

Youngone Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2014 and 2013

Page(s)

Consolidated Financial Statements

Consolidated Statements of Financial Position.....	1
Consolidated Statements of Income	2
Consolidated Statements of Comprehensive Income	3
Consolidated Statements of Changes in Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements.....	6 - 59

Youngone Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2014 and 2013

<i>(in Korean won)</i>	Notes	2014	2013
Assets			
Current assets			
Cash and cash equivalents	4,7,8,9 ₩	201,820,448,710 ₩	165,387,042,051 ₩
Short-term financial assets	4,7,8	33,963,613,879	56,198,249,497
Accounts receivable	4,7,8,11	163,541,595,034	152,087,650,385
Inventories	14	215,052,088,521	172,146,125,236
Other receivables	4,7,12	38,479,320,188	32,129,077,110
Other current assets	13	33,769,867,855	31,406,595,741
		<u>686,626,934,187</u>	<u>609,354,740,020</u>
Non-current assets			
Long-term financial assets	4,7,8	12,000,000	12,000,000
Available-for-sale financial assets	5,7,10	51,780,526,719	42,786,854,886
Investments in associate and jointly controlled entities	6,19	57,942,989,673	57,924,467,751
Property, plant and equipment	15	513,911,629,034	407,416,896,928
Intangible assets	16	18,106,598,690	3,445,807,947
Investment property	17	52,849,526,404	78,561,302,580
Other receivables	4,7,12	8,967,012,318	9,065,339,003
Other non-current assets	13	2,892,715,976	3,708,209,455
Deferred income tax assets	24	1,006,523,150	-
		<u>707,469,521,964</u>	<u>602,920,878,550</u>
Total assets		<u>₩ 1,394,096,456,151</u>	<u>₩ 1,212,275,618,570</u>
Liabilities			
Current liabilities			
Accounts payable	4,7,20 ₩	87,842,821,343 ₩	56,486,080,313 ₩
Borrowings	4,7,22	44,249,734,641	33,039,174,549
Current income tax liabilities		10,220,152,219	10,113,411,091
Provisions for other liabilities and charges		4,696,969,419	2,998,301,267
Other payables	4,7,20	35,453,895,822	37,512,591,770
Other current liabilities	21	6,769,295,839	2,688,673,788
		<u>189,232,869,283</u>	<u>142,838,232,778</u>
Non-current liabilities			
Debentures	4,7,22	49,879,433,518	49,832,915,703
Borrowings	4,7,22	16,488,000,000	13,000,000,000
Net defined benefit liability	23	1,867,237,275	1,075,282,351
Deferred income tax liabilities	24	123,359,945,105	103,279,038,042
Other payables	4,7,20	999,411,449	257,378,337
		<u>192,594,027,347</u>	<u>167,444,614,433</u>
Total liabilities		<u>381,826,896,630</u>	<u>310,282,847,211</u>
Equity attributable to owners of the Parent			
Capital stock	1,25	22,155,734,000	22,155,734,000
Capital surplus	25	453,267,231,054	453,267,231,054
Retained earnings	27	559,657,583,782	440,396,644,354
Other components of equity	26	(62,908,455,545)	(64,378,617,155)
		<u>972,172,093,291</u>	<u>851,440,992,253</u>
Non-controlling interest	37	<u>40,097,466,230</u>	<u>50,551,779,106</u>
Total equity		<u>1,012,269,559,521</u>	<u>901,992,771,359</u>
Total liabilities and equity		<u>₩ 1,394,096,456,151</u>	<u>₩ 1,212,275,618,570</u>

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

Youngone Corporation and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2014 and 2013

<i>(in Korean won)</i>	Notes	2014	2013
Revenue	6	₩ 1,246,335,949,859	₩ 1,108,226,793,501
Cost of sales	30	<u>908,878,142,964</u>	<u>825,529,088,208</u>
Gross profit		337,457,806,895	282,697,705,293
Selling and administrative expenses	28,30	<u>151,956,227,121</u>	<u>121,909,659,587</u>
Operating profit	6	185,501,579,774	160,788,045,706
Other income	29	32,634,929,585	31,434,857,033
Other expenses	29	35,854,984,283	32,257,870,535
Finance income	7,32	3,349,038,416	4,237,874,153
Finance costs	7,32	4,015,853,525	2,958,631,500
Gain on investments in associates and jointly cor	19	5,565,430,544	3,192,959,941
Loss on investments in associates and jointly cor	19	<u>2,501,164,251</u>	<u>1,635,719,825</u>
Profit before income tax		184,678,976,260	162,801,514,973
Income tax expense	33	<u>41,361,273,822</u>	<u>40,872,152,466</u>
Profit for the year		<u>₩ 143,317,702,438</u>	<u>₩ 121,929,362,507</u>
Profit attributable to:			
Owners of the parent		128,123,175,228	110,503,183,991
Non-controlling interests		15,194,527,210	11,426,178,516
Earnings per share attributable to the equity holders of the company			
Basic earnings per share	34	₩ 2,891	₩ 2,513

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

Youngone Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2014 and 2013

<i>(in Korean won)</i>	Note	2014	2013
Profit for the year		<u>₩ 143,317,702,438</u>	<u>₩ 121,929,362,507</u>
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liability		(1,823,331,133)	(194,580,160)
Items that will be reclassified to profit or loss			
Change in value of available-for-sale financial assets		6,817,203,250	(10,757,943,077)
Currency translation differences		22,728,386,512	180,837,460
Valuation of investments in associates and jointly controlled entities	19	<u>(3,045,747,062)</u>	<u>(1,755,967,949)</u>
Other comprehensive income (loss) for the year, net of tax		<u>24,676,511,567</u>	<u>(12,527,653,726)</u>
Total comprehensive income for the year		<u>₩ 167,994,214,005</u>	<u>₩ 109,401,708,781</u>
Attributable to:			
Shareholders of the Company		₩ 150,655,594,070	₩ 97,694,565,677
Non-controlling interest		<u>17,338,619,935</u>	<u>11,707,143,104</u>
Total comprehensive income for the year		<u>₩ 167,994,214,005</u>	<u>₩ 109,401,708,781</u>

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

Youngone Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2014 and 2013

(in Korean won)

	Note	Attributable to equity holders of the Company					Non-controlling Interest	Total Equity
		Capital Stock	Capital Surplus	Retained Earnings	Other Components of Equity	Total		
Balance at January 1, 2013		₩ 20,405,734,000	₩ 334,814,957,228	₩ 338,055,696,163	₩ (51,569,998,841)	₩ 641,706,388,550	₩ 38,844,636,002	₩ 680,551,024,552
Total comprehensive income								
Profit for the year		-	-	110,503,183,991	-	110,503,183,991	11,426,178,516	121,929,362,507
Change in value of available-for-sale financial assets		-	-	-	(10,757,943,077)	(10,757,943,077)	-	(10,757,943,077)
Currency translation differences		-	-	-	(100,127,128)	(100,127,128)	280,964,588	180,837,460
Share of other comprehensive income of jointly controlled entity	19	-	-	-	(1,755,967,949)	(1,755,967,949)	-	(1,755,967,949)
Remeasurements of net defined benefit liability		-	-	-	(194,580,160)	(194,580,160)	-	(194,580,160)
Total transactions with owners of the Company, recognized directly in equity								
Stock issuance		1,750,000,000	118,452,273,826	-	-	120,202,273,826	-	120,202,273,826
Dividend to equity holders of the company		-	-	(8,162,235,800)	-	(8,162,235,800)	-	(8,162,235,800)
Balance at December 31, 2013		₩ 22,155,734,000	₩ 453,267,231,054	₩ 440,396,644,354	₩ (64,378,617,155)	₩ 851,440,992,253	₩ 50,551,779,106	₩ 901,992,771,359
Balance at January 1, 2014		₩ 22,155,734,000	₩ 453,267,231,054	₩ 440,396,644,354	₩ (64,378,617,155)	₩ 851,440,992,253	₩ 50,551,779,106	₩ 901,992,771,359
Total comprehensive income								
Profit for the year		-	-	128,123,175,228	-	128,123,175,228	15,194,527,210	143,317,702,438
Change in value of available-for-sale financial assets		-	-	-	6,817,203,250	6,817,203,250	-	6,817,203,250
Currency translation differences		-	-	-	20,584,293,787	20,584,293,787	2,144,092,725	22,728,386,512
Share of other comprehensive income of jointly controlled entity	19	-	-	-	(3,045,747,062)	(3,045,747,062)	-	(3,045,747,062)
Remeasurements of net defined benefit liability		-	-	-	(1,823,331,133)	(1,823,331,133)	-	(1,823,331,133)
Total transactions with owners of the Company, recognized directly in equity								
Dividend to equity holders of the company		-	-	(8,862,235,800)	-	(8,862,235,800)	-	(8,862,235,800)
Changes in scope of consolidation		-	-	-	-	-	2,399,634,167	2,399,634,167
Changes in controlling interests in subsidiaries		-	-	-	(21,062,257,232)	(21,062,257,232)	(30,192,566,978)	(51,254,824,210)
Balance at December 31, 2014		₩ 22,155,734,000	₩ 453,267,231,054	₩ 559,657,583,782	₩ (62,908,455,545)	₩ 972,172,093,291	₩ 40,097,466,230	₩ 1,012,269,559,521

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

Youngone Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

<i>(in Korean won)</i>	Note	2014	2013
Cash flows from operating activities			
Cash generated from operations	35 ₩	217,859,303,782	₩ 134,234,615,349
Interest received		2,704,115,220	2,980,300,632
Interest paid		(3,923,132,172)	(2,936,168,653)
Dividends received		706,847,323	630,320,497
Income tax paid		<u>(22,645,297,401)</u>	<u>(32,941,376,478)</u>
Net cash generated from operating activities		<u>194,701,836,752</u>	<u>101,967,691,347</u>
Cash flows from investing activities			
Increase in short-term financial assets		-	(45,000,000,000)
Decrease in short-term financial assets		22,234,635,618	20,500,000,000
Short-term loans (repayments)/proceeds , net		(2,251,469,205)	9,390,896,256
Proceeds from sale of property, plant and equipment	15	13,344,764,777	3,380,669,492
Collection of long-term loans		-	838,704,955
Acquisition of property, plant and equipment	15	(117,296,490,796)	(109,339,664,181)
Purchases of investment property	17	-	(3,938,873,590)
Purchases of intangible assets	16	(625,158,335)	(333,064,422)
Disposal of intangible assets	16	12,561,947	-
Decrease in guarantee deposits		1,237,334,554	329,100,000
Increase in guarantee deposits		(789,195,386)	(258,121,000)
Purchases of available-for-sale financial assets		(789,690,000)	(42,910,000)
Proceeds from sale of available-for-sale financial assets		736,549,743	40,358,704
Purchase of investments in jointly controlled entities	19	-	(1,182,390,000)
Acquisition of investments in associate	19	-	(45,812,000,000)
Settlement of derivatives		-	(764,250,000)
Acquisition of subsidiaries		<u>(8,762,879,697)</u>	<u>-</u>
Net cash used in investing activities		<u>(92,949,036,780)</u>	<u>(172,191,543,786)</u>
Cash flows from financing activities			
Short-term borrowings (repayments)/proceeds , net		(14,867,946,387)	(20,129,509,817)
Proceeds from long-term borrowings		15,991,500,000	-
Repayments of long-term borrowings		(9,037,712,464)	-
Proceeds from stock issuance		-	120,202,273,826
Dividends to equity holders of the Company		(8,862,235,800)	(8,162,235,800)
Acquisition of non-controlling interest		<u>(51,254,824,210)</u>	<u>-</u>
Net cash generated from (used in) financing activities		<u>(68,031,218,861)</u>	<u>91,910,528,209</u>
Exchange gains (losses) on cash and cash equivalents		<u>2,711,825,548</u>	<u>(1,326,405,918)</u>
Net increase in cash and cash equivalents		<u>36,433,406,659</u>	<u>20,360,269,852</u>
Cash and cash equivalents at beginning of year		<u>165,387,042,051</u>	<u>145,026,772,199</u>
Cash and cash equivalents at the end of year		<u>₩ 201,820,448,710</u>	<u>₩ 165,387,042,051</u>

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

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

1. General Information

Youngone Corporation (the "Company") is a controlling company in accordance with the Korean IFRS 1110, "Consolidated financial statements". The Company and its 36 subsidiaries (collectively referred to as "the Group") including YOUNGONE (CEPZ) LTD. ("YCL"), are subject to consolidation and three of them, including GREEN GROUND LTD., are subject to the equity method of accounting in the preparation of the consolidated financial statements.

1.1 The Company

The Company was established on July 1, 2009, through the spin-off from Youngone Holdings Co., Ltd.'s distribution and garments manufacturing business. On July 30, 2009, the Company was listed on the Korea Exchange.

As of December 31, 2014, the Company is headquartered in Jung-gu, Seoul, and the Company has its subsidiaries in Bangladesh and China, and distribution centers and sales offices in Seoul, Gyeonggi Province and other regions.

The Company issued Global Depository Receipts(GDR) through the stock issuance on February 14, 2013, and the Company's capital stock as of December 31, 2014, is ₩ 22,155,734 thousand (2013: ₩ 22,155,734 thousand), and the Company's shareholders and their respective percentage of ownership as of December 31, 2014, are as follows:

	Number of shares	Percentage of ownership (%)	Remark
Youngone Holdings Co., Ltd.	22,386,320	50.52	Majority shareholder
Others	21,925,148	49.48	Others
	<u>44,311,468</u>	<u>100.00</u>	

1.2 Subsidiaries

The Group consolidated subsidiaries as of December 31, 2014, are as follows:

(in thousands of Korean won)

Subsidiaries	Number of investment shares			Percentage of ownership (%) ³⁸	Closing month	Location
	Parents	Subsidiaries	Total			
YCL ¹	893,501	888,510	1,782,011	91.61%	December	Bangladesh
YSL ²	402,550	465,410	867,960	90.79%	December	Bangladesh
LSL ³	773,119	-	773,119	100.00%	December	Bangladesh
TSL ⁴	821,439	-	821,439	100.00%	December	Bangladesh
KSL ⁵	41,607	63,457	105,064	94.93%	December	Bangladesh
YHT ^{6, 40}	316,214	-	316,214	73.00%	December	Bangladesh
SSL ⁷	39,944	-	39,944	100.00%	December	Bangladesh
YPL ⁸	514,684	-	514,684	100.00%	December	Bangladesh
YGA ⁹	199,594	-	199,594	100.00%	December	Bangladesh
SEL ¹⁰	-	346,802	346,802	100.00%	December	Bangladesh
SDF ¹¹	619,759	-	619,759	100.00%	December	Bangladesh

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(in thousands of Korean won)

Subsidiaries	Number of investment shares			Percentage of ownership (%) ³⁸	Closing month	Location
	Parents	Subsidiaries	Total			
YSF ¹²	199,892	253,830	453,722	100.00%	December	Bangladesh
STL ¹³	1,706,256	-	1,706,256	100.00%	December	Bangladesh
YSS ¹⁴	2,143,929	253,830	2,397,759	99.11%	December	Bangladesh
YSA ¹⁵	853,980	-	853,980	100.00%	December	Bangladesh
AAL ¹⁶	-	2,499,998	2,499,998	100.00%	December	Bangladesh
KSI ¹⁷	-	99,998	99,998	100.00%	December	Bangladesh
SWL ¹⁸	-	3	3	100.00%	December	Bangladesh
SLS ¹⁹	771,000	-	771,000	100.00%	December	Bangladesh
YSP ^{20,37}	-	-	-	100.00%	December	China
GMC ^{21,37}	-	-	-	100.00%	December	China
QMS ^{22,37}	-	-	-	100.00%	December	China
YBP ^{23,37}	-	-	-	100.00%	December	China
YNL ^{24,37}	-	-	-	100.00%	December	Vietnam
SKL ^{25,37}	-	-	-	100.00%	December	Vietnam
YBL ^{26,37}	-	-	-	100.00%	December	Vietnam
YHL ^{27,37}	-	-	-	100.00%	December	Vietnam
YLS ²⁸	760,000	-	760,000	100.00%	December	El Salvador
ESL ²⁹	390,000	-	390,000	100.00%	December	Hong Kong
DTL ³⁰	10,000	-	10,000	100.00%	December	Thailand
YOA ³¹	950,000	-	950,000	100.00%	December	USA
MSH ^{32,39}	9,000,000	-	9,000,000	100.00%	December	USA
OR ^{33,39}	-	800	800	80.00%	December	USA
YTL ^{34,37}	-	-	-	100.00%	December	Turkey
						United Kingdom of England
AAI ^{35,41}	20,000,000	30,000,000	50,000,000	94.60%	December	
YSQ ^{36,37,39}	-	-	-	100.00%	December	Uzbekistan

¹ YOUNGONE (CEPZ) LTD.

² YOUNGONE SPORTSWEAR (CEPZ) LTD.

³ LALMAI SPORTSWEAR INDUSTRIES LTD.

⁴ TITAS SPORTSWEAR INDUSTRIES LTD.

⁵ KARNAPHULI SPORTSWEAR INDUSTRIES LTD.

⁶ YOUNGONE HI-TECH SPORTSWEAR INDUSTRIES LTD.

⁷ SAVAR SPORTSWEAR CO., LTD.

⁸ YOUNGONE PADDING (CEPZ) LTD.

⁹ YOUNGONE GARMENT ACCESSORIES INDUSTRIES LTD.

¹⁰ SHINHAN EMULSION CO., LTD.

¹¹ SAVAR DYEING & FINISHING INDUSTRIES LTD.

¹² YOUNGONE SYNTHETIC FIBRE PRODUCTS INDUSTRIES LTD.

¹³ SUNGNAM TEXTILES MILLS LTD.

¹⁴ YOUNGONE SPORTS SHOES INDUSTRIES LTD.

¹⁵ YOUNGONE SHOES ACCESSORIES INDUSTRIES LTD.

¹⁶ ARIRANG AVIATION LTD.

¹⁷ KARNAPHULI SHOES INDUSTRIES LTD.

¹⁸ SURMA GARMENT WASHING & FINISHING CO., LTD.

¹⁹ SUNGNAM LEATHER AND SPORTS PRODUCT INDUSTRIES LTD.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

²⁰ QINGDAO YOUNGONE SPORTS PRODUCTS CO., LTD.

²¹ QINGDAO YOUNGONE SPORTSWEAR CO., LTD

²² QINGDAO MAN BOK SPORTSWEAR CO., LTD.

²³ QINGDAO YOUNGONE BROAD PEAK TRADING CO., LTD.

²⁴ YOUNGONE NAM DINH CO., LTD.

²⁵ SUNGNAM KNITTING MILLS CO., LTD.

²⁶ YOUNGONE BAC GIANG CO., LTD.

²⁷ YOUNGONE HUNGYEN CO.,LTD.

²⁸ YOUNGONE (EL SALVADOR) S.A DE C.V.

²⁹ EVER SUMMIT (HK) LTD.

³⁰ DONGNAMA TRADING CO., LTD.

³¹ YOUNGONE AMERICA INC.

³² MOUNTAIN SUMMIT HOLDINGS, LTD.

³³ OUTDOOR RESEARCH, LLC.

³⁴ YOUNGONE (ISTANBUL) APPAREL SANAYI VE TICARET LTD. SIRKETI

³⁵ ARIRANG AVIATION (IOM) LTD.

³⁶ YOUNGONE SAMARKAND LLC.

³⁷ This subsidiary either does not issue the stock certificates or is not a stock corporation. Thus, there is no stock.

³⁸ Based on consolidated shareholding ratio.

³⁹ Incorporated into scope of a consolidation during the current year.

⁴⁰ The Group acquired additional 26.71% shares of YHT during the current year (Note 37).

⁴¹ Ownership interest changed as YHT acquired 20% ownership interests of AAI through the stock issuance (Note 37).

1.3 Summary of Financial information of Subsidiaries

The summarized information of subsidiaries as of and for the years ended December 31, 2014 and 2013, follows:

(in thousands of Korean won)

Subsidiaries	2014					
	Assets	Liabilities	Equity	Sales	Profit for the year (loss)	Total comprehensive income(loss)
YCL	₩155,074,464	₩ 54,279,843	₩100,794,621	₩ 173,359,325	₩ 22,242,461	₩ 25,533,005
YSL	20,967,797	42,864	20,924,933	-	104	652,619
LSL	76,937,819	48,814,446	28,123,373	63,446,450	8,136,087	9,066,995
TSL	165,605,771	79,472,781	86,132,990	84,150,788	9,510,651	12,259,615
KSL	76,555,094	24,055,554	52,499,540	92,572,674	9,520,816	11,221,037
YHT	96,483,774	22,890,754	73,593,020	127,857,377	19,297,276	21,720,059
SSL	32,781,878	636,687	32,145,191	30,090,802	6,249,253	7,293,071
YPL	15,211,183	1,766,503	13,444,680	5,380,798	1,249,852	1,677,388
YGA	13,566,791	1,442,106	12,124,685	6,918,476	1,363,566	1,750,694
SEL	5,051,858	1,514,671	3,537,187	3,787,730	474,570	588,017
SDF	14,831,507	11,012,988	3,818,519	15,867,853	559,197	681,978
YSF	12,857,406	941,565	11,915,841	9,574,224	1,384,861	1,765,617
STL	8,806,701	5,831,752	2,974,949	5,188,305	(250,077)	(158,965)
YSS	50,775,951	21,851,255	28,924,696	73,051,645	4,678,838	5,611,821
YSA	17,741,609	1,361,499	16,380,110	16,889,401	2,308,597	2,834,687
AAL	4,413,039	746,096	3,666,943	696,997	1,095	115,451
KSI	110,812,633	120,408,944	(9,596,311)	42,749,331	(2,804,635)	(3,122,470)
SWL	1,943,845	612,704	1,331,141	478,746	118,425	160,720
SLS	114,668	6,269	108,399	-	(199)	3,180

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Subsidiaries	Assets	Liabilities	Equity	Sales	Profit for the year (loss)	Total comprehensive income(loss)
YSP	49,091,671	14,343,872	34,747,799	56,671,850	2,672,305	3,256,259
GMC	27,225,791	4,094,857	23,130,934	33,378,118	1,743,692	2,131,768
QMS	16,683,596	3,951,920	12,731,676	12,831,056	(490,679)	(303,889)
YBP	6,710,398	318,497	6,391,901	1,788,373	295,748	399,635
YNL	119,252,066	24,391,933	94,860,133	171,802,165	19,646,975	22,204,286
SKL	16,240,238	11,430,274	4,809,964	4,575,670	(1,710,836)	(1,468,938)
YBL	6,057,134	3,436,512	2,620,622	2,686,437	(157,383)	(92,369)
YHL	8,044,174	3,621,799	4,422,375	4,600,925	(134,853)	25,587
YLS	23,169,862	617,713	22,552,149	14,159,870	4,166,798	5,075,718
ESL	10,843,488	3,984,507	6,858,981	39,331,696	837,701	1,110,918
DTL	5,288,862	518,652	4,770,210	14,919,127	846,912	1,024,783
YOA	685,013	326,764	358,249	-	27,850	42,213
YTL	348,336	-	348,336	-	-	13,912
AAI	53,752,552	123,673	53,628,879	476,525	(209,685)	1,246,316
MSH ¹	50,615,396	36,705,730	13,909,666	45,114,293	1,455,649	1,961,475
YSQ	4,355,101	288,061	4,067,040	-	-	76,335

¹ Financial information includes OR, a subsidiary.

(in thousands of Korean won)

2013						
Subsidiaries	Assets	Liabilities	Equity	Sales	Profit for the year (loss)	Total comprehensive income(loss)
YCL	130,966,084	55,704,469	75,261,615	162,047,155	16,492,657	16,967,513
YSL	20,310,095	37,781	20,272,314	-	-	311,425
LSL	52,692,683	33,636,305	19,056,378	23,719,517	2,660,148	2,843,002
TSL	143,180,072	69,306,697	73,873,375	105,623,155	11,200,130	11,872,298
KSL	69,037,623	27,759,119	41,278,504	95,306,798	8,826,130	9,095,643
YHT	78,514,258	26,641,297	51,872,961	107,536,665	14,180,550	14,392,963
SSL	27,538,132	2,686,012	24,852,120	26,926,222	4,278,549	4,483,581
YPL	13,266,616	1,499,324	11,767,292	4,729,949	1,202,342	1,334,000
YGA	11,152,120	778,128	10,373,992	6,482,999	1,237,370	1,345,620
SEL	4,735,536	1,786,367	2,949,169	3,460,167	502,209	526,768
SDF	15,061,439	11,924,898	3,136,541	19,366,239	(1,661,942)	(1,545,102)
YSF	11,793,323	1,643,099	10,150,224	10,779,955	1,925,579	2,001,963
STL	9,453,087	6,319,173	3,133,914	7,396,917	397,729	429,443
YSS	45,480,877	22,168,002	23,312,875	80,883,681	6,417,232	6,510,267
YSA	14,719,404	1,173,980	13,545,424	17,755,736	2,580,923	2,682,390
AAL	4,283,881	732,388	3,551,493	662,113	98,641	149,128
KSI	56,709,523	63,183,364	(6,473,841)	17,302,196	(3,615,067)	(3,565,178)
SWL	1,685,091	514,669	1,170,422	534,159	202,554	212,166
SLS	111,114	5,894	105,220	-	(184)	(6,310)
YSP	46,564,635	15,073,095	31,491,540	44,443,507	(4,481,332)	(3,925,940)
GMC	26,659,516	5,660,351	20,999,165	35,863,424	2,104,040	2,293,381
QMS	18,753,807	5,718,242	13,035,565	36,290,559	767,147	905,202

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

YBP	6,364,006	371,740	5,992,266	1,811,306	247,128	314,487
YNL	102,001,955	29,346,108	72,655,847	135,329,654	13,259,688	11,076,682
SKL	9,364,455	7,167,153	2,197,302	3,519,830	(1,911,720)	(1,902,726)
YBL	3,130,321	417,330	2,712,991	539,242	(413,079)	(484,134)
YHL	5,741,278	2,885,740	2,855,538	953,503	(311,727)	(380,462)
YLS	17,818,227	341,796	17,476,431	13,093,646	3,904,459	3,367,208
ESL	10,742,733	4,994,670	5,748,063	37,507,227	1,121,170	1,015,175
DTL	5,120,737	1,375,311	3,745,426	21,870,286	1,191,820	837,656
YOA	627,783	311,747	316,036	-	34,391	28,907
YTL	334,425	-	334,425	-	-	(5,007)
AAI	18,943,020	171,240	18,771,780	985,536	(177,478)	(454,649)

1.4 Changes in scope of consolidation

The following subsidiary was newly included in the scope of consolidation for the year ended December 31, 2014:

Subsidiary	Reason
MSH, YSQ	Newly incorporated
OR	Acquisition of business

No subsidiary was excluded in the scope of consolidation for the year ended December 31, 2014.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

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

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2014:

- Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, is applied to a liability to pay a levy imposed by the government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation. The application of this interpretation does not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of 'vesting conditions' such as 'performance condition', 'service condition' and others. This amendment is applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The application of this amendment does not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*

Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion.

- Amendment to Korean IFRS 1036, *Impairment of Assets*

Amendment to Korean IFRS 1036, *Impairment of Assets*, removed certain disclosures of the recoverable amount of cash-generating units which had been included in this amendment by the issuance of Korean IFRS 1113.

- Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations.

Other standards, amendments and interpretations which are effective for the annual period beginning on January 1, 2014, do not have a material impact on the financial statements of the Group.

(b) New standards and interpretations not yet adopted

The Group expects that new standards, amendments and interpretations issued but not effective for the annual period beginning on January 1, 2014 and not early adopted would not have a material impact on its consolidated financial statements.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, *Consolidated Financial Statements*.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(a) Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In transactions with non-controlling interests, which do not result in loss of control, the Group recognizes directly in equity attributable to owners of the parent any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

(b) Associates

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(c) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 6). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

2.5 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

2.6 Financial Assets

(a) Classification and measurement

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

For hybrid (combined) instruments, the Group is unable to measure an embedded derivative separately from its host contract and therefore, the entire hybrid (combined) contract is classified as at fair value through profit or loss. The financial assets designated as at fair value through profit or loss by the Group are foreign convertible bonds and securitized derivatives.

Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

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

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than 30% from its cost or a prolonged decline below its cost for more than six months is also objective evidence of impairment.

(c) Derecognition

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position (Note 11).

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements 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 Group or the counterparty.

2.7 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'other non-operating income (expenses)' or 'finance income (expenses)' according to the nature of transactions.

2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method.

2.9 Property, Plant and Equipment

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

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

	Useful lives
Buildings	25 - 40 years
Structures	30 years
Machinery	4 - 10 years
Vehicles	4 - 15 years
Tools and equipment	3 - 7 years
Facilities	30 years

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

2.10 Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

2.11 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

2.12 Intangible Assets

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

Internally generated software and development costs are the aggregate costs recognized after meeting the asset recognition criteria, including technical feasibility, and determined to have future economic benefits. Membership rights and brand value are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives, are as follows:

	Useful lives
Software, development costs	5 years
Customer relationships	15 years

2.13 Investment Property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over their useful lives from 40 years.

2.14 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

2.15 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group 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 presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

Preferred shares that provide for a mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of income as 'finance costs', together with interest expenses recognized on other financial liabilities.

(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, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.16 Financial Guarantee Contracts

Financial guarantees contracts provided by the Group are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities':

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

2.17 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2.18 Current and Deferred Income Tax

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

The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group 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, deferred tax asset is recognized for 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 against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee Benefits

(a) Net Defined benefit liability

The Group has defined benefit plan.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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 and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

2.20 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

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

(a) Sales of goods

Revenue from the sale of goods is recognized when products are delivered to the purchaser.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(b) Interest income

Interest income is recognized using the effective interest method. When receivables are impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(c) Dividend income

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

(d) Customer loyalty programme

The Group operates a customer loyalty programme in which customers are granted rewards to receive discounts on future purchases when purchasing products. The fair value of consideration to give or given for the initial sale is allocated to the reward points and remaining of initial sale, and the consideration allocated to the reward points is measured based on the fair value of reward in exchange of reward points, which is the fair value of reward points considered the proportion of reward points that are not expected to be redeemed. Revenue from the award credits is recognized when it is redeemed.

2.21 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.22 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2014 financial statements of the Company was approved by the Board of Directors on February 27, 2015, which is subject to change with approval of shareholders at the annual shareholders' meeting.

3. Critical Accounting Estimates and Assumptions

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

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

addressed below.

(a) Income taxes

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

(b) 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).

4. Financial Risk Management

4.1 Financial Risk Factors

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

Risk management is carried out under policies approved by the board of directors. The board 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 investment of excess liquidity.

4.1.1 Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Also, subsidiaries regularly valuates, manages and reports on the foreign exchange risks for the receivables and payables in foreign currencies.

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

The Group's financial instruments denominated in major foreign currencies except for functional currency as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

Cash and cash equivalents	2014		2013	
USD	₩	96,861,256	₩	73,940,651
CNY		5,623		8,488
EUR		1,480,301		672,252
HKD		5,118		1,786
JPY		33,996		20,164
	₩	<u>98,386,294</u>	₩	<u>74,643,341</u>

(in thousands of Korean won)

Short-term financial instruments	2014		2013	
USD	₩	19,963,614	₩	31,749,232

(in thousands of Korean won)

Accounts receivable and other receivables	2014		2013	
USD	₩	205,349,965	₩	171,154,480
EUR		316,728		238,256
	₩	<u>205,666,693</u>	₩	<u>171,392,736</u>

(in thousands of Korean won)

Accounts payable and other payables	2014		2013	
USD	₩	65,751,512	₩	47,673,320
EUR		473,261		338,270
CNY		5,877		1,549
	₩	<u>66,230,650</u>	₩	<u>48,013,139</u>

(in thousands of Korean won)

Borrowings	2014		2013	
USD	₩	47,737,735	₩	31,713,375

As of December 31, 2014 and 2013, if the foreign exchange rate fluctuated by 5% while other variables are fixed, the effects on income before tax would be as follows:

<i>(in thousands of Korean won)</i>	2014		2013	
	Increase	Decrease	Increase	Decrease
USD	₩ 11,076,726	₩ (11,076,726)	₩ 9,874,030	₩ (9,874,030)
CNY	(13)	13	347	(347)
EUR	66,188	(66,188)	28,612	(28,612)
HKD	256	(256)	89	(89)
JPY	1,700	(1,700)	1,008	(1,008)
	<u>₩ 11,144,857</u>	<u>₩ (11,144,857)</u>	<u>₩ 9,904,086</u>	<u>₩ (9,904,086)</u>

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

ii) Price risk

The Group acquires equity securities (including both listed and unlisted) to manage a liquidity risk and for trading. The Group invests in more than one investment vehicle either directly or indirectly, and the fair values of equity securities (excluding subsidiaries and associates and unlisted equity securities) as of December 31, 2014, is ₩51,255,699 thousand (2013: ₩42,262,028 thousand) (Note 10).

As of December 31, 2014 and 2013, if the price of equity securities fluctuated by 20%, the effects on other comprehensive income would be as follows:

(in thousands of Korean won)	2014		2013	
	Increase	Decrease	Increase	Decrease
Effects on other comprehensive income				
Available-for-sale financial assets	₩ 7,770,364	₩ (7,770,364)	₩ 6,406,923	₩ (6,406,923)

iii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk through changes in interest income(expense) generated from investments and borrowings. The risk mainly arises from investments of floating rate receivables and borrowings of floating rate payables.

As of December 31, 2014 and 2013, if the interest rate fluctuated by 0.1% while other variables are fixed, the effects on profit before income tax would be as follows:

(in thousands of Korean won)	2014		2013	
	Increase	Decrease	Increase	Decrease
Borrowings	₩ (65,121)	₩ 65,121	₩ (118,991)	₩ 118,991

4.1.2 Credit Risk

Credit risk is the risk of possible loss to portfolio due to counterparty's default, breach of covenant and loss of credibility. The Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent the excessive risk concentration to industry and borrowers.

There has been no loan or receivable included in the accounts receivable or other receivables that are past due or have any sign of doubtful collection. The Group is expecting a low probability of default at the end of the reporting period.

Credit risk can arise from transaction with financial institution such as cash and cash equivalents, deposits with banks, derivative financial instruments. The Group has transactions with counterparties that are above certain credit rating in order to mitigate risks of default.

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

The Group's maximum exposures of financial assets to credit risk without consideration of collaterals' values as of December 31, 2014 and 2013, are as follows:

		2014		
		Book value	Accumulated	Book value
		without deduction	impairment loss	(Maximum exposure)
<i>(in thousands of Korean won)</i>				
Cash and cash equivalents ¹	₩	198,729,928	₩ -	₩ 198,729,928
Short-term financial assets		33,963,614	-	33,963,614
Long-term financial assets		12,000	-	12,000
Accounts receivable		164,605,604	(1,064,009)	163,541,595
Other receivables		47,446,333	-	47,446,333
Guarantee contract		3,407,520	-	3,407,520
	₩	<u>448,164,999</u>	<u>₩ (1,064,009)</u>	<u>₩ 447,100,990</u>

		2013		
		Book value	Accumulated	Book value
		without deduction	impairment loss	(Maximum exposure)
<i>(in thousands of Korean won)</i>				
Cash and cash equivalents ¹	₩	161,019,872	₩ -	₩ 161,019,872
Short-term financial assets		56,198,249	-	56,198,249
Long-term financial assets		12,000	-	12,000
Accounts receivable		152,513,133	(425,483)	152,087,650
Other receivables		41,200,643	(6,227)	41,194,416
Guarantee contract		4,854,380	-	4,854,380
	₩	<u>415,798,277</u>	<u>₩ (431,710)</u>	<u>₩ 415,366,567</u>

¹ Cash on hand is not included in cash and cash equivalents.

4.1.3 Liquidity Risk

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing.

The Group forecasts its cash flow and liquidity status, and sets action plans on a regular basis to manage liquidity risk proactively.

Repayment schedule for financial liabilities as of December 31, 2014 and 2013, is as follows:

		2014			
		Within 3 months	3 months ~ 1 year	1 year ~ 2 years	Over 2 years
<i>(in thousands of Korean won)</i>					Total
Short-term borrowings	₩	7,205,304	₩ 37,342,781	₩ -	₩ -
Long-term borrowings		96,253	288,758	385,011	16,776,758
Debentures		490,000	1,470,000	1,960,000	51,470,000
Accounts payable		82,415,254	5,427,567	-	-
Other payables		27,897,463	7,518,566	999,411	-
Guarantee contract ¹		3,407,520	-	-	-
	₩	<u>121,511,794</u>	<u>₩ 52,047,672</u>	<u>₩ 3,344,422</u>	<u>₩ 68,246,758</u>
					<u>₩245,150,646</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

(in thousands of Korean won)	2013				
	Within 3 months	3 months ~ 1 year	1 year ~ 2 years	Over 2 years	Total
Short-term borrowings	₩ 9,643,303	₩ 23,395,872	₩ -	₩ -	₩ 33,039,175
Long-term borrowings	149,175	447,525	13,298,350	-	13,895,050
Debentures	490,000	1,470,000	1,960,000	53,430,000	57,350,000
Accounts payable	56,486,080	-	-	-	56,486,080
Other payables	31,877,217	5,513,585	56,988	257,378	37,705,168
Guarantee contract ¹	4,854,380	-	-	-	4,854,380
	<u>₩103,500,155</u>	<u>₩ 30,826,982</u>	<u>₩ 15,315,338</u>	<u>₩53,687,378</u>	<u>₩156,395,628</u>

¹ The cash flows are classified on the basis of the earliest period that the agreement can be carried out as stated on the financial guaranty agreement.

4.2 Capital Risk Management

The Group's capital risk management purpose is to maximize shareholders' value through maintaining a sound capital structure. The Group uses debt-to-equity ratio as indicator of capital management. This ratio is calculated from total liabilities divided by total equity which are posted in the financial statements.

Debt-to-equity ratios as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)	2014	2013
Total liabilities	₩ 381,826,897	₩ 310,282,847
Total equity	1,012,269,560	901,992,771
Debt-to-equity ratio	37.72%	34.40%

5. Fair Value

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

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

5.1 Fair Value Hierarchy

The following table presents the Group's financial instruments that are measured at fair value as of December 31, 2014 and 2013:

(in thousands of Korean won)	2014			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	₩51,255,699	₩ -	₩ -	₩51,255,699

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

<i>(in thousands of Korean won)</i>	2013			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	₩42,262,028	₩ -	₩ -	₩42,262,028

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity from the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.

Other methods such as discount method for cash flows are used for the remaining financial instruments.

The book value are estimated to a reasonable approximate value for the financial instruments excluding available-for-sale financial assets, and financial liabilities.

5.2 Financial Instruments Measured at Cost

The following table presents available for sale financial assets that are valued at historical cost as of December 31, 2014 and 2013:

<i>(in thousands of Korean won)</i>	2014	2013
MAXPEED CARGO (BD) LTD.	₩ 24,826	₩ 24,826
KOFAD	500,000	500,000
MXF TECHNOLOGIES, INC. ¹	1	1
	<u>₩ 524,827</u>	<u>₩ 524,827</u>

¹ Impairment on financial assets is recognized as their net asset value fell below their acquisition cost before the prior year (Note 10).

Above available-for-sale financial assets are unlisted equities. Because the related projects are in their initial phase of business operation, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore these instruments are measured at cost.

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

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

of the fair value.

6. Segment Information

The Group's reportable segments are organized into clothes, shoes and other business segments depending on the type of each selling product.

Income and loss of each business segment for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)	2014				
	Clothes	Shoes	Others	Consolidation adjustment	Total
Sales	₩1,872,757,286	₩209,695,168	₩212,030,920	₩ (1,048,147,424)	₩1,246,335,950
Operating income ¹	164,065,272	3,887,217	15,126,277	2,422,814	185,501,580
Depreciation and amortization	26,699,725	4,186,246	3,432,488	-	34,318,459

(in thousands of Korean won)	2013				
	Clothes	Shoes	Others	Consolidation adjustment	Total
Sales	₩1,680,983,900	₩198,290,738	₩239,656,672	₩ (1,010,704,516)	₩1,108,226,794
Operating income ¹	142,886,601	5,357,637	13,270,575	(726,767)	160,788,046
Depreciation and amortization	22,207,508	3,665,775	3,769,589	-	29,642,872

¹ Management of the Group evaluates the performance of business segments based on operating income of each segment.

Assets and liabilities by business segment as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)	2014					
	Clothes	Shoes	Others	Adjustment ^{3,4}	Consolidation adjustment	Total
Assets ¹	₩1,743,348,392	₩185,694,402	₩329,439,727	₩ 95,192,629	₩ (959,578,694)	₩1,394,096,456
Investments in associates and jointly controlled entity	318,669,694	11,338,817	122,266,382	-	(394,331,904)	57,942,989
Purchase of non-current assets ²	112,707,931	39,450,897	47,450,720	789,690	(81,687,899)	118,711,339
Liabilities ¹	529,952,857	147,218,172	46,629,703	137,461,578	(479,435,413)	381,826,897

(in thousands of Korean won)	2013					
	Clothes	Shoes	Others	Adjustment ^{3,4}	Consolidation adjustment	Total
Assets ¹	₩1,553,970,824	₩128,418,494	₩205,539,554	₩ 74,546,731	₩ (750,199,984)	₩1,212,275,619
Investments in associates and jointly controlled entity	236,609,039	11,334,417	103,318,495	-	(293,337,483)	57,924,468
Purchase of non-current assets ²	138,039,182	16,871,864	7,224,403	3,938,874	(5,468,331)	160,605,992
Liabilities ¹	435,350,734	89,687,288	41,034,447	135,676,348	(391,465,970)	310,282,847

¹ The segment's assets and liabilities reported to the Board of directors are calculated with the same method used for the assets and liabilities on the financial statements and distributed based on the segment sales.

² The financial instruments are excluded from the acquisition cost of non-current assets.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

³ Assets that are not distributed to the reporting segment such as deferred income tax, available-for-sale financial assets and others.

⁴ Liabilities that are not distributed to the reporting segment such as deferred income tax, income tax expense, short-term and long-term borrowings.

The following table presents segment information as of and for the years ended December 31, 2014 and 2013:

Sales and Non-current assets:

(in thousands of Korean won)	Sales		Non-current assets ¹	
	2014	2013	2014	2013
Korea	₩1,140,086,346	₩1,096,209,968	₩ 292,806,202	₩ 290,222,518
Bangladesh	752,060,922	690,513,622	155,518,143	125,041,454
Vietnam	183,665,197	140,342,230	72,556,130	63,481,975
China	104,669,397	118,408,795	36,018,325	37,792,273
Other	114,001,512	73,456,696	79,790,967	23,551,666
Consolidation adjustment	(1,048,147,424)	(1,010,704,517)	6,120,974	7,258,589
	<u>₩1,246,335,950</u>	<u>₩1,108,226,794</u>	<u>₩ 642,810,741</u>	<u>₩ 547,348,475</u>

¹ Financial instrument was excluded from acquisition cost of non-current asset.

The Group's sales from major customers of clothing and footwear businesses amount to about ₩ 158.9 billion.

7. Financial Instruments by Category

Categorizations of financial instruments as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)	2014			
	Loans and receivables	Assets classified as available-for-sale	Financial liabilities at amortized cost	Total
Financial assets				
Cash and cash equivalents	₩ 201,820,449	₩ -	₩ -	₩ 201,820,449
Long-term and short-term financial instruments	33,975,614	-	-	33,975,614
Financial assets as available-for-sale	-	51,780,527	-	51,780,527
Accounts receivable	163,541,595	-	-	163,541,595
Other receivables	47,446,332	-	-	47,446,332
	<u>₩ 446,783,990</u>	<u>₩ 51,780,527</u>	<u>₩ -</u>	<u>₩ 498,564,517</u>
Financial liabilities				
Accounts payable	₩ -	₩ -	₩ 87,842,821	₩ 87,842,821
Short-term borrowings	-	-	44,249,735	44,249,735
Other payables	-	-	36,453,307	36,453,307
Debentures	-	-	49,879,434	49,879,434
Long-term borrowings	-	-	16,488,000	16,488,000
	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 234,913,297</u>	<u>₩ 234,913,297</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

(in thousands of Korean won)

2013

	Loans and receivables	Assets classified as available-for- sale	Financial liabilities at amortized cost	Total
Financial assets				
Cash and cash equivalents	₩ 165,387,042	₩ -	₩ -	₩ 165,387,042
Long-term and short-term financial instruments	56,210,249	-	-	56,210,249
Financial assets as available- for-sale	-	42,786,855	-	42,786,855
Accounts receivable	152,087,650	-	-	152,087,650
Other receivables	41,194,416	-	-	41,194,416
	<u>₩ 414,879,357</u>	<u>₩ 42,786,855</u>	<u>₩ -</u>	<u>₩ 457,666,212</u>
Financial liabilities				
Accounts payable	₩ -	₩ -	₩ 56,486,080	₩ 56,486,080
Short-term borrowings	-	-	33,039,175	33,039,175
Other payables	-	-	37,769,970	37,769,970
Debentures	-	-	49,832,916	49,832,916
Long-term borrowings	-	-	13,000,000	13,000,000
	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 190,128,141</u>	<u>₩ 190,128,141</u>

Income and loss of financial instruments by category for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

2014

2013

Loans and receivables

Interest income	₩ 2,642,191	₩ 3,607,554
Foreign exchange gain and losses	7,387,937	(493,869)

Available-for-sale financial assets

Gain(Loss) on valuation (Other comprehensive income(loss))	6,817,203	(10,757,943)
Loss on disposal	(53,140)	(2,552)
Dividend income	706,847	630,320

**Financial asset or financial liability at fair value
through profit or loss**

Loss on transaction of derivatives	-	(764,250)
------------------------------------	---	-----------

Financial liabilities at amortized cost

Interest expense	4,015,854	2,958,632
Foreign exchange gain and losses	(2,405,370)	262,332

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

8. Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates as of December 31, 2014 and 2013:

<i>(in thousands of Korean won)</i>	2014	2013
Accounts receivable		
Counterparties without external credit rating		
Group 1 ¹	₩ 18,948,017	₩ 2,803,056
Group 2 ²	145,657,587	149,710,077
Group 3 ³	-	-
Sum of unimpaired accounts receivable	<u>₩ 164,605,604</u>	<u>₩ 152,513,133</u>

¹ New customers/related parties (less than 12 months).

² Existing customers with no defaults in the past /related parties (more than 12 months).

³ Existing customers with some defaults in the past. All defaults were fully recovered.

<i>(in thousands of Korean won)</i>	2014	2013
Cash at bank and short-term bank deposits¹		
Counterparties with external credit rating(Moody's)		
A1	₩ 160,495,600	₩ 120,210,121
A2	31,726,176	21,556,406
A3	-	-
Baa2	6,508,152	19,253,345
	<u>₩ 198,729,928</u>	<u>₩ 161,019,872</u>

¹ The difference in 'cash and cash equivalents' in the statement of financial position represents cash on hand.

<i>(in thousands of Korean won)</i>	2014	2013
Short-term financial assets		
Counterparties with external credit rating(Moody's)		
A1	₩ 14,000,000	₩ 24,449,017
A2	-	-
Baa2	19,963,614	31,749,232
	<u>₩ 33,963,614</u>	<u>₩ 56,198,249</u>

<i>(in thousands of Korean won)</i>	2014	2013
Long-term financial assets		
Counterparties with external credit rating(Moody's)		
A1	₩ 12,000	₩ 12,000
A2	-	-
	<u>₩ 12,000</u>	<u>₩ 12,000</u>

None of normal financial assets was readjusted during the year 2013. None of the loans to related parties is past due or impaired.

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

9. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Cash in hand	₩ 3,090,520	₩ 4,367,170
Short-term financial institution deposits	198,729,929	161,019,872
	<u>₩ 201,820,449</u>	<u>₩ 165,387,042</u>

Restricted financial instruments as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	Financial institution	2014	2013	Reason of restriction
Long-term financial instruments	Shinhan Bank and others	₩ 12,000	₩ 12,000	Guarantee deposit
Bank deposits		₩ 234,080	₩ -	Collaterals for foreign exchange forward contracts

10. Available-for-sale Financial Assets

The changes in available-for-sale financial assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Beginning	₩ 42,786,855	₩ 56,979,392
Additions	789,690	42,910
Disposals	(789,690)	(42,910)
Evaluations	8,993,671	(14,192,537)
Ending	<u>₩ 51,780,526</u>	<u>₩ 42,786,855</u>

Available-for-sale financial assets as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Listed financial assets ¹		
(except for investments in subsidiary, associates, jointly controlled entity)	₩ 51,255,700	₩ 42,262,028
Unlisted financial assets ²		
(except for investments in subsidiary, associates, jointly controlled entity)	524,827	524,827
	<u>₩ 51,780,527</u>	<u>₩ 42,786,855</u>

¹ The details of listed financial assets as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014				2013	
	Number of shares	Percentage of ownership	Acquisition cost	Fair Value	Book value	Book value
GOLDWIN INC.	₩ 8,856,000	15.45%	₩ 45,489,450	₩ 51,255,700	₩ 51,255,700	₩ 42,262,028

²The Group measured the fair value of marketable equity securities which are included in available-for-sale financial assets at market prices that are used in the active market.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Unlisted equity securities which are included in available-for-sale equity securities that cannot be reliably measured at fair value and are not traded in an active market are measured at acquisition cost (Note 5).

None of the available-for sale financial assets as of December 31, 2014 and 2013, is either past due or impaired. Impairment loss amounting to ₩ 129,233 thousand relate to unlisted equity securities was recognized in profit and loss prior to the year ending December 31, 2013.

11. Accounts Receivable

Accounts receivable as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Accounts receivable	₩ 164,605,604	₩ 152,513,133
Less: provision for impairment of account receivables	<u>(1,064,009)</u>	<u>(425,483)</u>
Accounts receivable ,net	<u>₩ 163,541,595</u>	<u>₩ 152,087,650</u>

The Group transferred receivable balances to a bank in exchange for cash during the year ended December 31, 2014. The transaction has been accounted for as a collateralized borrowing (Note 22). In case of that the entities default under the loan agreement, the bank has the right to collect from the Group.

Details of transferred accounts receivable that are not derecognized in their entirety as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Carrying amount of the transferred assets ¹	₩ 17,994,443	₩ 31,713,375
Carrying amount of the associated liabilities	17,994,443	31,713,375

¹ Accounts receivable before elimination of consolidation.

The aging analyses of accounts receivable as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Receivables not past due	<u>₩ 163,973,113</u>	<u>₩ 152,513,133</u>
Past due but not impaired ¹		
Up to 3 months	178,955	-
3 to 6 months	<u>453,536</u>	<u>-</u>
	<u>632,491</u>	<u>-</u>
Impaired		
Over 6 months	<u>-</u>	<u>-</u>
	<u>₩ 164,605,604</u>	<u>₩ 152,513,133</u>

¹ Accounts receivable past due but not impaired relate to a number of independent customers for whom there is no recent history of default.

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Movements on the provision for impairment of accounts receivable for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Beginning	₩ 425,483	₩ 957,154
Provision for receivables impairment (reversal)	412,254	(531,671)
Changes in scope of consolidation	226,272	-
Ending	<u>₩ 1,064,009</u>	<u>₩ 425,483</u>

The provision and reversal of provision have been included in 'selling and administrative expenses' in the income statement (Note 28).

12. Other Receivables

Other receivables as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Current		
Short-term loans	₩ 28,789,908	₩ 25,713,994
Accrued income	111,693	173,617
Non-trade receivables	9,577,719	6,247,693
Provision	-	(6,227)
	<u>38,479,320</u>	<u>32,129,077</u>
Non-current		
Rent deposits	6,999,734	7,825,124
Other deposits	1,967,278	1,240,215
	<u>8,967,012</u>	<u>9,065,339</u>
	<u>₩ 47,446,332</u>	<u>₩ 41,194,416</u>

There are no impaired or past due receivables as of December 31, 2014 and 2013.

Movements on the provision for impairment of trade receivables for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Beginning	₩ 6,227	₩ 6,694
Reversal	(6,227)	(467)
Ending	<u>₩ -</u>	<u>₩ 6,227</u>

The provision and reversal of provision for impaired other receivables have been included in 'selling and administrative expenses' (Note 28) in the income statement.

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

13. Other Assets

Other assets as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014		2013	
Current				
Advances	₩	24,727,780	₩	26,214,102
Prepaid expenses		1,591,891		1,005,530
Prepaid VAT		4,170,788		3,419,949
Prepaid income tax		561,854		71,322
Others		2,717,555		695,693
		<u>33,769,868</u>		<u>31,406,596</u>
Non-current				
Prepaid expenses		2,813,962		3,708,209
Others		78,754		-
		<u>2,892,716</u>		<u>3,708,209</u>
	₩	<u>36,662,584</u>	₩	<u>35,114,805</u>

14. Inventories

Inventories as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014		
	Before valuation	Valuation allowance	Book value
Merchandise	₩ 70,809,695	₩ (30,525,004)	₩ 40,284,691
Finished goods	41,206,968	(2,082,981)	39,123,987
Raw materials	83,017,478	(9,140,229)	73,877,249
Work in progress	30,232,428	(2,713)	30,229,715
Supplies	17,387,093	-	17,387,093
Goods in transit	14,149,354	-	14,149,354
	<u>₩ 256,803,016</u>	<u>₩ (41,750,927)</u>	<u>₩ 215,052,089</u>

<i>(in thousands of Korean won)</i>	2013		
	Before valuation	Valuation allowance	Book value
Merchandise	₩ 45,479,035	₩ (22,955,323)	₩ 22,523,712
Finished goods	25,446,920	(1,559,113)	23,887,807
Raw materials	82,051,833	(7,001,621)	75,050,212
Work in progress	25,729,286	(7,355)	25,721,931
Supplies	16,559,015	-	16,559,015
Goods in transit	8,403,448	-	8,403,448
	<u>₩ 203,669,537</u>	<u>₩ (31,523,412)</u>	<u>₩ 172,146,125</u>

As of December 31, 2014, inventories are pledged as collateral in relation to borrowings (Note 22).

The cost of inventories recognized as expense amounted to ₩ 617,583,235 thousand (2013: ₩ 571,921,001 thousand).

Youngone Corporation and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2014 and 2013**

15. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014								
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Facilities	Construction in progress	Total
Beginning balance (net)	₩55,750,893	₩130,172,914	₩ 753,915	₩94,247,325	₩32,727,680	₩14,556,079	₩5,172,123	₩74,035,968	₩407,416,897
Acquisitions	853,482	15,515,587	63,469	31,960,466	33,703,884	6,144,803	139,856	28,914,944	117,296,491
Disposals	(7,752)	(6,452,058)	(33,971)	(8,490,985)	(366,595)	(339,651)	-	(211,144)	(15,902,156)
Depreciation	-	(6,082,184)	(36,482)	(17,763,702)	(3,580,753)	(3,918,563)	(1,297,482)	-	(32,679,166)
Transfer	41,614,894	35,836,705	-	6,300,818	8,485	26,000	1,473,829	(60,661,395)	24,599,336
Changes in scope of consolidation	-	-	-	992,014	28,239	317,956	1,712,337	12,296	3,062,842
Currency translation differences	238,595	2,416,482	383	2,910,612	2,510,551	237,381	191,462	1,611,919	10,117,385
Ending balance(net)	<u>98,450,112</u>	<u>171,407,446</u>	<u>747,314</u>	<u>110,156,548</u>	<u>65,031,491</u>	<u>17,024,005</u>	<u>7,392,125</u>	<u>43,702,588</u>	<u>513,911,629</u>
Cost	98,450,112	203,563,788	1,014,859	221,612,536	84,638,381	41,609,807	13,475,945	43,702,588	708,068,016
Accumulated depreciation	-	<u>(32,156,342)</u>	<u>(267,545)</u>	<u>(111,455,988)</u>	<u>(19,606,890)</u>	<u>(24,585,802)</u>	<u>(6,083,820)</u>	-	<u>(194,156,387)</u>
Net book amount	<u>₩98,450,112</u>	<u>₩171,407,446</u>	<u>₩ 747,314</u>	<u>₩110,156,548</u>	<u>₩65,031,491</u>	<u>₩17,024,005</u>	<u>₩7,392,125</u>	<u>₩43,702,588</u>	<u>₩513,911,629</u>

(in thousands of Korean won)

	2013								
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Facilities	Construction in progress	Total
Beginning balance (net)	₩ 54,538,641	₩ 90,341,132	₩ 316,842	₩71,268,849	₩35,712,643	₩ 9,805,180	₩ 878,097	₩ 89,117,319	₩ 351,978,703
Acquisitions	2,577,117	23,847,336	469,903	22,180,484	1,525,768	7,963,975	1,303,642	49,471,439	109,339,664
Disposals	(35,839)	(263,270)	(7,195)	(2,668,171)	(41,083)	(163,361)	(86,369)	(115,385)	(3,380,673)
Depreciation	-	(4,200,550)	(29,373)	(15,752,314)	(4,208,616)	(3,031,542)	(475,429)	-	(27,697,824)
Transfer	(1,305,794)	20,776,215	-	19,609,349	202,348	4,440	3,688,279	(64,176,240)	(21,201,403)
Currency translation differences	(23,232)	(327,949)	3,738	(390,872)	(463,380)	(22,613)	(136,097)	(261,165)	(1,621,570)
Ending balance(net)	<u>55,750,893</u>	<u>130,172,914</u>	<u>753,915</u>	<u>94,247,325</u>	<u>32,727,680</u>	<u>14,556,079</u>	<u>5,172,123</u>	<u>74,035,968</u>	<u>407,416,897</u>
Cost	55,750,893	154,491,507	1,073,327	189,443,982	48,084,359	35,453,232	9,057,693	74,035,968	567,390,961
Accumulated depreciation	-	<u>(24,318,593)</u>	<u>(319,412)</u>	<u>(95,196,657)</u>	<u>(15,356,679)</u>	<u>(20,897,153)</u>	<u>(3,885,570)</u>	-	<u>(159,974,064)</u>
Net book amount	<u>₩55,750,893</u>	<u>₩130,172,914</u>	<u>₩ 753,915</u>	<u>₩94,247,325</u>	<u>₩32,727,680</u>	<u>₩14,556,079</u>	<u>₩5,172,123</u>	<u>₩74,035,968</u>	<u>₩407,416,897</u>

Depreciation expense of ₩ 21,503,920 thousand (2013: ₩ 18,716,056 thousand) has been charged to 'cost of sales' and ₩ 11,175,246 thousand (2013: ₩ 8,981,766 thousand) to 'selling and administrative expenses'.

Details of capitalized borrowing costs as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014	2013
Construction-in-progress	₩ 496,003	₩ 2,036,911

Borrowing costs were capitalized at the weighted average rate of its general borrowings of 2.41% (2013: 3.36%).

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

16. Intangible Assets

Intangible assets for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014						
	Industrial property	Software	Membership rights	Brand value	Customer Relationships	Goodwill	Total
Beginning balance	₩ 37,574	₩ 2,486,550	₩ 921,684	₩ -	₩ -	₩ -	₩3,445,808
Acquisitions	1,554	623,604	-	-	-	-	625,158
Amortization	(32,582)	(760,781)	-	-	(108,218)	-	(901,581)
Disposals/Transfer	-	(10,358)	-	-	-	-	(10,358)
Changes in scope of consolidation	-	-	-	8,003,604	2,172,135	4,196,071	14,371,810
Currency translation differences	-	6,736	-	319,538	81,996	167,492	575,762
Ending balance	<u>6,546</u>	<u>2,345,751</u>	<u>921,684</u>	<u>8,323,142</u>	<u>2,145,913</u>	<u>4,363,563</u>	<u>18,106,599</u>
Cost	178,328	5,253,259	921,684	8,323,142	2,258,856	4,363,563	21,298,832
Accumulated amortization	<u>(171,782)</u>	<u>(2,907,508)</u>	<u>-</u>	<u>-</u>	<u>(112,943)</u>	<u>-</u>	<u>(3,192,233)</u>
Net book amount	<u>₩ 6,546</u>	<u>₩ 2,345,751</u>	<u>₩ 921,684</u>	<u>₩8,323,142</u>	<u>₩ 2,145,913</u>	<u>₩4,363,563</u>	<u>₩18,106,599</u>

(in thousands of Korean won)

	2013			
	Industrial property	Software	Membership rights	Total
Beginning balance	₩ 68,877	₩ 2,915,188	₩ 921,684	₩ 3,905,749
Acquisitions	3,740	329,325	-	333,065
Amortization	(35,043)	(764,528)	-	(799,571)
Disposals/Transfer	-	-	-	-
Changes in scope of consolidation	-	-	-	-
Currency translation differences	-	6,565	-	6,565
Ending balance	<u>37,574</u>	<u>2,486,550</u>	<u>921,684</u>	<u>3,445,808</u>
Cost	176,774	4,093,081	931,888	5,201,743
Accumulated amortization	<u>(139,200)</u>	<u>(1,606,531)</u>	<u>(10,204)</u>	<u>(1,755,935)</u>
Net book amount	<u>₩ 37,574</u>	<u>₩ 2,486,550</u>	<u>₩ 921,684</u>	<u>₩ 3,445,808</u>

Amortization of ₩ 10,628 thousand (2013: ₩ 129,729 thousand) is included in the 'cost of sales' in the income statement; and ₩ 890,953 thousand (2013: ₩ 669,842 thousand) in 'selling and administrative expenses'.

17. Investment Property

Changes in investment property for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014	2013
Beginning balance (net)	₩ 78,561,302	₩ 54,625,738
Acquisition	-	3,938,873
Disposal	(374,728)	-
Depreciation	(737,712)	(1,145,477)
Transfer	(24,599,336)	21,142,169
Ending balance (net)	<u>₩ 52,849,526</u>	<u>₩ 78,561,303</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Cost	₩	61,071,494	₩	88,237,579
Accumulated depreciation		(8,221,968)		(9,676,276)
Net book value	₩	52,849,526	₩	78,561,303

Fair value of investment property as of December 31, 2014, is ₩ 86,278,013 thousand (2013: ₩ 114,130,718 thousand).

Rent income from investment property during the year ended December 31, 2014, is ₩ 3,801,578 thousand (2013: ₩ 4,222,848 thousand).

18. Collateralized Assets

Collateralized assets related to the Group's borrowings as of December 31, 2014, are as follows:

(in thousands of Korean won, USD)

Collateralized assets	Location	Financial institution	Collateralized amount	
Geumgwang-dong Company building			₩	57,500,000
(Land and buildings)	293 Gwangmyung-ro, Jungwon-gu, Sungnam	Shinhan Bank	USD	2,400,000
Banyeo-dong Company building				
(Land and buildings)	20 Banyeo-ro, Haeundae-gu, Pusan	NongHyup	₩	3,900,000
Hawolgok-dong Company building				
(Land and buildings)	37 Opaesan-ro, Seongbuk-gu, Seoul	Woori Bank	₩	8,460,000

Collateralized assets include investment property.

As of December 31, 2014, equipment, inventories, and others are pledged as collateral to Wells Fargo Bank in relation to borrowings of OUTDOOR RESEARCH, LLC., a consolidated subsidiary, contractual limit amounting up to USD 15,000,000.

As of December 31, 2014, consideration paid for OUTDOOR RESEARCH, LLD, a consolidated subsidiary, amounting to USD 913,366, is deposited and will be distributed to the existing shareholders when contractual terms are met.

As of December 31, 2014, Bank deposits amounting to THB 7,000,000 are pledged as collateral in relation to currency forward contracts of DONGNAMA TRADING CO., Ltd., a consolidated subsidiary.

19. Associate and Jointly Controlled Entities

The Group's investments in associate and jointly controlled entities as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)	Location	Percentage of shares owned	2014			2013		
			Acquisition cost	Net assets	Book value	Acquisition cost	Net assets	Book value
DTI ¹	New Zealand	50.00%	₩ 5,984,936	₩11,052,421	₩11,052,422	₩ 5,984,936	₩ 9,873,960	₩ 9,873,960
GGL ²	Hong Kong	55.00%	12,472,928	-	-	12,472,928	1,894,606	1,894,606
SCOTT ³	Swiss	20.00%	45,812,000	31,890,261	46,890,567	45,812,000	30,433,280	46,155,902
			₩64,269,864	₩42,942,682	₩57,942,989	₩64,269,864	₩42,201,846	₩57,924,468

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

¹ DESIGNER TEXTILES INTERNATIONAL LTD.

² GREEN GROUND LTD.

³ SCOTT CORPORATION SA.

Changes in investments in associate and jointly controlled entities for the years ended December 31, 2014 and 2013, are as follows:

2014										
(in thousands of Korean won)	Beginning balance	Acquisition	Dividends	Gain or loss on equity method investments	Impairment	Other comprehensive income or loss	Disposal	Ending balance		
DTI	₩ 9,873,960	₩ -	₩ -	1,158,249	₩ -	20,213	₩ -	11,052,422		
GGL	1,894,606	-	-	(2,501,164)	-	606,558	-	-		
SCOTT	46,155,902	-	-	4,407,182	-	(3,672,517)	-	46,890,567		
	₩57,924,468	₩ -	₩ -	3,064,267	₩ -	(3,045,746)	₩ -	57,942,989		

2013										
(in thousands of Korean won)	Beginning balance	Acquisition	Dividends	Gain or loss on equity method investments	Impairment	Other comprehensive income or loss	Disposal	Ending balance		
DTI	₩ 8,789,613	₩ -	₩ -	₩ 1,275,093	₩ -	₩ (190,746)	₩ -	₩ 9,873,960		
GGL	2,339,193	1,182,390	-	(1,635,720)	-	8,743	-	1,894,606		
SCOTT	-	45,812,000	-	1,917,867	-	(1,573,965)	-	46,155,902		
	₩11,128,806	₩46,994,390	₩ -	₩ 1,557,240	₩ -	₩ (1,755,968)	₩ -	₩57,924,468		

The summary of financial information on its principal associate and jointly controlled entities as of and for the years ended December 31, 2014 and 2013, is as follows:

(in thousands of Korean won)						2014	
	Assets	Liabilities	Revenues	Profit/(loss)	Other comprehensive income (loss)		
DTI ²	₩ 34,931,508	₩ 12,808,590	₩ 54,277,164	₩ 2,335,470	₩ 40,426		
GGL ^{1, 2}	505,716	582,164	5,464,040	(3,316,535)	1,213,116		
SCOTT	341,264,582	181,813,277	521,711,632	20,395,634	(18,362,585)		

(in thousands of Korean won)						2013	
	Assets	Liabilities	Revenues	Profit/(loss)	Other comprehensive income (loss)		
DTI ²	₩ 29,410,064	₩ 9,662,144	₩ 41,046,599	₩ 2,550,186	₩ (381,492)		
GGL ^{1, 2}	4,006,991	562,252	5,698,233	(2,974,036)	15,896		
SCOTT	424,088,928	271,855,961	165,375,061	₩11,798,655	(7,869,825)		

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

¹ The effects on the financial statements and content of the equity method applied to reconcile GGL's accounting policy with the parent company are as follows:

<i>(in thousands of Korean won)</i>	Net assets before adjustment	Adjustment	Net assets after adjustment
Application of equity method	₩ 22,055,776	₩ (22,132,224)	₩ (76,448)

² The ratio of shareholding is over 50%. However, it is not classified as subsidiary, as it is a joint controlled entity.

Accumulated unrecognized changes in equity due to discontinued use of equity method for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014		2013	
	Unrecognized loss	Unrecognized accumulated losses	Unrecognized loss	Unrecognized accumulated losses
GGL	₩ (42,046)	₩ (42,046)	₩ -	₩ -

Details of adjustments from financial information of major associate and joint ventures to the book value of investments in associate and joint ventures for the years ended December 31, 2014 and 2013, are as follows:

2014							
<i>(in thousands of Korean won)</i>	Net assets at the end of the year (a)	Net assets of equity shares (b)	Interests in net assets (a*b)	Goodwill	Intangible assets	Intergroup transactions	Book value
DTI	₩22,104,842	50%	₩11,052,421	₩ -	₩ -	₩ -	₩11,052,421
GGL	-	55%	-	-	-	-	-
SCOTT	159,451,305	20%	31,890,261	9,941,519	5,172,595	(113,809)	46,890,566

2013							
<i>(in thousands of Korean won)</i>	Net assets at the end of the year (a)	Net assets of equity shares (b)	Interests in net assets (a*b)	Goodwill	Intangible assets	Intergroup transactions	Book value
DTI	₩19,747,920	50%	₩ 9,873,960	₩ -	₩ -	₩ -	₩ 9,873,960
GGL	3,444,738	55%	1,894,606	-	-	-	1,894,606
SCOTT	152,166,401	20%	30,433,280	10,632,415	5,532,070	(441,863)	46,155,902

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

20. Accounts Payable and Other Payables

Accounts payable and other payables as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Current		
Accounts payable	₩ 87,842,821	₩ 56,486,080
Other payables	4,736,799	8,067,479
Accrued expense	25,868,721	24,814,635
Rent deposits	3,982,528	3,618,471
Operation deposits	858,781	1,000,000
Financial guarantee contract ¹	7,067	12,007
	<u>123,296,717</u>	<u>93,998,672</u>
Non-current liabilities		
Accrued expenses	999,411	257,378
	<u>₩ 124,296,128</u>	<u>₩ 94,256,050</u>

¹ As of December 31, 2014, the Group provides payment guarantee in relation to the associates and jointly controlled entities' borrowings (Note 38).

21. Other Liabilities

Details of other liabilities as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Current		
Customer advances	₩ 1,469,306	₩ 921,556
Unearned revenue	77,133	808,459
Withholdings	543,247	650,899
Value added tax withheld	191,982	181,747
Others	4,487,628	126,013
	<u>₩ 6,769,296</u>	<u>₩ 2,688,674</u>

22. Borrowings

Details of borrowings as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Current		
Bank overdrafts	₩ 52,289	₩ 231,547
Collateralized borrowings	17,994,443	31,713,375
Bank borrowings	26,037,397	-
Other borrowings	165,606	1,094,253
	<u>44,249,735</u>	<u>33,039,175</u>
Non-current		
Debentures	49,879,434	49,832,916
Bank borrowings	16,488,000	13,000,000
	<u>66,367,434</u>	<u>62,832,916</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

₩ 110,617,169

₩ 95,872,091

Details of bank borrowings as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)	Creditor	Maturity date	Annual interest rate(%)		
			December 31,2014	2014	2013
Current					
Overdrafts	Standard Chartered and others	-	6M Libor + 2.00	₩ 52,289	₩ 231,547
Collateralized borrowings ¹	Woori Bank and others	-	Libor + 1.44~1.80	17,994,443	31,713,375
Borrowings in foreign currency ^{2,3}	Wells Fargo Bank and others	2015.06.30	1M Libor + 1.50	13,037,397	-
	KEPZ	-	-	165,606	1,094,253
Current portion of long- term borrowings	Woori Bank	2015.04.27	3M CD + 1.74	13,000,000	-
				44,249,735	33,039,175
Non-current					
Long-term borrowings	Woori Bank	-	-	-	13,000,000
	The Export-Import Bank of Korea	2017.04.01	3M Libor + 2.10	16,488,000	-
				16,488,000	13,000,000
				₩ 60,737,735	₩ 46,039,175

¹ Borrowings are collateralized with land and buildings (Notes 15, 17, and 18).

² Borrowings are collateralized with inventories (Note 14).

³ Borrowings are collateralized with equipment and others (Note 18).

Details of debentures as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)	Issue date	Latest maturity date	Annual interest rate(%) December 31,2014		
				2014	2013
1 st non-guaranteed debenture	2012-06-29	2017-06-29	3.92	₩ 50,000,000	₩ 50,000,000
Less: Discount on debenture				(120,566)	(167,084)
				₩ 49,879,434	₩ 49,832,916

23. Net Defined Benefit Liability

Net defined benefit liability recognized on the statements of financial position as of December 31, 2014 and 2013, is as follows:

(in thousands of Korean won)	2014	2013
Present value defined benefit liability	₩ 20,452,596	₩ 17,590,199
Fair value of plan assets	(18,585,359)	(16,514,917)
Liability on the statement of financial position	₩ 1,867,237	₩ 1,075,282

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Beginning balance	₩ 17,590,199	₩ 15,455,883
Current service cost	2,878,566	2,346,505
Interest expense	693,445	576,410
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	-	(98,594)
Actuarial gains and losses arising from changes in financial assumptions	1,635,183	(257,436)
Actuarial gains and losses arising from experience adjustments	458,465	548,135
Payments from plans:		
Benefit payments	(2,840,731)	(867,358)
Effect of asset from and to associates	37,469	(113,346)
Ending balance	₩ 20,452,596	₩ 17,590,199

The movements in the fair value of plan assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Beginning balance	₩ 16,514,917	₩ 12,984,602
Interest income	703,586	521,644
Remeasurements:		
Return on plan assets (excluding amounts included in interest income)	(311,802)	(64,597)
Contributions:		
Employers	4,350,000	3,800,000
Payments from plans:		
Benefit payments	(2,454,616)	(646,653)
Effect of asset from and to associates	(216,726)	(80,079)
Ending balance	₩ 18,585,359	₩ 16,514,917

The principal actuarial assumptions as of December 31, 2014 and 2013, are as follows:

	2014	2013
Discount rate	3.10%	4.20%
Salary growth rate	5.15%	5.15%

Plan assets as of December 31, 2014 and 2013, consist of the following:

<i>(in thousands of Korean won)</i>	2014	2013
Current portion of assets	₩ 4,826,618	₩ 3,296,378
Securities	13,290,391	11,144,266
Loan	-	1,666,355
Others	468,350	407,918
	₩ 18,585,359	₩ 16,514,917

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

The sensitivity of the defined benefit obligations as of December 31, 2014, to changes in the weighted principal assumptions is:

<i>(in thousands of Korean won)</i>	Effect on defined benefit obligation		
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	1%	₩ (1,496,803)	₩ 1,731,766
Salary growth rate	1%	1,672,883	(1,478,210)

The Group reviews the funding level on an annual basis and has a policy to eliminate deficit in the fund.

Expected contributions to post-employment benefit plans for the year ending December 31, 2015, are ₩ 1,416,620 thousand.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2014, is as follows:

<i>(in thousands of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Pension benefits	₩ 1,995,281	₩ 1,899,244	₩ 7,464,552	₩ 11,909,704	₩ 23,268,781

The weighted average duration of the defined benefit obligations is 7.91 years.

24. Deferred Income Tax

Deferred tax assets and deferred tax liabilities as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	₩ 11,029,690	₩ 10,003,306
Deferred tax asset to be recovered after more than 12 months	7,099,570	6,311,615
	<u>18,129,260</u>	<u>16,314,921</u>
Deferred tax liabilities		
Deferred tax liability to be recovered within 12 months	(2,414,679)	(2,845,604)
Deferred tax liability to be recovered after more than 12 months	(138,068,003)	(116,748,355)
	<u>(140,482,682)</u>	<u>(119,593,959)</u>
Deferred tax assets(liabilities), net	₩ 122,353,422	₩ (103,279,038)
Deferred tax assets	₩ 1,006,523	₩ -
Deferred tax liabilities	<u>₩ (123,359,945)</u>	<u>₩ (103,279,038)</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

The gross movement on the deferred income tax account for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Beginning balance	₩ (103,279,038)	₩ (97,252,759)
Exchange differences	14,621	(4,468)
Income statement charge (Note 33)	(17,494,656)	(9,518,527)
Tax charged/(credited) directly to equity (Note 33)	(1,594,349)	3,496,716
Ending balance	₩ (122,353,422)	₩ (103,279,038)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

<i>(in thousands of Korean won)</i>	January 1, 2014	Income statement	Equity	Foreign currency translation	December 31, 2014
Deferred tax assets					
Provision for sales promotion	₩ 195,647	₩ (176,981)	₩ -	₩ -	₩ 18,666
Agent sales	3,896,389	(677,336)	-	-	3,219,053
Loss on valuation of inventories	5,555,188	1,831,863	-	-	7,387,051
Service fees	3,651	-	-	-	3,651
Bad debts expense	182,884	-	-	-	182,884
Impairment loss of available-for-sale financial assets	31,274	-	-	-	31,274
Loss on valuation of available-for-sale financial assets	781,036	-	(781,036)	-	-
Payment guarantee	1,016,198	-	-	-	1,016,198
Interest related to loan for construction	29,061	(1,038)	-	-	28,023
Retirement benefit obligation	3,606,019	(24,755)	582,119	-	4,163,383
Receivables	847,117	-	-	-	847,117
Accrued expenses	169,547	48,839	-	-	218,386
Government grants	-	6,141	-	-	6,141
Others	910	964,420	-	42,103	1,007,433
	<u>₩ 16,314,921</u>	<u>₩ 1,971,153</u>	<u>₩ (198,917)</u>	<u>₩ 42,103</u>	<u>₩ 18,129,260</u>
Deferred tax liabilities					
Accrued income	₩ (53,978)	₩ (9,344)	₩ -	₩ -	₩ (63,322)
Agent cost of goods sold	(2,791,626)	440,269	-	-	(2,351,357)
Advanced depreciation provision	(2,767,789)	-	-	-	(2,767,789)
Investments in subsidiaries and jointly controlled entity	(109,570,616)	(19,330,178)	-	-	(128,900,794)
Gain on valuation of available-for-sale financial assets	-	-	(1,395,432)	-	(1,395,432)
Insurance for retirement	(3,606,019)	(557,364)	-	-	(4,163,383)
Depreciation	(492,184)	6,858	-	(13,965)	(499,291)
Others	(311,747)	(16,050)	-	(13,517)	(341,314)
	<u>₩(119,593,959)</u>	<u>₩ (19,465,809)</u>	<u>₩(1,395,432)</u>	<u>₩ (27,482)</u>	<u>₩(140,482,682)</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

<i>(in thousands of Korean won)</i>	January 1, 2013	Income statement	Equity	Foreign currency translation	December 31, 2013
Deferred tax assets					
Provision for sales promotion	₩ 529,334	₩ (333,687)	₩ -	₩ -	₩ 195,647
Agent sales	3,881,558	14,831	-	-	3,896,389
Loss on valuation of inventories	4,272,726	1,282,462	-	-	5,555,188
Service fees	3,651	-	-	-	3,651
Bad debts expense	182,884	-	-	-	182,884
Impairment loss of available-for-sale financial assets	31,274	-	-	-	31,274
Loss on valuation of available-for-sale financial assets	-	-	781,036	-	781,036
Payment guarantee	635,456	380,742	-	-	1,016,198
Interest related to loan for construction	30,098	(1,037)	-	-	29,061
Retirement benefit obligation	3,308,614	235,283	62,122	-	3,606,019
Receivables	846,976	141	-	-	847,117
Accrued expenses	151,394	18,153	-	-	169,547
Others	13,108	(12,198)	-	-	910
	<u>₩ 13,887,073</u>	<u>₩ 1,584,690</u>	<u>₩ 843,158</u>	<u>₩ -</u>	<u>₩ 16,314,921</u>
Deferred tax liabilities					
Accrued income	₩ (77,491)	₩ 23,513	₩ -	₩ -	₩ (53,978)
Agent cost of goods sold	(2,781,986)	(9,640)	-	-	(2,791,626)
Advanced depreciation provision	(2,767,789)	-	-	-	(2,767,789)
Investments in subsidiaries and jointly controlled entity	(98,875,464)	(10,695,152)	-	-	(109,570,616)
Gain on valuation of available-for-sale financial assets	(2,653,558)	-	2,653,558	-	-
Insurance for retirement	(3,127,364)	(478,655)	-	-	(3,606,019)
Depreciation	(539,765)	56,717	-	(9,136)	(492,184)
Others	(316,415)	-	-	4,668	(311,747)
	<u>₩ (111,139,832)</u>	<u>₩ (11,103,217)</u>	<u>₩ 2,653,558</u>	<u>₩ (4,468)</u>	<u>₩ (119,593,959)</u>

Details of tax loss carryforwards as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013	Remarks
Tax loss carryforwards	₩ 8,486,119	₩ 7,466,561	Uncertainty of future taxable profit

Youngone Corporation and Subsidiaries **Notes to Consolidated Financial Statements** **December 31, 2014 and 2013**

25. Capital Stock

Changes in share capital and premium for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>		No. of shares (unit: shares)	Common stocks	Share premium	Total
January 1, 2013	Beginning balance	₩ 40,811,468	₩ 20,405,734	₩ 334,814,957	₩ 355,220,691
February 6, 2013	Stock issuance ¹	3,500,000	1,750,000	118,452,274	120,202,274
December 31, 2013	Ending balance	<u>44,311,468</u>	<u>22,155,734</u>	<u>453,267,231</u>	<u>475,422,965</u>
January 1, 2014	Beginning balance	<u>44,311,468</u>	<u>22,155,734</u>	<u>453,267,231</u>	<u>475,422,965</u>
December 31, 2014	Ending balance	<u>₩ 44,311,468</u>	<u>₩ 22,155,734</u>	<u>₩ 453,267,231</u>	<u>₩ 475,422,965</u>

¹The Company issued new stocks as approved by Board of Directors on January 31, 2013, and listed its Global Depositary Receipts (GDR) amounting to USD 113,750,000 on the Singapore Exchange Securities Trading Ltd. on February 14, 2013.

The details of share capital and premium for the years ended December 31, 2014 and 2013, are as follows:

<i>(in Korean won, number of shares)</i>	2014	2013
Number of shares authorized to issue	100,000,000	100,000,000
Par value per share	₩ 500	₩ 500
Number of shares outstanding	44,311,468	44,311,468
Capital stock	₩ 22,155,734,000	₩ 22,155,734,000
Share premium	₩ 453,267,231,054	₩ 453,267,231,054

26. Other Components of Equity

The details of other components of equity as of December 31, 2014 and 2013, are as follows:

<i>(in Korean won, number of shares)</i>	2014	2013
Capital surplus		
Other capital adjustment	₩ (21,887,413)	₩ (825,155)
Other comprehensive income (loss)		
Gain(loss) on valuation of available-for-sale financial assets	4,370,817	(2,446,386)
Share in other comprehensive loss of associates accounted for using the equity method	(5,727,160)	(2,681,413)
Currency translation differences	(35,253,280)	(55,837,574)
Actuarial losses	<u>(4,409,006)</u>	<u>(2,585,675)</u>
	<u>(41,018,629)</u>	<u>(63,551,048)</u>
Capital adjustments		
Treasury shares ¹	<u>(2,414)</u>	<u>(2,414)</u>
	<u>₩ (62,908,456)</u>	<u>₩ (64,378,617)</u>

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

¹ Details of treasury shares whose voting power is limited by regulations as of December 31, 2014, are as follows:

Owner	Number of shares	Ownership	Reason for restriction
Treasury shares	289	0.0007%	Commercial Law Article 369, Part II

Changes in accumulated other comprehensive income for the year ended December 31, 2014, is as follows:

<i>(in thousands of Korean won)</i>	Beginning	Increase (Decrease)	Ending
Available-for-sale assets	₩ (2,446,386)	₩ 6,817,203	₩ 4,370,817
Share in other comprehensive loss of associates accounted for using the equity method	(2,681,413)	(3,045,747)	(5,727,160)
Currency translation differences	(55,837,574)	20,584,294	(35,253,280)
Actuarial losses	(2,585,675)	(1,823,331)	(4,409,006)
	<u>₩ (63,551,048)</u>	<u>₩ 22,532,419</u>	<u>₩ (41,018,629)</u>

Changes in accumulated other comprehensive income represent net of tax effect amounts.

27. Retained Earnings

Retained earnings as of December 31, 2014 and 2013, consist of:

<i>(in thousands of Korean won)</i>	2014	2013
Legal reserves ¹	₩ 4,220,000	₩ 3,320,000
Voluntary reserves ²	190,000,000	150,000,000
Unappropriated retained earnings	<u>365,437,584</u>	<u>287,076,644</u>
	<u>₩ 559,657,584</u>	<u>₩ 440,396,644</u>

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

² Voluntary reserves are the retained earnings that are allowed with the approval of the shareholders.

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

28. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014	2013
Salaries	₩ 48,854,575	₩ 40,504,796
Severance benefits	2,868,425	2,401,271
Employee benefits	7,605,355	5,347,804
Travel expense	895,606	559,155
Communications	2,234,784	1,831,517
Utilities	1,219,321	996,883
Tax and duties	2,247,647	1,546,071
Rent expenses	10,704,812	8,665,594
Depreciation	11,912,958	10,127,245
Repairs	1,800,771	1,539,290
Vehicle maintenance	2,660,143	4,654,917
Entertainment	1,066,339	1,152,655
Supplies	1,246,757	950,088
Insurance	3,755,645	2,160,381
Publications	88,897	75,488
Training	177,961	299,868
Service fees	25,166,397	15,787,707
Samples	398,063	173,381
Advertising costs	2,271,336	1,987,833
Transportation	1,002,134	528,572
Exports	4,371,130	4,460,775
Shipping	3,895,559	6,347,782
Amortization	890,593	669,842
Overseas marketing	3,629,783	3,629,254
Packaging	3,686,604	257,629
Overseas trips	2,484,015	2,981,376
Sales promotion	1,007,722	166,931
Miscellaneous expenses	3,351,043	2,560,095
Bad debt expenses (reversal)	461,852	(454,540)
	<u>₩ 151,956,227</u>	<u>₩ 121,909,660</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

29. Other Income and Expenses

Other income for the years ended December 31, 2014 and 2013, consists of:

(in thousands of Korean won)

	2014	2013
Transaction income on derivatives	₩ -	₩ 549,300
Gain on disposal of plant, property and equipment	262,426	474,277
Gain on disposal of intangible assets	2,204	-
Foreign currency gains	5,248,566	3,357,389
Foreign currency transaction gains	23,300,299	20,304,229
Import fees	-	3,237,763
Rental income	50,107	461,799
Claim income	925,518	213,756
Miscellaneous income	2,845,810	2,836,344
	<u>₩ 32,634,930</u>	<u>₩ 31,434,857</u>

Other expenses for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014	2013
Transaction loss on derivatives	₩ -	₩ 1,313,550
Loss on disposals of available-for-sale financial assets	53,140	2,552
Loss on disposal of plant, property and equipment	3,198,715	614,326
Foreign currency losses	5,163,502	4,322,169
Foreign currency transaction losses	18,402,796	20,095,650
Donations	5,639,933	3,729,204
Claim expenses	453,896	792,469
Miscellaneous expenses	2,943,002	1,387,951
	<u>₩ 35,854,984</u>	<u>₩ 32,257,871</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

30. Expenses by Nature

Expenses by nature for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Changes in inventories of finished goods and work in progress	₩ (42,905,963)	₩ (12,996,650)
Raw materials and consumables used	660,489,198	584,917,651
Employee benefit expense (Note 31)	211,697,106	176,969,251
Welfare benefit expenses	15,094,042	11,894,084
Depreciation (Notes 15 and 17)	33,416,878	28,843,301
Amortization (Note 16)	901,581	799,571
Service fees	78,788,498	67,179,221
Shipping	10,918,959	12,974,017
Overseas marketing	3,629,783	3,629,254
Advertising costs	2,271,336	1,987,833
Exports	4,623,880	4,796,878
Sales promotion	1,007,722	166,931
Other expenses	80,901,350	66,277,406
	<u>₩ 1,060,834,370</u>	<u>₩ 947,438,748</u>

31. Employee Benefit Expense

Employee benefit expense for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Short-term employee benefits	₩ 208,828,681	₩ 174,567,980
Severance benefits	2,868,425	2,401,271
	<u>₩ 211,697,106</u>	<u>₩ 176,969,251</u>

32. Financial Income and Costs

Financial income for the years ended December 31, 2014 and 2013, consists of:

<i>(in thousands of Korean won)</i>	2014	2013
Interest income on short-term bank deposits	₩ 2,642,191	₩ 2,300,363
Interest income on loans	-	1,307,191
Dividend income	706,847	630,320
	<u>₩ 3,349,038</u>	<u>₩ 4,237,874</u>

Financial costs for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Interest expense on collateralized borrowings	₩ 775,422	₩ 1,250,093
Interest expense on borrowings and others	3,240,432	1,708,539
	<u>₩ 4,015,854</u>	<u>₩ 2,958,632</u>

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

33. Income Tax Expense

Income tax expense for the years ended December 31, 2014 and 2013, consists of:

(in thousands of Korean won)

	2014	2013
Current tax:		
Current tax on profits for the year	₩ 23,901,395	₩ 26,579,686
Adjustments in respect of prior years	<u>(34,777)</u>	<u>4,773,940</u>
Deferred tax		
Changes of temporary differences (Note 24)	19,089,005	6,021,811
Tax charged/(credited) directly to equity	<u>(1,594,349)</u>	<u>3,496,716</u>
Income tax expense	<u>₩ 41,361,274</u>	<u>₩ 40,872,152</u>

The reconciliation between the net profit before income tax and income tax expense for the years ended December 31, 2014 and 2013, is as follows:

(in thousands of Korean won)

	2014	2013
Profit before tax	₩ 184,678,976	₩ 162,801,515
Tax at the applicable tax rate	₩ 21,317,783	₩ 24,743,985
Tax effects of:		
Expenses not deductible for tax purposes	161,949	204,586
Additional payment of income taxes(refunds)	(34,777)	4,773,940
Tax credit and tax exemption	(175,573)	(929,995)
Tax effect of investments in subsidiaries	19,330,178	11,765,923
Temporary difference for which no deferred tax is recognized	352,628	828,047
Other	409,086	(514,334)
Income tax expense	<u>₩ 41,361,274</u>	<u>₩ 40,872,152</u>

The income tax (charged)/credited directly to equity as of December 31, 2014 and 2013, is as follows:

	2014			2013		
<i>(in thousands of Korean won)</i>	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Fair value gains(losses) from available-for-sale financial assets	₩ 8,993,671	₩ (2,176,468)	₩ 6,817,203	₩ (14,192,537)	₩ 3,434,594	₩ (10,757,943)
Actuarial gains and losses	<u>(2,405,450)</u>	<u>582,119</u>	<u>(1,823,331)</u>	<u>(256,702)</u>	<u>62,122</u>	<u>(194,580)</u>
	<u>₩ 6,588,221</u>	<u>₩ (1,594,349)</u>	<u>₩ 4,993,872</u>	<u>₩ (14,439,239)</u>	<u>₩ 3,496,716</u>	<u>₩ (10,952,523)</u>

The tax rates of subsidiaries at the end of the reporting period are applied differently for each tax authority and the weighted average applicable tax rate is 11.54% (2013: 15.20%).

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

34. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Group and held as treasury shares. Meanwhile, the Group has not issued any dilutive securities. Thus, earnings per share and dilutive earnings per share are the same.

Basic earnings per share for the years ended December 31, 2014 and 2013, is as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Profit attributable to equity holders of the Company	₩128,123,175,228	₩110,503,183,991
Weighted average number of ordinary shares outstanding ¹	44,311,179	43,965,974
Basic earnings per share	₩ 2,891	₩ 2,513

¹Weighted average number of common stock outstanding

<i>(in number of shares)</i>	2014	2013
Number of common stock outstanding	44,311,468	40,811,468
Stock issuance	-	3,154,795
Weighted average number of treasury shares	289	289
Weighted average number of common stock outstanding	44,311,179	43,965,974

35. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2014 and 2013, is as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Net income	₩ 143,317,702	₩ 121,929,363
Adjustments for		
Tax expense	₩ 41,361,274	₩ 40,872,152
Interest income	(2,642,191)	(3,607,554)
Dividend income	(706,847)	(630,320)
Interest expense	4,015,854	2,958,632
Depreciation	33,416,878	28,843,301
Amortization	901,581	799,571
Provision for severance benefits	2,868,425	2,401,271
Gain on disposal of property, plant and equipment	(262,426)	(474,277)
Loss on disposal of property, plant and equipment	3,198,715	614,326
Gain on disposal of intangible assets	(2,204)	-
Miscellaneous losses	-	165
Reversal of allowance for bad debts	461,852	-
Bad debt expenses	-	(454,540)
Gain on foreign currency translation	(5,248,566)	(3,357,389)
Loss on foreign currency translation	5,163,502	4,322,169
Transaction income on derivatives	-	(549,300)
Transaction loss on derivatives	-	1,313,550
Gain on investments in joint ventures	(5,565,431)	(3,192,960)

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Loss on investments in joint ventures	2,501,164	1,635,720
Loss on disposal of available-for-sale financial assets	53,140	2,551
	<u>79,514,720</u>	<u>71,497,068</u>
Changes in operating assets and liabilities		
Decrease(increase) in accounts receivable	6,730,613	(43,303,822)
Increase in inventories	(25,463,688)	(12,611,460)
Decrease(increase) in other receivables	(2,175,847)	384,710
Increase in other current assets	(517,352)	(6,090,233)
Decrease(increase) in other non-current assets	999,242	(2,043,809)
Increase(decrease) in accounts payable	26,081,523	(2,922,742)
Increase in provisions for other liabilities and charges	1,651,822	836,235
Increase(decrease) in other current payables	(10,471,046)	11,757,459
Increase(decrease) in other current liabilities	1,948,096	(1,144,182)
Decrease in net defined benefit liabilities	(4,491,836)	(4,053,972)
Increase in other non-current payables	735,355	-
	<u>(4,973,118)</u>	<u>(59,191,816)</u>
Cash generated from operations	<u>₩ 217,859,304</u>	<u>₩ 134,234,615</u>

Significant non-cash transactions for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>	2014	2013
Gain(loss) on valuation of available-for-sale financial assets	₩ 8,993,671	₩ (14,192,537)
Reclassification from construction-in-progress	6,885,858	64,176,240
Reclassification from plant, property and equipment to investment property	-	21,142,168
Reclassification from investment property to plant, property and equipment	25,885,245	-

36. Contingencies and Commitment

The Group's major agreements with financial institutions as of December 31, 2014, are as follows:

(only Korean won in the thousands)

	Financial institution	Credit line	Outstanding Balance
Overdrafts	KRW	7,000,000	KRW -
Borrowings	KRW	20,000,000	KRW 13,000,000
Borrowings in foreign currency	USD	15,000,000	USD 15,000,000
Trade finance	KRW	3,000,000	KRW -
L/C	Woori Bank and others	USD 33,000,000	USD 867,000
D/A,O/A	USD	165,000,000	USD 13,928,000
FX	USD	30,000,000	USD -
E-bill	KRW	10,000,000	KRW 2,177,680
Stand-by credit	USD	18,100,000	USD 18,100,000

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

Payment guarantees	USD	129,000,000	USD	108,000,000
Comprehensive limit	USD	30,000,000	USD	2,443,000

The subsidiary's major agreements with financial institutions as of December 31, 2014, are as follows:

(in US,CA dollars)

	Financial institution	Credit line	Outstanding Balance
Short-term borrowings			USD 11,860,806
Overdrafts	Standard Chartered Bank and others	USD ¹ 144,000,000	USD 47,570
L/C			USD 293,622
FX	USD	2,400,000	USD -
FX	CAD	2,450,000	CAD -

¹ USD 18,000,000 and USD 20,000,000 out of USD 144,000,000 are only available for overdrafts and short-term borrowing, respectively, while USD 106,000,000 is available for overdrafts, L/C and short-term borrowings.

37. Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2014 and 2013, is as follows:

(in thousands of Korean won)

(in thousands of Korean won)	2014												
	Non-controlling interest rate (%)		Accumulated non- controlling interests at the beginning of the year		Profit or loss allocated to non- controlling interests		Dividends paid to non- controlling interests		Other components of equity paid to non-controlling interests		Equity transaction with shareholders		Accumulated non-controlling interests at the end of the year
YCL	8.39%	₩	12,695,754	₩	3,714,491	₩	-	₩	549,521	₩	(8,376,033)	₩	8,583,733
YSL	9.21%		3,963,819		-		-		119,606		(1,908,354)		2,175,071
KSL	5.07%		4,401,352		960,650		-		171,552		(2,635,477)		2,898,077
YHT	27.00%		28,785,612		10,364,567		-		1,301,277		(19,656,696)		20,794,760
MSH	20.00%		-		154,819		-		2,137		2,399,634		2,556,590

(in thousands of Korean won)

(in thousands of Korean won)	2013											
	Non- controlling interest rate (%)	Accumulated non- controlling interests at the beginning of the year	Profit or loss allocated to non- controlling interests	Dividends paid to non- controlling interests	Other components of equity paid to non-controlling interests	Equity transaction with shareholders	Accumulated non-controlling interests at the end of the year					
YCL	16.20%	₩ 9,862,179	₩ 2,754,274	₩ -	₩ 79,301	₩ -	₩ 12,695,754					
YSL	18.33%	3,906,734	-	-	57,084	-	3,963,818					
KSL	10.90%	3,483,602	890,557	-	27,194	-	4,401,353					
YHT	53.71%	21,055,151	7,617,125	-	113,336	-	28,785,612					

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

The summarized financial information for each subsidiary with non-controlling interests that are material to the Group before inter-company eliminations is as follows:

Assets, liabilities and equity of subsidiaries as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014				
	YCL	YSL	KSL	YHT	MSH
Current assets	₩116,668,082	₩20,967,796	₩69,446,468	₩68,298,767	₩31,953,742
Non-current assets	38,406,382	1	7,108,626	28,185,007	18,661,654
	<u>155,074,464</u>	<u>20,967,797</u>	<u>76,555,094</u>	<u>96,483,774</u>	<u>50,615,396</u>
Current liabilities	54,279,843	42,864	24,055,554	22,890,754	26,290,295
Non-current liabilities	-	-	-	-	10,415,435
	<u>54,279,843</u>	<u>42,864</u>	<u>24,055,554</u>	<u>22,890,754</u>	<u>36,705,730</u>
Equity	<u>₩100,794,621</u>	<u>₩20,924,933</u>	<u>₩52,499,540</u>	<u>₩73,593,020</u>	<u>₩13,909,666</u>

(in thousands of Korean won)

	2013				
	YCL	YSL	KSL	YHT	
Current assets	₩ 94,249,506	₩ 20,310,094	₩ 61,552,509	₩ 60,911,386	
Non-current assets	36,716,578	1	7,485,114	17,602,872	
	<u>130,966,084</u>	<u>20,310,095</u>	<u>69,037,623</u>	<u>78,514,258</u>	
Current liabilities	55,704,469	37,781	27,759,119	26,641,297	
Non-current liabilities	-	-	-	-	
	<u>55,704,469</u>	<u>37,781</u>	<u>27,759,119</u>	<u>26,641,297</u>	
Equity	<u>₩ 75,261,615</u>	<u>₩ 20,272,314</u>	<u>₩ 41,278,504</u>	<u>₩ 51,872,961</u>	

Sales, profit (loss) and comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014				
	YCL	YSL	KSL	YHT	MSH
Sales	₩173,359,325	₩ -	₩92,572,674	₩127,857,377	₩45,114,293
Profit or loss for the year	22,242,461	104	9,520,816	19,297,276	1,455,649
Other comprehensive income	<u>3,290,544</u>	<u>652,515</u>	<u>1,700,221</u>	<u>2,422,783</u>	<u>505,826</u>
Total comprehensive income	<u>₩ 25,533,005</u>	<u>₩ 652,619</u>	<u>₩11,221,037</u>	<u>₩21,720,059</u>	<u>₩ 1,961,475</u>

(in thousands of Korean won)

	2013				
	YCL	YSL	KSL	YHT	
Sales	₩ 162,047,155	₩ -	₩ 95,306,798	₩ 107,536,665	
Profit or loss for the year	16,492,657	-	8,826,130	14,180,550	
Other comprehensive income	<u>474,856</u>	<u>311,425</u>	<u>269,513</u>	<u>211,013</u>	
Total comprehensive income	<u>₩ 16,967,513</u>	<u>₩ 311,425</u>	<u>₩ 9,095,643</u>	<u>₩ 14,391,563</u>	

Summarized cash flows activities for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)

	2014				
	YCL	YSL	KSL	YHT	MSH
Cash flows from operating activities	₩10,659,822	₩ 2,760	₩20,704,030	₩12,688,141	₩ 336,041
Cash flows from investing activities	(4,264,197)	-	(714,514)	(11,675,980)	(9,105,457)

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

Cash flows from financing activities	-	-	(17,528,743)	-	9,357,985
Net increase in cash and cash equivalents	6,395,625	2,760	2,460,773	1,012,161	588,569
Cash and cash equivalents at beginning of year	4,878,578	261,655	2,693,796	1,918,578	-
Exchange gains on cash and cash equivalents	406,637	8,530	182,744	101,257	25,695
Cash and cash equivalents at end of year	<u>₩11,680,840</u>	<u>₩ 272,945</u>	<u>₩ 5,337,313</u>	<u>₩ 3,031,996</u>	<u>₩ 614,264</u>

(in thousands of Korean won)

	2013			
	YCL	YSL	KSL	YHT
Cash flows from operating activities	₩ 5,339,743	₩ (718,659)	₩ 3,359,247	₩ (2,698,117)
Cash flows from investing activities	(8,479,728)	-	(1,673,625)	(3,211,504)
Cash flows from financing activities	-	-	(1,167,432)	-
Net increase (decrease) in cash and cash equivalents	(3,139,985)	(718,659)	518,190	(5,909,621)
Cash and cash equivalents at beginning of year	7,813,903	946,606	2,155,630	7,554,596
Exchange gains on cash and cash equivalents	204,660	33,708	19,976	273,603
Cash and cash equivalents at end of year	<u>₩ 4,878,578</u>	<u>₩ 261,655</u>	<u>₩ 2,693,796</u>	<u>₩ 1,918,578</u>

Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the years ended December 31, 2014 and 2013:

(in thousands of Korean won)

	2014	2013
Acquisition of additional interests in a subsidiary ¹	₩ (18,166,298)	₩ -
Changes in interests of a subsidiary ²	(2,895,959)	-
Net effect on parent's equity	<u>₩ (21,062,257)</u>	<u>₩ -</u>

¹ The Group acquired 26.71% of interests in YHT, a subsidiary, for ₩51,254,824 thousand on December 26, 2014. Therefore, the Group has 73% interest in YHT. The carrying amount of the non-controlling interests in YHT on the date of acquisition of ₩ 31,088,526 thousand was derecognized. Accordingly, the Group recorded a decrease in equity attributable to the owners of the Parent of ₩ 18,166,298 thousand.

² In December 2014, YHT, in which the Group holds 73% equity interest, acquired 20% of the shares of AAI through the stock issuance. Accordingly, the non-controlling interests have changed.

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

38. Related Party Transactions

Related parties of the Group as of December 31, 2014 and 2013, are as follows:

	Name
Parent Company	Youngone Holdings Co., Ltd.
Jointly controlled entities	GGL, DTI
Associate	SCOTT Corporation
Others	Youngone Outdoor, KEPZ ¹ , PBI ² , Qweto GmbH, YMSA, Scott North Asia Ltd., SCOTT JAPAN INC., S-13 ³ , PBL ⁴ , DTV ⁵

¹ KOREAN EPZ(KEPZ) CORPORATION(BD) LIMITED

² POIVRE BLANC INTERNATIONAL AG.

³ POIVRE BLANC S-13

⁴ POIVRE BLANC LOGISTICS.

⁵ DESIGNER TEXTILES VIETNAM

Significant transactions with related parties for the years ended December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)		Sales		Purchases		Others ¹	
		2014	2013	2014	2013	2014	2013
Parent company	Youngone Holdings Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 10,588,084	₩ 8,383,704
Jointly controlled entities	GGL	-	-	-	-	-	1,182,390
	DTI	-	-	23,627,276	11,504,081	50,659	909,625
Associate	SCOTT	8,691,589	3,578,047	-	-	-	45,812,025
Other	YMSA ²	537,647	1,734	24,767,582	28,108,177	51,326,647	50,894
	Youngone Outdoor	93,734,820	89,215,464	42,739,560	19,867,577	2,500,448	3,705,568
	Scott North Asia Ltd.	165,528	34,488	-	-	34,937	21,826
	DTV	-	-	-	-	1,189,597	655,836
	KEPZ	12,415	786,160	1,934,214	879,384	-	-
	PBI ³	4,700,326	4,572,497	5,015	116,250	-	23,521
		<u>₩ 107,842,325</u>	<u>₩ 98,188,390</u>	<u>₩ 93,073,647</u>	<u>₩ 60,475,469</u>	<u>₩ 65,690,372</u>	<u>₩ 60,745,389</u>

¹ Others include investment amount.

² Other transactions for YMSA include the acquisition amount of ₩ 51,254,824 thousand for YHT's shares.

³ Financial information including S-13 and PBL.

The balances of significant transactions as of December 31, 2014 and 2013, are as follows:

(in thousands of Korean won)		Receivables		Payables	
		2014	2013	2014	2013
Parent company	Youngone Holdings Co., Ltd.	₩ 1,250,066	₩ 1,264,187	₩ 151,598	₩ 2,557,572
Associate	SCOTT	2,152,724	2,043,430	-	-
Other	YMSA	319,496	116,600	1,148,220	995,086
	Youngone Outdoor	6,114,687	16,511,932	40,578,494	15,249,177
	Scott North Asia Ltd.	7,789	3,576	10,000	10,000
	DTV	4,907	287,208	-	-

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

KEPZ	28,728,668	25,698,010	591,588	1,421,696
PBI ¹	3,616,560	642,279	-	-
	<u>₩ 42,194,897</u>	<u>₩ 46,567,222</u>	<u>₩ 42,479,900</u>	<u>₩ 20,233,531</u>

¹ Financial information including S-13 and PBL.

Loans to related parties as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>		2014	2013
Other	KEPZ	₩ 26,689,908	₩ 25,613,994

No provisions are made for loans to related parties.

Borrowings from related parties as of December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>		2014	2013
Other	KEPZ	₩ 165,605	₩ 1,094,253

Fund transactions with related parties for the years ended December 31, 2014 and 2013, are as follows:

<i>(in thousands of Korean won)</i>		2014				
		Loan transactions		Borrowing transactions		Equity contributions in cash
		Loans	Collections	Borrowings	Repayments	
Other related parties	KEPZ	₩ 3,376,541	₩ 1,209,642	₩ -	₩ 927,663	₩ -
<i>(in thousands of Korean won)</i>		2013				
		Loan transactions		Borrowing transactions		Equity contributions in cash
		Loans	Collections	Borrowings	Repayments	
Associate	SCOTT	₩ -	₩ -	₩ -	₩ -	₩ 45,812,000
Jointly controlled entities	GGL	-	-	-	-	1,182,390
	DTI	-	828,189	-	-	-
Other related parties	KEPZ	4,164,697	1,555,593	1,097,015	-	-
		<u>₩ 4,164,697</u>	<u>₩ 2,383,782</u>	<u>₩ 1,097,015</u>	<u>₩ -</u>	<u>₩ 46,994,390</u>

Key management compensation for the years ended December 31, 2014 and 2013, consists of:

<i>(in thousands of Korean won)</i>		2014	2013
Salaries		₩ 3,384,274	₩ 2,783,741
Retirement benefits		498,333	347,743

Youngone Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

The pledges and guarantees for related parties provided by the Group as of December 31, 2014 and 2013, are as follows:

<i>(in US dollars)</i>	Guaranteed amount		Guarantee for
	2014	2013	
DTI	USD 3,000,000	USD 3,000,000	Stand-by credit Borrowings
DTV	USD -	USD 1,500,000	
	<u>USD 3,000,000</u>	<u>USD 4,500,000</u>	

39. Business Combinations

The Group acquired a business of OUTDOOR RESEARCH, LLC. on April 4, 2014.

The goodwill of ₩ 4,196,071 thousand arising from the acquisition is attributable to the economies of scale expected from the customer base acquired by combining the operations of the Group and OUTDOOR RESEARCH, LLC.

None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for OUTDOOR RESEARCH, LLC., the fair value of assets acquired, liabilities assumed at the acquisition date:

(in thousands of Korean won)

Consideration	
Cash	₩ 9,655,782
Contingent consideration	<u>4,228,000</u>
	<u>₩ 13,883,782</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	₩ 892,903
Trade and other receivables	12,256,879
Inventories	13,228,557
Property, plant and equipment	3,062,842
Intangible assets	10,175,739
Other assets	795,771
Trade and other payables	(3,895,074)
Borrowings	(22,171,301)
Other liabilities	(2,049,446)
Deferred tax liabilities	<u>(209,525)</u>
	<u>12,087,345</u>
Non-controlling interest	(2,399,634)
Goodwill	<u>4,196,071</u>
	<u>₩ 13,883,782</u>

The contingent consideration arrangement requires the Group to pay additional USD 1 million to USD 4 million to OUTDOOR RESEARCH, LLC. when the revenue and EBITDA in 2014 are in

Youngone Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

excess of USD 52,000 thousand and USD 3,625 thousand, respectively.

If OUTDOOR RESEARCH, LLC. had been consolidated from January 1, 2014, the consolidated statement of income would show an additional revenue of ₩ 17,299,261 thousand and a net loss of ₩ 348,055 thousand. After being consolidated, a revenue and net profit arising from OUTDOOR RESEARCH, LLC. are ₩ 44,482,361 thousand and ₩ 1,378,047 thousand, respectively.

40. Event After the Reporting Period

As approved by the Board of Directors on January 23, 2015, the Group entered into a purchase agreement with Scott Corporation SA to purchase 30.01% of its shares, amounting to USD 100,000,000, to be classified as an investment in associate, in order to expand the sports brand business in the global market. The percentage of ownership after the purchase will be 50.01%, and the acquisition is expected to be completed upon the payment before March 31, 2015.