

AMOREPACIFIC Corporation and its subsidiaries

Consolidated financial statements
for the year ended December 31, 2022
with the independent auditor's report

AMOREPACIFIC Corporation
and its subsidiaries

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Independent auditor's report
(English Translation of a Report Originally Issued in Korean)

The Shareholders and Board of Directors
AMOREPACIFIC Corporation and its subsidiaries

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 statement of financial position as of December 31, 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022, and its consolidated financial performance and its consolidated cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS").

Basis for opinion

We conducted our audit in accordance with Korean Standards on Auditing ("KSA"). 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 that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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) Impairment test on cash generating units of AMOREPACIFIC Trading Co.,Ltd. - Estimation of recoverable amount.

As described in Note 1.3 to the consolidated financial statements, the total assets of AMOREPACIFIC Trading Co., Ltd., a subsidiary of the Group, amounts to ₩382,731 million and accounts for 6.6% of total assets in the Group's consolidated statement of financial position as of December 31, 2022. As described in Note 3 to the consolidated financial statements, the Group annually measures the recoverable amount of a cash generating unit ("CGU") to which goodwill is allocated at the higher of the asset's value-in-use and its fair value less costs of disposal and compares the recoverable amount to the carrying amount of the CGU. As described in Note 1.3 to the consolidated financial statements, the Group measured the recoverable amount based on the value-in-use of AMOREPACIFIC Trading Co., Ltd.'s CGUs.

We have identified the impairment testing of CGUs of AMOREPACIFIC Trading Co., Ltd. as a key audit matter because the value-in-use involves management's significant judgements and estimates such as future cash flow forecasts, discount rate and perpetual growth rates.

The main audit procedures that we have conducted for this key audit matter are as follows:

- We evaluated the competency and independence of external specialists used for in-house testing performed by management.
- We evaluated key assumptions, such as the valuation model methodology and discount rate used by management to measure value-in-use, by involving internal specialists.
- We compared business plans approved by the Group with external market information in respect of sales growth rate, ratio of operating profit to revenue and perpetual growth rate used by management to measure value-in-use.
- We evaluated the appropriateness of management's estimation by comparing estimates presented in the business plan that management provided for the prior year with the actual performance.
- We recalculated recoverable amount using the valuation model methodology provided by management.
- We evaluate the sensitivity of value-in-use depending on fluctuations in discount rate and perpetual growth rate.

(2) Sales from domestic e-commerce channels in the Daily Beauty ("DB") business division - Occurrence and measurement

As described in Note 4 to the consolidated financial statements, the Group's Daily Beauty ("DB") business division is mainly engaged in manufacturing and sales of personal household products and others. Sales of the DB business division usually arise from various channels such as e-commerce, multi-brand shops, and large discount stores.

As sales presented in the consolidated financial statements are one of the key financial performance evaluation indicators of the Group, there are inherent risks such as the risk of misstatement of sales price per unit or overstatement of profits using fictitious vendors. In addition, sales arising from domestic e-commerce channels of the DB business division are measured on the basis of variable considerations and considerations to be paid to customers. Thus, complexities exist in estimating and calculating key factors affecting such sales, including price discounts, and the frequency of the occurrence of such sales and the proportion of such sales is significant, compared to sales generated from other business sectors or channels. Therefore, we identified the occurrence and measurement of sales generated from domestic e-commerce channels of the DB business division as a key audit matter.

The main audit procedures that we have conducted for this key audit matter are as follows:

- We obtained an understanding of the controls related to sales from domestic e-commerce channels of the DB business division and evaluated such controls.
- We assessed revenues recognized in accordance with KIFRS 1115 *Revenue from contracts with customers*, by testing newly concluded contracts during the current period by inspecting contracts on a sample basis.
- We performed analytical procedures such as trend analysis of monthly performance for items including sales and discounts.
- We assessed documents on transactions selected on a sample basis and reviewed accounting treatment for the occurrence and measurement of revenue.
- We conducted confirmation procedures for the balance of trade receivables selected on a sample basis in relation to sales from domestic e-commerce channels of the DB business division.

Other matter

The consolidated financial statements as of and for the year ended December 31, 2021 were audited by Samil PricewaterhouseCoopers, whose report dated March 16, 2022 expressed an unqualified opinion thereon.

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 KIFRS, 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, or has no realistic alternative but to do so.

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 KSA 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 KSA, 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 Group'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 Jee Hoon Kim.



March 9, 2023

This audit report is effective as the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

AMOREPACIFIC Corporation
and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2022 and 2021

“The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Group.”

Dong-sun, Lee
Chief Executive Officer
AMOREPACIFIC Corporation

AMOREPACIFIC Corporation and its Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2022 and 2021

<i>(in thousands of Korean won)</i>	Notes	2022	2021
Assets			
Current assets			
Cash and cash equivalents		₩ 449,597,948	₩ 537,693,631
Financial deposits	5	74,669,238	101,825,500
Financial assets at fair value through profit or loss	5,7,37	362,939,892	490,839,332
Financial assets at amortized cost	37	30,000,000	-
Trade receivables	5,7	285,104,515	295,769,466
Other receivables	5,7	62,646,902	41,647,243
Current tax assets		1,589,648	3,330,887
Other current assets	15	39,587,747	50,130,930
Inventories	8	408,934,397	493,223,643
Non-current assets held-for sale	13	19,949,060	4,066,226
		<u>1,735,019,348</u>	<u>2,018,526,858</u>
Non-current assets			
Financial deposits	5	21,989,149	19,512,730
Other receivables	5,7	66,737,894	115,162,575
Financial assets at fair value through profit or loss	5,7,37	8,017,318	104,256,384
Financial assets at amortized costs	5	430,315	811,275
Financial assets at fair value through other comprehensive income	5,7,37	6,216,766	4,672,325
Property, plant and equipment	7	2,475,276,690	2,541,362,151
Intangible assets	11	357,750,954	201,680,030
Investment properties	12, 37	503,268,139	534,228,580
Right-of-use assets	14	128,492,275	146,465,714
Investments in associates	9	247,279,225	238,445,369
Net defined benefit assets	20	181,406,890	94,729,521
Deferred tax assets		57,853,971	84,608,400
Other non-current assets	15	12,044,243	12,252,021
		<u>4,066,763,830</u>	<u>4,098,187,075</u>
Total assets		<u>₩ 5,801,783,178</u>	<u>₩ 6,116,713,933</u>
Liabilities			
Current liabilities			
Trade payables	5,36	₩ 80,676,210	₩ 123,410,292
Borrowings	5,16,36	223,413,564	199,124,083
Other payables	5, 36	154,937,769	324,998,427
Current tax liabilities		41,108,988	89,962,740
Contract liabilities	18	36,625,354	37,465,486
Provisions	17	30,597,339	8,906,185
Current lease liabilities	36	69,006,139	94,760,914
Other current liabilities	5,19	194,751,573	278,857,266
		<u>831,116,936</u>	<u>1,157,485,393</u>
Non-current liabilities			
Net defined benefit liabilities	20	4,377,775	4,059,129
Deferred tax liabilities		91,265,972	79,488,075
Provisions	17	9,469,113	11,556,811
Non-current lease liabilities	36	64,785,225	96,221,154
Other non-current liabilities	5,19	21,493,053	23,603,492
		<u>191,391,138</u>	<u>214,928,661</u>
Total liabilities		<u>1,022,508,074</u>	<u>1,372,414,054</u>
Equity			
Share capital	21	34,525,295	34,525,295
Share premium		720,480,827	720,480,827
Capital surplus		71,118,560	75,352,827
Other components of equity	21	(18,139,434)	(19,004,134)
Accumulated other comprehensive income (loss)	23	(19,458,513)	11,879,037
Retained earnings	24	4,010,086,561	3,937,774,555
Equity attributable to owners of the Parent Company		<u>4,798,613,296</u>	<u>4,761,008,407</u>
Non-controlling interest		<u>(19,338,192)</u>	<u>(16,708,528)</u>
Total equity		<u>4,779,275,104</u>	<u>4,744,299,878</u>
Total liabilities and equity		<u>₩ 5,801,783,178</u>	<u>₩ 6,116,713,933</u>

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

AMOREPACIFIC Corporation and its Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2022 and 2021

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

	Notes	2022	2021
Revenue	4,27	₩ 4,134,932,512	₩ 4,863,128,497
Cost of sales		1,337,512,407	1,362,639,202
Gross profit		2,797,420,105	3,500,489,295
Selling and administrative expenses	29	2,583,186,849	3,157,131,485
Operating profit	4	214,233,256	343,357,810
Finance income	30	22,771,702	10,499,110
Finance costs	30	34,413,883	11,410,260
Other non-operating income (loss), net	31	13,044,674	(45,496,829)
Share of net profit of associates	9	8,858,020	927,626
		10,260,513	(45,480,353)
Profit before tax		224,493,769	297,877,457
Income tax expense	26	95,229,524	117,019,763
Profit for the year		₩ 129,264,245	₩ 180,857,694
Profit is attributable to:			
Owners of the Parent Company		₩ 134,474,812	₩ 193,680,579
Non-controlling interests		₩ (5,210,567)	₩ (12,822,885)
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurements of net defined benefit liabilities		5,482,641	(47,369,483)
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	5	(31,631)	109,286
Items that may be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income (loss) of associates	9	(606,665)	260,637
Exchange differences on translation of foreign operations		(31,891,807)	31,358,419
Other comprehensive income for the year, net of tax		(27,047,462)	(15,641,141)
Total comprehensive income for the year		₩ 102,216,783	₩ 165,216,553
Total comprehensive income (loss) for the year is attributable to:			
Owners of the Parent Company		108,599,006	178,468,780
Non-controlling interests		(6,382,223)	(13,252,227)
		₩ 102,216,783	₩ 165,216,553
Earnings per share attributable to owners of the Parent Company			
Basic earnings per ordinary share		₩ 1,949	₩ 2,820
Diluted earnings per ordinary share		₩ 1,948	₩ 2,818
Basic earnings per preferred share			
Diluted earnings per preferred share		₩ 1,954	₩ 2,821
		₩ 1,954	₩ 2,821

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

AMOREPACIFIC Corporation and its Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2022 and 2021

(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 (loss)	Retained earnings	Total					
Balance as of January 1, 2021	₩ 34,508,160	₩ 712,701,764	₩ 10,807,414	₩ (117,631,782)	₩ (20,278,649)	₩ 3,847,747,138	₩ 4,467,854,045	₩ (3,456,301)	₩ 4,464,397,744			
Comprehensive income (loss)												
Profit (loss) for the year	-	-	-	-	-	193,680,579	193,680,579	(12,822,885)	180,857,694			
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(47,369,483)	(47,369,483)	-	(47,369,483)			
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	109,286	-	109,286	-	109,286			
Share of other comprehensive income of associates	-	-	-	-	255,539	-	255,539	5,098	260,637			
Exchange differences on translation of foreign operations	-	-	-	-	31,792,861	-	31,792,861	(434,441)	31,358,420			
Total comprehensive income (loss) for the year	-	-	-	-	32,157,686	146,311,096	178,468,782	(13,252,228)	165,216,554			
Transactions with owners												
Dividends paid	-	-	-	-	-	(54,853,570)	(54,853,570)	-	(54,853,570)			
Stock issuance	17,135	7,779,063	-	-	-	-	7,796,198	-	7,796,198			
Disposal of treasury shares	-	-	14,558,249	101,259,271	-	-	115,817,520	-	115,817,520			
Acquisition of treasury shares	-	-	-	(18,685,151)	-	-	(18,685,151)	-	(18,685,151)			
Changes in scope of consolidation	-	-	49,987,164	-	-	(1,430,109)	48,557,055	-	48,557,055			
Others	-	-	-	16,053,528	-	-	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	-	114,685,580			
Balance as of December 31, 2021	₩ 34,525,295	₩ 720,480,827	₩ 75,352,827	₩ (19,004,134)	₩ 11,879,037	₩ 3,937,774,555	₩ 4,761,008,406	₩ (16,708,528)	₩ 4,744,299,878			
Balance as of January 1, 2022												
Comprehensive income (loss)												
Profit (loss) for the period	-	-	-	-	-	134,474,812	134,474,812	(5,210,567)	129,264,245			
Remeasurements of net defined benefit liabilities	-	-	-	-	-	5,482,641	5,482,641	-	5,482,641			
Loss on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	(31,631)	-	(31,631)	-	(31,631)			
Transfers on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	20,898	(20,898)	-	-	-			
Share of other comprehensive loss of associates	-	-	-	-	(576,188)	-	(576,188)	(30,477)	(606,665)			
Exchange differences on translation of foreign operations	-	-	-	-	(30,750,629)	-	(30,750,629)	(1,141,178)	(31,891,807)			
Total comprehensive income (loss) for the year	-	-	-	-	(31,337,550)	139,936,555	108,599,005	(6,382,222)	102,216,783			
Transactions with owners												
Dividends paid	-	-	-	-	-	(67,624,549)	(67,624,549)	(546,647)	(68,171,196)			
Disposal of treasury shares	-	-	64,938	10,182,066	-	-	10,247,005	-	10,247,005			
Change in equity interest of subsidiaries	-	-	(4,299,205)	-	-	-	(4,299,205)	4,299,205	-			
Share-based payment	-	-	-	(9,317,366)	-	-	(9,317,366)	-	(9,317,366)			
Total transactions with owners	-	-	(4,234,267)	864,700	-	(67,624,549)	(70,994,115)	3,752,558	(67,241,557)			
Balance as of December 31, 2022												
	₩ 34,525,295	₩ 720,480,827	₩ 71,118,560	₩ (18,139,434)	₩ (19,458,513)	₩ 4,010,086,561	₩ 4,798,613,296	₩ (19,338,192)	₩ 4,779,275,104			

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

AMOREPACIFIC Corporation and its Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021

(in thousands of Korean won)

	2022	2021
Cash flows from operating activities		
Cash generated from operations	₩ 281,138,081	₩ 714,854,553
Interest received	6,274,262	4,026,044
Interest paid	(11,472,338)	(9,899,193)
Income tax paid	(124,916,275)	(17,546,993)
Net cash inflow from operating activities	151,023,730	691,434,410
Cash flows from investing activities		
Decrease in current financial deposits, net	27,325,462	-
Decrease in current financial assets at fair value through profit or loss	232,549,103	-
Decrease in other receivables	28,546,250	31,526,378
Proceeds from disposal of financial assets measured at amortized cost	460,580	1,313,800
Proceeds from disposal of financial assets at fair value through other comprehensive income	730,010	-
Proceeds from disposal of property, plant and equipment	4,018,992	3,276,023
Proceeds from disposal of intangible assets	68,620	414,580
Proceeds from disposal of investment property	3,105,500	4,226,484
Proceeds from disposal of non-current assets held for sale	6,246,100	-
Net cash inflows due to business combination and others	-	44,874,438
Other cash inflow	-	11,434,877
Increase in current financial deposit, net	-	(43,094,000)
Increase in current financial assets at fair value through profit or loss	-	(320,522,607)
Increase in current financial assets at amortized cost, net	(30,000,000)	-
Increase in non-current financial assets at fair value through profit or loss	(16,917,338)	(103,516,980)
Acquisitions of financial assets at fair value through other comprehensive income	(2,500,004)	(3,000,080)
Increase in other receivables	(10,071,148)	(29,564,011)
Increase in non-current financial deposits	(1,500,003)	(1,503,003)
Acquisitions of property, plant and equipment	(99,289,991)	(91,182,844)
Acquisitions of intangible assets	(35,575,628)	(29,815,784)
Increase in right-of-use assets	(125,343)	(26,671)
Increase in investments in associates	-	(183,255,852)
Net cash outflows due to business combination	(175,584,951)	-
Net cash outflow from investing activities	(68,513,789)	(708,415,252)
Cash flows from financing activities		
Proceeds from short-term borrowings	45,369,951	17,070,111
Receipt of leasehold deposits	2,012,976	5,297,434
Repayments of short-term borrowings	(22,790,212)	(33,166,492)
Acquisition of treasury shares	(2,484,434)	(18,685,151)
Payments for lease liabilities	(105,600,935)	(140,273,953)
Dividends paid	(68,147,577)	(54,834,268)
Redemption of leasehold deposits	(2,910,597)	(1,388,650)
Net cash outflow from financing activities	(154,550,828)	(225,980,969)
Effects of exchange rate changes on cash and cash equivalents	(16,054,796)	(13,072,846)
Net increase in cash and cash equivalents	(88,095,682)	(256,034,657)
Cash and cash equivalents at the beginning of the year	537,693,631	793,728,286
Cash and cash equivalents at the end of the year	₩ 449,597,948	₩ 537,693,631

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

1. General information

General information of AMOREPACIFIC Corporation (the “Company” or “Parent Company”), which is the parent company in accordance with KIFRS 1110 *Consolidated Financial Statements*, and its 30 subsidiaries (collectively referred to as the “Group”), are 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 of December 31, 2022, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office, twenty-seven overseas local subsidiaries including AMOREPACIFIC Global Operations Limited., located in Hong Kong, and three domestic subsidiaries.

As of December 31, 2022, 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 basic earnings per share for preferred shares, a different dividend rate is used.

The Parent Company’s ordinary shareholders as of December 31, 2022, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group, Inc.	22,250,869	38.1
Kyung-Bae Suh	6,226,226	10.6
Others ¹	30,015,664	51.3
	<u>58,492,759</u>	<u>100</u>

¹ Including 49,065 treasury shares(2021: 107,817).

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

1. General information (cont'd)

1.2 Consolidated subsidiaries

The Company's consolidated subsidiaries as of December 31, 2022, are as follows:

Shareholder	Name of subsidiary	Primary Business	Percentage of ownership (%)	Year end	Location
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited.	Holding company and marketing of cosmetics	90.83	Dec.31	Hong Kong
AMOREPACIFIC Corporation	AMORE Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Manufacturing and R&D of cosmetics	100.00	Dec.31	Malaysia
AMOREPACIFIC Corporation	We-Dream Co., Ltd.	Packaging of products and managing of facilities	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	Core Technology Corporation.	Manufacturing of industrial machinery	80.00	Dec.31	Korea
AMOREPACIFIC Corporation	COSVISION CO.,LTD	Manufacturing and sales of cosmetics, cleaner and organic and inorganic chemicals	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	AMOREPACIFIC US INVESTMENT, INC.	Holding company	100.00	Dec.31	USA
AMOREPACIFIC Corporation	AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	Holding company	90.83	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Trading Co.,Ltd.	Sales of cosmetics	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Hong Kong Co.,Limited ¹	Sales of cosmetics	100.00	Dec.31	Hong Kong
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Taiwan Co.,Ltd.	Sales of cosmetics	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC ME FZ-LLC	Sales of cosmetics	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC SINGAPORE PTE Co Ltd.	Sales of cosmetics	100.00	Dec.31	Singapore
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC MALAYSIA SDN. BHD.	Sales of cosmetics	100.00	Dec.31	Malaysia
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC (Thailand) LIMITED	Sales of cosmetics	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Sales of cosmetics	2.29	Dec.31	Indonesia
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	PT. LANEIGE INDONESIA PACIFIC	Sales of cosmetics	97.71	Dec.31	Indonesia
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC Vietnam LTD.	Sales of cosmetics	100.00	Dec.31	Vietnam
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC PHILIPPINES, INC.	Sales of cosmetics	100.00	Dec.31	Philippines
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC US, INC.	Sales of cosmetics	100.00	Dec.31	United States
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC CANADA INC.	Sales of cosmetics	100.00	Dec.31	Canada
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC EUROPE S.A.S	Manufacturing and sales of cosmetics	100.00	Dec.31	France
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	Annick Goutal S.A.S	Sales of cosmetics	100.00	Dec.31	France
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC Japan Co.,Ltd.	Sales of cosmetics	100.00	Dec.31	Japan
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	Innisfree Cosmetics India Private Limited	Sales of cosmetics	100.00	Mar.31	India
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	AMOREPACIFIC AUSTRALIA PTY LTD	Sales of cosmetics	100.00	Dec.31	Australia
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	Amorepacific Russia LLC	Sales of cosmetics	100.00	Dec.31	Russia
AMOREPACIFIC Trading Co.,Ltd.	AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	Sales of cosmetics	100.00	Dec.31	China
AMOREPACIFIC US INVESTMENT, INC.	Tata's NATURAL ALCHEMY, LLC	Manufacturing and sales of cosmetics	100.00	Dec.31	United States

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

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

1. General information (cont'd)

1.3 Summarized financial information of subsidiaries

Summarized financial information for consolidated subsidiaries as of and for the year ended December 31, 2022 is as follows:

(in millions of Korean won)

	2022			
	Total assets	Total liabilities	Revenue	Profit (loss) for the year
AMOREPACIFIC Global Operations Limited.	₩ 70,223	₩ 63,408	₩ 20,991	₩ 8,964
AMORE Cosmetics (Shanghai) Co.,Ltd.	329,361	12,389	87,558	289
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	6,755	619	7,026	1,004
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	30,635	229	-	(108)
We-Dream Co.,Ltd.	2,395	439	4,966	501
Core technology	1,593	880	8,156	40
COSVISION CO.,LTD	136,641	41,671	162,411	(1,636)
AMOREPACIFIC US INVESTMENT, INC.	158,413	9,080	-	(9,253)
AMOREPACIFIC GLOBAL OPERATION PTE. LTD.	106,090	-	-	(37)
AMOREPACIFIC Trading Co.,Ltd.	382,731	526,574	764,876	(61,884)
AMOREPACIFIC Hong Kong Co.,Limited	69,154	59,439	72,546	3,885
AMOREPACIFIC Taiwan Co.,Ltd.	39,830	18,028	62,982	1,956
AMOREPACIFIC ME FZ-LLC	16	-	-	(398)
AMOREPACIFIC SINGAPORE PTE Co Ltd.	39,942	20,874	53,504	2,978
AMOREPACIFIC MALAYSIA SDN. BHD.	26,314	16,056	46,730	1,775
AMOREPACIFIC (Thailand) LIMITED	39,103	10,194	62,111	2,559
PT. LANEIGE INDONESIA PACIFIC	11,986	8,629	26,452	256
AMOREPACIFIC Vietnam LTD.	29,758	13,806	41,931	3,765
AMOREPACIFIC PHILIPPINES, INC.	5,059	2,887	5,564	79
AMOREPACIFIC US, INC.	70,340	124,030	150,496	1,652
AMOREPACIFIC CANADA INC.	8,167	12,385	21,923	(397)
AMOREPACIFIC EUROPE S.A.S	12,449	16,860	17,834	180
Annick Goutal S.A.S	21,499	30,917	12,299	4,957
AMOREPACIFIC Japan Co.,Ltd.	41,917	35,473	62,142	(5,114)
Innisfree Cosmetics India Private Limited	11,277	5,840	8,681	(681)
AMOREPACIFIC AUSTRALIA PTY LTD	9,671	23,824	18,751	1,295
Amorepacific Russia LLC	1,799	1,270	1,867	204
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	395	-	-	(14)
Tata's NATURAL ALCHEMY, LLC	22,978	12,120	8,942	(1,808)

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.

During the year ended December 31, 2022, there was an indication of impairment of the cash-generating units (CGUs) of AMOREPACIFIC Trading Co.,Ltd. and an impairment test was conducted. However, the Group did not recognize an impairment as the recoverable amount of the CGUs exceeded their carrying amount. The recoverable amount is calculated on the basis of value-in-use estimates reflecting future business plans approved by management, and key assumptions used for value-in-use calculations are as follows:

	AMOREPACIFIC Trading Co.,Ltd.
Weight average cost of capital	11.4%
Perpetual growth rate	1.0%

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

1. General information (cont'd)

1.3 Summarized financial information of subsidiaries (cont'd)

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

(in millions of Korean won)

	2021			
	Total assets	Total liabilities	Revenue	Profit (loss) for the year
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	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 ME FZ-LLC	589	1,156	905	(132)
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 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.

1.4 Changes in scope for consolidation

For the year ended December 31, 2022, AMOREPACIFIC Global Operations Limited. established AMOREPACIFIC GLOBAL OPERATION PTE. LTD. through the in-kind contribution of its investment shares in 14 companies including AMOREPACIFIC US, INC. Meanwhile, AMOREPACIFIC Global Operations Limited. transferred all of its shares in AMOREPACIFIC GLOBAL OPERATION PTE. LTD. to AMOREPACIFIC Co., Ltd. through paid-in capital reduction for the year ended December 31, 2022.

For the year ended December 31, 2022, the Company established AMOREPACIFIC US INVESTMENT, INC., a subsidiary wholly owned by the Company.

For the year ended December 31, 2022, AMOREPACIFIC US INVESTMENT, INC. obtained control

1. General information (cont'd)

1.4 Changes in scope for consolidation (cont'd)

over Tata's NATURAL ALCHEMY, LLC by acquiring a 100% interest in Tata's NATURAL ALCHEMY, LLC.

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 prepares statutory financial statements in Korean in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS"), enacted by *the Act on External Audit of Stock Companies*. The accompanying consolidated financial statements have been translated into English from Korean financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated 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

2.2.1 New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022.

(1) Onerous Contracts – Costs of Fulfilling a Contract – Amendments to KIFRS 1037

An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an

2. Significant accounting policies (cont'd)

2.2.1 New and amended standards and interpretations (cont'd)

entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labor and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

(2) Reference to the conceptual framework – amendments to KIFRS 1103

The amendments replace a reference to a previous version of the International Accounting Standards Board (IASB)'s *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of KIFRS 1103 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* or KIFRS Interpretation 2121 *Levies*, if incurred separately. The exception requires entities to apply the criteria in KIFRS 1037 or KIFRS Interpretation 2121, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to KIFRS 1103 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

(3) Property, plant and equipment: proceeds before intended use – amendments to KIFRS 1016 *Property, plant and equipment*

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is not expected to have a material impact on the Group's consolidated financial statements.

(4) KIFRS 1101 *First-time adoption of international financial reporting standards* – subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(1) of KIFRS 1101 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to KIFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(1) of KIFRS 1101. The amendments are not expected to have a material

2. Significant accounting policies (cont'd)

2.2.1 New and amended standards and interpretations (cont'd)

impact on the Group's consolidated financial statements.

(5) KIFRS 1109 *Financial instruments* – fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for KIFRS 1039 *Financial Instruments: Recognition and Measurement*. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

(6) KIFRS 1041 *Agriculture* – taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of KIFRS 1041 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of KIFRS 1041. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

2.2.2 New and amended standards and interpretations

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group has not early adopted any standards or interpretations stated below.

(1) KIFRS 1117 *Insurance Contracts*

In 2021, KIFRS 1117 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure was issued. Once effective, KIFRS 1117 will replace KIFRS 1104 *Insurance Contracts* that was issued in 2007. KIFRS 1117 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of KIFRS 1117 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in KIFRS 1104, which are largely based on grandfathering previous local accounting policies, KIFRS 1117 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of KIFRS 1117 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

KIFRS 1117 is effective for reporting periods beginning on or after January 1, 2023, with comparative

2. Significant accounting policies (cont'd)

2.2.2 New and amended standards and interpretations (cont'd)

figures required. Early application is permitted, provided the entity also applies KIFRS 1109 and KIFRS 1115 on or before the date it first applies KIFRS 1117. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

(2) Amendments to KIFRS 1001: Classification of liabilities as current or non-current

The amendments to paragraphs 69 to 76 of KIFRS 1001 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact on the consolidated financial statements due to the amendments.

(3) Definition of accounting estimates - Amendments to KIFRS 1008

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The Group is currently assessing the impact on the consolidated financial statements due to the amendments.

(4) Disclosure of accounting policies - Amendments to KIFRS 1001

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. KIFRS 1001 requires disclosure of significant accounting policies of the Group. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

2. Significant accounting policies (cont'd)

2.2.2 New and amended standards and interpretations (cont'd)

(5) Deferred tax related to assets and liabilities arising from a single transaction - amendments to KIFRS 1012

The amendments narrow the scope of the initial recognition exception under KIFRS 1012, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The Group is currently assessing the impact on the consolidated financial statements due to the amendments.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with KIFRS 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

2. Significant accounting policies (cont'd)

2.3 Consolidation (cont'd)

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 a common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book amounts on the consolidated financial statements of the Ultimate Parent Company. However, if the consolidated 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 consolidated book amounts of the assets and liabilities transferred and accumulated other comprehensive income; and the consideration paid is recognized as reserves.

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 or remeasured items. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities

2. Significant accounting policies (cont'd)

2.5 Foreign currency translation (cont'd)

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 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.

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.

2. Significant accounting policies (cont'd)

2.6 Financial assets (cont'd)

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 compound contract that includes an embedded derivative considers the entire compound contract when determining whether the contractual cash flow consists solely of principal and interest.

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 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'.
- **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

2. Significant accounting policies (cont'd)

2.6 Financial assets (cont'd)

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 profit or loss within 'finance income or costs' in the year in which it arises.

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 non-operating 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 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

2. Significant accounting policies (cont'd)

2.6 Financial assets (cont'd)

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

2.7 Derivatives

Derivatives are initially recognized at fair value upon the conclusion of derivative contracts and subsequently measured at fair value. Changes in fair value of derivatives that do not meet the requirements of risk hedging accounting are recognized in profit or loss as finance income or costs depending on the nature of the transaction.

2.8 Trade receivables

Trade receivables that do not contain a significant financing component are measured at the transaction price determined without any contractual conditions, but those containing a significant financial component are measured at fair value upon the initial recognition. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value, and unit cost of inventory is determined by the gross average method or the moving-weighted average method (except goods in transit, which is determined by a specific identification of costs).

2.10 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.

2.11 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:

2. Significant accounting policies (cont'd)

2.11 Property, plant and equipment (cont'd)

	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

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

2.12 Borrowing costs

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

2.13 Government grants

Government grants are recognized as fair value when there is reasonable confidence in the receipt of subsidies and in compliance with the conditions attached to them. 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 recognized as 'Other non-operating income' in the consolidated income statement during the period in which expenses related to the purpose of granting government subsidies are incurred.

2.14 Intangible assets

Intangible assets are measured initially as historical cost and stated at historical cost less accumulated depreciation and accumulated impairment losses.

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

2. Significant accounting policies (cont'd)

2.14 Intangible assets (cont'd)

straight-line method over the following periods:

	Useful life
Industrial property	5 - 20 years
Software	5 - 10 years
Others	2 - 15 years

2.15 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.

2.16 Impairment of non-financial assets

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, and other assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may be impaired. Investments in subsidiaries and associates are tested for impairment when there is an indication that the carrying amount will not be recoverable. An impairment loss is recognized to the extent that the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. An impairment loss previously recognized for non-financial assets other than goodwill is reviewed for possible reversal of the impairment at the end of each reporting period.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

2. Significant accounting policies (cont'd)

2.16 Impairment of non-financial assets (cont'd)

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. Perpetual growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognized in the statement of comprehensive income in expense categories consistent with the function of the impaired asset. For assets other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. An impairment loss previously recognized for asset excluding goodwill is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed the carrying amount at amortized cost that would have been determined, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

Additional disclosures relating to impairment of non-financial assets are also provided in the following notes.

- Disclosure of significant assumptions: Note 3

2.17 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.

2.18 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.

2. Significant accounting policies (cont'd)

2.18 Financial Liabilities (cont'd)

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 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.

2.19 Financial guarantee contracts

Financial guarantee contracts provided by the Group are measured at fair value upon initial recognition and subsequently recognized as 'other liabilities' in the consolidated statement of financial position by measuring at the higher of the following:

- (1) Allowance for loss calculated in accordance with the provisions for impairment of financial instruments
- (2) The initial recognized amount less the cumulative amount of profit recognized in accordance with KIFRS 1115

2.20 Provisions

Provisions for service warranties, provision for restoration, and legal proceeding provisions 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.

2.21 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.

2. Significant accounting policies (cont'd)

2.21 Current and deferred tax (cont'd)

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 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 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 to settle on a net basis.

2.22 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

2. Significant accounting policies (cont'd)

2.22 Employee benefits (cont'd)

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 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 issuing new shares at the time of exercise of the option, net inflows excluding directly related transaction costs are recognized as share capital (nominal value) and share capital premium.

2.23 Revenue Recognition

(a) Identifying performance obligations

The Group manufactures and sells cosmetics and personal care of goods. 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

2. Significant accounting policies (cont'd)

2.23 Revenue Recognition (cont'd)

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.

2.24 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.

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

2. Significant accounting policies (cont'd)

2.24 Lease (cont'd)

- 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 of equipment and vehicles 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 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. Significant accounting policies (cont'd)

2.25 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 (see 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.

2.26 Approval of Issuance of the Financial Statements

The consolidated financial statements for the year ended December 31, 2022 were approved for issuance by the Board of Directors on February 1, 2023 and are subject to change with the approval of shareholders at their Annual General Meeting, if any.

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.

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) 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 (see 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.

(b) 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.

(c) 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.

3. Critical Accounting Estimates and Assumptions (cont'd)

(d) 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).

(e) 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.

(f) Impairment of non-financial assets

At the end of each reporting period, the Group evaluates all non-financial assets for signs of impairment. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually or when there are indications of impairment. Other non-financial assets are reviewed annually for indications that their carrying amounts may not be recoverable and, when such indications exist, are tested for impairment. To test for impairment, the Group measures the recoverable amount at the higher of the asset's value in use or fair value minus costs of disposal and compares it with the carrying amount of the asset. To calculate value in use, the Group must estimate future expected cash flows from the asset or CGU and select an appropriate discount rate to calculate the present value of those future expected cash flows. Key assumptions are detailed in Note 1.3.

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 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.

(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 (see Note 20).

3. Critical Accounting Estimates and Assumptions (cont'd)

(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:

- 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.

(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) Financial guarantee liabilities

Financial guarantee liabilities under financial guarantee contracts are measured at fair value upon the initial recognition and subsequently recognized as allowance for expected credit losses based on significant changes in credit risk.

(k) Impact of COVID-19

The spread 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, and collection of existing receivables. Accordingly, it may have a negative impact on the financial position and financial performance of the Group and the impact is expected to continue 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 be determined currently.

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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 of December 31, 2022 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, 2022 and 2021 is as follows:

(in millions of Korean won)

	2022		2021	
	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
Cosmetics	₩ 3,677,726	₩ 206,530	₩ 4,349,278	₩ 343,612
DB(Daily Beauty)	457,207	7,703	513,850	(254)
	<u>₩ 4,134,933</u>	<u>₩ 214,233</u>	<u>₩ 4,863,128</u>	<u>₩ 343,358</u>

External revenues by geographic areas for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Korea	₩ 2,424,653	₩ 2,811,396
Asia	1,476,517	1,913,081
North America	183,281	101,800
Others	50,482	36,851
	<u>₩ 4,134,933</u>	<u>₩ 4,863,128</u>

There is no external customer attributing to more than 10% of total revenues for the years ended December 31, 2022 and 2021.

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5. Financial Instruments by Category

Categorizations of financial assets as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022		2021	
Financial assets at amortized cost	Cash and cash equivalents	₩	449,598	₩	537,694
	Current financial deposits		50,269		83,726
	Current debt securities		30,000		-
	Non-current financial deposits		4,470		4,513
	Non-current financial assets at amortized costs ¹		430		811
	Trade receivables		285,105		295,769
	Current other receivables		62,647		41,647
	Non-current other receivables		66,738		115,163
	Other current assets ²		1,270		159
Financial assets at fair value through other comprehensive income	Non-current financial assets at fair value through other comprehensive income ³		6,216		4,672
	Current financial deposits ⁴		24,400		18,100
Financial assets at fair value through profit or loss	Current derivative assets		1,454		-
	Current financial assets at fair value through profit or loss ⁴		361,486		490,839
	Non-current financial deposits ⁵		17,519		15,000
	Non-current financial assets at fair value through profit or loss ⁶		8,017		104,256
			24,400		18,100
		₩	1,369,619	₩	1,712,349

¹ Consist of government and public bonds (see Note 7).

² Consist of accrued income (see Note 15).

³ Consist of equity instruments such as listed shares (see Note 7).

⁴ Consist of beneficiary certificates (see Note 7).

⁵ Consist of variable annuities (see Note 7).

⁶ Consist of beneficiary certificates and redeemable convertible preferred shares (see Note 7).

5. Financial Instruments by Category (cont'd)

Categorizations of financial liabilities as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

		2022	2021
Financial liabilities	Trade payables	₩ 80,676	₩ 123,410
at amortized cost	Short-term borrowings	223,414	199,124
	Other payables	154,938	324,998
	Other current liabilities ¹	146,454	191,913
	Other non-current liabilities ²	21,371	23,462
		<u>₩ 626,853</u>	<u>₩ 862,907</u>

¹ Other current liabilities consist of deposits received, dividend payables, accrued expenses and refund liabilities (see Note 19).

² Other non-current liabilities consist of deposits received, accrued expenses, and other financial liabilities (see Note 19).

Net gains or losses on each category of financial instruments for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Financial assets at fair value through profit or loss:		
Gain (loss) on valuation and disposal	₩ (9,736)	₩ 4,452
Gain on valuation of derivative assets	1,454	-
Financial assets at fair value through other comprehensive income:		
Gain (loss) on valuation (other comprehensive income)	(32)	109
Financial assets at amortized cost:		
Interest income ¹	8,007	5,629
Gain on foreign currency translation	29,724	25,357
Bad debt expenses	(2,169)	(1,545)
Financial liabilities at amortized cost:		
Interest expense ¹	(5,815)	(3,356)
Gain (loss) on foreign currency translation	(14,789)	1,227

¹ Interest income and expenses under the application of KIFRS 1116 Leases are excluded.

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6. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
Cash on hand	₩	2,237	₩	218
Ordinary deposits		174,220		120,007
Checking accounts		71,756		49,941
Other accounts		191,385		367,528
	₩	449,598	₩	537,694

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

7. Financial assets

7.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
	Current	Non-current	Current	Non-current
Financial deposits:				
Beneficiary certificates	₩ 24,400	₩ -	₩ 18,100	₩ -
Variable annuities	-	17,519	-	15,000
Financial assets at fair value through profit or loss:				
Beneficiary certificates	361,486	-	490,839	100,739
Derivative assets	1,454	-	-	-
Debt instruments, including convertible redeemable preferred shares	-	8,017	-	3,517
	₩ 387,340	₩ 25,536	₩ 508,939	₩ 119,256

7. Financial assets (cont'd)

7.2 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Equity instruments:		
Listed equity securities		
GL Pharm Tech Corporation	₩ -	₩ 436
Humedix Co., Ltd.	-	519
Unlisted equity securities		
Welskin Co., Ltd.	48	48
The Korea Economic Daily	81	81
Biogenics Inc.	587	588
HEM Co., Ltd.	5,500	3,000
	<u>₩ 6,216</u>	<u>₩ 4,672</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, 2022 and 2021, are as follows:

	2022	2021
Beginning balance	₩ 4,672	₩ 706
Acquisition	2,500	3,000
Disposal Business combination and others	(730)	-
Gain (loss) on valuation	(226)	239
Business combination and others	-	727
Ending balance	<u>₩ 6,216</u>	<u>₩ 4,672</u>

7. Financial assets (cont'd)

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

Trade receivables and its provisions for impairment as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
Trade receivables	₩	290,225	₩	299,174
Less: provision for impairment of trade receivables		(5,120)		(3,405)
Trade receivables, net	₩	285,105	₩	295,769

Other receivables and its provisions for impairment as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
	Current	Non-current	Current	Non-current
Non-trade receivables	₩ 21,097	₩ -	₩ 32,017	₩ -
Financial lease receivables	1,164	1,644	1,277	2,313
Loans	30,395	15,158	1,634	43,817
Deposits provided	10,653	49,936	6,922	69,033
Less: provision for impairment	(662)	-	(203)	-
	₩ 62,647	₩ 66,738	₩ 41,647	₩ 115,163

Other financial assets at amortized cost and its provisions for impairment as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
	Current	Non-current	Current	Non-current
Current financial deposits	₩ 50,269	₩ 4,470	₩ 83,726	₩ 4,513
Non-current financial deposits	30,000	-	-	-
Government bonds	-	430	-	811
Accrued income	1,270	-	159	-
	₩ 81,539	₩ 4,900	₩ 83,885	₩ 5,324

7. Financial assets (cont'd)

7.3 Trade and other receivables, Other financial assets at amortized cost (cont'd)

Movements on the provision for impairment of trade receivables for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Beginning balance	₩ 3,405	₩ 2,957
Business combination and others	-	204
Impairment loss	1,513	1,580
Receivables written off	-	(1,506)
Exchange differences	202	170
Ending balance	₩ 5,120	₩ 3,405

Provision for impaired receivables and unused amounts reversed are included in 'selling and administrative expenses (see Note 29)' in 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.

8. Inventories

Inventories as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Merchandise and finished goods	₩ 259,151	₩ 346,673
Raw materials	75,088	61,803
Subsidiary materials	22,234	29,299
Others	52,461	55,449
	₩ 408,934	₩ 493,224

The cost of inventories recognized as an expense during the year ended December 31, 2022 amounts to ₩ 1,047,357 million (2021: ₩ 1,012,426 million).

Loss on valuation of inventories and loss on disposal of inventories for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Loss on valuation/disposal of inventories	₩ 43,886	₩ 46,703

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9. Investments in associates

Detail of investments in associates as of December 31, 2022 and 2021 is as follows:

(in millions of Korean won)

	Location	Primary business	2022		2021	
			Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
Taiwan AMORE Co.,Ltd.	Taiwan	Marketing of cosmetics	50.0	₩ 2,252	50.0	₩ 2,350
Rationale Group Pty Ltd	Australia	Manufacturing and marketing of cosmetics	49.0	49,255	49.0	51,796
Partner One Value up 2 Private Equity Fund	Korea	Domestic and foreign corporate investment	29.7	1,438	29.7	1,467
COSRX INC	Korea	Marketing of cosmetics	40.0	194,334	40	182,832
				₩ 247,279		₩ 238,445

Changes in investments in associates for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022						
	Taiwan AMORE Co.,Ltd.	Rationale Group Pty Ltd	Partner One Value up 2 Private Equity Fund	COSRX INC	Total		
Beginning balance	₩ 2,350	₩ 51,796	₩ 1,467	₩ 182,832	₩ 238,445		
Share of profit or loss of associates	(13)	(2,621)	(29)	11,520	8,857		
Share of other comprehensive income of associates	(252)	80	-	(18)	(190)		
Exchange differences	167	-	-	-	167		
Ending balance	₩ 2,252	₩ 49,255	₩ 1,438	₩ 194,334	₩ 247,279		

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9. Investments in associates (cont'd)

(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 29.7% of shares of Partner One Value up 2 Private Equity Fund and an 40.0% of shares of COSRX INC.

Summary of financial information of associate as of and for the years ended December 31, 2022 and 2021 is as follows:

(in millions of Korean won)

	2022						
	Taiwan AMORE Co., Ltd.		Rationale Group Pty Ltd		Partner One Value up 2 Private Equity Fund ¹		COSRX INC
December 31, 2022							
Current assets	₩	4,573	₩	14,393	₩	4,844	₩ 114,839
Non-current assets		526		23,403		-	16,065
Current liabilities		325		5,863		-	23,470
Non-current liabilities		271		11,911		-	7,195
2022							
Revenue	₩	4,502	₩	29,449	₩	12	₩ 204,287
Operating profit (loss)		(57)		(3,491)		(84)	53,202
Profit (loss) for the period		(25)		(3,445)		(84)	40,544

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9. Investments in associates (cont'd)

(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 ¹
December 31, 2021				
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
2021				
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 and COSRX INC were incurred after the acquisition date in the year ended December 31, 2021.

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)

	2022				
	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.	₩ 4,503	50	₩ 2,252	₩ -	₩ 2,252
Rationale Group Pty Ltd	20,022	49	9,811	39,444	49,255
Partner One Value up 2 Private Equity Fund	4,844	29.7	1,438	-	1,438
COSRX INC ¹	95,365	40	38,146	156,188	194,334

¹ The share of non-controlling interests (shared-based payments) of COSRX net assets has been excluded.

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9. Investments in associates (cont'd)

(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	

10. Property, plant and equipment

Details of property, plant and equipment as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022 ¹			2021 ¹		
	Acquisition cost	Accumulated depreciation ¹	Book amount	Acquisition cost	Accumulated depreciation ¹	Book amount	
Land	₩ 816,978	₩ -	₩ 816,978	₩ 816,099	₩ -	₩ 816,099	
Buildings	1,493,023	(347,666)	1,145,357	1,481,063	(309,351)	1,171,712	
Structures	75,281	(38,734)	36,547	74,039	(36,871)	37,168	
Machinery	661,329	(396,674)	264,655	647,779	(356,986)	290,793	
Vehicles	2,265	(1,629)	636	2,410	(1,850)	560	
Tools	153,475	(133,389)	20,086	159,410	(134,763)	24,647	
Fixtures and furniture	665,527	(505,882)	159,645	772,921	(597,940)	174,981	
Others	3,302	(2,574)	728	3,557	(2,990)	567	
Construction in progress	30,645	-	30,645	24,835	-	24,835	
	₩ 3,901,825	₩ (1,426,548)	₩ 2,475,277	₩ 3,982,113	₩ (1,440,751)	₩ 2,541,362	

¹ Accumulated impairment losses and government grants are included.

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10. Property, plant and equipment (cont'd)

Changes in property, plant and equipment for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022				
	Land	Buildings	Structures	Machinery	Vehicles
Opening net book amount	₩ 816,099	₩ 1,171,712	₩ 37,168	₩ 290,793	₩ 560
Business combination and Others	-	-	-	-	-
Acquisition ¹	-	3,924	2,127	13,794	289
Reclassification	937	14,877	634	8,557	-
Disposal	(13)	(5)	(82)	(332)	(13)
Impairment loss	-	-	751	-	-
Depreciation	-	(41,934)	(3,486)	(47,801)	(200)
Others	(45)	46	-	-	-
Exchange differences	-	(3,263)	(565)	(356)	-
Closing net book amount	₩ 816,978	₩ 1,145,357	₩ 36,547	₩ 264,655	₩ 636

(in millions of Korean won)

	2022				
	Tools	Fixtures and furniture	Construction in progress	Others	Total
Opening net book amount	₩ 24,647	₩ 174,981	₩ 24,835	₩ 567	₩ 2,541,362
Business combination and Others	-	2,790	-	-	2,790
Acquisition ¹	10,159	35,686	33,002	502	99,483
Reclassification	38	1,206	(27,180)	-	(931)
Disposal	-	(9,558)	(28)	(158)	(10,189)
Impairment loss	-	230	-	-	981
Depreciation	(14,699)	(48,479)	-	(364)	(156,963)
Others	-	-	-	-	1
Exchange differences	(59)	2,789	16	181	(1,257)
Closing net book amount	₩ 20,086	₩ 159,645	₩ 30,645	₩ 728	₩ 2,475,277

¹Relevant government grants ₩ 370 million are deducted.

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10. Property, plant and equipment (cont'd)

(in millions of Korean won)

	2021				
	Land	Buildings	Structures	Machinery	Vehicles
Opening net book amount	₩ 831,524	₩ 1,156,738	₩ 38,192	₩ 267,725	₩ 384
Business combination and Others	13,677	86,766	4,373	44,068	45
Acquisition	103	1,063	694	15,277	383
Reclassification	(22,933)	(43,632)	-	7,114	-
Disposal	-	(2,273)	(164)	(1,031)	(73)
Impairment loss	-	-	(2,312)	-	-
Depreciation	-	(41,091)	(3,773)	(44,923)	(179)
Others	(6,272)	-	-	-	-
Exchange differences	-	14,141	158	2,563	-
Closing net book amount	₩ 816,099	₩ 1,171,712	₩ 37,168	₩ 290,793	₩ 560

(in millions of Korean won)

	2021				
	Tools	Fixtures and furniture	Construction in progress	Others	Total
Opening net book amount	₩ 24,653	₩ 231,040	₩ 14,661	₩ 1,411	₩ 2,566,328
Business combination and Others	16	311	353	-	149,609
Acquisition	14,128	38,822	18,204	-	88,674
Reclassification	228	1,018	(8,322)	(443)	(66,970)
Disposal	-	(9,141)	-	(645)	(13,327)
Impairment loss	-	(7,683)	-	313	(9,682)
Depreciation	(14,829)	(85,022)	-	(384)	(190,201)
Others	-	-	-	-	(6,272)
Exchange differences	451	5,636	(61)	315	23,203
Closing net book amount	₩ 24,647	₩ 174,981	₩ 24,835	₩ 567	₩ 2,541,362

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10. Property, plant and equipment (cont'd)

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

(in millions of Korean won)

		2022		2021
Selling and administrative expenses ¹	₩	88,680	₩	126,760
Cost of sales		68,283		63,441
	₩	156,963	₩	190,201

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, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022								
	Goodwill		Industrial property		Software		Others		Total
Beginning balance	₩	9,605	₩	31,001	₩	123,619	₩	37,455	₩ 201,680
Business combination and Others		110,250		49,512		734		23,559	184,055
Acquisition		-		-		15,932		20,920	36,852
Reclassification		-		3,453		5,554		(9,007)	-
Disposal		-		(1)		(1,229)		(854)	(2,084)
Amortization		-		-		(24)		(1,145)	(1,169)
Impairment loss ¹		-		(4,112)		(35,205)		(273)	(39,590)
Exchange differences		(12,978)		(5,823)		(186)		(3,006)	(21,993)
Ending balance	₩	106,877	₩	74,030	₩	109,195	₩	67,649	₩ 357,751

(in millions of Korean won)

	2021								
	Goodwill		Industrial property		Software		Others		Total
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)
Amortization		-		-		(21)		-	(21)
Impairment loss ¹		-		(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

11. Intangible assets (cont'd)

Allocation details of amortization of intangible assets for the years ended December 31, 2022 and 2021 are as following:

	2022	2021
Selling and administrative expenses ¹	₩ 36,745	₩ 36,207
Cost of sales	2,845	2,826
	₩ 39,590	₩ 39,033

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)

	2022	2021
Tata's NATURAL ALCHEMY, LLC	₩ 97,264	₩ -
AMOREPACIFIC Trading Co.,Ltd.	4,412	4,529
AMOREPACIFIC Vietnam LTD.	3,902	3,785
Others' CGU	1,299	1,291
	₩ 106,877	₩ 9,605

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 are as follows:

	Tata's NATURAL ALCHEMY, LLC	AMOREPACIFIC Trading Co.,Ltd.	AMOREPACIFIC Vietnam LTD.
Weight average cost of capital	11.3%	11.4%	14.0%
Perpetual growth rate	-	1.0%	-

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12. Investment properties

Details of investment property as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022			2021		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Land	₩ 232,406	₩ -	₩ 232,406	₩ 255,707	₩ -	₩ 255,707
Buildings	322,312	(51,571)	270,741	317,970	(40,351)	277,618
Right-of-use assets	233	(112)	121	1,992	(1,088)	904
	<u>₩ 554,951</u>	<u>₩ (51,683)</u>	<u>₩ 503,268</u>	<u>₩ 575,669</u>	<u>₩ (41,439)</u>	<u>₩ 534,229</u>

Changes in investment property for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022			
	Land	Buildings	Right-of-use assets	Total
Beginning balance	₩ 255,707	₩ 277,618	₩ 904	₩ 534,229
Reclassification	(2,709)	-	-	(2,709)
Depreciation	(21,216)	1,724	(670)	(20,162)
Disposal	-	(8,601)	(113)	(8,714)
Others	(34)	-	-	(34)
Exchange differences	658	-	-	658
Ending balance	<u>₩ 232,406</u>	<u>₩ 270,741</u>	<u>₩ 121</u>	<u>₩ 503,268</u>

(in millions of Korean won)

	2021			
	Land	Buildings	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)
Disposal	(3,936)	(2,365)	-	(6,301)
Others	(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>

12. Investment properties (cont'd)

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, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Cost	₩ 233	₩ 1,992
Accumulated depreciation	(112)	(1,088)
Carrying amount	₩ 121	₩ 904

The fair value of investment property as of December 31, 2022, is ₩ 673,140 million (2021 : ₩ 587,762 million).

The amount recognized as income and expenses in relation to investment property are ₩ 33,006 million, (2021: ₩ 29,999 million) and ₩ 7,272 million (2021: ₩ 7,284 million) million respectively, for the year ended December 31, 2022.

The contractual future cash inflows expected to be received in relation to the providing operating leases for investment property as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022	2021
Within one year	₩ 34,587	₩ 38,513
Between 1 and 5 years	117,289	87,693
Later than five years	2,267	19,450
	₩ 154,143	₩ 145,656

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12. Investment properties (cont'd)

Details of investment properties provided as collaterals as of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

					2022	
	Carrying amount	Secured amount	Related line item	Related amount	Secured party	
Land and buildings ₩	18,441	₩ 1,249	Deposits received	₩ 961	National Pension Service	
Land and buildings		151	Deposits received	116	National Human Rights Commission of Korea	
Buildings		50	Deposits received	50	Korea Fire Facility Association	
Buildings	14,605	3,594	Deposits received	3,594	Korea Workers' Compensation & Welfare Service	
Buildings		719	Deposits received	719	Korea Workers' Compensation & Welfare Service	
Buildings		658	Deposits received	658	Korea Workers' Compensation & Welfare Service	
Buildings	2,695	102	Deposits received	102	Hanwha General Insurance Co., Ltd.	
Buildings	14,210	78	Deposits received	78	SAMSUNG CLAIM ADJUSTMENT SERVICE CO.LTD.	
Buildings		78	Deposits received	78	DB MnS CO.Ltd.	
Buildings	30,216	2,363	Deposits received	3,218	Qualcomm CDMA Technologies Korea YH	

(in millions of Korean won)

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

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13. Non-current assets held for sale

Details of non-current assets held-for-sale as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022			2021		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Land	₩ 19,949	₩ -	₩ 19,949	₩ 3,588	₩ -	₩ 3,588
Buildings	-	-	-	1,838	(1,360)	478
	₩ 19,949	₩ -	₩ 19,949	₩ 5,426	₩ (1,360)	₩ 4,066

Changes in non-current assets held for sale for the years ended December 31, 2022 are as follows:

(in millions of Korean won)

	2022		
	Land	Building	Total
Beginning balance	₩ 3,588	₩ 478	₩ 4,066
Disposal ¹	(3,588)	(478)	(4,066)
Additions ²	19,949	-	19,949
Ending balance	₩ 19,949	₩ -	₩ 19,949

¹ For the year ended December 31, 2022, Wonju office building (143-19, Dangu-dong, Wonju-si) and Gimcheon factory idle land (1000, Daegwang-dong) were disposed.

² For the year ended December 31, 2022, the land owned by AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD. was reclassified to non-current assets held for sale.

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13. Non-current assets held for sale (cont'd)

(in millions of Korean won)

	2021		
	Land	Building	Total
Beginning balance	₩ -	₩ -	₩ -
Additions ¹	3,588	478	4,066
Ending balance	₩ 3,588	₩ 478	₩ 4,066

¹ For the year ended December 31, 2021, Wonju office building (143-19, Dangu-dong, Wonju-si) was reclassified to non-current assets held-for-sale.

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, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance	₩ 17,972	₩ 125,529	₩ 694	₩ 2,269	₩ 146,464
Acquisition	-	71,554	334	305	72,193
Business combination and Others	-	4,201	-	-	4,201
Remeasurement	(492)	(26)	345	333	160
Disposal	(4,007)	(10,522)	(93)	(21)	(14,643)
Reclassification	-	670	-	-	670
Amortization	-	2,163	-	-	2,163
Impairment loss	(521)	(80,884)	(649)	(1,297)	(83,351)
Exchange differences	(277)	967	(58)	3	635
Ending balance	₩ 12,675	₩ 113,652	₩ 573	₩ 1,592	₩ 128,492

(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
Remeasurement	2,149	-	-	19	2,168
Disposal	-	(183)	235	571	624
Reclassification	-	(16,567)	-	(12)	(16,579)
Amortization	-	(41,289)	(18)	-	(41,307)
Impairment loss	(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

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14. Leases (cont'd)

Allocation details of depreciation of right-of-use assets for the years ended December 31, 2022 and 2021 are as following:

(in millions of Korean won)

	2022	2021
Selling and administrative expenses	₩ 82,437	₩ 124,233
Cost of sales	914	693
	₩ 83,351	₩ 124,926

The total of future minimum lease payments to the lessor as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Total minimum lease payments		
Within one year	₩ 70,642	₩ 98,157
Later than one year but not later than five years	60,559	91,985
Later than five years	14,635	15,061
	145,836	205,203
Unearned finance income	(12,045)	(14,221)
Net minimum lease payments	-	-
Within one year	69,006	94,761
Later than one year but not later than five years	56,048	86,890
Later than five years	8,737	9,332
	₩ 133,791	₩ 190,982

As of December 31, 2022, the sum of the total minimum lease payments that is expected to be received by sub-lease is ₩ 2,955 million (2021: ₩ 3,865 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.

14. Leases (cont'd)

The consolidated statement of comprehensive income shows the following amounts relating to leases:

(in millions of Korean won)

		2022		2021
Interest expense relating to lease liabilities	₩	6,448	₩	8,054
Lease payment for short-term leases		10,037		12,065
Lease payment for leases of low-value assets that are not short-term leases		4,511		4,045
Lease payment for variable lease payments not included in lease liabilities		456,874		709,583

The total cash outflow from leases for the year ended December 31, 2022 is ₩ 583,471 million (2021: ₩ 874,021 million).

The Group uses the following practical expedient permitted in the standard, with initially applying the amendment of KIFRS 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 ₩ 1,659 million (2021: ₩ 9,660 million) in profit or loss during the year ended December 31, 2022, 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 of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022		2021
Financial lease receivables:				
Principal of the receivables:	₩	2,953	₩	3,851
Deferred loan subsidiary expenses (earnings)		(145)		(262)
Carrying amount		2,808		3,589
	₩	2,808	₩	3,589

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14. Leases (cont'd)

The total lease investment and the present value of minimum lease payments of the finance leases provided as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
	Total lease investment	Present value of minimum lease payments	Total lease investment	Present value of minimum lease payments
Within one year	₩ 1,190	₩ 1,164	₩ 1,088	₩ 1,065
Later than one year but not later than five years	1,763	1,644	2,763	2,524
	₩ 2,953	₩ 2,808	₩ 3,851	₩ 3,589

The unearned interest income of the finance leases provided as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Total lease investment	₩ 2,953	₩ 3,851
Net lease investment	-	-
Present value of minimum lease payments	2,808	3,589
Present value of unguaranteed residual value	-	-
	2,808	3,589
Unearned interest income	₩ 145	₩ 262

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15. Other assets

Details of other assets as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 1,270	₩ -	₩ 159	₩ -
Advanced payments	8,216	-	15,478	-
Prepaid expenses	25,609	12,044	30,032	12,252
Prepaid value added tax	1,631	-	2,390	-
Others	2,862	-	2,072	-
	₩ 39,588	₩ 12,044	₩ 50,131	₩ 12,252

16. Borrowings

Details of borrowings as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won, in thousands of foreign currency)

	Creditor	Interest rate(%), December 31, 2022		2022		2021
Short-term borrowings						
Bank overdrafts of EUR 5,891,002 (2021: EUR 4,281,575)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.6	₩	7,960	₩	5,747
Loans for working capital of USD 45,500,000 (2021: USD 38,000,000)	DBS BANK LTD	Term SOFR + 1.22		57,662		45,049
Loans for working capital of JPY 1,800,000,000 (2021: JPY 1,700,000,000)	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Tibor6M + 0.2		17,157		17,514
Loans for working capital of EUR 7,000,000 (2021: EUR 7,000,000)	Citibank Europe PLC	MAX(EURIBOR 3M, 0) + 1.05		9,458		9,396
Loans for working capital of HKD (2021: HKD 130,000,000)	DBS BANK LTD., HONG KONG BRANCH	HIBOR 3M + 0.85		-		19,764
Loans for working capital of EUR 3,000,000 (2021: EUR 3,000,000)	Citibank Europe PLC	MAX(EURIBOR 3M, 0) + 1.05		4,054		4,027
Loans for working capital of HKD 313,000,000 (2021: HKD 313,000,000)	CITI N.A HONG KONG	3.26		50,878		47,585
Loans for working capital of CNY 73,591,608 (2021: CNY -)	JPMORGAN CHASE BANK (CHINA) COMPANY LIMITED, SHANGHAI BRANCH	LPR – 1.10		13,353		-
Loans for working capital of CNY 47,014,883 (2021: CNY -)	Citibank (China) Co., Ltd	1M CNY COF (2.33%)		8,530		-
Loans for working capital of EUR 5,000,000 (2021: EUR 5,000,000)	KEB Hana Bank Paris Branch	MAX(EURIBOR 3M, 0) + 1.08		6,756		6,712
Loans for working capital of EUR 5,000,000 (2021: EUR -)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.24		6,756		-

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16. Borrowings (cont'd)

(in millions of Korean won and thousands of foreign currency)

	Creditor	Interest rate(%), December 31, 2022		2022		2021
Short-term borrowings						
Loans for working capital of AUD 7,700,000 (2021: AUD 7,000,000)	Citibank N.A. Sydney Branch	BBSY 3M + 0.80	₩	6,610	₩	6,012
Loans for working capital of AED (2021: AED 1,500,000)	Citibank N.A. United Arab Emirates	EIBOR 3M + 1.90		-		484
Loans for working capital of AED (2021: AED 1,600,000)	Citibank N.A. United Arab Emirates	EIBOR 3M + 1.20		-		517
Loans for working capital of INR 45,000,000 (2021: INR 45,000,000)	Citibank N.A. India	1M T Bill + 2.00		690		717
Loans for working capital of USD 4,000,000 (2021: USD 5,300,000)	Citibank N.A. Indonesia	Term SOFR + 1.50		4,610		6,251
Loans for working capital of CAD 3,000,000 (2021: CAD 3,000,000)	Citibank N.A. Canadian Branch	CDOR 3M + 1.50		2,806		2,792
Loans for working capital of PHP 72,000,000 (2021: PHP 83,000,000)	Citibank N.A. Philippine Branch	COF + 1.50		1,634		1,928
Loans for working capital of USD (2021: USD 1,800,000)	Citibank Berhad	3M USD COF + 1.50		-		2,129
Facility loans	Korea Development Bank	CD 3M + 0.85		16,000		16,000
Loans for working capital	BNP Paribas S.A	CD 3M + 0.5		8,000		6,000
Loans for working capital	Woori Bank	5.63		-		-
Other loans	Nara Technology Corporation	4.60		500		500
				₩ 223,414	₩ 199,124	

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17. Provisions

Changes of provisions for liabilities and charges for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022									
	Current					Non-current				
	Profit-sharing and bonuses	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Profit-sharing and bonuses	Provision for restoration	Total	
Beginning balance	₩ -	₩ 6,441	₩ 2,272	₩ 194	₩ 8,907	₩ 3,789	₩ -	₩ 7,767	₩ 11,556	
Increase	22,710	205	-	-	22,915	-	341	1,136	1,477	
Decrease	-	(100)	(638)	(128)	(866)	(589)	-	(3,154)	(3,743)	
Exchange differences	(353)	(8)	-	2	(359)	-	-	179	179	
Ending balance	₩ 22,357	₩ 6,538	₩ 1,634	₩ 68	₩ 30,597	₩ 3,200	₩ 341	₩ 5,928	₩ 9,469	

(in millions of Korean won)

	2021									
	Current					Non-current				
	Profit-sharing and bonuses	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total		
Beginning balance	₩ -	₩ 5,737	₩ 753	₩ 2,162	₩ 8,652	₩ 7,963	₩ 10,655	₩ 18,618		
Business Combination	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 balance	₩ -	₩ 6,441	₩ 2,272	₩ 194	₩ 8,907	₩ 3,789	₩ 7,767	₩ 11,556		

18. Contract liabilities

Changes in contract liabilities for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		
	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 22,642	₩ 14,823	₩ 37,465
Increase/decrease	(670)	(170)	(840)
Ending balance	₩ 21,972	₩ 14,653	₩ 36,625

(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

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19. Other Liabilities

Details of other liabilities as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
	Current	Non-current	Current	Non-current
Withholdings	₩ 11,245	₩ -	₩ 35,475	₩ -
Value added tax withheld	19,963	-	42,015	-
Advances from customers	10,285	-	4,544	-
Deposits received	12,145	21,024	10,156	23,139
Accrued expenses	127,214	347	175,212	323
Dividends payable	482	-	458	-
Refund liabilities	6,613	-	6,087	-
Others	6,805	122	4,910	141
	<u>₩ 194,752</u>	<u>₩ 21,493</u>	<u>₩ 278,857</u>	<u>₩ 23,603</u>

20. Retirement benefits

20.1 Defined benefit plan

Details of net defined benefit liabilities (assets) recognized in the statements of financial position as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
Present value of funded defined benefit obligations	₩	380,804	₩	379,029
Present value of unfunded defined benefit obligations		4,378		4,059
		<u>385,182</u>		<u>383,088</u>
Fair value of plan assets		<u>(562,211)</u>		<u>(473,758)</u>
Net defined benefit assets	₩	<u>(177,029)</u>	₩	<u>(90,670)</u>

20. Retirement benefits (cont'd)

20.1 Defined benefit plan (cont'd)

Changes in the defined benefit obligations for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
Beginning balance	₩	383,088	₩	341,251
Current service cost		35,400		29,092
Interest expense		13,029		8,939
Business combination and others		-		13,510
Remeasurements:				
Actuarial loss from changes in demographic assumptions		-		(605)
Actuarial gain (loss) from changes in financial assumptions		(62,860)		37,410
Actuarial gain from experience adjustments		47,798		21,101
Exchange differences		18		25
Payments from plans:				
Benefit payments		(33,913)		(68,863)
Transfer from associates		2,622		1,203
Others		-		25
Ending balance	₩	385,182	₩	383,088

Changes in the fair value of plan assets for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
Beginning balance	₩	473,758	₩	448,053
Interest income		16,555		12,550
Business combination and others		-		17,613
Remeasurements:				
Return on plan assets		(8,008)		(4,608)
Contributions:				
Employers		111,200		67,770
Payments from plans:				
Benefit payments		(33,913)		(68,823)
Transfer from associates		2,619		1,203
Ending balance ¹	₩	562,211	₩	473,758

20. Retirement benefits (cont'd)

20.1 Defined benefit plan (cont'd)

The significant actuarial assumptions as of December 31, 2022 and 2021 are as follows:

	2022	2021
Discount rate	6.06~6.10%	3.66~3.72%
Salary growth rate	4.00%	4.00%

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	7.66% decrease	4.16% increase
Salary growth rate	1.00%P	4.23% increase	7.82% 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 of December 31, 2022 and 2021 consist of:

(in millions of Korean won)

	2022		2021	
	Unquoted price	Composition	Unquoted price	Composition
Deposits	₩ 562,211	100.00 %	₩ 473,758	100.00 %

The weighted average maturity of the defined benefit obligation is 6.5 years and the expected maturity analysis of the undiscounted pension benefits for the next 10 years as of December 31, 2022, 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	₩ 60,372	₩ 42,253	₩ 140,813	₩ 263,441	₩ 506,879

20.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 664 million (2021: ₩ 460 million).

21. Share Capital and Others

21.1 Share Capital and Share Premium

Share capital as of December 31, 2022 and 2021 consist of:

(in millions of Korean won)

	2022		2021	
Share capital				
Ordinary shares	₩	29,246	₩	29,246
Preferred shares ¹		5,279		5,279
	₩	34,525	₩	34,525

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, 2022, are as follows:

(in millions of Korean won)

	Ordinary shares		Preferred shares		Share premium		Total
As of January 1, 2021	₩	29,229	₩	5,279	₩	712,702	₩ 747,210
Increase ¹		17		-		7,779	7,796
As of December 31, 2021		29,246	₩	5,279	₩	720,481	₩ 755,006
As of January 1, 2022		29,246	₩	5,279	₩	720,481	₩ 755,006
As of December 31, 2022	₩	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

21.2 Other Components of Equity

Other components of equity as of December 31, 2022 and 2021 consist of:

(in millions of Korean won)

	2022		2021	
Treasury stock ¹	₩	(8,632)	₩	(18,814)
Share-based payments ²		6,736		16,054
Other capital adjustments		(16,243)		(16,244)
	₩	(18,139)	₩	(19,004)

¹ As of December 31, 2022, the Group holds 49,065 ordinary shares (2021: 107,817 shares) and 6,217 preferred shares (2021: 6,217 shares) as treasury shares.

² Recognized as compensation for labor services of employees.

22. Share-based payments

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

Selective stock option

	Details	Vesting conditions	Payment period
Long-term executive incentive	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. However, the company can choose the payment method (treasury shares or cash)	- Service period: 2 years (Payment in proportion to the service periods of executives who provided services more than 2 years) - Conditions for achieving mid- to long-term performance: Determining the quantity paid in proportion to the achievement rate	Installment payment: 50% in 2022, 25% in 2023, and 25% in 2024

Treasury share payment

	Details	Vesting conditions	Payment period
Other long-term employee benefits ¹	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 Payment in August 2022
Rewards for purchase of treasury shares	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) - Targeting Share Buyback Employees	Payment in May, November 2022

¹ Estimation based on actuarial valuation

Performance-linked stock payment

	Details	Vesting conditions	Payment period
Compensation for executive ²	Payment of treasury stocks corresponding to the agreed payment rate to the target executive based on the achievement rate calculated by using the company performance and individual contribution. The Company may choose to pay either in stock or cash.	Service period: proportional to service period in the relevant management cycle (~June 2024)	Installment payment: 50% in 2024, 25% in 2025, and 25% in 2026

² In accordance with performance-linked stock compensation, 50% of compensation is paid in cash according to the base stock price after two years from the beginning date of the grant year, and the fair value of the base stock price to be paid in the future is revalued at the semi-annual closing price every year.

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22. Share-based payments (cont'd)

The effect of share-based compensation system as of December 31, 2022 and 2021 is as follow:

(in millions of Korean won)

		2022		2021
Equity :				
Other components of equity	₩	6,736	₩	16,054
Long-term executive incentive ¹		2,346		4,718
Other long-term employee benefits ²		3,228		3,678
Rewards for purchase of treasury shares ³		1,042		7,658
Compensation for executive ⁴		120		-
Liabilities :				
Provision for profit-sharing and bonuses		341		-
Compensation for executive ⁴		341		-
	₩	<u>7,077</u>	₩	<u>16,054</u>

¹ For the year ended December 31, 2022, 4,861 treasury shares are paid as long-term executive incentive and 6,599 share options are cashed out under the Company's share-based compensation system. As of December 31, 2022, 14,135 share options outstanding remain unexercised.

² For the year ended December 31, 2022, 8,328 treasury shares are paid as other long-term employee benefits under the Company's share-based compensation system and ₩ 1,028 million of expenses related thereto are classified as costs of sales and selling and administrative expenses in the consolidate statement of comprehensive income as of December 31, 2022.

³ For the year ended December 31, 2022, 37,219 treasury shares are paid as rewards for purchase of treasury shares and 62 share options are exercised to be paid in cash under the Company's share-based compensation system.

⁴ For the year ended December 31, 2022, ₩ 461 million of expenses related to 733 share options to be paid in treasury shares and 2,788 share options to be paid in cash are recognized in profit or loss.

In addition to the share-based payments stated above, 8,345 treasury shares are paid to the Company's employees as performance-based bonuses for the year ended December 31, 2022, and ₩ 1,356 million of expenses recognized in the current period are classified as costs of sales and selling and administrative expenses in the consolidate statement of comprehensive income.

23. Accumulated other comprehensive income

Accumulated other comprehensive income as of December 31, 2022 and 2021 consists of the following:

(in millions of Korean won)

		2022		2021
Changes in financial assets at fair value through other comprehensive income	₩	(175)	₩	(164)
Exchange differences on transaction of foreign operations		(19,236)		11,515
Share of other comprehensive income of associates		(48)		528
	₩	<u>(19,459)</u>	₩	<u>11,879</u>

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23. Accumulated other comprehensive income (cont'd)

Changes in accumulated other comprehensive income for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022				
	Beginning balance	Increase	Reclassification to retained earnings	Transfer to non-controlling interest	Ending balance
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩ (164)	₩ (32)	₩ 21	₩ -	₩ (175)
Exchange differences on transaction of foreign operations	11,515	(31,892)	-	1,141	(19,236)
Share of other comprehensive income of associates	528	(606)	-	30	(48)
	₩ 11,879	₩ (32,530)	₩ 21	₩ 1,171	₩ (19,459)

(in millions of Korean won)

	2021				
	Beginning balance	Increase (decrease)	Reclassification to retained earnings	Transfer to non-controlling interest	Ending balance
Gain (loss) on valuation of 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

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 of December 31, 2022 and 2021 consist of:

(in millions of Korean won)

	2022		2021	
Legal reserves ¹	₩	18,109	₩	18,109
Discretionary reserves		2,109,000		2,109,000
Retained earnings before appropriation		1,882,978		1,810,666
	₩	<u>4,010,087</u>	₩	<u>3,937,775</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 for the years ended December 31, 2022 and 2021 are as follows:

	2022				2021			
	Ordinary shares		Preferred shares		Ordinary shares		Preferred shares	
Dividends paid	₩	57,231 million	₩	10,393 million	₩	46,360 million	₩	8,494 million
Dividends per share (in Korea won)	₩	980	₩	985	₩	800	₩	805

In April 2022, ₩ 67,601 million was paid as dividends for the year ended December 31, 2021 attributable to the Company's owner (2021: ₩ 54,834 million).

Dividends in respect of the year ended December 31, 2022, of ₩ 680 per ordinary share and ₩ 685 per preferred share, amounting to a total dividend of ₩ 39,742 million on ordinary shares and ₩ 7,228 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 17, 2023. The financial statements for the year ended December 31, 2022 do not reflect the dividend payable.

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26. Tax expense and deferred tax

Income tax expense for the years ended December 31, 2022 and 2021 consists of:

(in millions of Korean won)

	2022		2021	
Current tax	₩	76,604	₩	110,421
Deferred tax		18,626		6,599
Income tax expense	₩	95,230	₩	117,020

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

(in millions of Korean won)

	2022		2021	
Profit before income tax expense	₩	224,494	₩	297,877
Tax at domestic tax rates applicable to profits in the respective countries		65,778		70,344
Tax effects of:				
Income not subject to tax		(2,294)		(1,079)
Expenses not deductible for tax purposes		10,801		13,553
Changes in previously unrecognized deferred tax		16,864		2,868
Tax credits		(1,393)		(864)
Adjustments in respect of prior years		6,907		30,062
Others		(1,433)		2,136
Income tax expense	₩	95,230	₩	117,020

The weighted average applicable tax rate of the Group was 42.4% (2021: 39.4%).

The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2022 and 2021 is as follows:

(in millions of Korean won)

	2022			2021		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain(Loss) on valuation of available-for-sale assets	₩ (226)	₩ 194	₩ (32)	₩ 239	₩ (130)	₩ 109
Remeasurements	7,054	(1,571)	5,483	(62,515)	15,146	(47,369)
Share of other comprehensive income of associates	(242)	(365)	(607)	261	-	261
Exchange differences on transaction of foreign operations	(31,891)	-	(31,891)	31,358	-	31,358
	₩ (25,305)	₩ (1,742)	₩ (27,047)	₩ (30,657)	₩ 15,016	₩ (15,641)

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26. Tax expense and deferred tax (cont'd)

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:

(in millions of Korean won)

	2022					
	Beginning balance	Transfer of business	Statement of profit or loss	Other comprehensive income	Exchange differences	Ending balance
Deferred tax assets(liabilities)						
Trade receivables	₩ 11,007	₩ -	₩ (2,879)	₩ -	₩ (124)	₩ 8,004
Inventories	12,561	-	(1,967)	-	(1)	10,593
Lease liabilities	23,216	-	(11,616)	-	181	11,781
Property, plant and equipment	(56,635)	-	4,991	-	(139)	(51,783)
Intangible assets	(3,784)	(17,738)	457	-	406	(20,659)
Financial assets at fair value through other comprehensive income	472	-	(434)	194	-	232
Investments in subsidiaries	4,125	-	514	(365)	-	4,274
Contract liabilities	5,510	-	(712)	-	(28)	4,770
Retirement benefit obligations	78,369	-	(1,139)	(3,411)	4	73,823
Accrued expenses	44,453	-	(14,009)	-	(428)	30,016
Tax loss carryforwards	6,309	-	1,572	-	(272)	7,609
Plan assets	(110,294)	-	(6,544)	1,839	-	(114,999)
Right-of-use assets	(22,507)	-	8,030	-	(17)	(14,494)
Others	12,318	-	5,110	-	(7)	17,421
	₩ 5,120	₩ (17,738)	₩ (18,626)	₩ (1,743)	₩ (425)	₩ (33,412)

(in millions of Korean won)

	2021					
	Beginning balance	Increase due to merger	Statement of profit or loss	Other comprehensive income	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
Contract 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

26. Tax expense and deferred tax (cont'd)

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 tax assets of ₩492,099 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)

	Tax losses	
2022 ~ 2023	₩	50,471
2024 ~ 2039		219,711
No maturity		221,917
	₩	<u>492,099</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 of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
Net deductible temporary differences	₩	183,535	₩	114,817

27. Revenue

Revenue of the Group for the years ended December 31, 2022 and 2021 consists of the following:

(in millions of Korean won)

	2022		2021	
Sales of goods	₩	4,031,959	₩	4,770,944
Rendering of services		55,730		48,195
Others				
Rental income		38,812		35,546
Royalty income		27		107
Others		8,405		8,336
		<u>47,244</u>		<u>43,989</u>
	₩	<u>4,134,933</u>	₩	<u>4,863,128</u>

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28. Expenses by Nature

Classification based on the nature of expenses for the years ended December 31, 2022 and 2021 is as follows:

(in millions of Korean won)

	2022	2021
Changes in inventories	₩ 84,289	₩ (78,741)
Purchase of raw materials and merchandise	963,068	1,091,167
Employee benefits expenses	738,501	794,269
Depreciation and amortization ¹	288,618	361,880
Advertising expense, promotional expense	502,436	604,950
Commission expense	440,839	484,658
Distribution commission	533,667	797,360
Other expenses	369,281	464,228
Total ²	₩ 3,920,699	₩ 4,519,771

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, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Salaries and retirement benefits	₩ 476,467	₩ 549,358
Employee benefits	101,311	86,158
Advertising expense, promotional expense	502,436	604,950
Depreciation and amortization ¹	208,433	286,442
Commission expense	379,885	421,415
Distribution commission	533,667	797,360
Freight expense	103,141	103,059
Taxes and dues	24,044	28,494
Research and development	97,025	103,878
Other	156,778	176,017
	₩ 2,583,187	₩ 3,157,131

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, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022		2021
Finance income				
Interest income	₩	8,344	₩	5,629
Interest income of others		560		418
Gain on valuation/disposal of financial assets at fair value through profit or loss		13,868		4,452
	₩	<u>22,772</u>	₩	<u>10,499</u>
Finance costs				
Interest expenses	₩	(5,815)	₩	(3,356)
Interest expenses of others		(6,449)		(8,054)
Loss on valuation/disposal of financial assets at fair value through profit or loss		(22,150)		-
	₩	<u>(34,414)</u>	₩	<u>(11,410)</u>

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31. Other Non-operating Income (Loss)

Details of other non-operating income (loss) for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Other non-operating income		
Gain on foreign currency transactions	₩ 56,605	₩ 32,547
Gain on foreign currency translation	3,480	4,865
Gain on disposal of property, plant and equipment	328	825
Reversal on impairment loss of property, plant and equipment	981	-
Gain on disposal of intangible assets	1,263	23
Gain on disposal of investment properties	397	-
Gain on disposal of right-of-use assets	14,644	896
Reversal on impairment loss of right-of-use assets	2,163	-
Gain on disposal of non-current assets held-for-sale	2,926	-
Others	14,242	19,838
	<u>97,029</u>	<u>58,994</u>
Other non-operating loss		
Loss on foreign currency transactions	(20,373)	(9,601)
Loss on foreign currency translation	(24,776)	(1,227)
Loss on disposal of property, plant and equipment	(7,073)	(11,093)
Loss on disposal of intangible assets	(2,002)	(1,311)
Loss on disposal of right-of-use assets	(325)	(109)
Loss on disposal of investment properties	-	(2,077)
Impairment loss of property, plant and equipment	-	(9,682)
Impairment loss of intangible assets	(1,169)	(21)
Impairment loss of right-of-use assets	-	(41,307)
Donations	(13,512)	(12,727)
Others	(14,754)	(15,336)
	<u>(83,984)</u>	<u>(104,491)</u>
	<u>₩ 13,045</u>	<u>₩ (45,497)</u>

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 (see Note 21).

Basic earnings per ordinary share for the years ended December 31, 2022 and 2021 is as follows:

(in millions of Korean won)

	2022	2021
Profit attributable to owners of the Parent Company	₩ 134,475	₩ 193,681
Profit attributable to ordinary shares	113,860	163,919
Weighted average number of ordinary shares outstanding (unit: shares)	58,421,729	58,125,764
Basic earnings per ordinary share (in Korean won)	<u>₩ 1,949</u>	<u>₩ 2,820</u>

32. Earnings per share (cont'd)

Basic earnings per preferred share¹ for the years ended December 31, 2022 and 2021 is as follows:

(in millions of Korean won)

	2022	2021
Profit attributable to owners of the Parent Company	₩ 134,475	₩ 193,681
Profit attributable to preferred shares	20,615	29,762
Weighted average number of preferred shares outstanding (unit: shares)	10,551,613	10,551,613
Basic earnings per preferred share (in Korean won)	₩ 1,954	₩ 2,821

¹ Although 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, 2022 and 2021 is as follows:

(in millions of Korean won)

	2022	2021
Profit attributable to owners of the Parent Company	₩ 134,475	₩ 193,681
Profit attributable to preferred shares	113,860	163,919
Weighted average number of preferred shares outstanding (unit: shares)	58,441,736	58,169,408
Diluted earnings per ordinary shares (in Korean won)	₩ 1,948	₩ 2,818

Calculation basis of weighted average number of dilutive ordinary shares to calculate diluted earnings per share for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Profit attributable to preferred shares	₩ 58,421,729	₩ 58,125,764
Weighted average number of preferred shares outstanding (unit: shares)	20,007	43,644
Diluted earnings per ordinary shares (in Korean won)	₩ 58,441,736	₩ 58,169,408

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

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33. Cash Flows Generated from Operating Activities

Details of cash flows generated from operation activities for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Profit for the year	₩ 129,264	₩ 180,858
Adjustments for:	496,999	628,475
Finance costs, net	3,360	5,363
Loss (gain) on foreign currency translation, net	21,296	(3,638)
Depreciation and amortization ¹	288,618	361,880
Loss on disposal of property, plant and equipment and intangible assets	7,485	11,555
Gain on disposal of right-of-use assets	(14,319)	(787)
Loss (gain) on disposal of investment properties	(397)	2,075
Gain on disposal of non-current assets held-for-sale	(2,926)	-
Impairment loss of property, plant and equipment and intangible assets	188	9,703
Impairment loss of right-of-use assets	(2,163)	41,307
Loss (gain) on disposal of financial assets at fair value through profit or loss	8,282	(3,372)
Income tax expense	95,230	117,020
Share of profit or loss of associates	(8,858)	(928)
Retirement benefits	32,079	25,480
Net transfers of provisions	19,783	-
Loss on disposal and valuation of inventories	43,886	46,703
Others	5,455	16,114
Changes in assets and liabilities from operating activities	(345,125)	(94,479)
Decrease (increase) in trade receivables	2,207	(3,356)
Decrease (increase) in other receivables	9,224	(17,121)
Decrease (increase) in inventories	55,178	(90,923)
Decrease in other assets	10,809	26,208
Decrease in trade payables	(53,356)	(13,158)
Increase in other payables	(171,652)	47,567
Decrease in contract liabilities	(840)	(4,812)
Decrease in provisions	-	(11,427)
Increase in other liabilities	(85,499)	40,353
Retirement benefits payment	(41,946)	(68,863)
Net transfer-in of post-employment benefits of associates	2,622	1,203
Increase in plan assets, net	(71,872)	(150)
Cash generated from operations	₩ 281,138	₩ 714,854

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

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33. Cash flows Generated from Operating Activities (cont'd)

Significant non-cash transactions for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022		2021
Transfer of construction in-progress to property, plant and equipment	₩	26,249	₩	8,322
Transfer of construction in-progress to intangible assets		9,007		12,436
Transfer of property, plant and equipment to non-current assets held-for-sale		(46)		4,066
Transfer of property, plant and equipment to investment property		931		62,899
Transfer of property, plant and equipment to right-of-use assets		670		-
Transfer of investment property to assets held-for-sale		19,949		-
Exchange of intangible assets		1,319		-
Increase in right-of-use as recognition of lease liabilities		57,710		71,216
Non-trade payables related to the acquisition of property, plant and equipment and intangible assets		194		(2,509)
Current portion of financial assets measured at fair value through non-current profit or loss		12,417		-

Changes in liabilities arising from financing activities for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		Short-term borrowings		Lease liabilities		Total
As of January 1, 2021	₩	154,160	₩	266,616	₩	420,776
Business combination and others		52,000		2,168		54,168
Contracts agreements		-		53,586		53,586
Cash flows (interest expenses)		-		(8,054)		(8,054)
Cash flows (principals)		(16,096)		(140,274)		(156,370)
Exchange differences		9,060		16,940		26,000
As of December 31, 2021	₩	199,124	₩	190,982	₩	390,106
As of January 1, 2022	₩	199,124	₩	190,982	₩	390,106
Business combination		-		4,263		4,263
Contracts agreements		-		47,010		47,010
Cash flows (interest expenses)		-		(6,448)		(6,448)
Cash flows (principals)		22,580		(105,601)		(83,021)
Exchange differences		1,710		3,585		5,295
As of December 31, 2022	₩	223,414	₩	133,791	₩	357,205

34. Commitments and contingencies

Details of financial commitment with financial institution as of December 31, 2022 and 2021 are as follows:

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

Financial institution	Commitment	2022		2021	
		Limit	Outstanding balance	Limit	Outstanding balance
WOORI BANK	Electronic loan agreement	₩ 2,000	₩ 41	₩ 6,000	₩ 30
	Letter of credit	USD 2,000	USD 15	USD 3,000	₩ -

At the end of reporting period, Seoul Guarantee Insurance has provided the Group with payment guarantees such as performance guarantees and others amounting to ₩ 30,809 million (2021: ₩ 34,546 million).

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

(in 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

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34. Commitments and contingencies (cont'd)

Important contracts subsidiaries entered into with financial institutions as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won and thousands of foreign currency)

	Financial institution	Commitment	2022		2021	
			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
	CITY N.A HONG KONG	Overdraft	-	-	USD 10,000	-
AMOREPACIFIC Hong Kong Co., Limited	Hang Seng Bank	Overdraft and others	HKD 10,000	-	HKD 10,000	-
	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	JPY1,800,000	JPY 2,000,000	JPY1,700,000
AMOREPACIFIC EUROPE S.A.S	Citibank Europe Plc	Short-term borrowings	EUR 8,500	EUR 7,000	EUR 8,500	EUR 7,000
	KEB Hana Bank Paris Branch	Overdraft	EUR 6,000	EUR 5,891	EUR 6,000	EUR 4,282
Annick Goutal S.A.S	KEB Hana Bank Paris Branch	Short-term borrowings	EUR 10,000	EUR 10,000	EUR 5,000	EUR 5,000
	Citibank Europe Plc	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
Amorepacific US Inc	Citibank N.A.	Short-term borrowings	USD 20,000	-	USD 20,000	-
	DBS BANK LTD	Short-term borrowings	USD 50,000	USD 45,500	USD 50,000	USD 38,000
Amorepacific Canada Inc	Citibank N.A. Canadian Branch	Short-term borrowings	CAD 5,100	CAD 3,000	CAD 5,100	CAD 3,000
Amorepacific ME FZ-LLC	Citibank N.A. United Arab Emirates	Short-term borrowings	-	-	AED 1,500	AED 1,500
	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 45,000	INR 45,000	INR 70,000	INR 45,000
PT. LANEIGE INDONESIA PACIFIC	Citibank N.A. Indonesia	Short-term borrowings	USD 5,300	USD 4,000	USD 5,300	USD 5,300
AMOREPACIFIC Philippines Co.,LTD	Citibank N.A. Philippine Branch	Short-term borrowings	PHP 90,000	PHP 72,000	PHP 90,000	PHP 83,000
AMOREPACIFIC MALAYSIA SDN. BHD.	Citibank Berhad	Short-term borrowings	USD 1,800	-	USD 1,800	USD 1,800
AMOREPACIFIC Russia LLC	Citibank Russia	Corporate card limited warranty	RUB 7,200	-	RUB 7,200	-
Amorepacific Trading Co., Ltd	JP Morgan Chase Bank	Overdraft	CNY 140,000	CNY 73,592	-	-
	Citi Bank	Short-term limit loan agreement	CNY 150,000	CNY 47,015	-	-
	DBS Bank	Short-term revolving loan agreement	USD 20,000	-	-	-
COSVISION CO.,LTD.	Korea Development Bank	Facility loans	₩ 16,000	₩ 16,000	₩ 42,000	₩ 16,000
	BNP Paribas S.A.	Working Fund	10,000	8,000	10,000	6,000
Core Technology Corporation.	WOORI BANK	Overdraft	400	-	450	-

34. Commitments and contingencies (cont'd)

Restricted financial instruments in use as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won and thousands of foreign currency)

	Remark	2022	2021
Current financial deposits	Agreement of shared growth and cooperation	₩ 24,400	₩ 18,100
Current financial deposits	Pledged as collateral	32,115	-
Current financial deposits	Guarantee of import duties	NTD 6,240	NTD 6,240
Non-current financial deposits	Deposit for checking account	8	8
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

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 of December 31, 2022. The Group expects that these cases would not have any material impact on its consolidated financial statements.

As of December 31, 2022, 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, 2027, and external customers by March 31, 2028.

During 2022, 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.

On the other hand, if the Group does not exercise its call option within the vesting period, the seller reserves the right to purchase all shares of the target company held by the Group within six months from the date when the Group decides not to exercise the option.

[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.

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

35. Related party transactions

Details of the Company and subsidiaries as of December 31, 2022, 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.
	Taiwan AMORE Co., Ltd.
Associates	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.
	Osulloc Farm Co., Ltd.
	Green Partners Corporation
	BBDO Korea Inc.
	Verescence Pacific, Inc. ^{3,4}
	AUTAJON PACKAGEPACIFIC INC ^{5,6}
Associates of the Parent Company	AP&M Beauty Fashion Joint Venture
	Smart AP-WE Untact Fund No. 1
	Sparkpet Inc ⁷
	TBT Global Growth Equity Fund No.2 ⁸
	Twoslashfour. Inc ⁹
Other related party	Taeshin Inpack Corporation
	Kyung-Bae Suh Science Foundation, etc

¹ During the year ended December 31, 2021, the Company acquired a 29.7% stake.

² The Company acquired a 40.0% stake in the year ended December 31, 2021.

³ During the year ended December 31, 2021, the entity was reclassified to an associate as the Parent Company disposed of 60% of shares.

⁴ The entity's name was changed from Pacific Glass to Verescence Pacific, Inc. during July 2021.

⁵ During the year ended December 31, 2022, the entity was reclassified to an associate as the Parent Company disposed of 60% of shares

⁶ The entity's name was changed from Pacific Package. to AUTAJON PACKAGEPACIFIC during October 2022.

⁷ As the Parent Company acquired additional shares during the year ended December 31, 2022, it was classified as an associate as the Parent Company acquired additional interests in the entity.

⁸ The Parent Company acquired a 53.7% stake in the entity for the year ended December 31, 2021, and the entity was reclassified as an associate of the Parent Company for the .

⁹ The Parent Company acquired a 20.0% stake in the entity during the year ended December 31, 2022.

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

35. Related party transactions (cont'd)

Sales and purchases with related parties for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022					
	Sales	Purchases	Acquisition of property, plant and equipment	Other revenue	Other cost	Lease interest expenses
Parent Company						
AMOREPACIFIC Group, Inc.	₩ 1,812	₩ -	₩ -	₩ -	₩ 8,922	₩ 131
Associates						
COSRX Inc	2,513	-	-	4	-	-
Subsidiaries of the Parent Company						
Innisfree Corporation	84,961	68,936	-	11	717	-
Etude Corporation	31,757	16,355	-	6	28	-
AMOS Professional Corporation	25,838	326	-	1	4	-
Espoir Corporation	20,175	1,248	-	1	3	-
Osulloc Corporation	24,334	866	-	1	1	-
Osulloc Farm Co., Ltd.	321	4,878	-	26	344	-
Green Partners Corporation	69	-	-	-	1,916	-
Associates of the Parent Company						
BBDO Korea Inc.	935	-	-	-	15,840	-
Verescence Pacific, Inc.	356	40,646	334	-	-	-
AUTAJON PACKAGEPACIFIC INC ¹	378	40,393	-	-	6	-
Other related party						
Taeshin Inpack Corporation	-	7,711	-	-	-	-
	₩ 193,449	₩ 181,359	₩ 334	₩ 50	₩ 27,781	₩ 131

¹ The entity's name was changed from Pacific Package. to AUTAJON PACKAGEPACIFIC during October 2022. Items stated above include transactions occurred when the entity was a subsidiary of the Parent Company.

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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35. Related party transactions (cont'd)

(in millions of Korean won)

	2021													
	Sales		Purchases		Acquisition of property, plant and equipment and intangible assets		Disposal of property, plant and equipment and intangible assets		Other income		Other cost		Lease Interest expenses	
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		-
AMOSProfessional 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
GreenPartners 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 pack Corporation		-		11,879		-		-		-		-		-
	₩	110,847	₩	278,741	₩	360	₩	2,693	₩	34	₩	28,789	₩	184

¹ Details about the entity present transactions occurred before being merged with the Group.

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

³ For more details about dividends, salaries, bonus and post-employment benefits paid to the ultimate parent, see the section placed below describing 'Fund transactions with the related parties' and 'Compensation for key management' in the same note.

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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35. Related party transactions (cont'd)

Outstanding balances arising from sales/purchases of goods and services as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022					
	Receivables			Payables		
	Trade Receivables	Other receivables	Lease receivables	Trade payables	Other payables	Lease liabilities
Parent Company						
AMOREPACIFIC Group, Inc.	₩ 106	₩ 2,617	₩ -	₩ -	₩ 1,399	₩ 12,738
Associate						
COSRX Inc	262	-	-	-	-	-
Subsidiaries of the Parent Company						
Innisfree Corporation	6,914	10,706	4	37,912	2,628	-
Etude Corporation	3,176	512	-	6,320	918	-
AMOS Professional Corporation	2,371	1	-	26	3,968	-
Espoir Corporation	941	-	-	250	999	-
Osulloc Corporation	1,559	25	-	92	1,957	-
Osulloc Farm Co., Ltd.	30	-	-	263	1,853	-
Green Partners Corporation	6	-	-	-	498	-
Associates of the Parent Company						
BBDO Korea Inc.	-	-	-	-	2,894	-
Verescence Pacific, Inc.	25	-	-	3,524	466	-
AUTAJON PACKAGEPACIFIC INC	18	-	-	3,810	-	-
Other related party						
Taeshin Inpack Corporation	-	-	-	466	-	-
	₩ 15,408	₩ 13,861	₩ 4	₩ 52,663	₩ 17,580	₩ 12,738

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

35. Related party transactions (cont'd)

(in millions of Korean won)

	2021					
	Receivables			Payables		
	Trade Receivables	Other receivables	Lease receivables	Trade payables	Other payables	Lease liabilities
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	-
Other related party						
Taeshin Inpack Corporation	-	-	-	484	-	-
	₩ 16,892	₩ 26,536	₩ 11	₩ 50,518	₩ 21,449	₩ 4,049

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.

AMOREPACIFIC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

35. Related party transactions (cont'd)

Fund transactions with related parties for the year ended December 31, 2022, 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.	₩ 4,049	₩ 10,810	₩ (2,252)	₩ 131	₩ -	₩ 12,738

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	₩ 11	₩ -	₩ (7)	₩ -	₩ 4

The Group paid ₩ 29,980 million in dividends to related parties during the year ended December 31, 2022.

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.	₩ 3,961	₩ 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

35. Related party transactions (cont'd)

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
AMORAEPACIFIC Group	Stock exchange of COSVISION CO., LTD. ¹	₩ -	129,543 shares

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

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 of December 31, 2022, 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 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 Board of Directors, Chief Finance Officer and the Chief Internal Audit Officer. The compensation paid or payable to key management for employee services for the years ended December 31, 2022 and 2021 consists of:

(In millions of Korean won)

	2022	2021
Short-term employee benefits	₩ 8,549	₩ 9,800
Post-employment benefits	751	669
Share-based compensation ¹	151	4,719
	₩ 9,451	₩ 15,188

¹ Present the amount of expenses recognized in the consolidated statement of comprehensive income under the share-based payment arrangement during the vesting period.

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 of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 280,883	₩ 227,408	₩ 229,768	₩ 189,281
SGD	-	1,407	-	-
EUR	1,100	709	3	325
JPY	-	373	938	2,422
	₩ 281,983	₩ 229,897	₩ 230,709	₩ 192,028

36. Risk management (cont'd)

36.1 Financial risk management (cont'd)

As of December 31, 2022 and 2021, 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)

	2022				2021			
	10% Increase		10% Decrease		10% Increase		10% Decrease	
USD	₩	5,348	₩	(5,348)	₩	4,049	₩	(4,049)
SGD		(141)		141		-		-
EUR		39		(39)		(32)		32
JPY		(37)		37		(148)		148
	₩	5,209	₩	(5,209)	₩	3,868	₩	(3,868)

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 ₩ 913 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.

36. Risk management (cont'd)

36.1 Financial risk management (cont'd)

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 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 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 (within 2 months on average), 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)

	2022					Carrying amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 80,676	₩ -	₩ -	₩ 80,676	₩	80,676
Borrowings	224,550	-	-	224,550		223,414
Other payables	154,938	-	-	154,938		154,938
Other liabilities	146,454	12,336	11,933	170,723		167,825
Lease liabilities	70,642	60,559	14,635	145,836		133,791

(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

36. Risk management (cont'd)

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.

Debt-to-equity ratio and net borrowing ratio as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won, except for ratios)

		2022		2021
Liabilities (A)	₩	1,022,508	₩	1,372,414
Equity (B)		4,779,275		4,744,300
Cash and cash equivalents and current financial deposits (C)		546,256		659,032
Borrowings (D)		223,414		199,124
Debt-to-equity ratio (A/B)		21.39%		28.93%
Net Borrowings ratio (D-C)/B		(-)6.76%		(-)9.69%

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)

		2022			
		Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
Financial assets at fair value through profit or loss	₩	-	₩ 403,405	₩ 9,471	₩ 412,876
Financial assets at fair value through other comprehensive income		-	-	6,216	6,216
Disclosed fair value					
Investment property		-	-	687,675	687,675

(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		-	-	587,762	587,762

37. Fair value (cont'd)

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.

(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 of December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

				2022	
		Fair value	Level	Valuation techniques	Inputs
Financial assets at fair value through other comprehensive income					
Unlisted equity securities	₩	6,216	3	EBITDA multiple	Perpetual earning growth rate and others
Financial assets at fair value through profit or loss					
Debt instruments, including redeemable preferred shares		8,017	3	Option model	Stock price of underlying assets and others
Derivative assets		1,454	3	Binomial model	Stock price of underlying assets and others
Beneficiary certificates		403,405	2	Present value technique	Credit risk adjusted discount rate

37. Fair value (cont'd)

37.3 Financial instruments measured at cost

Details of financial instruments measured at cost as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	<u>2022</u>	<u>2021</u>
Debt securities		
Government-issued securities	₩ 430	₩ 811
debt securities	30,000	-
	<u>₩ 30,430</u>	<u>₩ 811</u>

Regarding debt investments measured at amortized 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.

38. Business combinations

(1) General information

2022

AMOREPACIFIC INC. invested and established AMOREPACIFIC US INVESTMENT, INC. as its wholly owned subsidiary for the purpose of promoting its entry into the global market for the year ended December 31, 2022. AMOREPACIFIC US INVESTMENT, INC. acquired the entire shares in Tata's NATURAL CHEMY, LLC as of October 31, 2022 and obtained control over the entity, accordingly.

2021

The Group acquired 100% of shares in AESTURA Corporation from AMOREPACIFIC Group, the Parent Company, on September 1, 2021, and classified AESTURA Corporation as subsidiary by exchanging 100% of shares in COSVISION CO.,LTD. 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 amount of assets acquired and liabilities assumed in a business combination with AESTURA Corporation is ₩ 132,371 million and ₩ 25,975 million, respectively. The amount of assets acquired and liabilities assumed in a business combination with COSVISION CO.,LTD. is ₩ 139,851 million and ₩ 68,299 million, respectively.

38. Business combinations (cont'd)

(2) The assets acquired and liabilities assumed through a business combination with Tata's NATURAL CHEMY, LLC are as follows.

(in millions of Korean won)

	Tata's NATURAL CHEMY, LLC	
Consideration		
Cash and cash equivalents	₩	2,325
Property, plant and equipment		2,790
Right-of-use assets		4,201
Intangible assets		734
Inventories		14,777
Trade and other receivables		2,701
Other assets		1,676
Trade and other payables		(10,622)
Lease liabilities		(4,263)
Book amounts of net assets	₩	14,319
Intangible assets caused by acquisition		73,070
Deferred tax liabilities		(19,729)
Goodwill resulting from acquisition ¹		110,250
Total consideration transferred	₩	177,910

¹Goodwill consists of the value of synergies expected to arise from the business combination.

(3) Cash flows from business combinations

(in millions of Korean won)

	2022	
Consideration transferred:		
Total transferred consideration	₩	177,910
Less: cash and cash equivalents of the acquired subsidiary		(2,325)
Net cash outflow	₩	175,585

(4) Income contributable to the acquired business

(in millions of Korean won)

	2022	
Consideration transferred:		
Sales	₩	8,942
Net profit (loss)		(1,808)

39. Introduction and impact of the global minimum tax

The Organization for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalization of the global economy. Global Minimum Tax (Pillar Two) were released and they apply to Multinational Enterprises (MNEs) with revenue in excess of EUR 750 million per their consolidated financial statements.

National Assembly of South Korea passed into law new Global Minimum Tax rules to align with the OECD BEPS Pillar Two in December 2022. The regulation will be included in the Adjustment of International Taxes Act and will be effective for fiscal years beginning on or after January 1, 2024. However, the Enforcement Decrees that provide further detail on the application of the legislation is not yet finalized as of December 31, 2022.

In South Korea, Pillar Two legislation is not yet considered substantively enacted as of December 31, 2022 for financial reporting purposes. The Group therefore has not recognized any tax effect arising from the Global Minimum Tax in its consolidated financial statements as of 31 December 2022 and for the year then ended.