u>	
		<u>₩ 429,810</u>	<u>₩ 357,247</u>	<u>₩ 9,706</u>	<u>₩ 5,023</u>	<u>₩ 252</u>	

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

² Interest expense recognized in accordance with lease contracts of buildings is ₩ 252 million for the year ended December 31, 2022.

³ In June 2022, its shares were transferred from Hyosung Corporation to Hyosung TNC Corporation and therefore, it was changed from other related parties to others.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2023 and 2022, are as follows:

(in millions of Korean won)		2023				
		Trade receivables	Other receivables ¹	Trade payables	Other payables ¹	Lease liabilities ²
Significant influence over the Company	Hyosung Corporation	₩ -	₩ 178	₩ 609	₩ 15,387	₩ 136
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.	4,042	23,325	-	-	-
	Hyosung Film(Quzhou) Co., Ltd.	74	35	-	-	-
		4,116	23,360	-	-	-
Associates	Shinwha Intertek Corp.	1,398	-	-	1,779	-
Other related parties	Shin Dong Jin Co., Ltd.	-	1,422	-	227	2,614
	Kongduk Development Co., Ltd.	-	161	-	-	386
	Hyosung Holdings USA	46	-	-	2,028	-
	Others	-	-	-	-	-
		46	1,583	-	2,255	3,000
Others	Hyosung TNC Corporation	22,687	524	5,416	1,352	666
	Hyosung Heavy Industries Corporation ³	57	-	804	10,477	-
	Hyosung Advanced Materials Corporation	-	366	43	-	-
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	265	-	1,471	-	-
	Hyosung Chemicals (Jiaxing) Co., Ltd.	889	-	-	-	-
	Hyosung International Trade (Jiaxing) Co., Ltd.	-	-	4,773	237	-
	Hyosung International (HK) Limited	147	-	-	-	-
	Hyosung New Material&High Technology (Quzhou) Co., Ltd.	-	-	-	-	-
	Hyosung Japan Co., Ltd.	993	-	-	3,173	-
	PT. HYOSUNG JAKARTA	-	-	-	65	-
	Others	241	-	75	689	84
		25,279	890	12,582	15,993	750
		₩ 30,839	₩ 26,011	₩ 13,191	₩ 35,414	₩ 3,886

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

² The balance of lease liabilities recognized in accordance with lease contracts of buildings amount to ₩ 3,886 million as at December 31, 2023.

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

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

(in millions of Korean won)		2022					
		Trade receivables	Other receivables ¹	Trade payables	Other payables ¹	Lease liabilities ²	
Significant influence over the Company	Hyosung Corporation	₩ 3	₩ 52	₩ 380	₩ 17,660	₩ -	
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.	1,224	177,565	-	-	-	
	Hyosung Film(Quzhou) Co., Ltd.	-	24	-	-	-	
		<u>1,224</u>	<u>177,589</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Associates	Shinwha Intertek Corp.	3,999	-	-	-	-	
Other related parties	Shin Dong Jin Co., Ltd.	-	1,381	-	226	4,931	
	Kongduk Development Co., Ltd.	-	144	-	1	618	
	Hyosung Holdings USA	4,352	-	-	1	-	
	Others	-	-	-	-	-	
		<u>4,352</u>	<u>1,525</u>	<u>-</u>	<u>228</u>	<u>5,549</u>	
Others	Hyosung TNC Corporation	21,577	524	8,163	1,306	1,349	
	Hyosung Heavy Industries Corporation ³	-	-	154	124	-	
	Hyosung Advanced Materials Corporation	-	366	36	-	-	
	PT. HYOSUNG JAKARTA ⁴	-	-	-	38	-	
	Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	1,980	-	4,685	-	-	
	Hyosung Japan Co., Ltd.	583	1,530	-	-	-	
	Hyosung NEW Material & High Technology(Quzhou) Co., Ltd.	-	-	-	-	-	
	Hyosung Chemicals (Jiaxing) Co., Ltd.	1,872	18	-	-	-	
	Others	701	-	2,701	305	27	
		<u>26,713</u>	<u>2,438</u>	<u>15,739</u>	<u>1,773</u>	<u>1,376</u>	
	<u>₩ 36,291</u>	<u>₩ 181,604</u>	<u>₩ 16,119</u>	<u>₩ 19,661</u>	<u>₩ 6,925</u>		

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

² The balance of lease liabilities recognized in accordance with lease contracts of buildings amount to ₩ 6,925 million as at December 31, 2022.

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

⁴ In June 2022, its shares were transferred from Hyosung Corporation to Hyosung TNC Corporation and therefore, it was changed from other related parties to others.

Hyosung Chemical Corporation

Notes to the Separate Financial Statements

December 31, 2023 and 2022

Fund transactions with related parties for the year ended December 31, 2023, are as follows:

(in millions of Korean won)		2023						
		Loan transactions					Contributions in cash	
Subsidiaries	Related party Hyosung Vina Chemicals Co., Ltd. ¹	Beginning balance	Loans	Collections	Foreign currency valuation	Investment conversion	Ending balance	
				₩ 126,730	₩ -	₩ -	6,390	(133,120)
		₩ 126,730	₩ -	₩ -	6,390	(133,120)	₩ -	₩ 257,498

¹ For the year ended December 31, 2023, the Company converted loans to investment, and capital was increased by ₩ 133,120 million (USD 100 million).

(in millions of Korean won)		2023				
		Borrowing transactions		Contributions in cash ²	Investment conversion ²	Acquisition of shares ³
Significant influence over the Company	Related party Hyosung Corporation	Borrowings ¹	Repayments ¹			
				₩ 151	₩ 12	₩ -
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.	-	-	257,498	133,120	-
		-	-	257,498	133,120	-
Other related parties	Shin Dong Jin Co., Ltd.	40	2,357	-	-	-
	Kongduk Development Co., Ltd.	47	279	-	-	-
		87	2,636	-	-	-
Others	Hyosung TNC Corporation	-	547	-	-	-
	KB Wise Star Professional Investment Private Real Estate Investment Trust #11	96	39	-	-	-
	Hyosung CVC Scale-Up Fund I ⁴	-	-	800	-	-
		96	586	800	-	-
		₩ 334	₩ 3,234	₩ 258,298	₩ 133,120	₩ 50,000

¹ The Company recognized additional lease liabilities amounting to ₩ 334 million, due to lease contract of the office as at December 31, 2023. The repayments of lease liabilities and interest expense amount to ₩ 3,234 million and ₩ 206 million, respectively, for the year ended December 31, 2023.

² The Company invested ₩ 257,498 million (USD 195million) to Hyosung Vina Chemicals Co., Ltd. and converted loans of ₩ 133,120 million (USD 100 million) to investment.

³ The Company received a capital increase with consideration from Hyosung Corporation on October 23, 2023. The number of issued shares is 601,685 shares and the issued amount is ₩ 50,000 million.

⁴ As at December 31, 2023, the Company has made a capital contribution of ₩ 800 million of the total committed amount of ₩ 5,000 million to Hyosung CVC Scale-Up Fund I. Additional capital contributions will be paid through capital call.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Fund transactions with related parties for the year ended December 31, 2022, are as follows:

(in millions of Korean won)		2022				
		Loan transactions				
	Related party	Beginning balance	Loans	Collections	Foreign currency valuation	Ending balance
Subsidiaries	Hyosung Vina Chemicals Co., Ltd. ¹	₩ -	₩ 133,410	₩ -	₩ (6,680)	₩ 126,730
		₩ -	₩ 133,410	₩ -	₩ (6,680)	₩ 126,730

¹ The Company loaned to Hyosung Vina Chemicals Co., Ltd. in the amount of ₩ 126,730 million (USD 100 million) for the year ended December 31, 2022.

(in millions of Korean won)		2022			
		Borrowing transactions		Contributions	Acquisition of
	Related party	Borrowings ¹	Repayments ¹	in cash	shares
Subsidiaries	Hyosung Film(Quzhou) Co., Ltd. ²	₩ -	₩ -	₩ 49,396	₩ -
		-	-	49,396	-
Other related parties	Shin Dong Jin Co., Ltd.	4,463	2,162	-	-
	Kongduk Development Co., Ltd.	521	258	-	-
		4,984	2,420	-	-
Others	Hyosung TNC Corporation	-	531	-	-
	KB Wise Star Professional Investment Private Real Estate Investment Trust #11	-	48	-	-
		-	579	-	-
		₩ 4,984	₩ 2,999	₩ 49,396	₩ -

¹ The Company recognized additional lease liabilities amounting to ₩ 4,984 million, due to lease contract of the office as at December 31, 2023. The repayments of lease liabilities and interest expense amount to ₩ 2,999 million and ₩ 252 million, respectively, for the year ended December 31, 2022.

² The Company contributed ₩ 23,764 million (USD 20 million) to Hyosung Film (Quzhou) Co., Ltd., 100% owned subsidiary which was newly established on January 14, 2022. The Company made an additional investment of ₩ 25,632 million (USD 20 million) to Hyosung Film (Quzhou) Co., Ltd., 100% owned subsidiary, on May 17, 2022.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The compensation paid or payable to key management who are executive directors for employee services for the years ended December 31, 2023 and 2022, consists of:

<i>(in millions of Korean won)</i>	2023		2022	
Salaries and other short-term employee benefits	₩	850	₩	673
Post-employment benefits		95		116
	₩	<u>945</u>	₩	<u>789</u>

Details of payment guarantees provided by the Company for related parties as at December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>		2023			
Related party	Payment guarantee	Details of payment guarantee	Details		
			Loan amount	Financial institutions	
Subsidiaries	Hyosung Vina Chemicals Co., Ltd.	₩ 1,742,881	Facility loan and others	₩ 1,301,052	Korea Development Bank and others
	Hyosung Film(Quzhou) Co., Ltd.	99,255	Facility loan and others	71,326	Hana Bank and others
		<u>₩ 1,842,136</u>		<u>₩ 1,372,378</u>	

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, 2023.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

21. Trade Payables and Other Payables

Trade payables and other payables as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Trade payables	₩	188,169	₩	241,969
Other payables(*)		226,831		116,216
Long-term other payables		14,075		13,594
	₩	<u>429,075</u>	₩	<u>371,779</u>

(*) Purchasing card usage for raw materials and others is included, and the Company makes payments to the credit card company at the end of the period of credit granting according to the credit card agreement. The Company has agreed with the supplier to use the purchasing card. Payment amounts to credit card company are classified as non-trade payables and expressed cash flows from operating activities since the original nature is to purchase goods or services in the normal course of business, the payment deadline for the credit card company is within the normal course of business of less than 6 months and no collateral is provided in relation to the agreement. Changes in liabilities related to the purchasing card for the year ended December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>	2023	
Beginning balance	₩	-
Change (cash flow from operating activities)		97,658
Ending balance	₩	<u>97,658</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Details of other payables as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Other payables				
Non-trade payables	₩	194,900	₩	84,893
Accrued expenses		30,421		29,951
Withholdings		1,458		1,315
Deposits received		52		57
		226,831		116,216
Long-term other payables				
Non-trade payables		2		2
Accrued expenses		1,239		1,072
Deposits received		12,834		12,520
		14,075		13,594
	₩	240,906	₩	129,810

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>	2023		2022	
Discount rate		1.20%~2.50%		1.20%~2.50%

The fair value of trade and other payables are similar to the book amount as at December 31, 2023.

22. Borrowings

Borrowings as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Short-term borrowings	₩	219,408	₩	266,279
Long-term borrowings		321,018		262,362
Debentures		490,370		467,430
		1,030,796		996,071
Less: current portion		(582,674)		(395,253)
	₩	448,122	₩	600,818

The Company provides a part of the Company's property, plant and equipment as collateral for the above borrowings. (Notes 7, 11 and 38)

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Details of carrying amount of short-term borrowings as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	Creditor	Latest maturity date	Annual interest rate (2023) (%)		2023		2022
Short-term borrowings denominated in Korean won							
General loan	Kookmin Bank and others	2024-08-24	4.73~5.65%	₩	59,900	₩	53,000
CP discount and others	EUGENE INVESTMENT & SECURITIES CO., LTD and others	2024-05-09	4.90~8.00%		94,000		140,000
Others	Hana Bank and others	2024-12-09	0.43~6.16%		22,025		2,497
Short-term borrowings denominated in foreign currency							
Borrowings on trade receivables sales ¹	Woori Bank and others				43,483		70,782
					₩ 219,408	₩	266,279

¹ The Company sells trade receivables in foreign currency to financial institutions and accounts for as collateralized borrowings for transactions in which the Company has recourse to pay the relevant amount to the bank when the sales customers go bankrupt. (Notes 7, 11 and 38)

Details of carrying amount of long-term borrowings as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	Creditor	Latest maturity date	Annual interest rate (2023) (%)		2023		2022
Long-term borrowings denominated in Korean won							
General loan	Korea Development Bank and others	2025-03-03	4.93~5.88%	₩	150,000	₩	92,000
Facility loan	Korea Development Bank and others	2027-01-18	4.53~4.66%		100,000		100,000
Long-term borrowings denominated in foreign currency							
General loan	The Export-Import Bank of Korea and others	2026-03-11	3.31~7.29%		71,017		70,362
					321,017	₩	262,362
Less: current portion					(169,453)	₩	(2,000)
					₩ 151,564	₩	260,362

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Details of carrying amount of debentures as at December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

		Latest maturity date	Annual interest rate (2023) (%)		2023		2022
Public bond	2-2	2024-05-10	3.03%	₩	50,000	₩	50,000
Public bond	3-2	2024-12-03	2.89%		54,000		54,000
Public bond	4-1	2023-02-17	2.47%		-		117,000
Public bond	4-2	2025-02-19	2.74%		67,000		67,000
Private bond	5	2023-09-22	2.42%		-		10,000
Private bond	6	2025-06-16	4.94%		50,000		50,000
Private bond	7	2025-08-25	4.95%		100,000		100,000
Private bond	8	2024-10-25	6.80%		20,000		20,000
Public bond	9-1	2024-07-26	6.06%		70,000		-
Public bond	9-2	2025-01-27	6.10%		50,000		-
Private bond	10	2026-02-27	5.58%		30,000		-
					491,000		468,000
Discount on debentures					(630)		(570)
Less: current portion					(193,812)		(126,975)
					₩ 296,558		₩ 340,455

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

23. Post-employment Benefits

Details of net defined benefit assets recognized in the statements of financial position as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Present value of defined benefit obligations	₩	65,667	₩	59,616
Fair value of plan assets ¹		<u>(70,833)</u>		<u>(70,850)</u>
Net defined benefit assets	₩	<u>(5,166)</u>	₩	<u>(11,234)</u>

¹ The contributions to the National Pension Fund of ₩ 23 million (2022: ₩ 31 million) are included in the fair value of plan assets as at December 31, 2023.

The amounts of defined benefit plan recognized in the statements of income for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Current service cost	₩	7,086	₩	8,282
Interest expense		3,031		1,956
Interest income		<u>(3,806)</u>		<u>(2,227)</u>
Total expense included in employee benefit	₩	<u>6,311</u>	₩	<u>8,011</u>

Line items including total expense of defined benefit plan in the statements of income for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Cost of sales	₩	4,147	₩	5,262
Selling, general and administrative expenses		2,077		2,633
Research and development expenses		<u>87</u>		<u>116</u>
	₩	<u>6,311</u>	₩	<u>8,011</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Movements in the defined benefit obligations for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Beginning balance	₩	59,616	₩	68,443
Current service cost		7,086		8,282
Interest expense		3,031		1,956
Benefit payments		(5,121)		(6,183)
Remeasurements:				
Change in demographic assumptions		(51)		-
Change in financial assumptions		1,307		(14,586)
Experience adjustments		(1,045)		629
Transfer from (to) associates		844		1,075
Ending balance	₩	65,667	₩	59,616

Movements in the fair value of plan assets for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Beginning balance	₩	70,850	₩	73,564
Interest income		3,806		2,227
Employer's contributions		-		-
Benefit payments		(4,485)		(5,538)
Remeasurements		(233)		(986)
Transfer from associates		895		1,583
Ending balance	₩	70,833	₩	70,850

Plan assets as at December 31, 2023 and 2022, consist of:

<i>(in millions of Korean won)</i>	2023		2022	
	Amount	Portion (%)	Amount	Portion (%)
Fixed interest financial instruments	₩ 45,812	₩ 64.7	₩ 36,581	₩ 51.7
Deposits and others	25,021	35.3	34,269	48.3
	₩ 70,833	₩ 100.0	₩ 70,850	₩ 100.0

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Remeasurements of net defined benefit liabilities recognized as other comprehensive income (expenses) for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Before income tax effects	₩	(444)	₩	12,971
Income tax effects		102		(3,139)
After income tax effects	₩	(342)	₩	9,832

Accumulated remeasurements of net defined benefit liabilities recognized as retained earnings is ₩ 246 million (2022: ₩ (95) million) as at December 31, 2023.

The significant actuarial assumptions as at December 31, 2023 and 2022, are as follows:

<i>(in percentage)</i>	2023	2022
Discount rate	4.53%	5.33%
Salary growth rate	2.68%	2.93%

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%	7.15% Decrease	8.28% Increase
Salary growth rate	1.0%	8.36% Increase	7.34% 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, 2024, are ₩ 6,637 million and the expected balance of plan assets is ₩ 74,443 million as at December 31, 2024.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The expected maturity analysis of undiscounted pension benefits as at December 31, 2023, is as follows:

<i>(in millions of Korean won)</i>		Less than 1 year		Between 1~2 years		Between 2~5 years		Over 5 years		Total
Pension benefits	₩	6,106	₩	8,623	₩	20,679	₩	87,888	₩	123,296

The weighted average duration of the defined benefit obligations is 8.89 years.

The expense recognized in the current period in relation to defined contribution plan was ₩ 1,313 million (2022: ₩ 1,336 million).

24. Tax Benefit and Deferred Tax

Income tax benefit for the years ended December 31, 2023 and 2022, consists of:

<i>(in millions of Korean won)</i>		2023		2022
Current tax				
Current tax on profit for the year	₩	-	₩	-
Claim for tax return and others		(77)		(6,218)
		<u>(77)</u>		<u>(6,218)</u>
Deferred tax				
Decrease in temporary differences		(25,607)		(29,635)
Effects of changes in tax rate		-		474
		<u>(25,607)</u>		<u>(29,161)</u>
Income tax benefit	₩	<u>(25,684)</u>	₩	<u>(35,379)</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

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

<i>(in millions of Korean won)</i>	2023		2022	
Loss before income tax expense	₩	(203,642)	₩	(130,533)
Tax benefit at Korea tax rates		(47,041)		(30,284)
Income tax effects:				
- Income not subject to tax		(481)		(20)
- Expenses not deductible for tax purposes		31,046		569
- Claim for tax return and others		478		(1,656)
- Effect of the tax system for recirculation of corporate income		-		(4,462)
- Others		(9,686)		474
Income tax benefit	₩	<u>(25,684)</u>	₩	<u>(35,379)</u>

The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2023 and 2022, is as follows:

<i>(in millions of Korean won)</i>	2023			2022		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of post-employment benefit obligation	₩ (444)	₩ 102	₩ (342)	₩ 12,971	₩ (3,139)	₩ 9,832
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	3	(1)	2	(27)	6	(21)
Surplus on revaluation of land	<u>196,252</u>	<u>(45,334)</u>	<u>150,918</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>₩ 195,811</u>	<u>₩ (45,233)</u>	<u>₩ 150,578</u>	<u>₩ 12,944</u>	<u>₩ (3,133)</u>	<u>₩ 9,811</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The analysis of deferred tax assets and deferred tax liabilities as at December 31, 2023 and 2022, is as follows:

<i>(in millions of Korean won)</i>	2023	2022
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	₩ 85,804	₩ 57,144
Deferred tax assets to be recovered within 12 months	4,960	6,611
	<u>90,764</u>	<u>63,755</u>
Deferred tax liabilities		
Deferred tax liabilities be recovered after more than 12 months	(71,542)	(27,064)
Deferred tax liabilities to be recovered within 12 months	(2,188)	(31)
	<u>(73,730)</u>	<u>(27,095)</u>
Deferred tax assets, net	<u>₩ 17,034</u>	<u>₩ 36,660</u>

The movements in the deferred income tax account for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Beginning balance	₩ 36,660	₩ 10,632
Tax charged to the income statements	25,607	29,161
Tax charged to components of other comprehensive income	(45,233)	(3,133)
Ending balance	<u>₩ 17,034</u>	<u>₩ 36,660</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The movement in deferred tax assets and liabilities for the years ended December 31, 2023 and 2022, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in millions of Korean won)

	2023			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Deferred tax liabilities				
Surplus on revaluation of land	₩ (10,673)	₩ 46	₩ (45,334)	₩ (55,961)
Defined benefit pension plan assets	(16,368)	257	(14)	(16,125)
Others	(55)	(1,590)	-	(1,645)
	<u>(27,096)</u>	<u>(1,287)</u>	<u>(45,348)</u>	<u>(73,731)</u>
Deferred tax assets				
Post-employment benefit obligation	13,823	1,176	117	15,116
Provision for receivables in excess of tax limit	570	645	-	1,215
Government grants	115	37	-	152
Loss on valuation of inventories	4,228	(1,879)	-	2,349
Impairment loss on property, plant and equipment	13,251	(368)	-	12,883
Accrued compensated absence	923	(9)	-	914
Long-term employment allowance	249	37	-	286
Unused tax losses	25,684	25,614	-	51,298
Others	4,913	1,641	(2)	6,552
	<u>63,756</u>	<u>26,894</u>	<u>115</u>	<u>90,765</u>
	<u>₩ 36,660</u>	<u>₩ 25,607</u>	<u>₩ (45,233)</u>	<u>₩ 17,034</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

(in millions of Korean won)

	2022			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Deferred tax liabilities				
Surplus on revaluation of land	₩ (11,133)	₩ 460	₩ -	₩ (10,673)
Defined benefit pension plan assets	(17,794)	4,564	(3,139)	(16,369)
Others	(865)	811	-	(54)
	<u>(29,792)</u>	<u>5,835</u>	<u>(3,139)</u>	<u>(27,096)</u>
Deferred tax assets				
Post-employment benefit obligation	16,306	(2,482)	-	13,824
Provision for receivables in excess of tax limit	-	570	-	570
Government grants	145	(30)	-	115
Loss on valuation of inventories	1,704	2,525	-	4,229
Impairment loss on property, plant and equipment	16,866	(3,616)	-	13,250
Accrued compensated absence	951	(27)	-	924
Long-term employment allowance	306	(57)	-	249
Unused tax losses	-	25,683	-	25,683
Others	4,146	760	6	4,912
	<u>40,424</u>	<u>23,326</u>	<u>6</u>	<u>63,756</u>
	<u>₩ 10,632</u>	<u>₩ 29,161</u>	<u>₩ (3,133)</u>	<u>₩ 36,660</u>

The Company recognize deferred income tax assets as the Company determined it is probable that there will be sufficient taxable profits before unused tax losses were expired. Meanwhile, 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 (liabilities) 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 (liabilities) amounting to ₩ (18,489) million (2022: ₩ 21,262 million) as at December 31, 2023.

Under the Pillar Two legislation scheduled to be effective from January 1, 2024, the Company is liable to pay a top-up tax for the difference between their effective tax rate per jurisdiction and the 15% minimum rate. However, although the average effective tax rate of a specific country is below 15%, the Company might not be exposed to paying Pillar Two income taxes. Therefore, even for those entities with an accounting effective tax rate above 15%, there may still be Pillar Two tax implications. The Company is in review for the impact of the Pillar Two income taxes on the financial statements.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

25. Other Liabilities

Details of other liabilities as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Other current liabilities				
Unearned revenues ¹	₩	2,561	₩	4,165
Provision for greenhouse gas emission ²		-		182
Provision for service warranties ³		1,208		3,260
Advances from customers ⁴		8,006		2,875
		11,775		10,482
Other non-current liabilities				
Unearned revenues		465		779
Provision for loss		10,105		10,423
Provision for restoration		61		58
		10,631		11,260
	₩	22,406	₩	21,742

¹ In relation to the performance obligation satisfied over time, contract liabilities of ₩ 2,561 million (2022: ₩ 4,165 million) are included.

² 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).

³ The Company estimates the costs expected to be paid in the future related to the return of sold finished goods and recognizes them as provisions.

⁴ In relation to the performance obligation satisfied at a point in time, contract liabilities of ₩ 4,176 million (2022: ₩ 186 million) are included.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Changes in provisions for the years ended December 31, 2023 and 2022, are as follows:

(in millions of Korean won)

	2023				
	Greenhouse gas emission	Loss	Restoration	Service warranties	Total
Beginning balance	₩ 182	₩ 10,423	₩ 58	₩ 3,260	₩ 13,923
Profit or loss:					
Additional provisions	(182)	(318)	3	(2,052)	(2,549)
(reversal)	-	(286)	20	(2,052)	(2,318)
Used during the year	(182)	(32)	(17)	-	(231)
Ending balance	₩ -	₩ 10,105	₩ 61	₩ 1,208	₩ 11,374
Current	₩ -	₩ -	₩ -	₩ 1,208	₩ 1,208
Non-current	-	10,105	61	-	10,166

(in millions of Korean won)

	2022				
	Greenhouse gas emission	Loss	Restoration	Service warranties	Total
Beginning balance	₩ 76	₩ 12,240	₩ 59	₩ -	₩ 12,375
Profit or loss:					
Additional provisions	106	(1,817)	(1)	3,260	1,548
Used during the year	182	2,669	3	3,260	6,114
(reversal)	(76)	(4,486)	(4)	-	(4,566)
Ending balance	₩ 182	₩ 10,423	₩ 58	₩ 3,260	₩ 13,923
Current	₩ 182	₩ -	₩ -	₩ 3,260	₩ 3,442
Non-current	-	10,423	58	-	10,481

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 3,791,811 shares with a par value of ₩ 5,000 per share. The Company resolved to increase capital with consideration on October 12, 2023 and issued 601,685 new shares.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

27. Retained Earnings (Accumulated Deficit)

Retained earnings (accumulated deficit) as at December 31, 2023 and 2022, consist of:

<i>(in millions of Korean won)</i>	2023		2022		Remark
Legal reserves	₩	1,907	₩	1,907	¹
Retained earnings before appropriation (undisposed accumulated deficit)		<u>(9,161)</u>		<u>171,213</u>	
	₩	<u>(7,254)</u>	₩	<u>173,120</u>	

¹ The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit. 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 disposition of accumulated deficit for the year ended December 31, 2023, is expected at the shareholders' meeting on March 14, 2024. The appropriation date for the year ended December 31, 2022, was March 16, 2023.

The appropriation of retained earnings (disposition of accumulated deficit) for the years ended December 31, 2023 and 2022, is as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Retained earnings available for appropriation (Accumulated deficit available for disposition)				
Unappropriated retained earnings carried over from prior year	₩	171,213	₩	256,535
Remeasurements of net defined benefit liabilities		(342)		9,832
Loss for the year		(177,957)		(95,154)
Interest payments for hybrid securities		<u>(2,075)</u>		<u>-</u>
		<u>(9,161)</u>		<u>171,213</u>
Appropriation of retained earnings		<u>-</u>		<u>-</u>
Unappropriated retained earnings (undisposed accumulated deficit) to be carried forward	₩	<u>(9,161)</u>	₩	<u>171,213</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

28. Other Components of Equity

Other components of equity as at December 31, 2023 and 2022, consist of:

<i>(in millions of Korean won)</i>	2023		2022	
Treasury shares ¹	₩	(1,843)	₩	(1,843)
Gain(loss) on valuation of financial assets at fair value through other comprehensive income		(6)		-
Revaluation surplus through other comprehensive income		150,918		-
Issuance of hybrid securities		100,000		(9)
	₩	<u>249,068</u>	₩	<u>(1,852)</u>

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

Details of hybrid securities as at December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>		Type	Issuance date	2023		2022	
The 1 st unregistered non-guarantee subordinated bond	Bond-type hybrid securities	2023.08.29	₩	70,000	₩	-	
The 2 nd unregistered non-guarantee subordinated bond	Bond-type hybrid securities	2023.09.06		30,000		-	
			₩	<u>100,000</u>	₩	<u>-</u>	

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The Company has issued unregistered non-guarantee subordinated bond for the purpose of capital enhancement and securing funds for debt repayment. The newly issued hybrid securities by the Company have been classified as equity as there is no contractual obligation to transfer financial assets to the counterparty. The main issuance conditions as of the end of this period are as follows:

	The 1st unregistered non-guarantee subordinated bond	The 2nd unregistered non-guarantee subordinated bond
Issuance date	2023.08.29	2023.09.06
Value at issue	₩ 70,000 million	₩ 30,000 million
Maturity date ¹	2053.08.29	2053.09.06
Interest payments	Interest will be paid at an annual rate of 8.30% for the first 2 years from the date of issue, 11.8% for the period after 2 years from the issuance date, 12.8% for the period after 5 years from the issuance date, and 13.8% for the period after 10 years from the issuance date.	
Suspension of interest payment	The issuing company may choose not to pay interest on bonds. In case the issuer delayed the payment of interest, the interest for deferral is deferred to the next interest payment date, and an additional interest that applied guaranteed yield-to-maturity compounded quarterly on the interest for deferral is occurred.	
Early redemption right	Early redemption right by a bond holder was prohibited. The issuing company may redeem all or part of this bond on each interest payment date after 2 years from the issuance date, or if all or part of this bond is no longer classified as the issuing company's capital due to the change of Korean IFRS or its interpretation after the bond issuance.	

¹ The maturity of the hybrid securities is 30 years. If the Company notifies the extension of the maturity date 30 days before the maturity date, the maturity can be extended for another 30 years under the same conditions.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

29. Revenue

Details of revenue for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Revenue from contracts with customers	₩	2,003,220	₩	2,278,852
Performance obligation satisfied at a point in time		1,942,051		2,149,955
Performance obligation satisfied over time		61,169		128,897
Revenue from other sources: rental and sub-lease rental income		8,664		8,560
	₩	2,011,884	₩	2,287,412

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, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Changes in inventories of finished goods and semi-finished goods and others	₩	50,670	₩	(19,196)
Sales of merchandise		59,608		73,205
Raw materials and sub-materials used		1,237,879		1,511,113
Employee benefits expenses (Note 31)		105,581		109,441
Depreciation and amortization		105,787		137,496
Electricity expense		174,754		139,167
Export expense		98,140		180,340
Fuel expense		22,421		25,952
Service expense		20,366		19,340
Outsourcing expense		4,915		5,648
Other expenses		198,328		209,197
Total ¹	₩	2,078,449	₩	2,391,703

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

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

31. Employee Benefits Expenses

Employee benefits expenses for the years ended December 31, 2023 and 2022, consist of:

<i>(in millions of Korean won)</i>	2023		2022	
Salaries	₩	87,197	₩	87,596
Employee welfare benefits		10,760		12,498
Pension costs – defined contribution plans (Note 23)		1,313		1,336
Pension costs – defined benefit plans (Note 23)		6,311		8,011
	₩	<u>105,581</u>	₩	<u>109,441</u>

32. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Salaries	₩	21,222	₩	21,995
Post-employment benefits		3,042		2,792
Employee welfare benefits		2,412		2,844
Training		643		577
Service expenses		348		3,075
Transportation		1,395		1,480
Communications		305		337
Taxes and dues		1,393		1,322
Rental expenses		219		248
Depreciation		3,032		3,059
Amortization		346		332
Bad debt expenses		2,749		2,589
Advertising expenses		733		1,005
Commission expenses		21,167		15,504
Export expenses		11,698		13,150
Others		7,053		4,913
	₩	<u>77,757</u>	₩	<u>75,222</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

33. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Other operating income		
Rental income	₩ 314	₩ 308
Gain on disposal of property, plant and equipment	290	2,129
Gain on disposal of leased assets	24	6
Miscellaneous gains	6,319	8,012
	<u>6,947</u>	<u>10,455</u>
Other operating expenses		
Donations	747	560
Loss on disposal of property, plant and equipment	3,787	2,233
Loss on disposal of lease assets	-	2
Miscellaneous expenses	2,044	1,995
Impairment loss on investments in subsidiaries	93,369	-
	<u>99,947</u>	<u>4,790</u>
	<u>₩ (93,000)</u>	<u>₩ 5,665</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

34. Finance Income and Expenses

Details of finance income and expenses for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Finance income		
Interest income		
- Financial assets at amortized costs	₩ 5,770	₩ 2,636
Gain on foreign currency transactions	32,218	42,133
Gain in foreign currency translation	24,366	45,208
Gain on derivative transactions	16,699	30,747
Gain on valuation of derivatives	2,089	489
Others	-	63
	<u>81,142</u>	<u>121,276</u>
Finance expenses		
Interest income		
- Financial liabilities at amortized costs	44,386	22,290
- Other financial liabilities	3,526	2,039
Loss on foreign currency transactions	31,084	55,458
Loss on foreign currency translation	20,073	49,268
Loss on derivative transactions	13,360	9,521
Loss on valuation of derivatives	3,075	9,231
Others	9,714	5,376
	<u>125,218</u>	<u>153,183</u>
	<u>₩ (44,076)</u>	<u>₩ (31,907)</u>

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

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

35. Loss Per Share

Basic loss per ordinary share is calculated as follows:

<i>(in millions of Korean won)</i>	2023	2022
Loss attributable to the ordinary equity holders ¹	₩ (180,032)	₩ (95,154)
Weighted average number of ordinary shares outstanding ²	3,270,108	3,177,795
Loss per share <i>(in Korean won)</i>	₩ (55,054)	₩ (29,943)

¹ It was calculated by deducting interest payments on hybrid capital securities from the Company's loss for the year.

² Weighted average number of ordinary shares outstanding for the year ended December 31, 2023 is 3,270,108 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 newly listed 601,685 shares on November 6, 2023.

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

36. Dividends

There are no dividends per share and a total dividend in respect of the years ended December 31, 2022 and 2021.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

37. Statement of Cash Flows

Details of cash generated from (used in) operations for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Loss before income tax	₩	(203,642)	₩	(130,533)
Adjustments for:				
Interest income and expenses		42,142		21,693
Gain (loss) on foreign currency translation		(4,294)		4,060
Provision for loss on valuation of inventories (reversal)		(8,060)		11,186
Valuation and scrap loss of inventories		1,462		1,315
Loss on derivative transactions and valuation of derivatives		(2,353)		(12,485)
Depreciation and amortization		102,148		137,498
Gain (loss) on disposal of property, plant and equipment, and intangible assets		3,497		104
Bad debt expense and other bad debt expense		2,750		2,589
Post-employment benefits		6,311		8,011
Impairment loss on investments in subsidiaries and associates		93,369		-
Others		9,458		21,946
Changes in operating assets and liabilities:				
Decrease (increase) in trade receivables		45,993		(1,771)
Decrease (increase) in inventories		56,634		(39,753)
Increase in other receivables		(3,051)		(2,155)
Increase in other assets		(7,506)		(11,999)
Increase (decrease) in trade payables		(56,973)		50,904
Increase (decrease) in other payables		92,347		(14,785)
Payment of defined benefit liabilities		(686)		(1,154)
Cash generated from operations	₩	<u>169,546</u>	₩	<u>44,671</u>

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

Changes in liabilities arising from financial activities for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023					
	Short-term borrowings	Current portion of long-term borrowings	Debentures	Long-term borrowings	Lease liabilities	Total
Beginning balance	₩ 266,279	₩ 128,975	₩ 340,455	₩ 260,362	₩ 8,597	₩ 1,004,668
Cash flows	(48,101)	(129,000)	149,293	60,000	(3,835)	28,357
Gain on foreign currency translation	1,230	-	-	656	-	1,886
Amortization of discount on debentures	-	-	648	-	-	648
Effect of non-cash transactions	-	363,291	(193,838)	(169,453)	1,091	1,091
Ending balance	₩ 219,408	₩ 363,266	₩ 296,558	₩ 151,565	₩ 5,853	₩ 1,036,650

<i>(in millions of Korean won)</i>	2022					
	Short-term borrowings	Current portion of long-term borrowings	Debentures	Long-term borrowings	Lease liabilities	Total
Beginning balance	₩ 83,595	₩ 242,881	₩ 297,436	₩ 2,000	₩ 6,428	₩ 632,340
Cash flows	181,446	(223,000)	169,674	240,235	(3,783)	364,572
Gain on foreign currency translation	1,238	-	-	127	-	1,365
Amortization of discount on debentures	-	-	439	-	-	439
Effect of non-cash transactions	-	109,094	(127,094)	18,000	5,952	5,952
Ending balance	₩ 266,279	₩ 128,975	₩ 340,455	₩ 260,362	₩ 8,597	₩ 1,004,668

Details of major transactions without cash inflows and outflows for the years ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Transfer of borrowings and bonds to current portion	₩ 363,291	₩ 109,094
Investment conversion of loan for investment in subsidiaries	133,120	-
Transfer of construction in progress	20,457	32,398
Acquisition of right-of-use assets	5,561	6,168

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

38. Contingencies and Commitments

(1) There are no notes provided as collateral as at December 31, 2023.

(2) Commitment contracted with financial institutions

The Company entered into agreements such as bank overdrafts, trade bill discounts, open L/C, general loans and others with financial institutions with a limit of ₩ 937,506 million. Also, the Company entered into trade receivables discount agreements with a limit of ₩ 3,190 million as at December 31, 2023.

(3) Guarantees provided for others

The Company has provided payment guarantees in relation to Hyosung Vina Chemicals Co., Ltd., a subsidiary, amounting to ₩ 1,742,881 million (USD 1,351,700 thousand).

The Company shall ensure Debt-Equity Ratio under 400% regarding USD 521 million of 1st syndicated loans. For USD 521 million of 1st syndicated loans, the Company has an obligation to supplement the additional financing in case of non-compliance with following covenants:

1st Syndicated loans	Covenants	Year	Ratio
USD 521 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

The Company shall ensure Debt-Equity Ratio under 400% regarding USD 186 million of 2nd syndicated loans.

2nd Syndicated loans	Covenants	Year	Ratio
USD 186 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

The Company shall ensure Debt-Equity Ratio under 400% regarding USD 82 million of other operating funds.

In 2023, regarding USD 707 million of syndicated loans, the Company violated the maintenance of the subsidiaries' net debt/EBITDA ratio as at December 31, 2023, but received the waiver consents from the lender in relation to this violation.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The Company has provided payment guarantees in relation to Hyosung Film (Quzhou) Co., Ltd., a subsidiary, amounting to ₩ 99,255 million (USD 9,600 thousand, EUR 19,320 thousand, CNY 328 million).

(4) Guarantees provided by others

Details of payment guarantees provided by others as at December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>	Guaranteed amount		Details
Kookmin Bank	₩	50,480	Performance guarantee and others
Nonghyup Bank		38,682	Performance guarantee and others
Woori Bank		38,682	Performance guarantee and others
Shinhan Bank		26,433	Performance guarantee and others
Hana Bank		25,788	Performance guarantee and others
Seoul Guarantee Insurance Company		86,951	Defect warranty according to supply contract and others
	<u>₩</u>	<u>267,016</u>	

(5) Assets pledged as collaterals

Details of assets pledged as collaterals as at December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>	Related borrowings		Executed amount of agreement		Provided to
Property, plant and equipment ¹	₩	420,000	₩	167,900	Korea Development Bank
Property, plant and equipment ¹		84,000		20,000	Woori Bank
Property, plant and equipment ¹		84,000		69,000	Nonghyup Bank
Property, plant and equipment ¹		55,000		20,800	Shinhan Bank
Trade receivables		47,251		47,251	Woori Bank and others
	<u>₩</u>	<u>690,251</u>	<u>₩</u>	<u>324,951</u>	

¹ In addition to borrowings, property, plant and equipment are also collateralized in relation to other agreements such as trade finance and comprehensive limits.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

(6) Pending lawsuits

Details of lawsuits filed against and by the Company as at December 31, 2023, are as follows:

<i>(in millions of Korean won)</i>	Number of cases	Litigation value	Details
Defendant's case	1	₩ 100	Claims for indemnity

As at December 31, 2023, the results of the above pending lawsuits cannot be predicted, and accordingly, possible adjustments due to such uncertainty were not reflected on the financial statements of the Company.

(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 530-3 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.

(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, 2023, are as follows:

		2023
Contract amount	₩	149,070
Amount paid		148,132
Amount payable		660

(9) Right of pledge

Kodit 2022 The 15th Securitization Specialty Co.,Ltd. entirely acquired 7th P-CBO non-guarantee private bonds issued by the Company and issued asset-backed securities. The Company acquired KRW 1,500 million of the subordinated bonds issued by Kodit2022 The15th Securitization Specialty Co.,Ltd. Kodit2022 The15th Securitization Specialty Co.,Ltd., has established a pledge for the entire amount of the corresponding bonds.

Kodit 2023 The 1st Securitization Specialty Co., Ltd. entirely acquired 10th P-CBO non-guarantee private bonds issued by the Company and issued asset-backed securities. The Company acquired KRW 450 million of the subordinated bonds issued by Kodit 2023 The 1st Securitization Specialty Co., Ltd. Kodit 2023 The 1st Securitization Specialty Co., Ltd. has established a pledge for the entire amount of the corresponding bonds.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

(10)Other agreements

The Company has an obligation to make additional investments in Hyosung CVC Scale-Up Fund I according to the agreement. As at December 31, 2023, the Company plans to pay an additional remaining agreed amount of ₩ 4,200 million through a capital call.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

39. Greenhouse Gas Emission Permits and Obligation

The quantities of emission permits which are allocated free of charge for the 3rd planning period (2023~2025) are as follows.

<i>(in tCO₂-eq)</i>	2023	2024	2025	Total
Allocation with nil consideration	860,616	852,555	852,555	2,565,726

The Company's free allocation of emission rights and the estimated quantity of greenhouse gas emission as at December 31, 2023, are as follows:

<i>(in tCO₂-eq, in millions of Korean won)</i>	2023					
	2022		2023		2024 ~ 2025	
	Quantity	Amount³	Quantity	Amount³	Quantity	Amount³
Beginning balance	-	₩ -	-	₩ -	-	₩ -
Free allocation	860,616	-	860,616	-	1,705,110	-
Additional allocation	194	-	-	-	-	-
Provision	-	-	-	-	-	-
Purchases ¹	1,423	14	-	-	-	-
Submission to the government ²	(862,233)	(14)	(859,746)	-	-	-
Carryforward	-	-	-	-	-	-
Ending balance	-	₩ -	870	₩ -	1,705,110	₩ -

¹ The actual quantity of emissions purchased is written for 2022. The emission rights purchased by the Company is 1,423 tCO₂-eq for the year ended December 31, 2023.

² The actual quantity of emissions submitted is written for 2022, and the expected quantity of emissions to submit is written for 2023. The expected emissions as at December 31, 2023 is 859,746 tCO₂-eq.

³ The amounts of emission rights purchased are included in other intangible assets.

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

The Company's free allocation of emission rights and the estimated quantity of greenhouse gas emission as at December 31, 2022, are as follows:

<i>(in tCO2-eq, in millions of Korean won)</i>	2022					
	2021		2022		2023 ~ 2025	
	Quantity	Amount ³	Quantity	Amount ³	Quantity	Amount ³
Beginning balance	-	₩ -	-	₩ -	-	₩ -
Free allocation	860,616	-	860,616	-	2,565,726	-
Additional allocation	3	-	1,829	-	-	-
Provision	-	-	-	-	-	-
Purchases ¹	4,077	54	-	-	-	-
Submission to the government ²	(865,105)	(61)	(873,791)	(182)	-	-
Carryforward	409	7	-	-	-	-
Ending balance	-	₩ -	(11,346)	₩ (182)	2,565,726	₩ -

¹ The actual quantity of emissions purchased is written for 2021. The emission rights purchased by the Company is 4,077 tCO2-eq for the year ended December 31, 2022.

² The actual quantity of emissions submitted is written for 2021, and the expected quantity of emissions to submit is written for 2023. The expected emissions as at December 31, 2022 is 873,791 tCO2-eq.

³ The amounts of emission rights purchased are included in other intangible assets.

Changes in provisions for the year ended December 31, 2023 and 2022, are as follows:

<i>(in millions of Korean won)</i>	2023		2022	
Beginning balance	₩	182	₩	76
Profit or loss:		(182)		106
Additional provisions		-		182
Used during the year		(182)		(76)
Ending balance	₩	-	₩	182
Current	₩	-	₩	182
Non-current		-		-

Hyosung Chemical Corporation
Notes to the Separate Financial Statements
December 31, 2023 and 2022

40. Events After the Reporting Period

Decision to issue private bond

The Company decided to issue bond-type hybrid securities to Hyosung Corporation, the Company's largest shareholder, on January 31, 2024. And the issuance was completed on February 22, 2024. The total par value of the bond is ₩ 100,000 million (interest rate 8.30%).



Independent Auditor's Report on 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, 2023, 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, 2023, 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, 2023, and the separate income statements, 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 6, 2024 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 directors of the Company; 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 Seongpil Hwang, Certified Public Accountant.

Seoul, Korea
March 6, 2024

This report is effective as at March 6, 2024, 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, 2023.

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, 2023, 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 31, 2024

Kun-jong Lee,
Chief Executive Officer



Bo-young Yoon,
Internal Control over Financial Reporting Officer

