

AMOREPACIFIC Corporation and Subsidiaries

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

AMOREPACIFIC Corporation and Subsidiaries
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December 31, 2021 and 2020

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of AMOREPACIFIC Corporation

Opinion

We have audited the accompanying consolidated financial statements of AMOREPACIFIC Corporation and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

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

Key Audit Matters

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

(1) Valuation of merchandise and finished goods inventories

Why this matter was determined to be a key audit matter

As described in Note 8 to the consolidated financial statements, the Group's inventories comprise of merchandise and finished goods amount to ₩ 346,673 million as at December 31, 2021. The inventories are initially measured at cost and write-down should be recognized if the inventories are damaged, become wholly or partially obsolete, or if expected net realisable value is below the cost. We considered the valuation of merchandise and finished goods inventories as a significant matter in our audit because significant judgements of management are involved in determining obsolescence of the merchandise and finished goods inventories.

How our audit addressed the Key Audit Matter

We performed the following audit procedures for the Group's inventory valuation.

- Obtained and understood the accounting policy on inventory valuation of the Group and tested its appropriateness.
- Obtained an understanding of the management's process and controls on estimation of inventory valuation and confirmed whether it is in compliance with the accounting policies.
- Recalculated the valuation provision on merchandise and finished goods provided by the Group.
- Tested selected samples for the accuracy and completeness of merchandise and finished goods aging reports.
- Confirmed the accuracy of historical experience rate calculation used by the Group to estimate the provision for valuation due to obsolescence of the merchandise and finished goods inventories.
- Confirmed the accuracy of components of merchandise and finished goods inventories' net realizable value estimated by the Group; such as selling prices, incidental expenses and other.

(2) Impairment Test on Cash Generating Units including AMOREPACIFIC AUSTRALIA PTY LTD.

Why this matter was determined to be a key audit matter

As at December 31, 2021, the Group has determined that there are indications of impairment due to continuous decline in performance of the two cash-generating units such as AMOREPACIFIC AUSTRALIA PTY LTD and AMOREPACIFIC Trading Co., Ltd. The Group performed impairment tests on the cash-generating units including AMOREPACIFIC AUSTRALIA PTY LTD. using value-in-use calculations based on discounted cash flow. We determined accounting for the above impairments of cash generating units as a key audit because the value-in-use involves management's significant judgements and estimates about discount rate, growth rate and future cash flow forecasts. Details are described in Note 1.3 to the consolidated financial statements of the Group.

How our audit addressed the Key Audit Matter

We performed the following audit procedures for the valuation model, key assumptions, and judgments related to the recoverable amount assessment for AMOREPACIFIC AUSTRALIA PTY LTD, and others. We included expert in value assessment when performing audit procedure.

- Evaluated the competency and independence of external experts engaged by management.
- Understands the future cash flows of the cash-generating units and reviewed whether the future cash flow estimate is based on the business plan approved by management.
- Assessed the reasonableness of the key assumptions used in estimating recoverable amount.
- Compared the discount rates that are independently calculated using an observable information with the discount rates applied by management
- Evaluated the results of a sensitivity analysis on the discount rates performed by management to assess the impact of changes in key assumptions on the impairment tests
- Reviewed the accuracy of the recoverable amount calculation and the appropriateness of the allocation of the impairment loss.
- Assessed the completeness of disclosures related to asset impairment of the Group, including the criteria for determining recoverable amount and the key assumptions used by the Group.

Emphasis of Matter

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

Other Matter

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting

and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Seoul, Korea
March 16, 2022

This report is effective as at March 16, 2022, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2021 and 2020

(in thousands of Korean won)

	Notes	2021	2020
Assets			
Current assets			
Cash and cash equivalents	5,6,7,33,36	₩ 537,693,631	₩ 793,728,286
Financial deposits	5,34	101,825,500	57,882,300
Financial assets at fair value through profit or loss	5,7,37	490,839,332	166,463,243
Trade receivables	5,7,35	295,769,466	283,770,117
Other receivables	5,7,35	41,647,243	24,723,687
Current tax assets		3,330,887	19,235,956
Other current assets	5,15	50,130,930	65,445,878
Inventories	8	493,223,643	414,482,961
Non-current assets held-for sale	13	4,066,226	-
		<u>2,018,526,858</u>	<u>1,825,732,428</u>
Non-current assets			
Financial deposits	5,34	19,512,730	17,556,865
Other receivables	5,7,35	115,162,575	100,546,922
Financial assets at fair value through profit or loss	5,7,37	104,256,384	1,128,984
Financial assets at amortized costs	5,7,37	811,275	2,125,075
Financial assets at fair value through other comprehensive income	5,7,37	4,672,325	705,503
Property, plant and equipment	10	2,541,362,151	2,566,328,198
Investment properties	12,37	534,228,580	488,815,300
Right-of-use assets	14	146,465,714	227,453,264
Intangible assets	11	201,680,030	208,773,970
Investments in associates	9	238,445,369	52,514,140
Net defined benefit assets	20	94,729,521	110,633,428
Deferred tax assets	26	84,608,400	82,890,359
Other non-current assets	15	12,252,021	16,713,739
		<u>4,098,187,075</u>	<u>3,876,185,747</u>
Total assets		<u>₩ 6,116,713,933</u>	<u>₩ 5,701,918,176</u>
Liabilities			
Current liabilities			
Trade payables	5,35,36	₩ 123,410,292	₩ 117,617,731
Borrowings	5,16,36	199,124,083	154,160,189
Other payables	5,35,36	324,998,427	275,762,505
Current tax liabilities		89,962,740	6,097,005
Contract liabilities	18	37,465,486	42,275,346
Provisions	17	8,906,185	8,652,202
Current lease liabilities	14,35,36	94,760,914	132,867,106
Other current liabilities	5,19	278,857,266	228,514,629
		<u>1,157,485,393</u>	<u>965,946,713</u>
Non-current liabilities			
Net defined benefit liabilities	20	4,059,129	3,831,674
Deferred tax liabilities	26	79,488,075	90,075,514
Provisions	17	11,556,811	18,617,523
Non-current lease liabilities	14,35,36	96,221,154	133,748,489
Other non-current liabilities	5,19	23,603,492	25,300,518
		<u>214,928,661</u>	<u>271,573,718</u>
Total liabilities		<u>1,372,414,054</u>	<u>1,237,520,431</u>
Equity			
Share capital	1,21	34,525,295	34,508,160
Share premium	21	720,480,827	712,701,764
Capital surplus		75,352,827	10,807,414
Other components of equity	21	(19,004,134)	(117,631,782)
Accumulated other comprehensive income	23	11,879,037	(20,278,648)
Retained earnings	24	3,937,774,555	3,847,747,137
Equity attributable to owners of the Parent Company		<u>4,761,008,407</u>	<u>4,467,854,045</u>
Non-controlling interest		<u>(16,708,528)</u>	<u>(3,456,301)</u>
Total equity		<u>4,744,299,878</u>	<u>4,464,397,744</u>
Total liabilities and equity		<u>₩ 6,116,713,933</u>	<u>₩ 5,701,918,176</u>

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

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

(in thousands of Korean won, except per share amounts)

	Notes	2021	2020
Revenue	4,27,35	₩ 4,863,128,497	₩ 4,432,179,039
Cost of sales	28,35	1,362,639,202	1,265,398,065
Gross profit		3,500,489,295	3,166,780,974
Selling and administrative expenses	28,29	3,157,131,485	3,023,771,855
Operating profit		343,357,810	143,009,119
Finance income	5,30	10,499,110	11,882,548
Finance costs	5,30	11,410,260	17,026,833
Other non-operating losses, net	5,31	(45,496,829)	(113,231,972)
Share of net profit of associates	9	927,626	660,160
		(45,480,353)	(117,716,097)
Profit before income tax		297,877,457	25,293,022
Inc Proceeds from disposal of non-current assets held-for-sale	26	117,019,763	3,424,010
Profit for the period		₩ 180,857,694	₩ 21,869,012
Profit is attributable to:			
Owners of the Parent Company		₩ 193,680,579	₩ 35,132,160
Non-controlling interests		₩ (12,822,885)	₩ (13,263,148)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	20,26	(47,369,483)	7,379,174
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	23,26	109,286	(306,780)
Items that may be subsequently reclassified to profit or loss:			
Share of other comprehensive income of associates	9,23,26	260,637	141,746
Exchange differences on transaction of foreign operations	23,26	31,358,419	5,027,564
Other comprehensive income for the period, net of tax		(15,641,141)	12,241,704
Total comprehensive income for the period		₩ 165,216,553	₩ 34,110,716
Total comprehensive income (loss) for the period is attributable to:			
Owners of the Parent Company		178,468,780	46,911,291
Non-controlling interests		(13,252,227)	(12,800,575)
		₩ 165,216,553	₩ 34,110,716
Earnings per share attributable to owners of the Parent Company			
Basic earnings per ordinary share		₩ 2,820	₩ 512
Diluted earnings per ordinary share		2,818	512
Basic earnings per preferred share		2,821	517
Diluted earnings per preferred share		₩ 2,821	₩ 517

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

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2021 and 2020

(in thousands of Korean won)

	Attributable to owners of the Parent Company						Non-controlling interest	Total equity
	Share capital	Share premium	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings		
Balance at January 1, 2020	₩ 34,508,160	₩ 712,701,764	₩ 10,807,414	₩ (117,631,782)	₩ (24,678,606)	₩ 3,873,789,579	₩ 9,344,274	₩ 4,498,840,803
Comprehensive income								
Profit for the period	-	-	-	-	-	35,132,160	(13,263,148)	21,869,012
Remeasurements of net defined benefit liabilities	-	-	-	-	-	7,379,174	-	7,379,174
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	(306,780)	-	-	(306,780)
Share of other comprehensive income of associates	-	-	-	-	127,571	-	14,175	141,746
Exchange differences on transaction of foreign operations	-	-	-	-	4,579,166	-	448,398	5,027,564
Total comprehensive income for the period	-	-	-	-	4,399,957	42,511,334	(12,800,575)	34,110,716
Transactions with owners								
Dividends paid	-	-	-	-	-	(68,553,775)	-	(68,553,775)
Total transactions with owners	-	-	-	-	-	(68,553,775)	-	(68,553,775)
Balance at December 31, 2020	₩ 34,508,160	₩ 712,701,764	₩ 10,807,414	₩ (117,631,782)	₩ (20,278,649)	₩ 3,847,747,138	₩ (3,456,301)	₩ 4,464,397,744
Balance at January 1, 2021	₩ 34,508,160	₩ 712,701,764	₩ 10,807,414	₩ (117,631,782)	₩ (20,278,649)	₩ 3,847,747,138	₩ (3,456,301)	₩ 4,464,397,744
Comprehensive income								
Profit for the period	-	-	-	-	-	193,680,579	(12,822,885)	180,857,694
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(47,369,483)	-	(47,369,483)
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	109,286	-	-	109,286
Share of other comprehensive income of associates	-	-	-	-	255,539	-	5,098	260,637
Exchange differences on transaction of foreign operations	-	-	-	-	31,792,861	-	(434,441)	31,358,420
Total comprehensive income for the period	-	-	-	-	32,157,686	146,311,096	(13,252,228)	165,216,554
Transactions with owners								
Dividends paid	-	-	-	-	-	(54,853,570)	-	(54,853,570)
Stock issuance	17,135	7,779,063	-	-	-	-	-	7,796,198
Disposal of treasury shares	-	-	14,558,249	101,259,271	-	-	-	115,817,520
Acquisition of treasury shares	-	-	-	(18,685,151)	-	-	-	(18,685,151)
Changes in scope of consolidation	-	-	49,987,164	-	-	(1,430,109)	-	48,557,055
Others	-	-	-	16,053,528	-	-	-	16,053,528
Total transactions with owners	17,135	7,779,063	64,545,413	98,627,648	-	(56,283,679)	-	114,685,580
Balance at December 31, 2021	₩ 34,525,295	₩ 720,480,827	₩ 75,352,827	₩ (19,004,134)	₩ 11,879,037	₩ 3,937,774,555	₩ (16,708,529)	₩ 4,744,299,878

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

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

<i>(in thousands of Korean won)</i>	Notes	2021	2020
Cash flows from operating activities	33		
Cash generated from operations	₩	714,854,553	₩ 670,456,655
Interest received		4,026,044	4,028,242
Interest paid		(9,899,193)	(16,008,008)
Income tax paid		(17,546,993)	(104,118,164)
Net cash inflow from operating activities		<u>691,434,410</u>	<u>554,358,724</u>
Cash flows from investing activities			
Net decrease in current financial deposits		-	12,162,100
Proceeds from disposal of financial assets at fair value through profit or loss		1,184,086	2,991,230
Decrease in other receivables		31,526,378	45,815,639
Decrease in non-current financial deposits		-	353,988
Proceeds from disposal of financial assets at amortized costs		1,313,800	6,260
Proceeds from disposal of property, plant and equipment	10	3,276,023	24,769,904
Proceeds from disposal of intangible assets	11	414,580	349,270
Proceeds from disposal of investment property		4,226,484	-
Dividends income from associates	9	-	3,750
Net cash inflows due to business combination and others		44,874,438	-
Other cash inflow		11,434,877	-
Net increase in current financial deposits		(43,094,000)	-
Increase in financial assets at fair value through profit or loss		(425,223,673)	(23,523,395)
Payments for financial assets at fair value through other comprehensive income		(3,000,080)	-
Increase in other receivables		(29,564,011)	(3,826,463)
Increase in non-current financial deposits		(1,503,003)	(1,500,003)
Payments for property, plant and equipment	10	(91,182,844)	(183,021,788)
Payments for intangible assets	11	(29,815,784)	(31,983,792)
Increase in right-of-use assets	14	(26,671)	(2,270)
Increase in investments in associates	9	(183,255,852)	(49,003,272)
Net cash outflow from investing activities		<u>(708,415,252)</u>	<u>(206,408,842)</u>
Cash flows from financing activities			
Proceeds from short-term borrowings	33	17,070,111	110,605,478
Receipt of leasehold deposits		5,297,434	578,240
Repayments of short-term borrowings	33	(33,166,492)	(49,138,368)
Acquisition of treasury shares	1	(18,685,151)	-
Payments for lease liabilities	14,33	(140,273,953)	(206,758,281)
Dividends paid	25	(54,834,268)	(68,530,024)
Redemption of leasehold deposits		(1,388,650)	(2,744,349)
Net cash outflow from financing activities		<u>(225,980,969)</u>	<u>(215,987,304)</u>
Effects of exchange rate changes on cash and cash equivalents		(13,072,846)	(11,814,669)
Net increase (decrease) in cash and cash equivalents		<u>(256,034,657)</u>	<u>120,147,909</u>
Cash and cash equivalents at the beginning of the year		<u>793,728,286</u>	<u>673,580,375</u>
Cash and cash equivalents at the end of the year	₩	<u>537,693,631</u>	₩ <u>793,728,286</u>

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

AMOREPACIFIC Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

1. General Information

General information of AMOREPACIFIC Corporation (referred to as “the Company”), which is the Parent Company in accordance with Korean IFRS 1110 *Consolidated Financial Statements* and its 27 subsidiaries (collectively referred to as “the Group”), is as follows.

1.1 General Information

The Company was split-off from AMOREPACIFIC Group, Inc. on June 1, 2006, to engage in manufacturing, marketing and trading of cosmetics, personal care goods, food and other related products.

As at December 31, 2021, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office, twenty-four overseas local subsidiaries including AMOREPACIFIC Global Operations Limited., located in Hong Kong, and three domestic subsidiaries.

As at December 31, 2021, the Company's share capital is ₩ 34,525 million, including ₩ 5,279 million of capital from preferred share. The Company is authorized to issue 275,000,000 shares of stock.

Preferred shareholders have no voting rights and are entitled to non-cumulative and non-participating preferred dividend at a rate of 1% over those provided to ordinary shareholders. This preferred dividend rate is not applicable to share dividend; accordingly, in calculating earnings per share for preferred shares, a different dividend rate is used.

The Parent Company's ordinary shareholders as at December 31, 2021, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group, Inc.	22,250,869	38
Kyung-Bae Suh	6,264,450	11
Others ¹	29,977,440	51
	<u>58,492,759</u>	<u>100</u>

¹ Including 107,817(2020: 509,088) treasury shares

AMOREPACIFIC Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2021 and 2020

1.2 Consolidated Subsidiaries

The Company's consolidated subsidiaries as at December 31, 2021, are as follows:

Shareholder	Subsidiaries	Primary business	Share capital (in millions of Korean won)	Percentage of ownership(%)	Year end	Location
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited.	Holding company and marketing of cosmetics	₩ 201,910	90.00	Dec.31	Hong Kong
AMOREPACIFIC Corporation	AMORE Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	64,299	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Manufacturing and R&D of cosmetics	41,690	100.00	Dec.31	Malaysia
AMOREPACIFIC Corporation	We-Dream Co., Ltd.	Packaging of products and managing of facilities	406	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	Core Technology Corporation.	Manufacturing of industrial machinery	1,250	80.00	Dec.31	Korea
AMOREPACIFIC Corporation	COSVISION CO.,LTD	Manufacturing and sales of cosmetics, cleaner and organic and inorganic chemicals	18,875	100.00	Dec.31	Korea
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Trading Co.,Ltd.	Sales of cosmetics	9,456	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Hong Kong Co.,Limited ¹	Sales of cosmetics	12	100.00	Dec.31	Hong Kong
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Taiwan Co.,Ltd.	Sales of cosmetics	13,414	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC SINGAPORE PTE Co Ltd.	Sales of cosmetics	25,861	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC MALAYSIA SDN. BHD.	Sales of cosmetics	9,415	100.00	Dec.31	Malaysia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC (Thailand) LIMITED	Sales of cosmetics	23,021	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Sales of cosmetics	8,584	2.29 97.71	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Vietnam LTD.	Sales of cosmetics	10,367	100.00	Dec.31	Vietnam
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC PHILIPPINES, INC.	Sales of cosmetics	3,633	100.00	Dec.31	Philippines
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC US, INC.	Sales of cosmetics	61,262	100.00	Dec.31	United States
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC CANADA INC.	Sales of cosmetics	2,497	100.00	Dec.31	Canada
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC EUROPE S.A.S	Manufacturing and sales of cosmetics	105,509	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	Annick Goutal S.A.S	Sales of cosmetics	28,617	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Japan Co.,Ltd.	Sales of cosmetics	33,105	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited.	Innisfree Cosmetics India Private Limited	Sales of cosmetics	9,351	100.00	Mar.31	India
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC ME FZ-LLC	Sales of cosmetics	2,767	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC AUSTRALIA PTY LTD	Sales of cosmetics	7,542	100.00	Dec.31	Australia
AMOREPACIFIC Global Operations Limited.	Amorepacific Russia LLC	Sales of cosmetics	202	100.00	Dec.31	Russia
AMOREPACIFIC Trading Co.,Ltd.	AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	Sales of cosmetics	170	100.00	Dec.31	China

¹Includes the financial information of Billion-Wide Enterprise Limited.

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1.3 Summarized Financial Information of Subsidiaries

Summarized financial information for consolidated subsidiaries as at and for the year ended December 31, 2021 is as follows:

2021 (in millions of Korean won)	Total assets	Total liabilities	Revenue	Profit (loss) for the period
AMOREPACIFIC Global Operations Limited.	₩ 180,103	₩ 78,950	₩ 26,380	₩ 14,561
AMORE Cosmetics (Shanghai) Co.,Ltd.	348,823	23,712	132,228	15,867
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	6,582	1,260	6,810	(12)
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	30,317	86	-	(22)
We-Dream Co., Ltd.	1,697	290	4,271	321
Core Technology Corporation.	2,605	1,932	8,404	554
COSVISION CO.,LTD	104,861	42,779	57,655	(358)
AMOREPACIFIC Trading Co.,Ltd.	581,242	665,782	1,183,785	(115,184)
AMOREPACIFIC Hong Kong Co.,Limited	66,504	51,118	84,250	(2,850)
AMOREPACIFIC Taiwan Co.,Ltd.	37,905	17,207	61,904	2,532
AMOREPACIFIC SINGAPORE PTE Co Ltd.	33,707	20,620	48,553	(487)
AMOREPACIFIC MALAYSIA SDN. BHD.	19,932	11,667	36,647	(513)
AMOREPACIFIC (Thailand) LIMITED	35,011	9,373	47,269	(69)
PT. LANEIGE INDONESIA PACIFIC	16,034	7,614	25,060	1,905
AMOREPACIFIC Vietnam LTD.	21,360	9,309	31,651	1,408
AMOREPACIFIC PHILIPPINES, INC.	5,045	2,849	3,026	(544)
AMOREPACIFIC US, INC.	46,489	98,229	85,566	6,353
AMOREPACIFIC CANADA INC.	5,359	9,183	13,332	(5,218)
AMOREPACIFIC EUROPE S.A.S	7,984	12,544	10,479	114
Annick Goutal S.A.S	6,924	21,182	11,563	(3,108)
AMOREPACIFIC Japan Co.,Ltd.	56,237	43,915	69,264	(4,680)
Innisfree Cosmetics India Private Limited	15,102	9,110	8,959	(929)
AMOREPACIFIC ME FZ-LLC	589	1,156	905	(132)
AMOREPACIFIC AUSTRALIA PTY LTD	10,350	25,754	13,766	(14,008)
Amorepacific Russia LLC	987	658	1,156	15
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	311	(108)	2,751	44

The amounts presented above are before the elimination of intercompany transactions. In addition, the amounts presented above reflect accounting adjustments that were different from the Parent Company.

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During 2021, in AMOREPACIFIC AUSTRALIA PTY LTD among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test. The recoverable amount is calculated based on its value in use and impairment loss is recognized as other non-operating expenses. The recoverable amounts have been determined based on value-in-use calculations reflecting future business plans approved by management, and the key assumptions used for value-in-use calculations in 2021 are as follows:

AMOREPACIFIC AUSTRALIA PTY LTD	
<i>(in millions of Korean won)</i>	
Gross margin rate	76.76%
Growth rate ¹	4.82%
Weight average cost of capital	11.90%
Perpetual growth rate	-
Value-in-use	₩ 7,226
Impairment loss recognized ²	10,749

¹ Weighted average revenue growth rate used to extrapolate cash flows for a five-year period is measured based on the past performance and the expectation for market development.

² See Notes 10, 11 and 14 for details.

During 2021, AMOREPACIFIC Trading Co., Ltd. among the Group's cash-generating units, were tested for impairment, but impairments were not recognized because the recoverable amounts exceeded the book amounts. The recoverable amounts have been determined based on value-in-use calculations reflecting future business plans approved by management, and the key assumptions used for value-in-use calculations in 2021 are as follows:

AMOREPACIFIC Trading Co.,Ltd.	
Gross margin rate	59.01%
Growth rate ¹	6.17%
Weight average cost of capital	14.35%
Perpetual growth rate	-

¹ Weighted average revenue growth rate used to extrapolate cash flows for a five-year period is measured based on the past performance and the expectation for market development.

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Summarized financial information for consolidated subsidiaries as at and for the year ended December 31, 2020 is as follows:

2020 (in millions of Korean won)	Total assets	Total liabilities	Revenue	Profit (loss) for the period
AMOREPACIFIC Global Operations Limited.	₩ 161,474	₩ 81,976	₩ 27,731	₩ (35,711)
AMORE Cosmetics (Shanghai) Co.,Ltd.	307,880	31,392	146,307	25,990
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	5,315	533	5,726	440
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	28,748	23	-	(3,172)
We-Dream Co., Ltd.	1,435	279	3,510	360
Core Technology Corporation.	1,486	1,367	3,660	(572)
AMOREPACIFIC Trading Co.,Ltd.	575,278	532,623	1,142,572	(56,547)
AMOREPACIFIC Hong Kong Co.,Limited	62,453	45,535	76,296	(11,579)
AMOREPACIFIC Taiwan Co.,Ltd.	38,159	21,864	66,196	420
AMOREPACIFIC SINGAPORE PTE Co Ltd.	46,362	29,565	50,823	(5,055)
AMOREPACIFIC MALAYSIA SDN. BHD.	27,176	18,827	43,736	(3,693)
AMOREPACIFIC (Thailand) LIMITED	32,659	6,397	45,429	1,504
PT. LANEIGE INDONESIA PACIFIC	17,563	11,564	25,201	587
AMOREPACIFIC Vietnam LTD.	23,470	13,904	34,090	2,598
AMOREPACIFIC PHILIPPINES, INC.	4,991	2,318	2,834	(2,667)
AMOREPACIFIC US, INC.	65,038	118,565	63,989	(29,267)
AMOREPACIFIC CANADA INC.	12,273	10,903	12,629	(1,137)
AMOREPACIFIC EUROPE S.A.S	12,396	17,055	8,186	1,108
Annick Goutal S.A.S	9,753	20,893	10,811	(2,847)
AMOREPACIFIC Japan Co.,Ltd.	72,558	55,212	80,281	3,740
Innisfree Cosmetics India Private Limited	18,892	12,409	9,183	(135)
AMOREPACIFIC ME FZ-LLC	743	1,138	2,322	(802)
AMOREPACIFIC AUSTRALIA PTY LTD	29,945	31,312	11,482	(4,465)
Amorepacific Russia LLC	752	463	663	(390)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	2,474	2,139	5,055	146

The amounts presented above are before the elimination of intercompany transactions. In addition, the amounts presented above reflect accounting adjustments that were different from the Parent Company.

1.4 Changes in Scope for consolidation

- In 2021, Info-Billion Enterprise Limited was liquidated.
- In 2021, the Group merged with AESTURA Corporation.
- In 2021, the Group acquired 100% of shares of COSVISION CO.,LTD. through a stock exchange with AMOREPACIFIC Group,Inc.

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 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

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

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

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

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2021.

- *Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform (Phase 2 amendments)*

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendment does not have a significant impact on the financial statements.

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

The application of the practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, is extended to lease payments originally due on or before June 30, 2022. A lessee shall apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. With early adoption of Korean IFRS 1116 *Lease*, the Group has changed the accounting policy for all the rent concessions that meet the requirements. The Group does not expect that these amendments have a significant impact on the financial statements.

(b) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2021 and have not been early adopted by the Group are set out below.

- *Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework*

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

- *Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use*

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

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

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

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

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity

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instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

- *New Standard: Korean IFRS 1117 Insurance Contract*

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

- *Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies*

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The IASB amended IFRS Practice Statement 2 *Disclosure of Accounting Policies* to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

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

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

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

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- *Annual improvements to Korean IFRS 2018-2020*

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

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

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Korean IFRS 1041 *Agriculture* – Measuring fair value

2.3 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. 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 measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Any difference between the amount of the adjustment of non-controlling interest and fair value of consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the changed in carrying amount recognized in profit or loss.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. 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 an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

2.4 Business Combination of Entities under a Common Control

The Group applies the book amount method to account for business combinations of entities under

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a common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book amounts on the financial statements of the Ultimate Parent Company. However, if the financial statements are not available, the Group applies the carrying amount of assets and liabilities accounted on acquiree's financial statements. In addition, the difference between the sum of book amounts of the assets and liabilities transferred and accumulated other comprehensive income; and the consideration paid is recognized as capital surplus.

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 each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

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

Translation differences on non-monetary assets and liabilities carried at fair value are reported as part of the fair value gain or loss; thus translation differences from financial instruments at fair value through profit and loss are recognized in profit or loss, while translation differences from financial instruments at fair value through other comprehensive income are recognized in other comprehensive income.

(c) Translation to presentation currency

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

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

When the Group ceases to control the subsidiary, exchange differences that were recorded in equity are reclassified in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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2.6 Financial Assets

(a) Classification

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

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

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

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when, and only when its business model for managing those assets changes.

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

(b) Measurement

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

A. Debt instruments

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or costs' in the year in which it arises.

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- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Changes in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other non-operating income or expenses' and impairment losses are presented in 'other non-operating expenses'.

B. Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'other income' when the right to receive dividend payments is established.

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

(c) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach that recognizes expected lifetime credit losses from initial recognition of the receivables.

(d) Recognition and Derecognition

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

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

(e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the 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.

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2.7 Trade Receivables

Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of merchandise, raw materials, subsidiary materials and supplies are determined using the moving-weighted average method, while the cost of finished goods, semi-finished goods and work-in-progress are determined using gross average method. The cost of materials in transit is determined using specific identification method.

2.9 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as held-for-sale when their carrying amount will be recovered principally through a sale transaction and the sale is considered highly probable. The assets are measured at the lower of the carrying amount and the fair value less costs to sell.

2.10 Property, Plant and Equipment

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

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

	Useful life
Buildings	10 - 60 years
Structures	10 - 20 years
Machinery	5 - 20 years
Vehicles	6 years
Tools	3 years
Fixtures and furniture	2 - 5 years
Others	10 years

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

2.11 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete

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and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.12 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to assets are recognized as deferred income and they are credited to profit or loss over the useful life of the related assets on the basis of systematic and rational way, and government grants related to income are deferred and later deducted from the related expense in 'other non-operating income'.

2.13 Intangible Assets

Goodwill is measured as explained in Note 2.3.(a) and carried at its cost less accumulated impairment losses.

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

Software development costs that are internally generated by the Group are sum of expenses that incurred once after the asset recognition are met. Such criteria includes technical feasibility, probable future economic benefits and other. Membership rights have an indefinite useful life, therefore are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful life
Industrial property	5 - 20 years
Software	5 - 10 years
Others	2 - 45 years

2.14 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is initially measured at its cost, and after the initial measurement, it is measured at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment property, except for land, using the straight-line method over their estimated useful lives of 10-60 years.

2.15 Impairment of Non-financial Assets

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

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2.16 Trade and Other Payables

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

2.17 Financial Liabilities

(a) Classification and measurement

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

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

(b) Derecognition

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

2.18 Provisions

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

2.19 Current and Deferred Tax

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

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax based on amounts expected to be paid to the tax authorities.

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

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

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the 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, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

2.20 Employee Benefits

(a) Post-employment benefits

The Group operates both defined contribution and defined benefit pension plans. For defined contribution plans, the Group pays fixed amount of contribution to publicly or privately administered pension insurance plans, and the contribution is recognized employee benefit expense as employees provide services. A defined benefit plan is a pension plan that is not a defined contribution plan.

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

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

(b) Other long-term employee benefits

Certain entities with the Group provide long-term employee benefits. Right to this benefits are entitled to employees with service period for ten years and above. The expected costs of these

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benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by independent qualified actuaries.

(c) Share-based payments

Equity-settled share-based payment is recognized at fair value of equity instruments granted, and employee benefit expense is recognized over the vesting period. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as share capital (nominal value) and share premium.

2.21 Revenue Recognition

(a) Identifying performance obligations

The Group manufactures and sells cosmetics, personal care of goods and foods. As the Group separates contracts to recognize revenue from service rendered, apart from sales of goods or products, identifying performance obligation does not have a material impact on the consolidated financial statements.

(b) Variable consideration

The Group provides promotional incentives to enhance customer's revenue and allows sales returns, which may cause variability in consideration received or receivable from the customers.

The Group estimates an amount of variable consideration by using the expected value that the Group expects to better predict the amount of consideration. The Group recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the refund period has lapsed. The refund liability is measured at the amount of consideration received for which the Group does not expect to be entitled.

(c) Allocating consideration received

The Group operates a customer loyalty program granting loyalty points and where members can redeem the points on future purchases. The customers' option is identified as a separate performance obligation.

The Group allocates the fair value of the consideration received or receivable in respect of revenues between the award credits and the sales of goods, based on the relative stand-alone selling prices of each distinct goods.

2.22 Lease

The Group leases various retail stores, offices and cars. Lease contracts are typically made for fixed periods of 1 to 40 years, but may have extension options as described in (b) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

(a) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100 per cent of lease payments are on the basis of variable payment terms and, when determining lease payments, percentages ranges applied to sale is widespread. Variable payment terms are used for a variety of reasons, including minimizing the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

(b) Extension and termination options

Extension and termination options are included in a number of property and equipment leases

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across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

(c) Residual value guarantees

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

2.23 Segment Reporting

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the representative director that makes strategic decisions.

2.24 Approval of Issuance of the Financial Statements

The consolidated financial statements 2021 were approved for issue by the Board of Directors on February, 9, 2022 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

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

During 2021, the spread of Coronavirus disease 2019 ("COVID-19") has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Group, and the impact is expected to be continued for a while.

Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Group's business, financial position and financial performance cannot presently be determined.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Estimated goodwill impairment

The recoverable amount of a cash generating unit (CGU), which is used to test impairment of goodwill, is determined based on value-in-use calculations (Note 11).

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(b) Income taxes

The Group's taxable income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions; hence, there is uncertainty in calculating the final tax effect (Note 26).

If certain portion of the taxable income is not used for investments or increase in wages or dividends, the Group is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by these tax effects. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(c) Refund liabilities

A refund liability is recognized for the products expected to be returned once they are sold. The return rate is estimated by the expected value method based on the accumulated experience by sales channel at the time of sale, and the Group's revenue is affected by changes in expected return rate.

(d) Customer loyalty programs

Regarding the estimation of consideration receivable to allocate to award credits from customer loyalty programs, the Group uses fair value of goods to be provided, and takes account of rates and timing of redemption based on historical data (Note 18).

(e) Fair value of financial instruments

The fair value of financial instruments that are not traded in active market is determined principally by using valuation techniques. The Group uses its judgment in selecting a variety of methods and making assumptions based on important market conditions existing at the end of each reporting period (Note 37).

(f) Impairment of financial assets

The provision for impairment for financial assets is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 7).

(g) Net defined benefit liability (asset)

The present value of net defined benefit liability (asset) depends on a number of factors that are determined on an actuarial basis using a number of assumptions, especially the change in discount rate (Note 20).

(h) Lease

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

For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:

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- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee (Note 14).

(i) Measurement of the net realizable value of inventory

Inventories are stated at the lower of cost or net realizable value. The measurement of the net realizable value requires estimation of the estimated selling price and estimated selling cost. In these estimation processes, the management's judgments take an important role (Note 8).

(j) Impairment of Non-financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for assets arising from employee benefits, deferred income tax assets and assets classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash generating unit that are discounted by an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If, and only if, the recoverable amount of an asset or cash-generating unit is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss.

Goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying

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amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

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4. Segment Information

Management determines the operating segments based on the information reviewed by the chief operating decision-maker who formulates the management strategy. Chief operating decision-maker reviews the business from perspective of products of each segment.

The main products of each business division as at December 31, 2021 are as follows:

Divisions	Products
Cosmetics	Skin care, other beauty products, and others
DB(Daily Beauty)	Personal care goods and others

The segment information for revenue and operating profit for the years ended December 31, 2021 and 2020 is as follows:

(in millions of Korean won)	2021		2020	
	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
Cosmetics	₩ 4,349,278	₩ 343,612	₩ 3,904,191	₩ 139,493
DB(Daily Beauty)	513,850	(254)	527,988	3,516
	<u>₩ 4,863,128</u>	<u>₩ 343,358</u>	<u>₩ 4,432,179</u>	<u>₩ 143,009</u>

External revenues by geographic areas for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)	2021	2020
Korea	₩ 2,811,396	₩ 2,494,168
Asia	1,913,081	1,831,765
North America	101,800	76,038
Others	36,851	30,208
	<u>₩ 4,863,128</u>	<u>₩ 4,432,179</u>

There is no external customer attributing to more than 10% of total revenues for the years ended December 31, 2021 and 2020.

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5. Financial Instruments by Category

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

<i>(in millions of Korean won)</i>		2021		2020	
Financial assets at amortized cost	Cash and cash equivalents	₩	537,694	₩	545,156
	Current financial deposits		83,726		43,382
	Non-current financial deposits		4,513		4,057
	Non-current financial assets at amortized costs ¹		811		2,125
	Trade receivables		295,769		283,770
	Current other receivables		41,647		24,724
	Non-current other receivables		115,163		100,547
	Other current assets ²		159		123
	Non-current financial assets at fair value through other comprehensive income ³		4,672		706
Financial assets at fair value through profit or loss	Cash and cash equivalents ⁴		-		248,572
	Current financial deposits ⁴		18,100		14,500
	Current financial assets at fair value through profit or loss ⁴		490,839		166,463
	Non-current financial deposits ⁶		15,000		13,500
	Non-current financial assets at fair value through profit or loss ⁵		104,256		1,129
		₩	1,712,349	₩	1,448,754
Financial liabilities at amortized cost	Trade payables	₩	123,410	₩	117,618
	Short-term borrowings including current long-term borrowings		199,124		154,160
	Other payables		324,998		275,763
	Other current liabilities ⁷		191,913		180,950
	Other non-current liabilities ⁸		23,462		25,247
		₩	862,907	₩	753,738

¹ Government bonds (Note 7).

² Other current assets represent accrued income (Note 15).

³ Equity instruments such as listed shares (Note 7).

⁴ Beneficiary certificates (Note 7).

⁵ Beneficiary certificates and redeemable convertible preferred shares (Note 7).

⁶ Variable annuities insurance (Note 7).

⁷ Other current liabilities are comprised of deposits received, dividend payables, accrued expenses and refund liabilities (Note 19).

⁸ Other non-current liabilities are comprised of deposits received and accrued expenses (Note 19).

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Net gains or losses on each category of financial instruments for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021		2020
Financial assets at fair value through profit or loss				
Gain on valuation and disposal	₩	4,452	₩	5,417
Interest income ¹		-		195
Financial assets at fair value through other comprehensive income				
Gain (loss) on valuation (Other comprehensive income)		109		(307)
Financial assets at amortized cost				
Interest income ¹		5,629		5,659
Gain (loss) on foreign currency translation		25,357		(22,336)
Bad debt expenses		(1,545)		(1,658)
Financial liabilities at amortized cost				
Interest expense ¹		(3,356)		(2,048)
Gain on foreign currency translation		1,227		10,164

¹ Interest income and expenses applied by Korean IFRS 1116 leases are excluded.

6. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021		2020
Cash on hand	₩	218	₩	200
Ordinary deposits		120,007		194,730
Checking accounts		49,941		71,927
Other accounts		367,528		526,871
	₩	<u>537,694</u>	₩	<u>793,728</u>

Cash and cash equivalents include bank deposits with maturity of three months or less since the date of acquisition.

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7. Financial assets

7.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2021 and 2020 are as follows:

(in millions of Korean won)	2021		2020	
	Current	Non-current	Current	Non-current
Cash and cash equivalents:				
Beneficiary certificates	₩ -	₩ -	₩ 248,572	₩ -
Financial deposits:				
Beneficiary certificates	18,100	-	14,500	-
Variable annuities insurance	-	15,000	-	13,500
Financial assets at fair value through profit or loss:				
Beneficiary certificates	490,839	100,739	166,463	1,129
Debt instruments, including convertible redeemable preferred shares	-	3,517	-	-
	<u>₩ 508,939</u>	<u>₩ 119,256</u>	<u>₩ 429,535</u>	<u>₩ 14,629</u>

7.2 Financial assets at fair value through other comprehensive income

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

(in millions of Korean won)	2021		2020	
Equity instruments:				
Listed equity securities				
GL Pharm Tech Corporation	₩	436	₩	510
Humedix Co., Ltd.		519		-
Unlisted equity securities				
Welskin Co., Ltd.		48		48
The Korea Economic Daily		81		81
Biogenics Inc.		588		66
HEM Co., Ltd.		3,000		-
	<u>₩</u>	<u>4,672</u>	<u>₩</u>	<u>705</u>

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

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

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(in millions of Korean won)

	2021		2020	
Beginning balance	₩	705	₩	1,114
Acquisition		3,000		-
Business combination and others		727		-
Gain (loss) on valuation		239		(409)
Ending balance	₩	4,672	₩	705

The maximum exposure to credit risk of debt instruments categorized as financial assets at fair value through other comprehensive income at the reporting date is the carrying value.

There are no financial assets at fair value through other comprehensive income that are past due or impaired.

7.3 Trade and other receivables, Other financial assets at amortized cost

Trade receivables and its provisions for impairment as at December 31, 2021 and 2020 are as follows:

	2021		2020	
(in millions of Korean won)				
Trade receivables	₩	299,174	₩	286,727
Less: provision for impairment of trade receivables		(3,405)		(2,957)
Trade receivables, net	₩	295,769	₩	283,770

Other receivables and its provisions for impairment as at December 31, 2021 and 2020 are as follows:

	2021				2020			
(in millions of Korean won)	Current		Non-current		Current		Non-current	
Non-trade receivables	₩	32,017	₩	-	₩	12,352	₩	-
Financial lease receivables		1,277		2,313		1,248		3,164
Loans		1,634		43,817		1,059		18,867
Deposits provided		6,922		69,033		10,266		78,516
Less: provision for impairment of other receivables		(203)		-		(201)		-
	₩	41,647	₩	115,163	₩	24,724	₩	100,547

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Other financial assets at amortized cost and its provisions for impairment as at December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

	2021		2020	
	Current	Non-current	Current	Non-current
Current financial deposits	₩ 83,726	₩ -	₩ 43,382	₩ -
Non-current financial deposits	-	4,513	-	4,057
Government bonds	-	811	-	2,125
Accrued income	159	-	123	-
	₩ 83,885	₩ 5,324	₩ 43,505	₩ 6,182

Movements on the provision for impairment of trade receivables for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

	2021	2020
Beginning balance	₩ 2,957	₩ 2,276
Business combination and others	204	-
Impairment loss	1,580	1,383
Receivables written off	(1,506)	(291)
Exchange differences	170	(411)
Ending balance	₩ 3,405	₩ 2,957

Provision for impaired receivables and unused amounts reversed are included in 'selling and administrative expenses (Note 29)' in the statement of profit or loss. When there is no possibility of recovering additional cash, impairment provision is generally written off.

The Group's trade and other receivables are spread to a great number of customers, so there is no concentration of important credit risk. The maximum exposure of trade and other receivables to credit risk at the end of reporting period is the carrying amount of each class of receivables mentioned above.

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8. Inventories

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

(in millions of Korean won)	2021		2020	
Merchandise and finished goods	₩	346,673	₩	304,705
Raw materials		61,803		36,420
Subsidiary materials		29,299		24,536
Others		55,449		48,822
	₩	493,224	₩	414,483

The amount of inventories recognized as an expense during the year ended December 31, 2021 amounts to ₩ 1,012,426 million (2020: ₩ 1,039,646 million).

Loss on valuation of inventories and loss on disposal of inventories for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)	2021		2020	
Loss on valuation/disposal of inventories	₩	46,703	₩	38,418

9. Investments in Associates

Detail of investments in associates as at December 31, 2021 and 2020 is as follows:

(in millions of Korean won)	Location	Primary business	2021		2020	
			Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
Taiwan AMORE Co.,Ltd.	Taiwan	Marketing of cosmetics	50.0	₩ 2,350	50.0	₩ 2,152
Rationale Group Pty Ltd	Australia	Manufacturing and marketing of cosmetics	49.0	51,796	49.0	50,362
Partner One Value up 2 Private Equity Fund	Republic of Korea	Domestic and foreign corporate investment	29.7	1,467	-	-
COSRX INC	Republic of Korea	Marketing of cosmetics	40.0	182,832	-	-
				₩ 238,445		₩ 52,514

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

(in millions of Korean won)

	2021				
	Taiwan AMORE Co.,Ltd.	Rationale Group Pty Ltd	Partner One Value up 2 Private Equity Fund	COSRX INC	Total
Beginning balance	₩ 2,152	₩ 50,362	₩ -	₩ -	₩ 52,514
Acquisition ¹	-	-	1,500	181,756	183,256
Share of profit or loss of associates	(27)	120	(33)	866	926
Share of other comprehensive income of associates	51	-	-	210	261
Dividends received	(7)	-	-	-	(7)
Exchange differences	181	1,314	-	-	1,495
Ending balance	₩ 2,350	₩ 51,796	₩ 1,467	₩ 182,832	₩ 238,445

¹ In 2021, the Group acquired an 29.7% of shares of Partner One Value up 2 Private Equity Fund and an 40.0% of shares of COSRX INC.

(in millions of Korean won)

	2020		
	Taiwan AMORE Co.,Ltd.	Rationale Group Pty Ltd	Total
Beginning balance	₩ 2,160	₩ -	₩ 2,160
Acquisition ¹	-	49,003	49,003
Share of profit or loss of associates	(15)	675	660
Share of other comprehensive income of associates	142	-	142
Dividends received	(4)	-	(4)
Exchange differences	(131)	684	553
Ending balance	₩ 2,152	₩ 50,362	₩ 52,514

¹ In 2020, the Group acquired an 49.0% of shares of Rationale Group Pty Ltd.

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Summary of financial information of associate as at and for the years ended December 31, 2021 and 2020 is as follows:

(in millions of Korean won)

	2021			
	Taiwan AMORE Co.,Ltd.	Rationale Group Pty Ltd	Partner One Value up 2 Private Equity Fund ¹	COSRX INC ²
Current assets	₩ 5,316	₩ 21,915	₩ 4,983	₩ 59,425
Non-current assets	570	22,741	-	18,792
Current liabilities	779	8,871	45	14,620
Non-current liabilities	407	12,383	-	9,491
Revenue	₩ 4,452	₩ 25,699	₩ 13	₩ 22,811
Operating profit (loss)	(92)	2,518	(110)	3,364
Profit (loss) for the period	(53)	2,008	(110)	4,160

¹ Profit and losses of Partner One Value up 2 Private Equity Fund, COSRX INC, and Verescence Pacific, Inc. were incurred after the acquisition date.

(in millions of Korean won)

	2020	
	Taiwan AMORE Co.,Ltd.	Rationale Group Pty Ltd ¹
Current assets	₩ 4,460	₩ 21,199
Non-current assets	519	10,328
Current liabilities	567	4,544
Non-current liabilities	107	6,143
Revenue	₩ 4,568	₩ 12,577
Operating profit (loss)	(74)	4,613
Profit (loss) for the period	(31)	2,213

¹ Profit and losses of Rationale Group Pty Ltd were incurred after the acquisition date

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The tables below provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the associates.

(in millions of
Korean won)

		2021				
		Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Goodwill and others	Book amount
Taiwan AMORE Co.,Ltd.	₩	4,700	50	₩ 2,350	₩ -	₩ 2,350
Rationale Group Pty Ltd		23,402	49	11,467	40,329	51,796
Partner One Value up 2 Private Equity Fund		4,938	29.7	1,467	-	1,467
COSRX INC		54,106	40	21,642	161,190	182,832

(in millions of
Korean won)

		2020				
		Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Goodwill and others	Book amount
Taiwan AMORE Co.,Ltd.	₩	4,305	50	₩ 2,152	₩ -	₩ 2,152
Rationale Group Pty Ltd		20,840	49	10,212	40,150	50,362

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10. Property, Plant and Equipment

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

(in millions of Korean won)

	2021			2020		
	Cost	Accumulated depreciation ¹	Carrying amount	Cost	Accumulated depreciation ¹	Carrying amount
Land	₩ 816,099	₩ -	₩ 816,099	₩ 831,524	₩ -	₩ 831,524
Buildings	1,481,063	(309,351)	1,171,712	1,418,038	(261,300)	1,156,738
Structures	74,039	(36,871)	37,168	69,178	(30,986)	38,192
Machinery	647,779	(356,986)	290,793	546,867	(279,142)	267,725
Vehicles	2,410	(1,850)	560	2,121	(1,737)	384
Tools	159,410	(134,763)	24,647	153,457	(128,803)	24,654
Fixtures and furniture	772,921	(597,940)	174,981	818,202	(587,163)	231,039
Others	3,557	(2,990)	567	4,190	(2,779)	1,411
Construction in progress	24,835	-	24,835	14,661	-	14,661
	₩ 3,982,113	₩ (1,440,751)	₩ 2,541,362	₩ 3,858,238	₩ (1,291,910)	₩ 2,566,328

¹ Accumulated impairment losses are included.

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

(in millions of Korean won)

	2021									
	Beginning balance	Business combination and others	Acquisition	Reclassification	Disposal	Impairment loss ¹	Depreciation	Others ²	Exchange differences	Ending balance
Land	₩ 831,524	₩ 13,677	₩ 103	₩ (22,933)	₩ -	₩ -	₩ -	₩ (6,272)	₩ -	₩ 816,099
Buildings	1,156,738	86,766	1,063	(43,632)	(2,273)	-	(41,091)	-	14,141	1,171,712
Structures	38,192	4,373	694	-	(164)	(2,312)	(3,773)	-	158	37,168
Machinery	267,725	44,068	15,277	7,114	(1,031)	-	(44,923)	-	2,563	290,793
Vehicles	384	45	383	-	(73)	-	(179)	-	-	560
Tools	24,654	16	14,128	228	-	-	(14,829)	-	451	24,647
Fixtures and furniture	231,040	311	38,822	1,018	(9,141)	(7,683)	(85,022)	-	5,636	174,981
Other	1,411	-	-	(443)	(645)	313	(384)	-	315	567
Construction in progress	14,661	353	18,204	(8,322)	-	-	-	-	(61)	24,835
	₩ 2,566,328	₩ 149,609	₩ 88,674	₩ (66,970)	₩ (13,327)	₩ (9,682)	₩ (190,201)	₩ (6,272)	₩ 23,203	₩ 2,541,362

¹ During 2021, in AMOREPACIFIC AUSTRALIA PTY LTD among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 863 million on Property, Plant and Equipment (Note 1.3). and ₩ 8,819 million is recognized as impairment on individual assets.

² Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 6,241 million on land.

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2020

	Beginning balance	Acquisition	Reclassification	Disposal	Impairment loss ¹	Depreciation	Exchange differences	Ending balance
Land	₩ 853,556	₩ 5,826	₩ (9,328)	₩ (18,530)	₩ -	₩ -	₩ -	₩ 831,524
Buildings	1,135,670	44,481	14,800	(9)	-	(39,219)	1,015	1,156,738
Structures	43,981	2,590	(2,659)	(250)	(562)	(4,435)	(473)	38,192
Machinery	279,420	21,104	8,318	(257)	-	(41,164)	303	267,725
Vehicles	481	72	-	-	-	(170)	-	384
Tools	26,213	14,463	(507)	(108)	-	(15,478)	70	24,654
Fixtures and furniture	288,780	68,633	13,731	(16,083)	(3,480)	(120,384)	(158)	231,040
Other	417	175	2,623	(588)	-	(1,178)	(38)	1,411
Construction in progress	33,324	16,205	(33,215)	(78)	(1,707)	-	131	14,661
	₩ 2,661,842	₩ 173,551	₩ (6,236)	₩ (35,903)	₩ (5,749)	₩ (222,027)	₩ 850	₩ 2,566,328

¹ During 2020, in AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited, among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 1,727 million on Property, Plant and Equipment (Note 1.3). and ₩ 4,022 million is recognized as impairment on individual assets.

Allocation details of depreciation of property, plant and equipment are as following:

(in millions of Korean won)

	2021	2020
Selling and administrative expenses ¹	₩ 126,760	₩ 159,584
Cost of sales	63,441	62,443
	₩ 190,201	₩ 222,027

¹ The amount includes depreciation expense allocated to research and development expense.

11. Intangible Assets

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

	2021				
	Goodwill	Industrial property	Software	Others	Total
(in millions of Korean won)					
Beginning balance	₩ 8,763	₩ 30,180	₩ 131,255	₩ 38,576	₩ 208,774
Business combination and others	-	103	479	452	1,034
Acquisition	-	-	17,399	12,416	29,815
Reclassification	-	4,159	8,281	(12,436)	4
Disposal	-	(1)	(415)	(1,286)	(1,702)
Impairment loss ¹	-	-	(21)	-	(21)
Amortization	-	(3,441)	(35,421)	(171)	(39,033)
Exchange differences	842	1	2,062	(96)	2,809
Ending balance	₩ 9,605	₩ 31,001	₩ 123,619	₩ 37,455	₩ 201,680

¹ During 2021, in AMOREPACIFIC AUSTRALIA PTY LTD among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting

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in recognizing an impairment loss; the amount of loss is ₩ 8 million on Intangible assets (Note 1.3) and ₩ 13 million is recognized as impairment on individual assets.

(in millions of Korean won)	2020				
	Goodwill	Industrial property	Software	Others	Total
Beginning balance	₩ 17,266	₩ 28,712	₩ 137,945	₩ 42,594	₩ 226,517
Acquisition	-	-	17,121	14,862	31,984
Reclassification	-	4,726	10,735	(15,347)	115
Disposal	-	(52)	(381)	(1,993)	(2,425)
Impairment loss ¹	(8,456)	-	(51)	(1,251)	(9,758)
Amortization	-	(3,290)	(33,898)	(513)	(37,702)
Exchange differences	(47)	84	(216)	223	44
Ending balance	₩ 8,763	₩ 30,180	₩ 131,255	₩ 38,576	₩ 208,774

¹ During 2020, in AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited, among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 8,501 million on Intangible assets and ₩ 1,257 million is recognized as impairment on individual assets.

Allocation details of amortization of intangible assets are as following:

	2021	2020
Selling and administrative expenses ¹	₩ 36,207	₩ 35,157
Cost of sales	2,826	2,545
	₩ 39,033	₩ 37,702

¹ The amount includes amortization expense allocated to research and development expense.

The management of the Group allocates goodwill into cash-generating units (CGUs). Following is a summary of goodwill allocation for each operating segment:

(in millions of Korean won)	2021	2020
AMOREPACIFIC Trading Co., Ltd.	₩ 4,529	₩ 4,059
AMOREPACIFIC Vietnam LTD.	3,785	3,422
Others' CGU	1,291	1,282
	₩ 9,605	₩ 8,763

The recoverable amounts of all CGUs have been determined based on value-in-use calculations reflecting future business plans approved by management, and the key assumptions used for value-in-use calculations in 2021 are as follows:

**AMOREPACIFIC
Trading Co., Ltd.**

**AMOREPACIFIC
Vietnam LTD.**

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Gross margin rate	59.01%	70.11%
Growth rate ¹	6.17%	18.58%
Weight average cost of capital	14.35%	7.48%
Perpetual growth rate	-	-

¹ Weighted average revenue growth rate used to extrapolate cash flows for a five-year period is measured based on the past performance and the expectation for market development.

12. Investment Properties

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

(in millions of Korean won)	2021			2020		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Land	₩ 255,707	₩ -	₩ 255,707	₩ 243,445	₩ -	₩ 243,445
Buildings	317,970	(40,351)	277,618	271,734	(27,632)	244,102
Right-of-use assets	1,992	(1,088)	904	1,992	(724)	1,268
	<u>₩ 575,669</u>	<u>₩ (41,439)</u>	<u>₩ 534,229</u>	<u>₩ 517,171</u>	<u>₩ (28,356)</u>	<u>₩ 488,815</u>

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

(in millions of Korean won)	2021			
	Land	Building	Right-of-use assets	Total
Beginning balance	₩ 243,445	₩ 244,102	₩ 1,268	₩ 488,815
Reclassification	19,662	43,237	-	62,899
Depreciation	-	(7,356)	(364)	(7,720)
Impairment loss ¹	-	-	-	-
Disposal	(3,936)	(2,365)	-	(6,301)
Others ²	(4,463)	-	-	(4,463)
Exchange differences	999	-	-	999
Ending balance	<u>₩ 255,707</u>	<u>₩ 277,618</u>	<u>₩ 904</u>	<u>₩ 534,229</u>

(in millions of Korean won)	2020			
	Land	Building	Right-of-use assets	Total
Beginning balance	₩ 238,715	₩ 251,647	₩ 2,649	₩ 493,011
Reclassification	9,328	-	(694)	8,634
Depreciation	-	(7,545)	(687)	(8,232)
Impairment loss ¹	(3,716)	-	-	(3,716)
Others	-	-	-	-
Exchange differences	(882)	-	-	(882)
Ending balance	<u>₩ 243,445</u>	<u>₩ 244,102</u>	<u>₩ 1,268</u>	<u>₩ 488,815</u>

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¹During 2021, ₩ 0 million is recognized as impairment on individual assets (2020: ₩ 3,716 million).

² Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 4,463 million on land.

The Group has contracts to provide operating leases for some of right-of-use assets and the carrying amount of the operating leases for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Cost	₩ 1,992	₩ 1,992
Accumulated depreciation	(1,088)	(724)
Carrying amount	₩ 904	₩ 1,268

The fair value of investment property as at December 31, 2021, is ₩ 602,115 million (2020: ₩ 575,977 million).

The amount recognized as income and expenses in relation to investment property are ₩ 18,606 million, (2020: ₩ 18,067 million) and ₩ 4,868 million (2020: ₩ 4,868 million) million respectively, for the year ended December 31, 2021.

The contractual future cash inflows expected to be received in relation to the providing operating leases for investment property as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Within one year	₩ 38,513	₩ 33,834
Between 1 and 5 years	87,693	81,097
Later than five years	19,450	36,226
	₩ 145,656	₩ 151,157

Details of investment properties provided as collaterals as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
	Carrying amount	Secured amount	Related line item	Secured party
Land and buildings		₩ 1,249	Leasehold deposits received	₩ 961 National Pension Service
Land and buildings	₩ 18,866	151	Leasehold deposits received	116 National Human Rights Commission of Korea
Buildings		50	Leasehold deposits received	50 Korea Fire Facility Association
Buildings		3,594	Leasehold deposits received	3,594 Korea Workers' Compensation & Welfare Service
Buildings	15,157	719	Leasehold deposits received	719 Korea Workers' Compensation & Welfare Service
Buildings		658	Leasehold deposits received	658 Korea Workers' Compensation & Welfare Service
Buildings	2,867	102	Leasehold deposits received	102 Hanwha General Insurance Co., Ltd.
Buildings	14,757	78	Leasehold deposits received	78 SAMSUNG CLAIM ADJUSTMENT SERVICE CO.LT
Buildings	24,296	2,363	Leasehold deposits received	2,363 Qualcomm CDMA Technologies Korea YH

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(in millions of Korean won)	2020				
	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land and buildings		₩ 1,249	Leasehold deposits received	₩ 961	National Pension Service
Land and buildings	₩ 19,299	151	Leasehold deposits received	116	National Human Rights Commission of Korea
Buildings		50	Leasehold deposits received	50	Korea Fire Facility Association
Buildings		3,594	Leasehold deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings	15,710	719	Leasehold deposits received	719	Korea Workers' Compensation & Welfare Service
Buildings	3,040	102	Leasehold deposits received	102	Hanwha General Insurance Co., Ltd.

13. Non-current Assets Held for sale

Details of non-current assets held-for-sale as at December 31, 2021 and 2020 are as follows:

(in millions of Korean won)	2021			2020		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Land	₩ 3,588	₩ -	₩ 3,588	₩ -	₩ -	₩ -
Buildings	1,838	(1,360)	478	-	-	-
	<u>₩ 5,426</u>	<u>₩ (1,360)</u>	<u>₩ 4,066</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>

Changes in non-current assets held for sale for the years ended December 31, 2021 are as follows:

(in millions of Korean won)	2021		
	Land	Building	Total
Beginning balance	₩ -	₩ -	₩ -
Reclassification ¹	3,588	478	4,066
Ending balance	<u>₩ 3,588</u>	<u>₩ 478</u>	<u>₩ 4,066</u>

¹ During 2021, Wonju office building (143-19, Dangu-dong, Wonju-si) was reclassified to non-current assets held-for-sale

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14. Leases

The Group has irrevocable lease contracts for some property, plant and equipment and the lease term is 1 to 40 years. Changes in right-of-use assets for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)	2021				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance	₩ 15,096	₩ 209,321	₩ 1,045	₩ 1,991	₩ 227,453
Acquisition	-	84,268	22	732	85,023
Business combination and others	2,149	-	-	19	2,168
Remeasurement	-	(183)	235	571	624
Disposal	-	(16,567)	-	(12)	(16,579)
Impairment loss ¹	-	(41,289)	(18)	-	(41,307)
Depreciation	(460)	(122,680)	(665)	(1,122)	(124,926)
Exchange differences	1,188	12,659	75	89	14,010
Ending balance	₩ 17,972	₩ 125,529	₩ 694	₩ 2,269	₩ 146,464

¹ During 2021, in AMOREPACIFIC AUSTRALIA PTY LTD among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 9,879 million on in-right-of-use assets (Note 1.3) and ₩ 31,428 million is recognized as impairment on individual assets.

(in millions of Korean won)	2020				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance	₩ 14,898	₩ 413,804	₩ 1,824	₩ 1,869	₩ 432,396
Acquisition	-	100,545	48	360	100,953
Remeasurement	532	10	(47)	711	1,206
Disposal	-	(75,183)	(22)	(20)	(75,224)
Reclassification	-	(2,503)	-	-	(2,503)
Impairment loss ¹	-	(40,295)	(45)	-	(40,341)
Depreciation	(420)	(188,498)	(706)	(941)	(190,565)
Exchange differences	86	1,441	(8)	12	1,531
Ending balance	₩ 15,096	₩ 209,321	₩ 1,045	₩ 1,991	₩ 227,453

¹ During 2020, in AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited, among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 10,965 million on in-right-of-use assets (Note 1.3) and ₩ 29,376 million is recognized as impairment on individual assets.

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Allocation details of depreciation of right-of-use assets are as following:

<i>(in millions of Korean won)</i>	2021	2020
Selling and administrative expenses	₩ 124,233	₩ 189,893
Cost of sales	693	672
	<u>₩ 124,926</u>	<u>₩ 190,565</u>

The total of future minimum lease payments to the lessor as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Total minimum lease payments		
Within one year	₩ 98,157	₩ 136,775
Later than one year but not later than five years	91,985	127,452
Later than five years	15,061	21,846
	<u>205,203</u>	<u>286,073</u>
Unearned finance income	<u>(14,221)</u>	<u>(19,457)</u>
Net minimum lease payments		
Within one year	94,761	132,867
Later than one year but not later than five years	86,890	118,914
Later than five years	9,332	14,834
	<u>₩ 190,982</u>	<u>₩ 266,616</u>

As at December 31, 2021, the sum of the total minimum lease payments that is expected to be received by sub-lease is ₩ 3,865 million (2020: ₩ 4,843 million). The lease contracts have no options of lease renewal and buyout. There are no other restrictions on lease contracts related to dividends, additional debts and additional leases.

The consolidated statement of profit or loss shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	2021	2020
Interest expense relating to lease liabilities (included in finance cost)	₩ 8,054	₩ 14,970
Expense relating to short-term leases	12,065	5,219
Expense relating to leases of low-value assets that are not short-term leases	4,045	5,077
Expense relating to variable lease payments not included in lease liabilities	709,583	609,292

The total cash outflow of leases in 2021 is ₩ 874,021 million (2020: ₩ 841,316 million).

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The Group uses the following practical expedient permitted in the standard, with initially applying the amendment of Korean IFRS 1116:

- Do not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification.

The Group uses a practical expedient that does not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Accordingly, the Group recognized ₩ 9,660 million (2020: ₩ 20,302 million) in profit or loss during the year ended December 31, 2021, to reflect changes in lease payments that arise from a rent concession to which the lessee has applied the practical expedient.

Details of financial lease receivables as at December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Financial lease receivables:				
Principal of the receivables:	₩	3,851	₩	4,806
Deferred loan gain		(262)		(394)
Less: provision for impairment		-		-
Carrying amount		3,589		4,412
Terminated		-		-
	₩	3,589	₩	4,412

The total lease investment and the present value of minimum lease payments of the finance leases provided as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
	Total lease investment	Present value of minimum lease payments	Total lease investment	Present value of minimum lease payments
Within one year	₩ 1,088	₩ 1,065	₩ 1,272	₩ 1,248
Later than one year but not later than five years	2,763	2,524	3,533	3,164
	₩ 3,851	₩ 3,589	₩ 4,805	₩ 4,412

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The unearned interest income of the finance leases provided as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Total lease investment	₩	3,851	₩	4,805
Net lease investment				
Present value of minimum lease payments		3,589		4,412
Present value of unguaranteed residual value		-		-
		<u>3,589</u>		<u>4,412</u>
Unearned interest income	₩	<u>262</u>	₩	<u>393</u>

15. Other Assets

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

<i>(in millions of Korean won)</i>	2021		2020	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 159	₩ -	₩ 123	₩ -
Advance payments	15,478	-	20,732	-
Prepaid expenses	30,032	12,252	35,448	16,714
Prepaid value added tax	2,390	-	3,643	-
Others	<u>2,072</u>	<u>-</u>	<u>5,500</u>	<u>-</u>
	<u>₩ 50,131</u>	<u>₩ 12,252</u>	<u>₩ 65,446</u>	<u>₩ 16,714</u>

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16. Borrowings

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

<i>(in millions of Korean won, EUR, USD, JPY, HKD, AED, INR, AUD, PHP and CAD)</i>		Interest rate (%)			
	Creditor	December 31, 2021	2021	2020	
Short-term borrowings					
Bank overdrafts of EUR 0 (2020: EUR 1,900,594)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.8	₩ -	₩ 2,543	
Bank overdrafts of EUR 4,281,575 (2020: EUR 3,919,826)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.6	5,747	5,246	
Loans for working capital of USD 0 (2020: USD 33,500,000)	Citibank N.A.	Term SOFR + 0.90	-	36,449	
Loans for working capital of USD 38,000,000 (2020: 0)	DBS BANK LTD	LIBOR 3M + 0.85	45,049	-	
Loans for working capital of JPY 1,700,000,000 (2020: JPY 1,700,000,000)	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Tibor1M + 0.2	17,514	17,922	
Loans for working capital of EUR 7,000,000 (2020: EUR 7,000,000)	Citibank Europle Plc	MAX(EURIBOR 3M, 0) + 1.05	9,396	9,368	
Loans for working capital of HKD 130,000,000 (2020: HKD 130,000,000)	DBS BANK LTD., HONG KONG BRANCH	HIBOR 3M + 0.85	19,764	18,245	
Loans for working capital of EUR 3,000,000 (2020: EUR 3,000,000)	Citibank Europle Plc	MAX(EURIBOR 3M, 0) + 1.05	4,027	4,015	
Loans for working capital of HKD 313,000,000 (2020: HKD 313,000,000)	CITI N.A. HONG KONG	1.40	47,585	43,929	
Loans for working capital of EUR 5,000,000 (2020: EUR 3,000,000)	KEB Hana Bank Paris Branch	MAX(EURIBOR 3M, 0) + 0.88	6,712	4,015	
Loans for working capital of AUD 7,000,000 (2020: AUD 7,000,000)	Citibank N.A. Sydney Branch	BBSY 3M + 0.80	6,012	5,856	
Loans for working capital of AED 1,500,000 (2020: AED 1,500,000)	Citibank N.A. United Arab Emirates	EIBOR 3M + 1.90	484	444	
Loans for working capital of AED 1,600,000 (2020: 0)	Citibank N.A. United Arab Emirates	EIBOR 3M + 1.20	517	-	
Loans for working capital of INR 45,000,000 (2020: INR 70,000,000)	Citibank India	1M T Bill + 2.81	717	1,040	
Loans for working capital of USD 5,300,000 (2020: USD 4,000,000)	Citibank N.A. Indonesia	LIBOR 3M + 1.25	6,251	4,379	
Loans for working capital of CAD 3,000,000 (2020: 0)	Citibank N.A. Canadian Branch	CDOR 3M + 1.20	2,792	-	
Loans for working capital of PHP 83,000,000 (2020: 0)	Citibank N.A. Philippine Branch	2.89	1,928	-	
Loans for working capital of USD 1,800,000 (2020: 0)	Citibank Berhad	3M USD COF + 1.50	2,129	-	
Facility loans	KDB	2.01	16,000	-	
Loans for working capital	BNP Paribas S.A.	1.25	6,000	-	
Bank overdrafts	Woori Bank	4.62	-	209	
Other loans	Nara Technology Corporation	4.60	500	500	
			₩ 199,124	₩ 154,160	

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17. Provisions

Changes of provisions for liabilities and charges for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)	2021								
	Current					Non-current			
	Refund liabilities	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total	
Beginning	₩ -	₩ 5,737	753	₩ 2,162	₩ 8,652	₩ 7,963	₩ 10,655	₩ 18,618	
Business combination and others	2,912	795	-	-	3,707	322	-	322	
Increase	-	110	1,519	168	1,797	2	168	170	
Decrease	(2,912)	(201)	-	(2,215)	(5,328)	(4,498)	(3,632)	(8,130)	
Exchange differences	-	-	-	79	79	-	576	576	
Ending	₩ -	₩ 6,441	₩ 2,272	₩ 194	₩ 8,907	₩ 3,789	₩ 7,767	₩ 11,556	

(in millions of Korean won)	2020								
	Current					Non-current			
	Refund liabilities	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total	
Beginning	₩ 2,786	₩ 6,205	1,973	₩ 1,908	₩ 12,872	₩ 7,694	₩ 11,442	₩ 19,136	
Increase	-	-	-	1,534	1,534	269	-	269	
Decrease	(2,866)	(480)	(1,220)	(1,225)	(5,791)	-	(1,986)	(1,986)	
Exchange differences	80	12	-	(55)	37	-	1,199	1,199	
Ending	₩ -	₩ 5,737	₩ 753	₩ 2,162	₩ 8,652	₩ 7,963	₩ 10,655	₩ 18,618	

18. Contract liabilities

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

(in millions of Korean won)	2021		
	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 27,899	₩ 14,376	₩ 42,275
Increase/decrease	(5,257)	447	(4,810)
Ending balance	₩ 22,642	₩ 14,823	₩ 37,465

(in millions of Korean won)	2020		
	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 32,741	₩ 17,318	₩ 50,059
Increase/decrease	(4,842)	(2,942)	(7,784)
Ending balance	₩ 27,899	₩ 14,376	₩ 42,275

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19. Other Liabilities

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

(in millions of Korean won)	2021		2020	
	Current	Non-current	Current	Non-current
Withholdings	₩ 35,475	₩ -	₩ 23,528	₩ -
Value added tax withheld	42,015	-	15,753	-
Advances from customers	4,544	-	3,081	-
Deposits received	10,156	23,139	4,524	24,994
Accrued expenses	175,212	323	170,130	253
Finance lease liabilities	458	-	439	-
Dividends payable	6,087	-	5,857	-
Others	4,910	141	5,203	54
	₩ 278,857	₩ 23,603	₩ 228,515	₩ 25,301

20. Retirement Benefits

20.1 Defined Benefit Plan

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

(in millions of Korean won)	2021		2020	
Present value of funded defined benefit obligations	₩	379,029	₩	337,419
Present value of unfunded defined benefit obligations		4,059		3,832
		383,088		341,251
Fair value of plan assets ¹		(473,758)		(448,053)
Net defined benefit assets	₩	(90,670)	₩	(106,802)

¹ The contributions to the National Pension Fund of ₩ 46 million are included in the fair value of plan assets as at December 31, 2020.

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

<i>(in millions of Korean won)</i>	2021		2020	
Beginning balance	₩	341,251	₩	322,958
Current service cost		29,092		34,053
Interest expense		8,939		9,804
Business combination and others		13,510		-
Remeasurements:				
Actuarial gain from changes in demographic assumptions		(605)		-
Actuarial gain(loss) from changes in financial assumptions		37,410		(19,735)
Actuarial loss from experience adjustments		21,101		5,096
Exchange differences		25		71
Payments from plans:				
Benefit payments		(68,863)		(11,572)
Transfer from associates		1,203		576
Others		25		-
Ending balance	₩	383,088	₩	341,251

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

<i>(in millions of Korean won)</i>	2021		2020	
Beginning balance	₩	448,053	₩	425,632
Interest income		12,550		13,197
Business combination and others		17,613		-
Remeasurements:				
Return on plan assets		(4,608)		(4,829)
Contributions:				
Employers		67,770		25,110
Payments from plans:				
Benefit payments		(68,823)		(11,625)
Transfer from associates		1,203		568
Ending balance ¹	₩	473,758	₩	448,053

¹ As at December 31, 2021, the obligation to pay has been confirmed, but the unpaid amount has been included in the Benefit payments.

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

	2021	2020
Discount rate	3.66~3.72%	3.15~3.18%
Salary growth rate	4.00%	2.10%

The sensitivity analyses of the defined benefit obligations to changes in the principal assumptions are as follows:

	Impact on defined benefit obligation		
	Changes in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%P	6.54% decrease	7.41% increase
Salary growth rate	1.00%P	7.32% increase	6.58% decrease

The defined benefit liabilities are exposed to a significant risk on changes in corporate bond yields rate.

The above sensitivity analyses are performed under ceteris paribus assumption; however, in practice, changes in some of the assumptions may be interrelated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is measured using the projected unit credit method, the same method used to measure the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

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

(in millions of Korean won)	2021		2020	
	Unquoted price	Composition	Unquoted price	Composition
Deposits	₩ 473,758	100.00 %	₩ 448,006	99.99 %
National Pension Fund	-	0.00 %	46	0.01 %
	₩ 473,758	100.00 %	₩ 448,052	100.00 %

The weighted average maturity of the defined benefit obligation is 7.3 years and the expected maturity analysis of the undiscounted pension benefits for the next 10 years as at December 31, 2021, is as follows:

(in millions of Korean won)	Less than 1 year ¹	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
Pension benefits	₩ 43,178	₩ 50,269	₩ 118,774	₩ 231,406	₩ 443,627

¹ Pension benefits for less than 1 year do not include payable amount for retirees as of the end of December.

The Group reviews the funding level on an annual basis and has a policy of covering loss if there is deficit in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2022, are ₩ 43,599 million (2021: ₩ 37,167 million).

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20.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 460 million (2020: ₩ 528 million).

21. Share Capital and Others

21.1 Share Capital and Share Premium

Share capital as at December 31, 2021 and 2020 consist of:

<i>(in millions of Korean won)</i>	2021		2020	
Share capital				
Ordinary shares	₩	29,246	₩	29,229
Preferred shares ¹		5,279		5,279
	₩	34,525	₩	34,508

¹ Details and types of preferred shares issued by the Group are as follows:

Type	Dividend rate	Number of shares	Remark
Preferred shares	Dividend rate for ordinary shares +1%	10,557,830 shares	Non-participant and non-cumulative

Changes in share capital and share premium for the year ended December 31, 2021, are as follows:

<i>(in millions of Korean won)</i>	Ordinary shares		Preferred shares		Share premium		Total
Beginning balance	₩	29,229	₩	5,279	₩	712,702	₩ 747,210
Increase ¹		17		-		7,779	7,796
Ending balance	₩	29,246	₩	5,279	₩	720,481	₩ 755,006

¹ The Group issued new shares (ordinary shares: 34,269 shares) for stock exchange with AMOREPACIFIC Group and COSVISION CO.,LTD. during the year ended December 31, 2021 (Note 34).

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21.2 Other Components of Equity

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

(in millions of Korean won)	2021	2020
Treasury stock ¹	₩ (18,814)	₩ (101,389)
Share-based payments ²	16,054	-
Other capital adjustments	(16,244)	(16,243)
	₩ (19,004)	₩ (117,632)

¹ The Group holds 107,817 (2020: 509,088) ordinary shares and 6,217 (2020: and 6,217) preferred shares as treasury shares as at December 31, 2021.

² Recognized as compensation for labor services for employees.

22. Share-based payments

The Group has a share compensation system in which the Group's shares are paid to the employees, and the main details are as follows:

(in millions of Korean won)	Recognized expenses in 2021	Calculation basis
Long-term executive incentive	₩ 4,718	Calculated the number of shares to be paid by estimating the rate of achievement of mid-term and long-term performance goals (2019~2021) for executives (fair value at the contract date: ₩166,000, estimated number of payment: 28,422)
Other long-term employee benefits	3,678	Estimation based on actuarial valuation
Rewards for purchase of treasury shares	7,658	5% of growth profit based on management accounting standards
	₩ 16,054	

(in millions of Korean won)	Settlement method	Details	Vesting conditions	Payment period
Long-term executive incentive	Equity-settled	Payment of treasury shares corresponding to the committed payout rate based on the achievement rate for mid- and long-term performance goals to the qualifying executives.	Service period: 2 years (Payment in proportion to the service periods of executives who provided services more than 2 years)	Installment payment: 50% in 2022, 25% in 2023, and 25% in 2024
Other long-term employee benefits	Equity-settled	Payment of treasury shares by calculating the number of shares corresponding to the value of 10 golds to employees who provided services for 10 years	Service period: 10 years	Payment to the qualifying employees every year from 2022
Rewards for purchase of treasury shares	Equity-settled	Grant of treasury shares to employees by calculating the number of shares, corresponding to resources of 5% of growth profit based on management accounting standards, comparing to those of prior year. However, it is granted only to the employees who purchased treasury shares, and the reward ratio is 2:1 (the number of shares purchased : shares reward)	Payment in proportion to service period based on the year (fiscal periods for resource calculation)	Planned to be paid in May 2022

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23. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as at December 31, 2021 and 2020 consists of the following:

<i>(in millions of Korean won)</i>	2021	2020
Changes in financial assets at fair value through other comprehensive income	₩ (164)	₩ (274)
Exchange differences on transaction of foreign operations	11,515	(20,278)
Share of other comprehensive income of associates	528	273
	₩ 11,879	₩ (20,279)

Changes in accumulated other comprehensive income for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021				
	Beginning balance	Increase (Decrease)	Reclassification to profit or loss	Reclassification to non-controlling interest	Ending Balance	
Changes in financial assets at fair value through other comprehensive income	₩ (274)	₩ 110	₩ -	₩ -	₩ (164)	
Exchange differences on transaction of foreign operations	(20,278)	31,358	-	435	11,515	
Share of other comprehensive income of associates	273	261	-	(6)	528	
	₩ (20,279)	₩ 31,729	₩ -	₩ 429	₩ 11,879	

<i>(in millions of Korean won)</i>		2020				
	Beginning balance	Increase (Decrease)	Reclassification to profit or loss	Reclassification to non-controlling interest	Ending Balance	
Changes in financial assets at fair value through other comprehensive income	₩ 33	₩ (307)	₩ -	₩ -	₩ (274)	
Exchange differences on transaction of foreign operations	(24,857)	5,028	-	(449)	(20,278)	
Share of other comprehensive income of associates	145	142	-	(14)	273	
	₩ (24,679)	₩ 4,863	₩ -	₩ (463)	₩ (20,279)	

Changes in financial assets at fair value through other comprehensive income are the amount deducted after tax effect.

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24. Retained Earnings

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

<i>(in millions of Korean won)</i>	2021		2020	
Legal reserves ¹	₩	18,306	₩	18,306
Discretionary reserves		2,109,000		2,109,000
Retained earnings before appropriation		1,810,469		1,720,441
	₩	<u>3,937,775</u>	₩	<u>3,847,747</u>

¹ The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve amounts to 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

25. Dividends

The dividends paid in 2021 and 2020 are as follows:

	2021				2020			
	Ordinary shares		Preferred shares		Ordinary shares		Preferred shares	
Dividends paid	₩	46,360 million	₩	8,494 million	₩	57,949 million	₩	10,604 million
Dividends per share (in Korean won)		800		805		1,000		1,005

Dividends in respect of the year ended December 31, 2021, of ₩ 980 per ordinary share and ₩ 985 per preferred share, amounting to a total dividend of ₩ 57,231 million on ordinary shares and ₩ 10,393 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 24, 2022. The financial statements for the year ended December 31, 2021 do not reflect the dividend payable.

26. Tax Expense and Deferred Tax

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

<i>(in millions of Korean won)</i>	2021		2020	
Current tax	₩	110,421	₩	27,794
Deferred tax		6,599		(24,370)
Income tax expense	₩	<u>117,020</u>	₩	<u>3,424</u>

¹ The Group determined that Advance Pricing Arrangement (APA) between Korean and China, applied to tax authorities, was probable to be agreed by both tax authorities. Accordingly, the Company adjusted and reflected ₩30,701 million in the current tax, based on uncertainty of income tax treatments.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using

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the weighted average tax rate applicable to profits of the consolidated entities as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Profit before income tax expense	₩	297,877	₩	25,293
Tax at domestic tax rates applicable to profits in the respective countries		70,344		5,883
Tax effects of:				
Income not subject to tax		(1,079)		(1,731)
Expenses not deductible for tax purposes		13,553		9,084
Changes in previously unrecognized deferred tax		2,868		10,599
Tax credits		(864)		(516)
Adjustments in respect of prior years		30,062		(14,723)
Others		2,136		(5,172)
Income tax expense	₩	117,020	₩	3,424

The weighted average applicable tax rate of the Group was 39.36% (2020: 13.54%).

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

<i>(in millions of Korean won)</i>	2021			2020		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain(loss) on valuation of financial assets at fair value through other comprehensive income	₩ 239	₩ (130)	₩ 109	₩ (408)	₩ 101	₩ (307)
Remeasurements	(62,515)	15,146	(47,369)	9,809	(2,430)	7,379
Share of other comprehensive income of associates	261	-	261	142	-	142
Exchange differences on transaction of foreign operations	31,358	-	31,358	5,028	-	5,028
	₩ (30,657)	₩ 15,016	₩ (15,641)	₩ 14,571	₩ (2,329)	₩ 12,242

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

<i>(in millions of Korean won)</i>		2021		2020
Deferred tax assets				
Deferred tax asset to be recovered after more than 12 months	₩	161,012	₩	142,996
Deferred tax asset to be recovered within 12 months		84,064		64,113
Deferred tax liabilities				
Deferred tax liability to be settled after more than 12 months		(220,492)		(212,994)
Deferred tax liability to be settled within 12 months		(19,464)		(1,300)
Deferred tax liabilities, net	₩	5,120	₩	(7,185)

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

<i>(in millions of Korean won)</i>	2021					
	Beginning balance	Increase due to merger	Statement of profit or loss	Other comprehensive	Exchange differences	Ending balance
Deferred tax assets/(liabilities)						
Trade receivables	₩ 3,145	₩ -	₩ 7,190	₩ -	₩ 672	₩ 11,007
Inventories	11,527	102	928	-	4	12,561
Lease liabilities	4,533	739	17,015	-	929	23,216
Property, plant and equipment	(58,799)	(2,384)	4,062	-	486	(56,635)
Intangible assets	(3,532)	41	23	-	(316)	(3,784)
Financial assets at fair value through other comprehensive income	698	(80)	(16)	(130)	-	472
Investments in subsidiaries	3,344	-	860	-	(79)	4,125
Contracts liabilities	6,695	-	(1,493)	-	308	5,510
Retirement benefit obligations	62,888	1,708	(52)	13,823	2	78,369
Accrued expenses	36,150	-	3,970	-	4,333	44,453
Tax loss carryforwards	21,028	-	(15,918)	-	1,199	6,309
Plan assets	(100,247)	(2,604)	(8,583)	1,140	-	(110,294)
Right-of-use assets	(4,367)	(724)	(16,529)	-	(887)	(22,507)
Others	9,753	354	1,944	183	88	12,319
	₩ (7,185)	₩ (2,848)	₩ (6,599)	₩ 15,016	₩ 6,738	₩ 5,120

	2020					
(in millions of Korean won)	Beginning balance	Statement of profit or loss	Other comprehensive	Exchange differences	Ending balance	
Deferred tax assets/(liabilities)						
Trade receivables	₩ 1,901	₩ 1,277	₩ -	₩ (33)	₩ 3,145	
Inventories	13,864	(2,335)	-	(2)	11,527	
Lease liabilities	51,188	(47,829)	-	1,174	4,533	
Property, plant and equipment	(71,803)	13,028	-	(24)	(58,799)	
Intangible assets	(4,470)	1,000	-	(62)	(3,532)	
Financial assets at fair value through other comprehensive income	606	(9)	101	-	698	
Investments in subsidiaries	516	2,779	-	48	3,343	
Contracts liabilities	7,577	(877)	-	(5)	6,695	
Retirement benefit obligations	69,966	(3,432)	(3,663)	17	62,888	
Accrued expenses	32,993	2,987	-	170	36,150	
Tax loss carryforwards	12,910	8,312	-	(194)	21,028	
Plan assets	(107,567)	6,087	1,233	-	(100,247)	
Right-of-use assets	(50,065)	46,832	-	(1,134)	(4,367)	
Others	13,358	(3,450)	-	(155)	9,753	
	₩ (29,026)	₩ 24,370	₩ (2,329)	₩ (200)	₩ (7,185)	

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Deferred tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of ₩ 390,123 million in respect of losses that can be carried forward against future taxable income.

The maturity of unused tax losses is as follows:

(in millions of Korean won)

	2021
2022 ~ 2023	₩ 2,753
2024 ~ 2039	94,670
No limit	292,700
	<u>₩ 390,123</u>

The temporary differences from the subsidiaries whose disposal is not in the foreseeable future unrecognized because of the uncertainty in realizability of the deferred tax assets (liabilities). The amount as at December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

	2021	2020
Taxable temporary differences	₩ -	₩ -
Deductible temporary differences	114,817	30,400
	<u>₩ 114,817</u>	<u>₩ 30,400</u>

27. Revenue

Revenue of the Group for the years ended December 31, 2021 and 2020 consists of the following:

(in millions of Korean won)

	2021	2020
Sales of goods	₩ 4,770,944	₩ 4,352,316
Rendering of services	48,195	41,497
Others		
Rental income	35,546	35,830
Royalty income	107	5
Others	8,336	2,531
	<u>43,989</u>	<u>38,366</u>
	<u>₩ 4,863,128</u>	<u>₩ 4,432,179</u>

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28. Classification based on the nature of expenses

Classification based on the nature of expenses for the years ended December 31, 2021 and 2020 is as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Changes in inventories	₩	(78,741)	₩	38,106
Purchase of raw materials and merchandise		1,091,167		995,767
Employee benefits expenses		794,269		790,732
Depreciation and amortization ¹		361,880		458,352
Advertising expense, promotional expense		604,950		510,936
Commission expense		484,658		460,475
Distribution commission		797,360		697,754
Other expenses		464,228		337,047
Total ²	₩	4,519,771	₩	4,289,170

¹ Depreciation of investment properties and right-of-use assets is included.

² The amount represents sum of cost of sales and selling and administrative expenses in the statements of comprehensive income.

29. Selling and Administrative Expenses

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

<i>(in millions of Korean won)</i>	2021		2020	
Salaries and retirement benefits	₩	549,358	₩	560,963
Employee benefits		86,158		95,635
Advertising expense, promotional expense		604,950		510,936
Depreciation and amortization ¹		286,442		384,061
Commission expense		421,415		403,341
Distribution commission		797,360		697,754
Freight expense		103,059		94,277
Taxes and dues		28,494		31,185
Research and development		103,878		89,073
Other		176,017		156,547
	₩	3,157,131	₩	3,023,772

¹ Depreciation of investment properties and right-of-use assets is included.

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30. Finance Income and Costs

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

<i>(in millions of Korean won)</i>	2021	2020
Finance income		
Interest income	₩ 5,629	₩ 5,855
Interest income of others	418	611
Gain of valuation/disposal of financial assets at fair value through profit or loss	4,452	5,417
	₩ 10,499	₩ 11,883
Finance costs		
Interest expense	₩ (3,356)	₩ (2,048)
Interest expense of others	(8,054)	(14,979)
	₩ (11,410)	₩ (17,027)

31. Other Non-operating income (expense)

Details of other non-operating income (expense) for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Other non-operating income		
Gain on foreign currency transactions	₩ 32,547	₩ 48,110
Gain on foreign currency translation	4,865	8,285
Gain on disposal of property, plant and equipment	825	5,853
Gain on disposal of intangible assets	23	253
Gain on disposal of right-of-use assets	896	16,010
Others	19,838	4,531
	58,994	83,042
Other non-operating expenses		
Loss on foreign currency transactions	(9,601)	(53,226)
Loss on foreign currency translation	(1,227)	(15,341)
Loss on disposal of property, plant and equipment	(11,093)	(16,986)
Loss on disposal of intangible assets	(1,311)	(2,329)
Loss on disposal of right-of-use assets	(109)	(5,016)
Loss on disposal of investment properties	(2,077)	-
Impairment losses of property, plant and equipment	(9,682)	(5,749)
Impairment losses of intangible assets	(21)	(9,758)
Impairment losses of right-of-use assets	(41,307)	(40,341)
Impairment losses of investment properties	-	(3,716)
Donations	(12,727)	(12,396)
Others	(15,336)	(31,416)
	(104,491)	(196,274)
	₩ (45,497)	₩ (113,232)

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32. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares (Note 21).

Basic earnings per ordinary share for the years ended December 31, 2021 and 2020 is as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Profit attributable to owners of the Parent Company	₩	193,681	₩	35,132
Profit attributable to ordinary shares		163,919		29,676
Weighted average number of ordinary shares outstanding (unit: shares)		58,125,764		57,949,402
Basic earnings per ordinary share (in Korean won)	₩	2,820	₩	512

Basic earnings per preferred share¹ for the years ended December 31, 2021 and 2020 is as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Profit attributable to owners of the Parent Company	₩	193,681	₩	35,132
Profit attributable to preferred shares		29,762		5,456
Weighted average number of preferred shares outstanding (unit: shares)		10,551,613		10,551,613
Basic earnings per preferred share (in Korean won)	₩	2,821	₩	517

¹Although there is no preferred right on the preferred share, it is considered as an ordinary share with a different dividend rate (annually 1% additional dividends) from other types of ordinary share; therefore, it is included in calculation of basic earnings per share.

Diluted earnings per ordinary share for the years ended December 31, 2021 and 2020, is as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Profit attributable to owners of the Parent Company	₩	193,681	₩	35,132
Profit attributable to ordinary shares		163,919		29,676
Weighted average number of dilutive ordinary shares outstanding (unit: shares)		58,169,408		57,949,402
Diluted earnings per ordinary shares (in Korean won) ¹	₩	2,818	₩	512

¹ As there is no dilutive effect for share-based payments, diluted earnings per share is identical to basic earnings per share for the year ended December 31, 2020.

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Calculation basis of weighted average number of dilutive ordinary shares to calculate diluted earnings per share for the years ended December 31, 2021 and 2020, are as follows:

<i>(in shares)</i>	2021	2020
Weighted average number of ordinary shares outstanding	58,125,764	57,949,402
Exercise effect of share-based compensation ¹	43,644	-
Weighted average number of diluted preferred shares outstanding	58,169,408	57,949,402

¹ As there is no dilutive effect for share-based payments, exercise effect of share options was not considered for the year ended December 31, 2020.

The Group did not issue any potential ordinary shares; thus, basic earnings per share is identical to diluted earnings per share.

33. Cash flows Generated from Operations

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

<i>(in millions of Korean won)</i>	2021	2020
Profit for the period	₩ 180,858	₩ 21,869
Adjustments for:	628,475	608,834
Finance costs, net	5,363	10,561
Loss on foreign currency translation, net	(3,638)	7,057
Depreciation and amortization ¹	361,880	458,525
Loss on disposal of property, plant and equipment and intangible assets	11,555	13,209
Loss (gain) on disposal of right-of-use assets	(787)	(10,994)
Loss on disposal of investment properties	2,075	-
Impairment loss of property, plant and equipment and intangible assets	9,703	15,507
Impairment loss of investment properties	-	3,716
Impairment loss of right-of-use assets	41,307	40,341
Loss (gain) on valuation of financial assets at fair value through profit or loss	1,980	(5,417)
Gain on disposal of financial assets at fair value through profit or loss	(5,352)	-
Income tax expense	117,020	3,424
Share of profit or loss of associates	(928)	(660)
Retirement benefits	25,480	30,660
Share-based payments for employees	16,054	-
Loss on disposal and valuation of inventories	46,703	38,418
Others	60	4,487
Changes in assets and liabilities from operating activities	(94,479)	39,754
Decrease (increase) in trade receivables	(3,356)	69,811
Decrease (increase) in other receivables	(17,121)	11,882
Increase in inventories	(90,923)	(312)
Decrease in other assets	26,208	6,104
Decrease in trade payables	(13,158)	(47,868)
Increase in other payables	47,567	17,455
Decrease in contract liabilities	(4,812)	(7,783)

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Decrease in provisions	(11,427)	(5,298)
Increase in other liabilities	40,353	20,812
Retirement benefits payment	(68,863)	(11,572)
Net transfer-in of post-employment benefits of associates	1,203	576
Increase in plan assets, net	(150)	(14,053)
Cash generated from operations	<u>₩ 714,854</u>	<u>₩ 670,457</u>

¹ Depreciation of investment properties and right-of-use assets is included.

Significant non-cash transactions for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>	2021		2020	
Reclassification of construction in-progress to property, plant and equipment	₩	8,322	₩	33,215
Reclassification of construction in-progress to Intangible assets		12,436		15,347
Reclassification of property, plant and equipment to investment property		62,899		9,328
Reclassification of property, plant and equipment to assets held-for-sale		4,066		-
Reclassification of right-of-use assets to investment property		-		(695)
Reclassification of right-of-use assets to property, plant and equipment		-		3,198
Increase in right-of-use as recognition of lease liabilities		71,216		26,935
Non-trade payables related to the acquisition of property, plant and equipment and intangible assets		18,318		20,827

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

<i>(in millions of Korean won)</i>	Short-term borrowings		Current portion of long-term borrowings¹		Lease liabilities		Total
At January 1, 2020	₩	52,816	₩	46,531	₩	465,514	₩ 564,861
Current portion transfer		-		-		24,159	24,159
Cash flows (interest expenses)		-		-		(14,970)	(14,970)
Cash flows		110,470		(49,003)		(206,758)	(145,291)
Exchange differences		(9,126)		2,472		(1,329)	(7,983)
At December 31, 2020	₩	<u>154,160</u>	₩	<u>-</u>	₩	<u>266,616</u>	₩ <u>420,776</u>
At January 1, 2021	₩	154,160	₩	-	₩	266,616	₩ 420,776
Business combination and others		52,000		-		2,168	54,168
Transfer		-		-		53,586	53,586
Cash flows (interest expenses)		-		-		(8,054)	(8,054)
Cash flows		(16,096)		-		(140,274)	(156,370)

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Exchange differences	9,060	-	16,941	26,001
At December 31, 2021	₩ 199,124	₩ -	₩ 190,982	₩ 390,106

¹ Current portion of long-term borrowings is included in short-term borrowings in the consolidated financial statements.

34. Commitments and Contingencies

Details of financial commitment with financial institution as at December 31, 2021 and 2020 are as follows:

(in millions of Korean won and thousands of U.S. dollars)

Financial institution	Commitment	2021		2020	
		Limit	Outstanding balance	Limit	Outstanding balance
WOORI BANK	Electronic loan agreement	₩ 6,000	₩ 30	₩ 4,300	₩ 83
	Letter of credit	USD 3,000	₩ -	USD 4,000	₩ 277

At the end of reporting period, Seoul Guarantee Insurance has provided the Group with payment guarantees such as performance guarantees and others amounting to ₩ 34,546 million (2020: ₩ 50,526 million).

At the end of reporting period, the detail of payment guarantee provided is as follows:

(thousands of AUD)

Provided	Providing	Amount of payment guarantee	Institution for payment guarantee
Amorepacific Australia Pty Ltd	Amorepacific Group Inc.	AUD 5,194	Melbourne Central Custodian Pty Ltd

Important contracts subsidiaries entered into with financial institutions as at December 31, 2021 and 2020 are as follows:

(in millions of Korean won and thousands of USD, EUR, HKD, JPY, CAD, AED, INR, PHP and AUD)

	Financial institution	Commitment	2021		2020	
			Limit	Outstanding balance	Limit	Outstanding balance
Amorepacific Global Operations Limited.	CITI N.A HONG KONG	Short-term borrowings	HKD 313,000	HKD 313,000	HKD 313,000	HKD 313,000
	DBS BANK LTD., HONG KONG BRANCH	Short-term borrowings	HKD 220,000	HKD 130,000	HKD 220,000	HKD 130,000
	CITY N.A HONG KONG	Overdraft	USD 10,000	-	USD 10,000	-
AMOREPACIFIC Hong Kong Co., Limited	Hang Seng Bank	Overdraft and others	HKD 10,000	-	HKD 15,000	-
	Bank of East Asia	Overdraft and others	HKD 10,000	-	HKD 10,000	-
AMOREPACIFIC Japan CO., LTD	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Short-term borrowings	JPY 2,000,000	JPY 1,700,000	JPY 2,000,000	JPY 1,700,000
AMOREPACIFIC	Citibank Europe	Short-term	EUR 8,500	EUR 7,000	EUR 8,500	EUR 7,000

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EUROPE S.A.S	Plc	borrowings				
	KEB Hana Bank Paris Branch	Overdraft	-	-	EUR 2,000	EUR 1,901
	KEB Hana Bank Paris Branch	Overdraft	EUR 6,000	EUR 4,282	EUR 6,000	EUR 3,920
Annick Goutal S.A.S	KEB Hana Bank Paris Branch	Short-term borrowings	EUR 5,000	EUR 5,000	EUR 3,000	EUR 3,000
	Citibank N.A. France	Short-term borrowings	EUR 3,000	EUR 3,000	EUR 3,000	EUR 3,000
Amorepacific Australia PTY Ltd	Citibank N.A. Sydney Branch	Short-term borrowings	AUD 8,500	AUD 7,000	AUD 8,500	AUD 7,000
	Citibank N.A.	Short-term borrowings	USD 20,000	-	USD 45,200	USD 33,500
Amorepacific US Inc	DBS BANK LTD	Short-term borrowings	USD 50,000	USD 38,000	-	-
Amorepacific Canada Inc	Citibank N.A. Canadian Branch	Short-term borrowings	CAD 5,100	CAD 3,000	CAD 4,000	-
	Citibank N.A. United Arab Emirates	Short-term borrowings	AED 1,500	AED 1,500	AED 1,500	AED 1,500
Amorepacific ME FZ-LLC	Citibank N.A. United Arab Emirates	Short-term borrowings	AED 1,600	AED 1,600	-	--
Innisfree Cosmetics India PVT LTD	Citibank N.A. India	Short-term borrowings	INR 70,000	INR 45,000	INR 70,000	INR 70,000
PT. LANEIGE INDONESIA PACIFIC	Citibank N.A. Indonesia	Short-term borrowings	USD 5,300	USD 5,300	USD 4,000	USD 4,000
AMOREPACIFIC Philippines Co.,LTD	Citibank N.A. Philippine Branch	Short-term borrowings	PHP 90,000	PHP 83,000	PHP 23,000	-
AMOREPACIFIC MALAYSIA SDN. BHD.	Citibank Berhad	Short-term borrowings	USD 1,800	USD 1,800	-	-
	KDB	Facility loans	₩ 42,000	₩ 16,000	₩ -	₩ -
COSVISION CO.,LTD.	BNP Paribas S.A.	Working Fund	10,000	6,000	-	-
Core Technology Corporation.	WOORI BANK	Overdraft	450	-	500	209

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

(in millions of Korean won, thousands of RMB, HKD and USD)		Remark	2021	2020
Current financial deposits	Agreement of shared growth and cooperation		₩ 18,100	₩ 16,500
Non-current financial deposits	Deposit for checking account		8	5
Non-current financial deposits	Permission of door-to-door sales in China		RMB 20,000	RMB 20,000
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores		HKD 5,054	HKD 5,054
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores		USD 194	USD 194
Non-current financial deposits	Deposits to US stores and office		USD 655	USD 655

Details of pending cases of the Group as at December 31, 2021 are as follows:

(in millions of Korean won)	Number of cases	Litigation value
The Group as defendant	8	₩ 205

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The Group is involved in a number of litigation cases arising from the normal course of business, and there are cases in which the Group is a plaintiff and defendant. The outcome of each litigation cases cannot be reasonably estimated; and any outflows of resources and the timing are uncertain. Therefore, the potential effects for the outcome of the cases are not reflected in the consolidated financial statements as at December 31, 2021. The Group expects that these cases would not have any material impact on its financial statements.

As at December 31, 2021, the Group has entered into a long-term rental contract for the new building located in Yongsan with associates, including Innisfree Corporation by November 30, 2022, and external customers by March 31, 2028.

During 2021, the Group (hereinafter referred to as the 'buyer') acquired 192,000 shares (40% of ownership) of COSRX INC (excluding 20,000 treasury shares held by COSRX INC) from the existing shareholders (hereinafter referred to as the 'seller'). Other details related to the contract are as follows:

[Call Option]

The buyer has a right to claim a purchase of the residual shares held by the seller ("Call option") during the period of 2 years from contract date for the above initial acquisition. Exercise price of the call option is calculated based on business performance of the future business years (2022 ~ 2024) of COSRX INC, agreed by both parties.

[Tag Along Rights]

If the buyer does not exercise the call option, the seller may sell the shares of COSRX INC to a third party, then, the buyer has a right to claim to the seller to sell all or a part of the shares held by the buyer to the third party, together.

[Right of First Refusal]

If the buyer does not exercise the call option within the exercise period and sells the shares held by the buyer to a third party, the seller has a right of first refusals.

[Drag Along Rights]

If the buyer does not exercise the call option within the call option exercise period, the seller has a right to claim to sell all of the buyer's shares with the seller's shares to a third party.

During 2020, the Group acquired 28,600,435 shares (49% of ownership) of Rationale Group Pty Ltd held by Richard John Parker, a shareholder of Rationale Group Pty Ltd, from Richard John Parker and others for 65,810,810 AUD. In addition, the Group entered into a shareholders' agreement in relation to the acquisition of Rationale Group Pty Ltd, under which the two companies are unable to sell the shares for 18 months, if there is no agreement between the two companies after the contract is completed.

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35. Related Party Transactions

Details of the Company and subsidiaries as at December 31, 2021, are as follows:

Classification	Name
Ultimate Parent	Kyung-Bae Suh
Parent Company	AMOREPACIFIC Group, Inc.
Ultimate Parent Company presenting consolidated financial statements	AMOREPACIFIC Group, Inc.
Associates	Taiwan AMORE Co., Ltd. Rationale Group Pty Ltd Partner One value up 2 Private Equity Fund ¹ COSRX INC ²
Subsidiaries of the Parent Company	Innisfree Corporation Etude Corporation AMOS Professional Corporation Espoir Corporation Osulloc Corporation. AESTURA Corporation ³ PACIFICPACKAGE Corporation Osulloc Farm Co., Ltd. COSVISION CO., LTD. ⁴ Green Partners Corporation TBT Global Growth Equity Fund No.2 ⁵
Associates of the Parent Company	BBDO Korea Inc. Verescence Pacific, Inc. ^{6,7} AP&M Beauty Fashion Joint Venture ² Smart AP-WE Untact Fund No. 1 ³
Other related party	Taeshin Inpack Corporation

¹ In 2021, the Group acquired an 29.7% of shares.

² In 2021, the Group acquired an 40.0% of shares.

³ In 2021, the Group merged with AMOREPACIFIC Group, Inc.

⁴ In 2021, the Group acquired an 100% of shares through an exchange of shares with the parent company.

⁵ In 2021, the Parent Company acquired 53.7% of shares.

⁶ In 2021, the entity was reclassified to an associate as the Parent Company disposed of 60% of shares.

⁷ On July 2021, the entity's name was changed to Verescence Pacific, Inc.

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

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	2021							
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost	Lease interest expenses	
<i>(in millions of Korean won)</i>								
Ultimate Parent								
Kyung-Bae Suh ³	₩ -	₩ -	₩ -	₩ 2,693	₩ -	₩ -	₩ -	₩ -
Parent Company								
AMOREPACIFIC Group, Inc.	1,299	-	-	-	-	5,214	83	
Subsidiaries of the Parent Company								
Innisfree Corporation	43,598	51,095	-	-	10	1,434	-	
Etude Corporation	16,647	15,797	-	-	6	282	-	
AMOS Professional Corporation	21,695	493	-	-	1	-	-	
Espoir Corporation	5,858	4,357	-	-	1	-	-	
Osulloc Corporation	16,583	883	-	-	-	-	-	
AESTURA Corporation ¹	2,267	56,496	-	-	-	-	-	
PACIFICPACKAGE Corporation	263	48,481	-	-	-	-	-	
Osulloc Farm Co., Ltd.	160	2,793	-	-	16	53	-	
COSVISION CO., LTD. ²	1,152	22,338	-	-	-	6	101	
Green Partners Corporation	49	-	-	-	-	1,430	-	
Associates of the Parent Company								
BBDO Korea Inc.	939	-	-	-	-	20,370	-	
Verescence Pacific, Inc. ²	337	64,129	360	-	-	-	-	
Other related party								
Taeshin Inpack Corporation	-	11,879	-	-	-	-	-	
	₩ 110,847	₩ 278,741	₩ 360	₩ 2,693	₩ 33	₩ 28,790	₩ 184	

¹ Transactions when the entity was a subsidiary of the Parent Company before being merged with the Group.

² Includes transactions when the entities were subsidiaries of the Parent Company.

³ Dividends, salaries, bonus, post-employment benefits for the Parent Company are included in 'Fund transactions with the related parties' and 'Compensation for key management'.

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	2020							
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment ¹	Other revenue	Other cost	Lease interest income	Lease interest expenses
<i>(in millions of Korean won)</i>								
Parent Company								
AMOREPACIFIC Group, Inc.	₩ 1,950	₩ -	₩ -	₩ -	₩ 13	₩ 10,787	₩ -	₩ 133
Subsidiaries of the Parent Company								
Innisfree Corporation	24,337	80,858	-	-	63	1,841	8	-
Etude Corporation	9,839	19,245	-	-	62	152	-	-
AMOS Professional Corporation	20,112	2,269	-	-	17	-	-	-
Espoir Corporation	2,167	7,310	-	-	3	-	-	-
Osulloc Corporation	12,717	536	-	-	38	-	-	-
AESTURA Corporation	2,970	66,884	-	-	-	-	-	-
PACIFICGLAS, Inc.	484	48,720	332	-	-	-	-	-
PACIFICPACKAGE Corporation	263	38,276	-	-	-	-	-	-
Osulloc Farm Co., Ltd.	137	2,010	3,034	-	6	271	-	-
COSVISION CO., LTD.	1,759	23,398	-	186	-	19	-	123
Green Partners Corporation	67	-	-	-	-	1,135	-	-
Associate of the Parent Company								
BBDO Korea Inc.	908	-	-	-	-	23,611	-	-
Other related party								
Taeshin Inpack Corporation	-	10,531	-	-	-	-	-	-
	₩ 77,710	₩ 300,037	₩ 3,366	₩ 186	₩ 202	₩ 37,816	₩ 8	₩ 256

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

	2021					
	Receivables			Payables		
	Trade receivables	Other receivables	Lease receivables	Trade payables	Other payables	Lease liabilities
<i>(in millions of Korean won)</i>						
Parent Company						
AMOREPACIFIC Group, Inc.	₩ 88	₩ 1,964	₩ -	₩ -	₩ 1,169	₩ 4,049
Subsidiaries of the Parent Company						
Innisfree Corporation	8,541	23,449	11	30,973	3,982	-
Etude Corporation	3,095	1,000	-	6,729	1,703	-
AMOS Professional Corporation	1,598	34	-	45	4,075	-
Espoir Corporation	1,388	7	-	361	1,080	-
Osulloc Corporation	2,118	75	-	118	1,947	-
PACIFICPACKAGE Corporation	22	-	-	6,339	33	-
Osulloc Farm Co., Ltd.	16	7	-	186	1,084	-
Green Partners Corporation	4	-	-	-	158	-
Associates of the Parent Company						
BBDO Korea Inc.	-	-	-	-	5,751	-
Verescence Pacific, Inc.	22	-	-	5,283	467	-
Associate						
Taiwan AMORE Co., Ltd.	-	-	-	-	-	-
Other related party						
Taeshin Inpack Corporation	-	-	-	484	-	-
	₩ 16,891	₩ 26,536	₩ 11	₩ 50,518	₩ 21,448	₩ 4,049

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(in millions of Korean won)	2020					
	Receivables			Payables		
	Trade receivables	Other receivables	Lease receivables	Trade payables	Other payables	Lease liabilities
Parent Company						
AMOREPACIFIC Group, Inc.	₩ 424	₩ 1,994	₩ -	₩ -	₩ 530	₩ 3,961
Subsidiaries of the Parent Company						
Innisfree Corporation	2,432	3,637	59	46,319	3,387	-
Etude Corporation	639	1,772	-	8,245	2,216	-
AMOS Professional Corporation	1,830	1	-	72	4,075	-
Espoir Corporation	113	2	-	139	791	-
Osulloc Corporation	1,188	89	-	59	1,263	-
AESTURA Corporation	910	-	-	4,043	1,056	-
PACIFICGLAS, Inc.	37	-	-	6,951	466	-
PACIFICPACKAGE Corporation	24	-	-	4,931	-	-
Osulloc Farm Co., Ltd.	13	2	-	5	453	-
COSVISION CO., LTD.	164	586	-	2,729	36	4,630
Green Partners Corporation	6	-	-	103	-	-
Associate of the Parent Company						
BBDO Korea Inc.	-	-	-	-	3,419	-
Associate						
Taiwan AMORE Co., Ltd.	-	-	-	-	-	-
Other related party						
Taeshin Inpack Corporation	-	-	-	634	-	-
	₩ 7,780	₩ 8,083	₩ 59	₩ 74,230	₩ 17,692	₩ 8,591

The trade receivables from related parties are due three months after the date of transaction. The receivables from related parties are unsecured in nature and bear no interest.

Fund transactions with related parties for the year ended December 31, 2021, are as follows:

Lease fund transactions provided by related parties:

(In millions of Korean won)	Beginning Balance	Acquisition of lease liabilities	Payments	Lease interest expenses	Business combination and others	Ending Balance
The Parent Company						
AMOREPACIFIC Group, Inc.	₩ 3,691	₩ 2,102	₩ (2,097)	₩ 83	₩ -	₩ 4,049
Subsidiary of the Parent Company						
COSVISION CO., LTD.	4,630	-	(144)	101	(4,587)	-
	₩ 8,591	₩ 2,102	₩ (2,241)	₩ 184	₩ (4,587)	₩ 4,049

Lease fund transactions providing to related parties:

(In millions of Korean won)	Beginning Balance	Acquisition of lease liabilities	Cash inflow	Lease interest income	Ending Balance
Subsidiary of the Parent Company					
Innisfree Corporation	₩ 59	₩ (41)	₩ (7)	₩ -	₩ 11

Fund transactions arising from acquisition of associates:

(In millions of Korean won)	Cash contribution
Associate	
Partner One value up 2 Private Equity Fund	₩ 1,500

Fund transactions paid from share transactions with related parties:

(In millions of Korean won)	Details	Cash	Shares
Parent Company	Merging of AESTURA Corporation	₩ 4,320	413,814 shares

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COSVISION CO., LTD.¹ ₩ - 129,543 shares

¹ Paid from issuance of treasury shares and new shares (34,269 ordinary shares).

The Group paid ₩ 23,594 million in dividends to related parties during the year ended December 31, 2021.

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

Lease fund transactions provided by related parties:

<i>(In millions of Korean won)</i>	Beginning Balance	Acquisition of lease liabilities	Disposal of lease liabilities	Payments	Lease interest expenses	Ending Balance
The Parent Company						
AMOREPACIFIC Group, Inc.	₩ 5,078	₩ 802	₩ -	₩ (2,052)	₩ 133	₩ 3,961
Subsidiary of the Parent Company						
COSVISION CO., LTD.	4,182	532	-	(207)	123	4,630
	₩ 9,260	₩ 1,334	₩ -	₩ (2,259)	₩ 256	₩ 8,591

Lease fund transactions providing to related parties:

<i>(In millions of Korean won)</i>	Beginning Balance	Acquisition of lease liabilities	Cash inflow	Lease interest income	Ending Balance
Subsidiary of the Parent Company					
Innisfree Corporation	₩ 41	₩ 506	₩ (496)	₩ 8	₩ 59

Fund transactions arising from acquisition and disposal of subsidiaries:

<i>(In millions of Korean won)</i>	Cash contribution
Associate	
Rationale Group Pty Ltd	₩ 10,912

Borrowing transactions with related parties:

<i>(In millions of Korean won)</i>	Beginning Balance	Repayments	Exchange differences	Ending Balance
Subsidiary of the Parent Company				
Innisfree Corporation	₩ 5,210	₩ (5,203)	₩ (7)	₩ -

The Group paid ₩ 28,614 million in dividends to related parties during the year ended December 31, 2020.

At the end of reporting period, the detail of payment guarantee provided is as follows:

(thousands of AUD)			
Provided	Providing	Amount of payment guarantee	Institution for payment guarantee
Amorepacific Australia Pty Ltd	Amorepacific Group Inc.	AUD 5,194	Melbourne Central Custodian Pty Ltd

As at December 31, 2021, the Group has entered into a long-term rental contract for the new building located in Yongsan with the related parties including Innisfree Corporation, and the

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contract is valid for five years. In addition, the Group has entered into a business agency contract with the domestic related parties and the Group recognizes consideration from the contract as revenue and expense.

Key management includes directors (executive and non-executive), members of the Executive Committee, the Group Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services for the years ended December 31, 2021 and 2020 consists of:

(In millions of Korean won)	2021		2020	
	₩		₩	
Short-term employee benefits		14,519		6,006
Post-employment benefits		669		950
	₩	15,188	₩	6,955

36. Risk Management

36.1 Financial Risk Management

The Group's various operations lead to exposure to a variety of financial risks such as market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The overall risk management program of the Group focuses on the unpredictability of financial markets and seeks to minimize any potentially adverse effects on the financial performance of the Group.

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, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

i) Foreign exchange risk

The Group operates internationally, so it is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar, Euro and the Japanese yen.

The purpose of foreign exchange risk management is to maximize the enterprise value by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Group's financial instruments denominated in major foreign currencies as at December 31, 2021 and 2020 are as follows:

(in millions of Korean won)	2021		2020	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 229,768	₩ 189,281	₩ 205,770	₩ 186,275
EUR	3	325	333	2,298
JPY	938	2,422	49	843

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As at December 31, 2021 and 2020, if the foreign exchange rate of the Korean won fluctuates by 10% with other variables fixed, the effects on profit before income tax will be as follows:

(in millions of Korean won)	2021		2020	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ 4,049	₩ (4,049)	₩ 1,950	₩ (1,950)
EUR	(32)	32	(197)	197
JPY	(148)	148	(79)	79
	₩ 3,868	₩ (3,868)	₩ 1,674	₩ (1,674)

The above sensitivity analysis is performed with foreign currency denominated assets and liabilities that are not in the Parent Company's functional currency.

ii) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expense arising from deposits and borrowings fluctuates due to the changes in future market interest rate. The interest rate risk mainly arises from floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing enterprise value by minimizing uncertainty from fluctuations in interest rate and amount of net interest expense.

At the end of the reporting period, the amount of floating rate deposits exceeds the amount of floating rate borrowings, which leads to decrease in net interest expenses decrease when interest rates increase. On the other hand, the Group minimizes risks from fluctuations in interest rate through various policies: minimizing external borrowings from internal cash sharing; reduction in high rate borrowings; reforming short and long-term capital structure; managing an appropriate ratio of fixed rate borrowings to floating rate borrowings; monitoring domestic and foreign interest rates trend on daily, weekly and monthly basis and establishing measures; and balancing floating rate short-term borrowings with floating rate deposits.

The Group invests in fixed interest assets with maturities of one year or less, and if the market interest rate increases, there is risk of decrease in fair value. However, the risk of changes in fair value is insignificant as the investments are short-term deposits.

At the end of the reporting period, if interest rates on floating rate borrowings increases/decreases changes by 1% with all other variables held constant, profit before income tax for the year will decrease/increase by ₩ 952 million, mainly due to the increased/decreased interest expense on floating rate borrowings.

(b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, the Group only accepts institutions that earned minimum rating of 'A' from independent credit rating agencies.

If wholesale customers are independently rated, these ratings are used. Otherwise, if independent rating inaccessible, the Group assesses the credit risk by taking account for the financial position of

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the customers, past experience, and other factors. If it is deemed that the customers' credit risk needs to be reduced due to such factors as independent rating unavailable, the Group enhances their credit is through pledging property and deposit, or taking out guarantee insurance. For customers without insurance and collateral, the Group strictly manages credit risk in accordance with the internal credit-rating standard. Sales to retail customers are settled in cash or using credit cards.

The Group reviews whether the above trade receivables are individually or collectively impaired at the end of the every reporting period.

(c) Liquidity Risk

The Group holds sufficient amount of cash and cash equivalents and maintains a flexible fund capacity within credit limit by brisk business. Financial liabilities involved in sales except borrowings are basically paid within maximum 3 months after purchasing (average within 2 months), so maturity of all financial liabilities (with or without payment condition) are within 3 months. The Group manages liquidity by holding excess cash and cash equivalents than monthly payments.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For the liabilities with maturity less than a year, the effect of the discount is insignificant, so the amount is equal to the carrying amount.

(in millions of Korean won)	2021					Carrying amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 123,410	₩ -	₩ -	₩ 123,410	₩	123,410
Borrowings	200,260	-	-	200,260		199,124
Other payables	324,998	-	-	324,998		324,998
Other liabilities	191,913	14,105	11,933	217,951		215,375
Lease liabilities	98,157	91,949	15,097	205,203		190,982

(in millions of Korean won)	2020					Carrying amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 117,618	₩ -	₩ -	₩ 117,618	₩	117,618
Borrowings	155,168	-	-	155,168		154,160
Other payables	275,763	-	-	275,763		275,763
Other liabilities	180,950	16,040	11,933	208,923		206,196
Lease liabilities	136,775	127,452	21,846	286,073		266,616

36.2 Capital Risk Management

The purpose of the Group's capital risk management is maximizing shareholders' value through maintaining a sound capital structure. The Group monitors financial ratios such as liability to equity ratio and net borrowing ratio each month and implements required action plan to improve the capital structure.

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Debt-to-equity ratio and net borrowing ratio as at December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won, except for ratios)</i>	2021	2020
Liabilities (A)	₩ 1,372,414	₩ 1,237,520
Equity (B)	4,744,300	4,464,398
Cash and cash equivalents and current financial deposits (C)	659,032	869,167
Borrowings (D)	199,124	154,160
Debt-to-equity ratio (A/B)	28.93%	27.7%
Net Borrowings ratio (D-C)/B	(-)9.69%	(-)16.0%

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37. Fair Value

37.1 Fair Value Hierarchy

During the current year, there has been no business or economic circumstances that may significantly influence the fair value of the Group's financial assets and liabilities.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

(in millions of Korean won)	2021			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ -	₩ 624,678	₩ 3,517	₩ 628,195
Financial assets at fair value through other comprehensive income	955	-	3,717	4,672
Disclosed fair value				
Investment property	-	-	602,115	602,115

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(in millions of Korean won)	2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 1,129	₩ 443,035	₩ -	₩ 444,164
Financial assets at fair value through other comprehensive income	510	-	195	705
Disclosed fair value				
Investment property	-	-	575,977	575,977

37.2 Valuation Technique and the Inputs

Valuation techniques and inputs used in the recurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy are as follows:

(a) Investment Property

The Group measures the fair value of investment property either by an independent appraiser who holds a recognized and relevant professional qualification, or by evaluating fair value reflecting available information such as officially assessed land price announced by the Korean government and similar recent transaction price.

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(b) Financial assets at fair value through other comprehensive income and Financial assets at fair value through profit or loss

Valuation techniques and inputs used in the financial assets categorized within Level 2 and Level 3 of the fair value hierarchy as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)		2021			
		Fair value	Level	Valuation techniques	Inputs
Financial assets at fair value through other comprehensive income					
Unlisted equity securities	₩	3,717	3	EBITDA multiple	Perpetual earning growth rate and others
Financial assets at fair value through profit or loss					
Debt instruments, including redeemable preferred shares		3,517	3	Option model	Stock price of underlying assets and others
Beneficiary certificates		624,678	2	Present value technique	Credit risk adjusted discount rate

37.3 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as at December 31, 2021 and 2020 are as follows:

(in millions of Korean won)		2021		2020	
Debt securities					
Government-issued securities	₩	811	₩	2,125	
	₩	811	₩	2,125	

Regarding debt investments measured at amortised cost, the fair value is measured at historical cost because the difference is immaterial.

Other financial assets and liabilities whose carrying amount is a reasonable approximation of fair value are excluded from the separate fair value disclosures.

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38. Business Combination

The Group acquired 100% of shares of AESTURA Corporation from AMOREPACIFIC Group, the Parent Company, on September 1, 2021, and classified 100% of shares of COSVISION CO.,LTD. to subsidiaries through a stock exchange with AMOREPACIFIC Group. It is a business combination under common control. The Group applies the book amount method to account for business combinations under a common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book amounts on the consolidated financial statements.

The assets and liabilities assumed in a business combination with AESTURA Corporation are ₩ 132,371 million and ₩ 25,975 million, respectively. And, the assets and liabilities assumed in a business combination with COSVISION CO.,LTD. are ₩ 139,851 million and ₩ 68,299 million, respectively.

<i>s(in millions of Korean won)</i>	AESTURA Corporation		COSVISION CO.,LTD.	
Consideration				
Cash	₩	4,320	₩	-
Equity instruments		94,142		29,471
Total consideration transferred	₩	98,462	₩	29,471
Recognized amounts of identifiable assets acquired and liabilities assumed				
Cash and cash equivalents	₩	41,292	₩	7,905
Property, plant and equipment		51,147		95,148
Right-of-use assets		2,149		5,525
Intangible assets		608		426
Financial assets at fair value through other comprehensive income		727		3
Inventories		21,725		12,796
Trade and other receivables		12,032		11,800
Net defined benefit assets		2,684		1,419
Other assets		6		4,829
Trade and other payables		(14,661)		(9,768)
Income taxes payable		(1,361)		1
Short-term borrowings		-		(52,000)
Provisions		(3,371)		(660)
Deferred tax liabilities		(2,848)		-
Lease liabilities		(2,202)		(5,626)
Other liabilities		(1,532)		(245)
Book amounts of net assets	₩	106,395	₩	71,552
Acquisition-related direct costs				
Service fees (recorded in administrative expense in consolidated statement of comprehensive income in the current year)	₩	132	₩	163