

**AMOREPACIFIC Group, Inc.  
and Subsidiaries**

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

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Index**  
**December 31, 2021 and 2020**

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## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

**To the Board of Directors and Shareholders of  
AMOREPACIFIC Group, Inc.**

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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

## **(1) Valuation of merchandise and finished goods**

### **Why this matter was determined to be a key audit matter**

As described in Note 8 to the consolidated financial statements, the Company's inventories comprise of merchandise and finished goods amount to ₩ 393,484 million as at December 31, 2021. The inventories are initially measured at cost and write-down should be recognized if the inventories are damaged, become wholly or partially obsolete, or if expected net realisable value is below the cost. We considered the valuation of merchandise and finished goods as a significant matter in our audit because significant judgements of management are involved in determining obsolescence of the merchandise and finished goods.

### **How our audit addressed the Key Audit Matter**

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

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

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

### **Why this matter was determined to be a key audit matter**

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

### **How our audit addressed the Key Audit Matter**

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

- Evaluated the competency and independence of external experts engaged by management.
- Understands the future cash flows of the cash-generating units and reviewed whether the future cash flow estimate is based on the business plan approved by management.
- Assessed the reasonableness of the key assumptions used in estimating recoverable amount.

- Compared the discount rates that are independently calculated using an observable information with the discount rates applied by management
- Evaluated the results of a sensitivity analysis on the discount rates performed by management to assess the impact of changes in key assumptions on the impairment tests
- Reviewed the accuracy of the recoverable amount calculation and the appropriateness of the allocation of the impairment loss.
- Assessed the completeness of disclosures related to asset impairment of the Group, including the criteria for determining recoverable amount and the key assumptions used by the Group.

### **Emphasis of Matter**

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

### **Other Matter**

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Seoul, Korea  
March 16, 2022

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

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2021 and 2020**

<i>(in thousands of Korean won)</i>	Notes	2021	2020
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,6,7,37	₩ 870,595,030	₩ 1,190,926,311
Financial deposits	5,7,34	316,825,500	221,282,300
Financial assets at fair value through profit or loss	5,7,38	863,824,272	411,153,895
Trade receivables	5,7,35	311,950,820	306,675,983
Other receivables	5,7,35	38,438,534	32,584,357
Current tax assets		8,430,945	22,045,414
Other current assets	5,15	58,525,168	74,271,435
Inventories	8	542,815,041	478,448,079
Non-current assets held-for-sale	14	4,066,226	115,668,982
		<u>3,015,471,536</u>	<u>2,853,056,756</u>
<b>Non-current assets</b>			
Financial deposits	5,7,34	24,032,307	21,682,434
Other receivables	5,7,35	126,171,027	136,561,073
Financial assets at fair value through profit or loss	5,7,38	226,132,645	49,547,538
Financial assets at amortized cost	5,7,38	1,965,805	3,279,605
Financial assets at fair value through other comprehensive income	5,7,38	5,410,060	4,389,672
Property, plant and equipment	10	2,919,950,211	3,081,089,223
Investment properties	12,38	344,130,030	323,292,885
Right-of-use assets	13	164,554,888	288,382,524
Intangible assets	11	703,436,883	719,633,123
Investments in associates	9	282,307,314	60,621,320
Deferred tax assets	26	101,017,035	93,253,806
Net defined benefit assets	20	109,592,951	134,877,910
Other non-current assets	15	13,970,241	19,075,732
		<u>5,022,671,396</u>	<u>4,935,686,844</u>
<b>Total assets</b>		<u>₩ 8,038,142,932</u>	<u>₩ 7,788,743,600</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5,35,37	₩ 95,482,220	₩ 74,306,111
Borrowings	5,16,37	257,724,083	257,460,189
Other payables	5,35,37	354,969,672	316,938,708
Current tax liabilities		115,197,697	8,460,282
Contract liabilities	18	40,482,233	47,030,644
Provisions	17	11,277,940	10,293,406
Other current liabilities	5,19,37	288,022,840	253,597,390
Current lease liabilities	13,37	110,128,185	183,112,413
Non-current liabilities held-for-sale	14	-	18,956,826
		<u>1,273,284,870</u>	<u>1,170,155,969</u>
<b>Non-current liabilities</b>			
Net defined benefit liabilities	20	4,059,129	3,831,674
Deferred tax liabilities	26	136,909,563	155,106,511
Provisions	17	12,480,548	20,560,537
Other non-current liabilities	5,19,37	24,309,484	13,475,913
Non-current lease liabilities	13,37	111,474,561	153,570,218
		<u>289,233,284</u>	<u>346,544,852</u>
<b>Total liabilities</b>		<u>1,562,518,154</u>	<u>1,516,700,822</u>
<b>Equity</b>			
Share capital	1,21	47,997,075	47,997,075
Share premium	21	903,711,141	903,711,141
Capital surplus		(209,370,231)	(124,392,315)
Other components of equity	22,23	(195,102,639)	(196,032,004)
Accumulated other comprehensive income	22	(2,561,688)	(13,646,567)
Retained earnings	24	2,761,864,143	2,631,906,543
<b>Equity attributable to owners of the Parent Company</b>		<u>3,306,537,801</u>	<u>3,249,543,873</u>
<b>Non-controlling interest</b>	36	3,169,086,977	3,022,498,905
<b>Total equity</b>		<u>6,475,624,778</u>	<u>6,272,042,778</u>
<b>Total liabilities and equity</b>		<u>₩ 8,038,142,932</u>	<u>₩ 7,788,743,600</u>

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



**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2021 and 2020**

<i>(in thousands of Korean won, except per share amounts)</i>	<b>Notes</b>	<b>2021</b>		<b>2020</b>	
<b>Revenue</b>	4,27,35	₩	5,326,080,007	₩	4,930,083,150
<b>Cost of sales</b>	28,35		<u>1,461,565,392</u>		<u>1,371,125,561</u>
<b>Gross profit</b>			3,864,514,615		3,558,957,589
<b>Selling and administrative expenses</b>	28,29		<u>3,508,343,342</u>		<u>3,408,296,541</u>
<b>Operating profit</b>			356,171,274		150,661,048
Finance income	5,30		21,061,315		23,224,982
Finance costs	5,30		14,322,951		22,912,945
Other non-operating losses, net	31		61,004,431		(121,065,326)
Share of net profit of associates	9		<u>5,660,108</u>		<u>1,376,674</u>
			<u>73,402,903</u>		<u>(119,376,615)</u>
Profit before income tax			429,574,176		31,284,433
Income tax expense	26		<u>137,595,330</u>		<u>9,236,751</u>
<b>Profit for the period</b>		₩	<u>291,978,846</u>	₩	<u>22,047,682</u>
<b>Profit is attributable to:</b>					
Owners of the Parent Company		₩	179,995,030	₩	10,381,314
Non-controlling interests			111,983,816		11,666,368
<b>Other comprehensive income (loss)</b>					
Items that will not be reclassified to profit or loss					
Remeasurements of net defined benefit liabilities	20,26		(57,633,336)		10,075,519
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	22,26		307,763		(429,428)
Items that may be subsequently reclassified to profit or loss					
Share of other comprehensive income of associates	9,22,26		227,434		141,746
Exchange differences on transaction of foreign operations	22,26		31,359,476		5,355,905
<b>Other comprehensive income (loss) for the period, net of tax</b>			<u>(25,738,663)</u>		<u>15,143,742</u>
<b>Total comprehensive income for the period</b>			<u>266,240,184</u>		<u>37,191,425</u>
<b>Total comprehensive income for the period is attributable to:</b>					
Owners of the Parent Company			165,405,661		16,686,864
Non-controlling interests			<u>100,834,523</u>		<u>20,504,561</u>
		₩	<u>266,240,184</u>	₩	<u>37,191,425</u>
<b>Earnings per share attributable to owners of the Parent Company</b>	32				
<b>Basic earnings per ordinary share</b>		₩	1,989	₩	74
<b>Diluted earnings per ordinary share</b>			1,988		74
<b>Basic earnings per preferred share</b>			1,994		79
<b>Diluted earnings per preferred share</b>			1,994		79

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

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2021 and 2020**

(in thousands of Korean won)

	Attributable to owners of the Parent Company								
	Share capital	Share premium	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance at January 1, 2020</b>	₩ 47,997,075	₩ 903,711,141	₩ (21,656,351)	₩ (196,032,004)	₩ (14,983,036)	₩ 2,648,285,673	₩ 3,367,322,498	₩ 3,112,824,332	₩ 6,480,146,830
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	10,381,314	10,381,314	11,666,368	22,047,682
Remeasurements of net defined benefit liabilities	-	-	-	-	-	4,969,081	4,969,081	5,106,438	10,075,519
Gain(loss) on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	(219,391)	-	(219,391)	(210,036)	(429,427)
Share of other comprehensive income of associates	-	-	-	-	43,268	-	43,268	98,478	141,746
Exchange differences on transaction of foreign operations	-	-	-	-	1,512,592	-	1,512,592	3,843,313	5,355,905
<b>Total comprehensive income for the period</b>	-	-	-	-	1,336,469	15,350,395	16,686,864	20,504,561	37,191,425
<b>Transactions with owners</b>									
Dividends paid	-	-	-	-	-	(30,735,975)	(30,735,975)	(47,626,586)	(78,362,561)
Acquisition of additional interests in a subsidiary	-	-	(102,735,964)	-	-	-	(102,735,964)	(64,196,952)	(166,932,916)
Others	-	-	-	-	-	(993,550)	(993,550)	993,550	-
<b>Total transactions with owners</b>	-	-	(102,735,964)	-	-	(31,729,525)	(134,465,489)	(110,829,988)	(245,295,477)
<b>Balance at December 31, 2020</b>	₩ 47,997,075	₩ 903,711,141	₩ (124,392,315)	₩ (196,032,004)	₩ (13,646,567)	₩ 2,631,906,543	₩ 3,249,543,873	₩ 3,022,498,905	₩ 6,272,042,778
<b>Balance at January 1, 2021</b>	₩ 47,997,075	₩ 903,711,141	₩ (124,392,315)	₩ (196,032,004)	₩ (13,646,567)	₩ 2,631,906,543	₩ 3,249,543,873	₩ 3,022,498,905	₩ 6,272,042,778
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	179,995,030	179,995,030	111,983,816	291,978,846
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(25,399,828)	(25,399,828)	(32,233,507)	(57,633,336)
Gain(loss) on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	201,974	-	201,974	105,789	307,763
Gain (loss) on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	274,420	(274,420)	-	-	-
Share of other comprehensive income of associates	-	-	-	-	55,055	-	55,055	172,379	227,434
Exchange differences on transaction of foreign operations	-	-	-	-	10,553,430	-	10,553,430	20,806,046	31,359,476
Share-based payments	-	-	-	930,521	-	-	930,521	16,053,528	16,984,050
<b>Total comprehensive income for the period</b>	-	-	-	930,521	11,084,879	154,320,782	166,336,182	116,888,051	283,224,233
<b>Transactions with owners</b>									
Dividends paid	-	-	-	-	-	(24,363,181)	(24,363,181)	(36,582,331)	(60,945,512)
Acquisition of additional interests in a subsidiary	-	-	(80,763,266)	(1,156)	-	-	(80,764,422)	80,752,852	(11,570)
Transactions with non-controlling interests	-	-	(4,214,651)	-	-	-	(4,214,651)	(14,470,500)	(18,685,151)
<b>Total transactions with owners</b>	-	-	(84,977,917)	(1,156)	-	(24,363,181)	(109,342,254)	29,700,021	(79,642,233)
<b>Balance at December 31, 2021</b>	₩ 47,997,075	₩ 903,711,141	₩ (209,370,232)	₩ (195,102,639)	₩ (2,561,688)	₩ 2,761,864,144	₩ 3,306,537,801	₩ 3,169,086,977	₩ 6,475,624,778

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

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**

<i>(in thousands of Korean won)</i>	Notes	2021	2020
<b>Cash flows from operating activities</b>			
Cash generated from operations	33	₩ 792,633,595	₩ 802,027,461
Interest received		10,224,589	14,017,179
Interest paid		(15,366,780)	(24,563,136)
Income tax paid		<u>(24,898,697)</u>	<u>(125,441,635)</u>
<b>Net cash inflow from operating activities</b>		<u>762,592,707</u>	<u>666,039,869</u>
<b>Cash flows from investing activities</b>			
Net decrease in current financial deposits		-	23,262,100
Proceeds from disposal of financial assets at fair value through profit or loss		18,361,777	4,377,021
Decrease in other receivables		49,013,304	55,851,844
Decrease in non-current financial deposits		-	353,988
Proceeds from disposal of financial assets at amortized cost		1,313,800	6,260
Proceeds from disposal of financial assets at fair value through other comprehensive income	7	1,177,924	-
Proceeds from disposal of property, plant and equipment	10	2,910,037	24,851,590
Proceeds from disposal of intangible assets	11	875,500	509,270
Proceeds from disposal of investment properties		4,226,484	-
Proceeds from disposal of non-current assets held-for-sale	14	180,015,012	15,344,000
Dividend income from associates	9	816,717	993,750
Increase in other financial liabilities		12,782,500	-
Other cash inflows		11,634,876	-
Net increase in current financial deposits		(94,694,000)	-
Payments for financial assets at fair value through profit or loss		(638,804,098)	(264,579,537)
Increase in other receivables		(30,569,423)	(4,884,539)
Increase in non-current financial deposits		(1,903,010)	(2,400,010)
Payments for financial assets at fair value through other comprehensive income	7	(3,000,080)	-
Payments for property, plant and equipment	10	(99,364,939)	(194,994,201)
Payments for intangible assets	11	(31,721,233)	(33,933,301)
Increase in right-of-use assets		(27,301)	(2,270)
Payments for investments in associates		<u>(192,255,852)</u>	<u>(54,903,272)</u>
<b>Net cash outflow from investing activities</b>		<u>(809,212,005)</u>	<u>(430,147,307)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings	33	45,070,111	131,605,478
Increase in leasehold deposits		3,262,293	1,140,240
Repayments of short-term borrowings	33	(53,866,492)	(61,328,268)
Dividends paid	25	(60,922,174)	(78,333,153)
Payments for lease liabilities	13,33	(176,295,043)	(250,381,265)
Redemption of leasehold deposits		(671,606)	(6,061,222)
Acquisition of non-controlling interest	36	<u>(18,685,151)</u>	<u>(173,501,126)</u>
<b>Net cash outflow from financing activities</b>		<u>(262,108,062)</u>	<u>(436,859,316)</u>
Effects of exchange rate changes on cash and cash equivalents		<u>(11,603,921)</u>	<u>(13,449,718)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(320,331,281)</u>	<u>(214,416,472)</u>
<b>Cash and cash equivalents at the beginning of the year</b>		<u>1,190,926,311</u>	<u>1,417,441,261</u>
<b>Cash and cash equivalents at the end of the year</b>		₩ 870,595,030	₩ 1,203,024,789
<b>Cash and cash equivalents classified as held for sale</b>	14	-	(12,098,478)
<b>Cash and cash equivalents in the statements of financial position</b>		870,595,030	1,190,926,311

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2021 and 2020

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#### 1. General Information

General information of AMOREPACIFIC Group, Inc.(the Company) which is the Parent Company in accordance with Korean IFRS 1110 *Consolidated Financial Statements* and its 37 subsidiaries (collectively referred to as the “Group”) is as follows.

The Company was incorporated on September 5, 1945, under the laws of the Republic of Korea to engage in manufacturing, marketing and trading of cosmetics, personal care goods and other related products. However, on January 1, 2007, the Company’s legal form of business entity was changed to a holding company to provide management, administrative and financing services to its consolidated and unconsolidated subsidiaries. The Company listed its shares on the Korea Stock Exchange on April 30, 1973, and as approved by the shareholders on March 25, 2011, the Company changed its name from PACIFIC Corporation to AMOREPACIFIC Group, Inc.

As at December 31, 2021, the Company’s share capital is ₩ 47,997 million, including ₩ 6,768 million of preferred shares. The Company is authorized to issue 360,000,000 shares at a par value per share of ₩ 500. On December 26, 2019, the Company has issued 7,092,200 convertible preferred shares. As at December 31, 2021, the number of ordinary shares and preferred shares issued by the Company are 82,458,180 and 13,535,970, respectively.

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

Shareholders	2021	
	Number of ordinary shares	Percentage of ownership (%)
Kyung- Bae Suh	44,343,620	53.8
Others <sup>1</sup>	38,114,560	46.2
	<u>82,458,180</u>	<u>100.0</u>

<sup>1</sup> Includes 6,208,915 treasury.

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2021 and 2020

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

Shareholder	Name of subsidiary	Primary Business	Share capital (in millions of Korean won)	Percentage of ownership (%)	Year end	Location
AMOREPACIFIC Group, Inc.	AMOREPACIFIC Corporation <sup>1,2</sup>	Manufacturing and marketing of cosmetics	₩ 34,525	38.11	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Innisfree Corporation	Marketing of cosmetics	1,222	81.82	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Etude Corporation	Manufacturing and marketing of cosmetics	3,631	80.48	Dec.31	Korea
AMOREPACIFIC Group, Inc.	AMOS Professional Corporation	Marketing of hair care products	3,500	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Espoir Corporation	Marketing of cosmetics	1,019	80.48	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Osulloc	Marketing of tea products	2,250	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	PACIFICPACKAGE Corporation	Printing, manufacturing and marketing of paper containers	11,505	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Osulloc Farm Co.,Ltd.	Manufacturing and marketing of green tea	5,083	98.38	Dec.31	Korea
AMOREPACIFIC Group, Inc.	TBT Global Growth Equity Fund No.2	Domestic and foreign corporate investment	27,633	53.74	Dec.31	Korea
AMOREPACIFIC Corporation	COSVISION CO.,LTD.	Manufacturing and marketing of cosmetics, detergents and organic compounds	18,875	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited.	Holding company and marketing of cosmetics	201,910	90.00	Dec.31	Hong Kong
AMOREPACIFIC Corporation	AMORE Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	64,299	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Manufacturing and R&D of cosmetics	41,690	100.00	Dec.31	Malaysia
AMOREPACIFIC Corporation	We-Dream Co.,Ltd.	Packaging of products and managing of facilities	406	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	Core Technology Corporation.	Manufacturing of industrial machinery	1,250	80.00	Dec.31	Korea
Osulloc	Green Partners Corporation	Packaging of products and managing of facilities	800	100.00	Dec.31	Korea
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Trading Co., Ltd.	Marketing of cosmetics	9,456	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Hong Kong Co.,Limited <sup>3</sup>	Marketing of cosmetics	12	100.00	Dec.31	Hong Kong
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Taiwan Co.,Ltd.	Marketing of cosmetics	13,414	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC SINGAPORE PTE Co Ltd.	Marketing of cosmetics	25,861	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC MALAYSIA SDN. BHD.	Marketing of cosmetics	9,415	100.00	Dec.31	Malaysia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics	23,021	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Marketing of cosmetics	8,584	2.29 97.71	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Vietnam LTD.	Marketing of cosmetics	10,367	100.00	Dec.31	Vietnam
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC PHILIPPINES, INC.	Marketing of cosmetics	3,633	100.00	Dec.31	Philippines
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC US, INC.	Marketing of cosmetics	61,262	100.00	Dec.31	United States
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC CANADA INC.	Marketing of cosmetics	2,497	100.00	Dec.31	Canada
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC EUROPE S.A.S	Manufacturing and marketing of cosmetics	105,509	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	Annick Goutal S.A.S	Marketing of cosmetics	28,617	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Japan Co.,Ltd.	Marketing of cosmetics	33,105	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited.	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	9,351	100.00	Mar. 31	India
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC ME FZ-LLC	Marketing of cosmetics	2,767	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC AUSTRALIA PTY LTD	Marketing of cosmetics	7,542	100.00	Dec.31	Australia
AMOREPACIFIC Global Operations Limited.	Amorepacific Russia LLC	Marketing of cosmetics	202	100.00	Dec.31	Russia
AMOREPACIFIC Trading Co.,Ltd.	AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	Marketing of cosmetics	170	100.00	Dec.31	China

<sup>1</sup> Although the Parent Company has less than 50% of voting power, it is included as a subsidiary as the related parties, including the Ultimate parent, have 50.28% of the voting power and the rest are widely distributed among shareholders and institution investors owning less than 1%. Taking into

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2021 and 2020

consideration the participatory and approval ratios of the past general meetings, the Company has de facto control to decide the financial and operating policies.

<sup>2</sup> Percentage of ownership has been increased due to acquisition of non-controlling interest by the parent company and acquisition of treasury shares by subsidiary.

<sup>3</sup> Includes financial information of Billion-Wide Enterprise Limited.

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

<i>(in millions of Korean won)</i>	2021			
	Total assets	Total liabilities	Revenue	Profit (loss) for the year
AMOREPACIFIC Corporation	₩ 5,291,053	₩ 565,127	₩ 3,475,233	₩ 280,076
Innisfree Corporation	487,918	68,844	307,171	8,242
Etude Corporation	39,443	63,205	105,620	(15,335)
AMOS Professional Corporation	85,098	10,021	61,925	8,568
Espoir Corporation	19,903	17,355	46,734	(4,377)
Osulloc	59,463	20,510	65,003	3,279
PACIFICPACKAGE Corporation	63,563	14,514	60,778	1,964
Osulloc Farm Co.,Ltd	114,486	11,215	31,861	6,849
TBT Global Growth Equity Fund No.2	26,972	-	-	(660)
COSVISION CO.,LTD.	104,861	42,779	170,631	3,310
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
Green Partners Corporation	1,876	804	5,370	92
AMOREPACIFIC Trading Co.,Ltd.	581,242	665,782	1,183,785	(115,184)
AMOREPACIFIC Hong Kong Co.,Limited	66,504	51,118	84,250	(2,850)
AMOREPACIFIC Taiwan Co.,Ltd.	37,905	17,207	61,904	2,532
AMOREPACIFIC SINGAPORE PTE Co Ltd.	33,707	20,620	48,553	(487)
AMOREPACIFIC MALAYSIA SDN. BHD.	19,932	11,667	36,647	(513)
AMOREPACIFIC (Thailand) LIMITED	35,011	9,373	47,269	(69)
PT. LANEIGE INDONESIA PACIFIC	16,034	7,614	25,060	1,905
AMOREPACIFIC Vietnam LTD.	21,360	9,309	31,651	1,408
AMOREPACIFIC PHILIPPINES, INC.	5,045	2,849	3,026	(544)
AMOREPACIFIC US, INC.	46,489	98,229	85,566	6,353
AMOREPACIFIC CANADA INC.	5,359	9,183	13,332	(5,218)
AMOREPACIFIC EUROPE S.A.S	7,984	12,544	10,479	114
Annick Goutal S.A.S	6,924	21,182	11,563	(3,108)
AMOREPACIFIC Japan Co.,Ltd.	56,237	43,915	69,264	(4,680)
Innisfree Cosmetics India Private Limited	15,102	9,110	8,959	(929)
AMOREPACIFIC ME FZ-LLC	589	1,156	905	(132)
AMOREPACIFIC AUSTRALIA PTY LTD	10,350	25,754	13,766	(14,008)
Amorepacific Russia LLC	987	658	1,156	15
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	311	(108)	2,751	44

The amounts presented above are before the elimination of intercompany transactions. Also, the amounts presented above reflect accounting adjustments which were different from the Parent

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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Company.

During 2021, in AMOREPACIFIC AUSTRALIA PTY LTD. among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test. The recoverable amount is calculated based on its value in use and impairment loss is recognized as other non-operating losses.

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

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

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

<sup>2</sup> See Notes 10, 11 and 13 for details.

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

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

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

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
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Summarized financial information for consolidated subsidiaries as at and for the year ended December 31, 2020, is as follows:

<i>(in millions of Korean won)</i>	<b>2020</b>			
	<b>Total assets</b>	<b>Total liabilities</b>	<b>Revenue</b>	<b>Profit (loss) for the year</b>
AMOREPACIFIC Corporation	₩ 4,897,611	₩ 479,193	₩ 3,016,951	₩ 104,437
Innisfree Corporation	482,566	66,984	348,596	10,218
Etude Corporation	50,557	57,130	111,295	(23,352)
AMOS Professional Corporation	84,477	9,773	67,907	11,537
Espoir Corporation	20,169	11,764	42,470	(2,320)
Osulloc	54,303	18,167	47,709	(371)
AESTURA Corporation	133,231	32,743	98,954	(263)
PACIFICGLAS, Inc.	67,286	19,101	67,713	5,270
PACIFICPACKAGE Corporation	68,142	20,442	49,041	(1,290)
Osulloc Farm Co.,Ltd	107,391	10,602	19,126	5,204
COSVISION CO.,LTD.	104,515	70,896	128,854	(41,155)
Amorepacific Global Operations Limited.	161,474	81,976	27,731	(35,711)
AMORE Cosmetics (Shanghai) Co.,Ltd.	307,880	31,392	146,307	25,990
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	5,315	533	5,726	440
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	28,748	23	-	(3,172)
We-Dream Co.,Ltd.	1,435	279	3,510	360
Core technology	1,486	1,367	3,660	(572)
Green Partners Corporation	1,739	595	5,389	88
AMOREPACIFIC Trading Co.,Ltd.	575,278	532,623	1,142,572	(56,547)
AMOREPACIFIC Hong Kong Co.,Limited	62,453	45,535	76,296	(11,579)
AMOREPACIFIC Taiwan Co.,Ltd.	38,159	21,864	66,196	420
AMOREPACIFIC SINGAPORE PTE Co Ltd.	46,362	29,565	50,823	(5,055)
AMOREPACIFIC MALAYSIA SDN. BHD.	27,176	18,827	43,736	(3,693)
AMOREPACIFIC (Thailand) LIMITED	32,659	6,397	45,429	1,504
PT. LANEIGE INDONESIA PACIFIC	17,563	11,564	25,201	587
AMOREPACIFIC Vietnam LTD.	23,470	13,904	34,090	2,598
AMOREPACIFIC PHILIPPINES, INC.	4,991	2,318	2,834	(2,667)
AMOREPACIFIC US, INC.	65,038	118,565	63,989	(29,267)
AMOREPACIFIC CANADA INC.	12,273	10,903	12,629	(1,137)
AMOREPACIFIC EUROPE S.A.S	12,396	17,055	8,186	1,108
Annick Goutal S.A.S	9,753	20,893	10,811	(2,847)
AMOREPACIFIC Japan Co.,Ltd.	72,558	55,212	80,281	3,740
Innisfree Cosmetics India Private Limited	18,892	12,409	9,183	(135)
AMOREPACIFIC ME FZ-LLC	743	1,138	2,322	(802)
AMOREPACIFIC AUSTRALIA PTY LTD	29,945	31,312	11,482	(4,465)
Amorepacific Russia LLC	752	463	663	(390)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	2,474	2,139	5,055	146

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



# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2021 and 2020

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#### Changes in Scope for Consolidation

Details of subsidiaries newly included from the consolidation for the year ended December 31, 2021 are as follows:

Subsidiary	Reason
TBT Global Growth Equity Fund No.2	It was established through a new investment of 53.74% during 2021.

Details of subsidiaries excluded from the consolidation for the year ended December 31, 2021 are as follows:

Subsidiary	Reason
Verescence Pacific, Inc. <sup>1</sup>	Loss of control due to the disposal of 60% of shares Merged into AMOREPACIFIC Corporation, a subsidiary of the Group
AESTURA Corporation	
Info-Billion Enterprise Limited	Liquidated

<sup>1</sup> On July 2021, the entity's name of PACIFICGLAS, Inc. has changed to Verescence Pacific, Inc.

## 2. Significant Accounting Policies

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

### 2.1 Basis of Preparation

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

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

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

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

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2021 and 2020

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- Defined benefit pension plans – plan assets measured at fair value.

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

#### 2.2 Changes in Accounting Policies and Disclosures

##### *(a) New and amended standards adopted by the Group*

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

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

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

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

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

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

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2021 and 2020

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

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

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

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

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

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

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

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

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## Notes to the Consolidated Financial Statements

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- *New Standard: Korean IFRS 1117 Insurance Contract*

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

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

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

The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

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

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

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

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2021 and 2020

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#### - *Annual improvements to Korean IFRS 2018-2020*

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

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 *Leases* – Lease incentives
- Korean IFRS 1041 *Agriculture* – Measuring fair value

### **2.3 Consolidation**

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

#### *(a) Subsidiaries*

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

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

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

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

# **AMOREPACIFIC Group, Inc. and Subsidiaries**

## **Notes to the Consolidated Financial Statements**

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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.

#### *(c) 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.

## **2.4 Foreign Currency Translation**

#### *(a) Functional and presentation currency*

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

#### *(b) Transactions and balances*

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

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

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instruments at fair value through other comprehensive income are recognized in other comprehensive income.

#### *(c) Translation to presentation currency*

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

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

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

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

## **2.5 Financial Assets**

### *(a) Classification*

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

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

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

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

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

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#### *(b) Measurement*

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

#### *A. Debt instruments*

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or costs' in the year in which it arises.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Changes in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other non-operating income or expenses' and impairment losses are presented in 'other non-operating expenses'.

#### *B. Equity instruments*

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



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dividend payments is established.

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

#### *(c) Impairment*

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

#### *(d) Recognition and Derecognition*

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

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

#### *(e) Offsetting of financial instruments*

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

## **2.6 Trade Receivables**

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

## **2.7 Inventories**

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

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using gross average method. The cost of materials in transit is determined using specific identification method.

#### 2.8 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.

#### 2.9 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:

	<b>Useful life</b>
Buildings	10 - 60 years
Structures	10 - 40 years
Machinery	3 - 30 years
Vehicles	6 - 10 years
Tools	1 - 10 years
Fixtures and furniture	2 - 15 years
Others	10 years

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

#### 2.10 Borrowing Costs

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

#### 2.11 Government Grants

Government grants relating to assets are recognized as deferred income and they are credited to profit or loss over the useful life of the related assets on the basis of systematic and rational way, and government grants related to income are deferred and later deducted from the related expense.

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#### 2.12 Intangible Assets

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

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

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

	<b>Useful life</b>
Industrial property	5 - 20 years
Software	5 - 10 years
Others	2 - 45 years

#### 2.13 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.

#### 2.14 Impairment of Non-financial Assets

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

#### 2.15 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.

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#### 2.16 Financial Liabilities

##### *(a) Classification and measurement*

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

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

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

##### *(b) Derecognition*

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

#### 2.17 Provisions

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

#### 2.18 Current and Deferred Tax

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

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

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

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

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

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

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

#### **2.19 Employee Benefits**

##### *(a) Post-employment benefits*

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

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

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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 these 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.

**2.20 Revenue Recognition**

*(a) Identifying performance obligations*

The Group manufactures and sells cosmetics and personal care 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 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.

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#### *(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.

#### **2.21 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
- 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.

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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.

## **2.22 Segment Reporting**

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



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#### 2.23 Approval of Issuance of the Financial Statements

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

### 3. Critical Accounting Estimates and Assumptions

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

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

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

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

#### *(a) Estimated goodwill impairment*

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

#### *(b) Income taxes*

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

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

#### *(c) Refund liabilities*

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

#### *(d) Customer loyalty programs*

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

#### *(e) Fair value of financial instruments*

The fair value of financial instruments that are not traded in active market is determined principally by using valuation techniques. The Group uses its judgment in selecting a variety of methods and making assumptions based on important market conditions existing at the end of each reporting period (Note 38).

#### *(f) Impairment of financial assets*

The provision for impairment for financial assets are 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.

#### *(g) Net defined benefit liability (asset)*

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

#### *(h) Lease*

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

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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 (Note 13).

#### *(i) Measurement of the net realizable value of inventory*

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

#### *(j) Impairment of non-financial assets*

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

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

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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.

**4. Segment Information**

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker who formulates the strategic. Chief operating decision-maker considers the business from perspective of products of each segment.

The main products of each business division are as follows:

<b>Divisions</b>	<b>Products</b>
Cosmetics	Cosmetics and household products
Others	Cosmetics containers and hair products

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
	<b>Revenue</b>	<b>Operating profit</b>	<b>Revenue</b>	<b>Operating profit</b>
Cosmetics	₩ 5,184,925	₩ 341,993	₩ 4,793,616	₩ 138,678
Others	339,182	19,140	369,621	13,164
	<u>₩ 5,524,107</u>	<u>₩ 361,133</u>	<u>₩ 5,163,238</u>	<u>₩ 151,842</u>

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Adjustments from total segment revenue to the Group's revenue for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Total segment revenue	₩ 5,524,107	₩ 5,163,238
Elimination of intercompany transactions and others	<u>(198,027)</u>	<u>(233,155)</u>
Group revenue	<u>₩ 5,326,080</u>	<u>₩ 4,930,083</u>

Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Total segment operating profit	₩ 361,133	₩ 151,842
Intersegment expense	<u>(4,962)</u>	<u>(1,181)</u>
Operating profit	<u>₩ 356,171</u>	<u>₩ 150,661</u>

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

<i>(in millions of Korean won)</i>	<b>Revenue</b>	
	<b>2021</b>	<b>2020</b>
Korea	₩ 3,274,353	₩ 2,992,079
Asia	1,913,075	1,831,757
North America	101,800	76,038
Others	<u>36,852</u>	<u>30,209</u>
	<u>₩ 5,326,080</u>	<u>₩ 4,930,083</u>

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

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**5. Financial Instruments by Category**

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Financial assets at amortized cost	Cash and cash equivalents	₩ 860,590	₩ 850,381
	Current financial deposits	298,726	206,782
	Non-current financial deposits	5,032	4,582
	Non-current debt securities <sup>1</sup>	1,966	3,280
	Trade receivables	311,951	306,676
	Current other receivables	38,439	32,584
	Non-current other receivables	126,171	136,561
	Other current assets <sup>2</sup>	1,205	940
Financial assets at fair value through other comprehensive income	Non-current financial assets at fair value through other comprehensive income <sup>3</sup>	5,410	4,390
Financial assets at fair value through profit or loss	Cash and cash equivalents <sup>4</sup>	10,005	340,546
	Current financial deposits <sup>4</sup>	18,100	14,500
	Current financial assets at fair value through profit or loss <sup>4</sup>	863,824	411,154
	Non-current financial deposits <sup>6</sup>	19,000	17,100
	Non-current financial assets at fair value through profit or loss <sup>5</sup>	226,133	49,548
		<b>₩ 2,786,552</b>	<b>₩ 2,379,023</b>

<sup>1</sup> Government bonds (Note 7).

<sup>2</sup> Other current assets represent accrued revenues (Note 15).

<sup>3</sup> Equity instruments such as listed shares (Note 7).

<sup>4</sup> Beneficiary certificates (Note 7).

<sup>5</sup> Beneficiary certificates, redeemable convertible preferred shares, convertible preferred shares, private equity investment trust (Note 7).

<sup>6</sup> Variable annuities insurance (Note 7).

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Financial liabilities	Trade payables	₩ 95,482	₩ 74,306
at amortized cost	Short-term borrowings	257,724	257,460
	Other payables	354,970	316,939
	Other current liabilities <sup>7</sup>	194,247	183,917
	Other non-current liabilities <sup>8</sup>	24,145	13,422
		₩ 926,568	₩ 846,044

<sup>7</sup> Other current liabilities consist of deposits received, dividend payables, accrued expenses and refund liabilities (Note 19).

<sup>8</sup> Other non-current liabilities consist of deposits received, accrued expenses, and other financial liabilities (Note 19).

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Financial assets at fair value through profit or loss			
	Gain on valuation (profit or loss)	₩ 10,605	₩ 11,243
	Interest income <sup>1</sup>	-	195
Financial assets at fair value through other comprehensive income			
	Loss on valuation (other comprehensive income)	308	(429)
	Dividend income	96	196
Financial assets at amortized cost			
	Interest income <sup>1</sup>	9,060	10,532
	Gain (loss) on foreign currency translation	34,056	(29,812)
	Reversal of (impairment loss)	(1,652)	(1,730)
Financial liabilities at amortized cost			
	Gain on valuation	161	-
	Interest expense <sup>1</sup>	(4,670)	(4,057)
	Gain (loss) on foreign currency translation	1,221	10,138

<sup>1</sup> Interest income and interest expense applied by Korean IFRS 1116 *Lease* are excluded.

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**6. Cash and Cash Equivalents**

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Cash on hand	₩	235	₩	221
Ordinary deposits		174,612		196,033
Checking accounts		49,941		71,927
Other accounts		645,807		922,745
	₩	<u>870,595</u>	₩	<u>1,190,926</u>

Cash and cash equivalents include bank deposits that have a maturity of three months or less from 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 at December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Cash and cash equivalents :				
Beneficiary certificates	₩ 10,005	₩ -	₩ 340,546	₩ -
Financial deposits:				
Beneficiary certificates	18,100	-	14,500	-
Variable annuities insurance	-	19,000	-	17,100
Financial assets at fair value through profit or loss:				
Beneficiary certificates	863,824	151,474	411,154	1,129
Debt instruments, including convertible redeemable preferred shares	-	8,155	-	8,724
Equity securities (convertible preferred shares)	-	48,947	-	25,258
Equity securities (ordinary shares)	-	3,000	-	-
Private equity investment trust	-	14,557	-	14,437
	₩	<u>891,929</u>	₩	<u>245,133</u>
			₩	<u>766,199</u>
			₩	<u>66,648</u>



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**7.2 Financial Assets at Fair Value through Other Comprehensive Income**

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

<i>(in millions of Korean won)</i>	<u>2021</u>		<u>2020</u>	
Equity instruments:				
Marketable equity securities				
Humedix Co., Ltd.	₩	519	₩	515
Meritz Securities Co., Ltd.		-		992
Evoform Biosciences, Inc.		17		102
Obalon Therapeutics Inc		61		108
GL Pharm Tech Corporation		436		510
Brickell Biotech Inc		29		92
Non-marketable equity securities		<u>4,347</u>		<u>2,070</u>
	₩	<u>5,410</u>	₩	<u>4,389</u>

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

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
<b>Beginning balance</b>	₩	4,389	₩	4,945
Acquisitions		3,000		-
Evaluation and disposals <sup>1</sup>		<u>(1,980)</u>		<u>(556)</u>
<b>Ending balance</b>	₩	<u>5,409</u>	₩	<u>4,389</u>

<sup>1</sup> In 2021, upon disposal transaction, loss on valuation recognized in other comprehensive income of ₩ 274 million were reclassified into retained earnings.

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

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

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

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Trade receivables	₩	315,623	₩	310,021
Less: provision for impairment		<u>(3,672)</u>		<u>(3,345)</u>
Trade receivables, net	₩	<u>311,951</u>	₩	<u>306,676</u>

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Non-trade receivables	₩ 9,019	₩ -	₩ 8,870	₩ -
Financial lease receivables	1,677	3,373	2,352	4,342
Loans	1,712	46,462	1,099	21,258
Deposits provided	26,444	76,336	20,677	111,057
Less: provision for impairment	<u>(414)</u>	<u>-</u>	<u>(414)</u>	<u>(96)</u>
	₩ 38,438	₩ 126,171	₩ 32,584	₩ 136,561

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Beginning balance	₩	3,345	₩	2,856
Impairment loss		1,686		1,635
Receivables written off during the year as uncollectible		(1,325)		(736)
Exchange differences		<u>(34)</u>		<u>(411)</u>
Ending balance	₩	<u>3,672</u>	₩	<u>3,345</u>

Provision for impaired receivables and unused amounts reversed have been included in the statement of profit or loss within 'selling and administrative expenses' (Note 29). Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Current financial deposits	₩ 298,726	₩ -	₩ 206,782	₩ -
Non-current financial deposits	-	5,032	-	4,582
Government bonds	-	1,966	-	3,280
Accrued income	1,205	-	940	-
Less: provision for impairment	-	-	-	-
	<u>₩ 299,931</u>	<u>₩ 6,998</u>	<u>₩ 207,722</u>	<u>₩ 7,862</u>

The Group's trade and other receivables are spread to a great number of customers, so there is no important credit risk concentrated. 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 at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Merchandise and Finished goods	₩ 393,484	₩ 341,556
Raw materials	61,817	53,499
Subsidiary materials	29,851	27,473
Others	57,663	55,921
	<u>₩ 542,815</u>	<u>₩ 478,448</u>

Inventories recognized as an expense during the year ended December 31, 2021 amounted to ₩ 1,058,925 million (2020: ₩ 1,027,870 million).

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Loss on valuation/disposal of inventories	<u>₩ 58,231</u>	<u>₩ 45,167</u>

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**9. Associates**

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

<i>(in millions of Korean won)</i>	Country	Main operating activities	2021		2020	
			Percentage of ownership (%)	Book amount	Percentage of ownership (%)	Book amount
Taiwan AMORE Co.,Ltd.	Taiwan	Sales of cosmetics	50.0	₩ 2,350	50.00	₩ 2,152
Rationale Group Pty Ltd	Australia	Manufacturing and sales of cosmetics	49.0	51,796	49.00	50,362
Partner One Value up 2 Private Equity Fund <sup>1</sup>	Korea	Domestic and foreign corporate investment	29.7	1,467	-	-
COSRX INC <sup>2</sup>	Korea	Sales of cosmetics	40.0	182,832	-	-
BBDO Korea Inc.	Korea	Advertising agency and production of advertisement	30.0	2,253	30.00	2,331
AP&M Beauty Fashion Joint Venture	Korea	Domestic and foreign corporate investment	49.0	4,672	49.00	4,776
Smart AP-WE Untact Fund No. 1 <sup>3</sup>	Korea	Domestic and foreign corporate investment	36.6	9,752	44.80	1,000
Verescence Pacific, Inc. <sup>4,5</sup>	Korea	Manufacturing and sales of glassware containers	40.0	27,185	-	-
Anhui Pacific Tea Co., Ltd. <sup>6</sup>	China	Tea processing	80.0	-	80.00	-
				<u>₩ 282,307</u>		<u>₩ 60,621</u>

<sup>1</sup> In 2021, the Group newly acquired 29.7% of shares.

<sup>2</sup> In 2021, the Group newly acquired 40% of shares.

<sup>3</sup> In 2021, the percentage of ownership has been changed due to additional investors.

<sup>4</sup> In 2021, 60% of Verescence Pacific, Inc.'s shares were sold, and the other 40% were reclassified as investments in associates.

<sup>5</sup> On July 2021, the entity's name of PACIFICGLAS, Inc. has changed to Verescence Pacific, Inc.

<sup>6</sup> The entity is a consolidated subsidiary but excluded from the consolidation because it is not significant.

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

<i>(in millions of Korean won)</i>	2021			
	Taiwan AMORE Co., Ltd.	Rationale Group Pty Ltd	Partner One Value up 2 Private Equity Fund	COSRX INC
Beginning balance	₩ 2,152	₩ 50,362	₩ -	₩ -
Acquisition	-	-	1,500	181,756
Share of profit or loss of associates	(27)	120	(33)	866
Share of other comprehensive income of associates	51	-	-	210
Dividends	(7)	-	-	-
Exchange differences	181	1,314	-	-
Ending balance	₩ 2,350	₩ 51,796	₩ 1,467	₩ 182,832

<i>(in millions of Korean won)</i>	2021				
	BBDO Korea Inc.	AP&M Beauty Fashion Joint Venture	Smart AP-WE Untact Fund No. 1	Verescence Pacific, Inc.	Total
Beginning balance	₩ 2,331	₩ 4,776	₩ 1,000	₩ -	₩ 60,621
Acquisition	-	-	9,000	22,865	215,121
Share of profit or loss of associates	732	(104)	(248)	4,354	5,660
Share of other comprehensive income of associates	-	-	-	(34)	227
Dividends	(810)	-	-	-	(817)
Exchange differences	-	-	-	-	1,495
Ending balance	₩ 2,253	₩ 4,672	₩ 9,752	₩ 27,185	₩ 282,307

<i>(in millions of Korean won)</i>	2020					
	Taiwan AMORE Co., Ltd.	Rationale Group Pty Ltd	BBDO Korea Inc.	AP&M Beauty Fashion Joint Venture	Smart AP-WE Untact Fund No. 1	Total
Beginning balance	₩ 2,160	₩ -	₩ 2,481	₩ -	₩ -	₩ 4,641
Acquisition	-	49,003	-	4,900	1,000	54,903
Share of profit or loss of associates	(15)	675	840	(124)	-	1,376
Share of other comprehensive income of associates	142	-	-	-	-	142
Dividends	(4)	-	(990)	-	-	(994)
Exchange differences	(131)	684	-	-	-	553
Ending balance	₩ 2,152	₩ 50,362	₩ 2,331	₩ 4,776	₩ 1,000	₩ 60,621

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

(in millions of Korean won)

	2021							
	Taiwan AMORE Co., Ltd.		Rationale Group Pty Ltd		Partner One Value up 2 Private Equity Fund <sup>1</sup>		COSRX INC <sup>1</sup>	
<b>December 31, 2021</b>								
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
<b>2021</b>								
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

(in millions of Korean won)

	2021							
	BBDO Korea Inc.		AP&M Beauty Fashion Joint Venture		Smart AP-WE Untact Fund No. 1		Verescence Pacific, Inc. <sup>1</sup>	
<b>December 31, 2021</b>								
Current assets	₩	17,842	₩	9,534	₩	5,246	₩	39,493
Non-current assets		1,615		-		21,418		37,425
Current liabilities		11,756		-		12		15,597
Non-current liabilities		191		-		-		227
<b>2021</b>								
Revenue	₩	24,574	₩	-	₩	9	₩	70,020
Operating profit (loss)		2,781		(246)		(648)		12,228
Profit (loss) for the period		2,439		(212)		(648)		11,918

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

(in millions of Korean won)

	2020									
	Taiwan AMORE Co., Ltd.		Rationale Group Pty Ltd <sup>1</sup>		BBDO Korea Inc.		AP&M Beauty Fashion Joint Venture		Smart AP-WE Untact Fund No. 1	
<b>December 31, 2020</b>										
Current assets	₩	4,460	₩	21,199	₩	17,743	₩	9,746	₩	4,030
Non-current assets		519		10,328		1,437		-		-
Current liabilities		567		4,544		11,300		-		1,800
Non-current liabilities		107		6,143		108		-		-
<b>2020</b>										
Revenue	₩	4,568	₩	12,577	₩	28,651	₩	-	₩	-
Operating profit (loss)		(74)		4,613		3,322		(253)		-
Profit (loss) for the period		(31)		2,213		2,803		(254)		-

<sup>1</sup> Profit and losses of Rationale Group Pty Ltd were incurred after the acquisition date.

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

(in millions of Korean won)

	2021				
	Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Goodwill and others	Book amount
Taiwan AMORE Co., Ltd.	₩ 4,700	50.00%	₩ 2,350	₩ -	₩ 2,350
Rationale Group Pty Ltd	23,402	49.0%	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	40.5%	21,642	161,190	182,832
BBDO Korea Inc.	7,510	30.0%	2,253	-	2,253
AP&M Beauty Fashion Joint Venture	9,534	49.0%	4,672	-	4,672
Smart AP-WE Untact Fund No. 1	26,652	36.6%	9,763	(11)	9,752
Verescence Pacific, Inc.	61,094	40.0%	24,438	2,747	27,185

(in millions of Korean won)

	2020				
	Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Goodwill and others	Book amount
Taiwan AMORE Co., Ltd.	₩ 4,305	50.00%	₩ 2,152	₩ -	₩ 2,152
Rationale Group Pty Ltd	20,840	49.00%	10,212	40,150	50,362
BBDO Korea Inc.	7,772	30.00%	2,331	-	2,331
AP&M Beauty Fashion Joint Venture	9,746	49.00%	4,776	-	4,776
Smart AP-WE Untact Fund No. 1	2,230	44.80%	1,000	-	1,000

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**10. Property, Plant and Equipment**

Property, plant and equipment as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021			2020		
	Acquisition cost	Accumulated depreciation <sup>1</sup>	Book amount	Acquisition cost	Accumulated depreciation <sup>1</sup>	Book amount
Land	₩ 987,100	₩ (288)	₩ 986,812	₩ 999,254	₩ (288)	₩ 998,966
Buildings	1,680,150	(332,059)	1,348,091	1,708,433	(292,683)	1,415,750
Structures	82,300	(41,081)	41,219	85,465	(38,295)	47,170
Machinery	704,668	(397,849)	306,819	690,496	(356,550)	333,946
Vehicles	3,519	(2,814)	705	3,585	(2,989)	596
Tools	175,396	(149,986)	25,410	169,924	(144,386)	25,538
Fixtures and furniture	856,820	(678,054)	178,766	918,873	(680,634)	238,239
Others	9,754	(5,870)	3,884	10,373	(5,440)	4,933
Construction in progress	28,245	-	28,245	15,951	-	15,951
	<u>₩ 4,527,953</u>	<u>₩ (1,608,003)</u>	<u>₩ 2,919,950</u>	<u>₩ 4,602,354</u>	<u>₩ (1,521,265)</u>	<u>₩ 3,081,089</u>

<sup>1</sup>Accumulated impairment losses are included.

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

<i>(in millions of Korean won)</i>	2021				
	Land	Buildings	Structures	Machinery	Vehicles
Opening net book amount	₩ 998,966	₩ 1,415,750	₩ 47,170	₩ 333,946	₩ 596
Acquisition	204	1,188	772	17,840	448
Reclassification <sup>1</sup>	(4,295)	(33,420)	-	7,145	-
Disposal	-	(2,273)	(164)	(1,124)	(73)
Depreciation	-	(47,295)	(4,405)	(53,396)	(266)
Impairment loss <sup>2</sup>	-	-	(2,312)	(155)	-
Others <sup>3</sup>	(8,063)	-	-	-	-
Exchange differences	-	14,141	158	2,563	-
Closing net book amount	<u>₩ 986,812</u>	<u>₩ 1,348,091</u>	<u>₩ 41,219</u>	<u>₩ 306,819</u>	<u>₩ 705</u>

<i>(in millions of Korean won)</i>	2021				
	Tools	Fixtures and furniture	Others	Construction in progress	Total
Opening net book amount	₩ 25,538	₩ 238,239	₩ 4,933	₩ 15,951	₩ 3,081,089
Acquisition	15,142	40,884	14	21,097	97,589
Reclassification <sup>1</sup>	523	1,019	(443)	(8,741)	(38,212)
Disposal	-	(9,374)	(645)	-	(13,653)
Depreciation	(15,634)	(89,358)	(603)	-	(210,957)
Impairment loss <sup>2</sup>	(610)	(8,282)	313	-	(11,046)



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Others <sup>3</sup>	-	-	-	-	(8,063)
Exchange differences	<u>451</u>	<u>5,637</u>	<u>315</u>	<u>(62)</u>	<u>23,203</u>
Closing net book amount	<u>₩ 25,410</u>	<u>₩ 178,765</u>	<u>₩ 3,884</u>	<u>₩ 28,245</u>	<u>₩ 2,919,950</u>

<sup>1</sup> During 2021, ₩ 34,142 million was reclassified from property, plant and equipment to investment property, and the amount of ₩ 4,066 million classified as a group of assets held for sale is included.

<sup>2</sup> During 2021, in AMOREPACIFIC AUSTRALIA PTY LTD., Espoir Corporation among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 1,492 million on property, plant and equipment (Note 1.3), and ₩ 9,554 million is recognized as impairment on individual assets.

<sup>3</sup> During 2021, some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 8,031 million on land.

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<b>2020</b>					
<i>(in millions of Korean won)</i>	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Vehicles</b>
Opening net book amount	₩ 1,020,187	₩ 1,382,161	₩ 54,717	₩ 369,597	₩ 764
Acquisition	3,239	44,850	2,680	24,174	72
Reclassification <sup>1</sup>	(5,271)	34,576	(3,651)	(1,386)	57
Disposal	(18,901)	(9)	(250)	(1,657)	(4)
Depreciation	-	(47,122)	(5,291)	(56,209)	(293)
Impairment loss <sup>2</sup>	(288)	-	(562)	(875)	-
Exchange differences	-	1,294	(473)	302	-
Closing net book amount	<u>₩ 998,966</u>	<u>₩ 1,415,750</u>	<u>₩ 47,170</u>	<u>₩ 333,946</u>	<u>₩ 596</u>

<b>2020</b>					
<i>(in millions of Korean won)</i>	<b>Tools</b>	<b>Fixtures and furniture</b>	<b>Others</b>	<b>Construction in progress</b>	<b>Total</b>
Opening net book amount	₩ 27,389	₩ 304,256	₩ 3,767	₩ 37,259	₩ 3,200,097
Acquisition	15,110	70,949	176	22,405	183,655
Reclassification <sup>1</sup>	(535)	13,438	3,011	(41,601)	(1,362)
Disposal	(108)	(17,471)	(587)	(538)	(39,525)
Depreciation	(16,260)	(128,968)	(1,393)	-	(255,536)
Impairment loss <sup>2</sup>	(128)	(3,808)	-	(1,707)	(7,368)
Exchange differences	70	(157)	(41)	133	1,128
Closing net book amount	<u>₩ 25,538</u>	<u>₩ 238,239</u>	<u>₩ 4,933</u>	<u>₩ 15,951</u>	<u>₩ 3,081,089</u>

<sup>1</sup> During 2020, the amount of ₩34,596 million classified as a group of assets held for sale is included (Note 14).

<sup>2</sup> During 2020, in Etude Corporation, AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited. among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 2,156 million on property, plant and equipment, and ₩ 5,212 million is recognized as impairment on individual assets.

Depreciation of property, plant and equipment is charged to the following accounts:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Selling and administrative expenses <sup>1</sup>	₩ 135,043	₩ 170,331
Cost of sales	75,913	85,205
	<u>₩ 210,957</u>	<u>₩ 255,536</u>

<sup>1</sup> The amount includes depreciation expense allocated to research and development expense.

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**11. Intangible Assets**

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

<i>(in millions of Korean won)</i>	<b>2021</b>				
	<b>Goodwill</b>	<b>Industrial property</b>	<b>Software</b>	<b>Others</b>	<b>Total</b>
Beginning balance	₩ 509,716	₩ 32,267	₩ 136,984	₩ 40,666	₩ 719,633
Acquisition	-	57	17,839	13,825	31,721
Reclassification	-	4,281	8,669	(12,945)	5
Disposal	(6,768)	(1)	(437)	(1,519)	(8,725)
Amortization	-	(3,800)	(37,441)	(171)	(41,412)
Impairment loss <sup>1</sup>	-	(130)	(237)	(227)	(594)
Exchange differences	842	-	2,063	(96)	2,809
Ending balance	<u>₩ 503,790</u>	<u>₩ 32,674</u>	<u>₩ 127,440</u>	<u>₩ 39,533</u>	<u>₩ 703,437</u>

<sup>1</sup> During 2021, in AMOREPACIFIC AUSTRALIA PTY LTD., Espoir Corporation among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 463 million on intangible assets (Note 1.3) and ₩ 131 million is recognized as impairment on individual assets.

<i>(in millions of Korean won)</i>	<b>2020</b>				
	<b>Goodwill</b>	<b>Industrial property</b>	<b>Software</b>	<b>Others</b>	<b>Total</b>
Beginning balance	₩ 518,218	₩ 30,849	₩ 144,467	₩ 45,892	₩ 739,426
Acquisition	-	116	17,407	16,410	33,933
Reclassification <sup>1</sup>	-	5,056	12,051	(17,054)	53
Disposal	-	(52)	(385)	(2,434)	(2,871)
Amortization	-	(3,663)	(36,148)	(652)	(40,463)
Impairment loss <sup>2</sup>	(8,456)	(123)	(192)	(1,718)	(10,489)
Exchange differences	(46)	84	(216)	222	44
Ending balance	<u>₩ 509,716</u>	<u>₩ 32,267</u>	<u>₩ 136,984</u>	<u>₩ 40,666</u>	<u>₩ 719,633</u>

<sup>1</sup> In 2020, the amount of ₩ 67 million classified as a group of assets held for sale is included (Note 14).

<sup>2</sup> During 2020, in Etude Corporation, AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited. among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 9,231 million on intangible assets and ₩ 1,258 million is recognized as impairment on individual assets.

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Amortization of intangible assets is charged to the following accounts:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Selling and administrative expenses <sup>1</sup>	₩ 38,285	₩ 37,428
Cost of sales	3,126	3,035
	<u>₩ 41,412</u>	<u>₩ 40,463</u>

<sup>1</sup> Amortization expense is included in research and development expenses.

Goodwill is monitored by the management at the cash-generating units. The following is a summary of goodwill allocation for each operating segment:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Cosmetics CGU	₩ 493,511	₩ 500,279
AMOREPACIFIC Hong Kong <sup>1</sup>	-	-
AMOREPACIFIC Trading Co.,Ltd.	4,529	4,059
AMOREPACIFIC Vietnam LTD.	3,785	3,422
Others' CGU	1,965	1,955
	<u>₩ 503,790</u>	<u>₩ 509,716</u>

<sup>1</sup> During 2020, as a result of impairment test for goodwill, impairment loss of ₩ 8,456 million was recognized because the carrying amount of AMOREPACIFIC Hong Kong exceeded the recoverable amount.

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

<i>(in percentage, %)</i>	<b>Cosmetics CGU</b>	<b>AMOREPACIFIC Vietnam LTD.</b>
Gross margin rate	72.86	70.11
Growth rate <sup>1</sup>	9.91	18.58
Weighted average cost of capital	10.50	7.48
Perpetual growth rate	1.00	-

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

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**12. Investment Property**

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

<i>(in millions of Korean won)</i>	2021			2020		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 157,319	₩ -	₩ 157,319	₩ 161,905	₩ -	₩ 161,905
Buildings	215,443	(29,535)	185,908	182,773	(22,653)	160,120
Right-of-use assets	1,993	(1,090)	904	1,993	(725)	1,268
	<u>₩ 374,755</u>	<u>₩ (30,625)</u>	<u>₩ 344,130</u>	<u>₩ 346,671</u>	<u>₩ (23,378)</u>	<u>₩ 323,293</u>

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

<i>(in millions of Korean won)</i>	2021			
	Land	Buildings	Right-of-use assets	Total
Beginning balance	₩ 161,905	₩ 160,120	₩ 1,268	₩ 323,293
Reclassification <sup>1</sup>	1,023	33,119	-	34,142
Depreciation	-	(4,966)	(364)	(5,330)
Disposal	(3,936)	(2,365)	-	(6,301)
Others <sup>2</sup>	(2,672)	-	-	(2,672)
Exchange differences	999	-	-	999
Ending balance	<u>₩ 157,319</u>	<u>₩ 185,908</u>	<u>₩ 904</u>	<u>₩ 344,131</u>

<sup>1</sup> During 2021, ₩ 34,142 million was reclassified from property, plant and equipment to investment property.

<sup>2</sup> During 2021, some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 2,672 million on land.

<i>(in millions of Korean won)</i>	2020			
	Land	Buildings	Right-of-use assets	Total
Beginning balance	₩ 168,546	₩ 193,475	₩ 2,744	₩ 364,765
Reclassification	(2,043)	(28,085)	(783)	(30,911)
Depreciation	-	(5,270)	(693)	(5,963)
Impairment loss <sup>1</sup>	(3,716)	-	-	(3,716)
Exchange differences	(882)	-	-	(882)
Ending balance	<u>₩ 161,905</u>	<u>₩ 160,120</u>	<u>₩ 1,268</u>	<u>₩ 323,293</u>

<sup>1</sup> During 2020, ₩ 3,716 million is recognized as impairment on individual assets.

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

<i>(in millions of Korean won)</i>	<u>2021</u>		<u>2020</u>	
Cost	₩	1,993	₩	1,992
Accumulated depreciation		(1,089)		(725)
Carrying amount	₩	<u>904</u>	₩	<u>1,267</u>

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

<i>(in millions of Korean won)</i>	<u>2021</u>		<u>2020</u>	
Within one year	₩	26,257	₩	21,712
Later than one year but not later than five years		85,367		71,950
Later than five year		19,450		36,226
	₩	<u>131,074</u>	₩	<u>129,888</u>

The fair value of investment property as at December 31, 2021, is ₩ 444,489 million (2020: ₩ 386,424 million).

The amount recognized as income and expenses in relation to investment property are ₩ 20,019 million, (2020: ₩ 19,979 million) and ₩ 4,874 million (2020: ₩ 5,081 million) respectively, for the year ended December 31, 2021.

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

<i>(in millions of Korean won)</i>	<u>2021</u>				
	<u>Carrying amount</u>	<u>Secured amount</u>	<u>Related line item</u>	<u>Related amount</u>	<u>Secured party</u>
Land and buildings		₩ 1,249	Deposits received	₩ 961	National Pension Service
Land and buildings	₩ 18,866	151	Deposits received	116	National Human Rights Commission of Korea
Buildings		50	Deposits received	50	Korea Fire Facility Association
Buildings		3,594	Deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings	15,157	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	24,359	2,363	Deposits received	2,363	Qualcomm CDMA Technologies Korea YH

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

**13. Leases**

The Group has irrevocable lease contracts for some property, plant and equipment and the lease term is 1 to 60 years. Changes in right-of-use assets for the year ended December 31, 2021, are as follows:

<i>(in millions of Korean won)</i>	2021				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance <sup>1</sup>	₩ 10,731	₩ 227,484	₩ 1,240	₩ 48,928	₩ 288,383
Acquisition	-	85,114	38	961	86,113
Remeasurement	(17)	(705)	230	639	147
Disposal	-	(16,946)	-	(104)	(17,050)
Reclassification	-	-	-	-	-
Amortization	(414)	(131,050)	(740)	(24,658)	(156,862)
Impairment loss <sup>1</sup>	-	(50,371)	(57)	(28)	(50,456)
Exchange differences	1,220	12,828	113	118	14,279
Ending balance	₩ 11,521	₩ 126,355	₩ 824	₩ 25,856	₩ 164,556

<sup>1</sup> During 2021, in AMOREPACIFIC AUSTRALIA PTY LTD., Espoir Corporation among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 12,177 million on in-right-of-use assets and ₩ 38,279 million is recognized as impairment on individual assets.

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<i>(in millions of Korean won)</i>	<b>2020</b>				
	<b>Land</b>	<b>Building</b>	<b>Fixtures and furniture</b>	<b>Others</b>	<b>Total</b>
Beginning balance <sup>1</sup>	₩ 10,894	₩ 486,171	₩ 2,112	₩ 72,255	₩ 571,432
Acquisition	370	86,134	48	495	87,047
Remeasurement	-	(25,902)	(63)	722	(25,243)
Disposal	-	(67,324)	(21)	(62)	(67,407)
Reclassification	-	(3,993)	-	-	(3,993)
Amortization	(619)	(206,300)	(784)	(24,494)	(232,197)
Impairment loss <sup>1</sup>	-	(42,742)	(45)	-	(42,787)
Exchange differences	86	1,440	(8)	13	1,531
Ending balance	<u>₩ 10,731</u>	<u>₩ 227,484</u>	<u>₩ 1,240</u>	<u>₩ 48,928</u>	<u>₩ 288,383</u>

<sup>1</sup> During 2020, in Etude Corporation, AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited. among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 11,980 million on in-right-of-use assets and ₩ 30,807 million is recognized as impairment on individual assets.

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Selling and administrative expenses	₩ 155,971	₩ 231,669
Cost of sales	891	528
	<u>₩ 156,862</u>	<u>₩ 232,197</u>

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Total minimum lease payments		
Within one year	₩ 113,769	₩ 187,435
Later than one year but not later than five years	98,877	133,745
Later than five years	32,387	51,313
	<u>245,032</u>	<u>372,492</u>
Unearned finance income	<u>(23,430)</u>	<u>(35,810)</u>
Net minimum lease payments		
Within one year	110,128	183,112
Later than one year but not later than five years	93,208	123,512
Later than five years	18,266	30,059
	<u>₩ 221,603</u>	<u>₩ 336,683</u>



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As at December 31, 2021, the sum of the total minimum lease payments that are expected to be received by sub-lease is ₩ 5,387 million (2020: ₩ 7,244 million). The lease contracts have no options of lease renewal and buyout. There are no other restrictions on lease contracts related to dividends, additional debts and additional leases.

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

<i>(in millions of Korean won)</i>	<u>2021</u>	<u>2020</u>
Interest expense relating to lease liabilities	₩ 9,627	₩ 18,828
Expense relating to short-term leases	12,675	6,051
Expense relating to leases of low-value assets that are not short-term leases	4,289	5,515
Expense relating to variable lease payments not included in lease liabilities	770,831	684,858

The total cash outflow of leases in 2021 and 2020 are ₩ 973,717 million and ₩ 965,633 million respectively.

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

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

The Group uses a practical expedient that does not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Accordingly, the Group recognized ₩ 10,182 million in profit or loss during the year ended December 31, 2021 (2020: ₩ 21,334 million), to reflect changes in lease payments that arise from a rent concession to which the lessee has applied the practical expedient.

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

<i>(in millions of Korean won)</i>	<u>2021</u>	<u>2020</u>
Financial lease receivables:		
Principal of the receivables:	₩ 5,373	₩ 7,206
Deferred loan costs(gain)	(323)	(513)
Less: provision for impairment	-	(96)
Carrying amount	5,050	6,598
Terminated	-	-
	<u>₩ 5,050</u>	<u>₩ 6,598</u>

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

<i>(in millions of Korean won)</i>	<b>2021</b>	
	<b>Total lease investment</b>	<b>Present value of minimum lease payments</b>
Within one year	₩ 1,711	₩ 1,677
Later than one year but not later than five years	3,662	3,373
	<u>₩ 5,373</u>	<u>₩ 5,050</u>

  

<i>(in millions of Korean won)</i>	<b>2020</b>	
	<b>Total lease investment</b>	<b>Present value of minimum lease payments</b>
Within one year	₩ 2,177	₩ 2,352
Later than one year but not later than five years	5,029	4,342
	<u>₩ 7,206</u>	<u>₩ 6,693</u>

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Total lease investment	₩ 5,373	₩ 7,206
Net lease investment	-	-
Present value of minimum lease payments	5,050	6,693
Present value of unguaranteed residual value	-	-
	<u>5,050</u>	<u>6,693</u>
Unearned interest income	₩ 323	₩ 513

**14. Non-current Assets Held-for-sale**

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

<i>(in millions of Korean won)</i>	<b>2021</b>			<b>2020</b>		
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book amount</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book amount</b>
Land	₩ 3,588	₩ -	₩ 3,588	₩ 47,166	₩ -	₩ 47,166
Buildings	1,838	(1,360)	478	11,456	(2,485)	8,971
Assets of disposal group	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,532</u>	<u>-</u>	<u>59,532</u>
	₩ 5,426	₩ (1,360)	₩ 4,066	₩ 118,154	₩ (2,485)	₩ 115,669
Liabilities of disposal group	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,957)</u>	<u>-</u>	<u>(18,957)</u>
	<u>₩ 5,426</u>	<u>₩ (1,360)</u>	<u>₩ 4,066</u>	<u>₩ 99,197</u>	<u>₩ (2,485)</u>	<u>₩ 96,712</u>

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Changes in non-current assets held-for-sale for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Assets of disposal group</b>	<b>Liabilities of disposal group</b>	<b>Total</b>
Beginning balance	₩ 47,166	₩ 8,971	₩ 59,532	₩ (18,957)	₩ 96,712
Reclassification	3,588	478	10,798	(1,508)	13,356
Disposal	(47,166)	(8,971)	(70,330)	20,465	(106,002)
Ending balance	<u>₩ 3,588</u>	<u>₩ 478</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 4,066</u>

  

<i>(in millions of Korean won)</i>	<b>2020</b>				
	<b>Land</b>	<b>Buildings</b>	<b>Assets of disposal group</b>	<b>Liabilities of disposal group</b>	<b>Total</b>
Beginning balance	₩ 47,166	₩ 9,055	₩ -	₩ -	₩ 56,221
Reclassification	-	-	59,532	(18,957)	40,575
Disposal	-	(84)	-	-	(84)
Ending balance	<u>₩ 47,166</u>	<u>₩ 8,971</u>	<u>₩ 59,532</u>	<u>₩ (18,957)</u>	<u>₩ 96,712</u>

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

During 2021, 60% shares of Verescence Pacific, Inc., a subsidiary, (a part of other business) were sold, and the details of assets and liabilities of disposal group classified as held-for-sale as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2020</b>
<b>Assets of disposal group</b>	
Property, plant and equipment and intangible assets	₩ 34,663
Cash and cash equivalents	12,098
Inventory	6,419
Trade and other receivables	2,299
Other assets	4,053
	<u>₩ 59,532</u>
<b>Liabilities of disposal group</b>	
Borrowings	10,300
Trade payables and other payables	6,862
Provisions and contract liabilities	546
Other payables	1,249
	<u>₩ 18,957</u>

The assets and liabilities classified as held-for-sale are measured in accordance with K-IFRS 1105.

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**15. Other Assets**

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

<i>(in millions of Korean won)</i>	2021		2020	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 1,205	₩ -	₩ 940	₩ -
Advance payments	22,477	-	29,078	-
Prepaid expenses	29,350	13,970	32,993	19,076
Prepaid value added tax	2,731	-	5,217	-
Others	2,761	-	6,043	-
	₩ 58,524	₩ 13,970	₩ 74,271	₩ 19,076

**16. Borrowings**

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

<i>(in millions of Korean won, in EUR, USD, JPY, HKD, INR, AUD, AED, PHP, CAD)</i>	Creditor	Interest rate(%), December 31, 2021	2021	2020
<b>Short-term borrowings</b>				
Bank overdrafts of EUR - (2020: EUR 1,900,594)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.80	₩ -	₩ 2,543
Bank overdrafts of EUR 4,281,575 (2020: EUR 3,919,826)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.60	5,747	5,246
Loans for working capital of USD - (2020: USD 33,500,000)	Citibank N.A	Term SOFR + 0.90	-	36,449
Loans for working capital of USD 38,000,000 (2020: USD -)	DBS BANK LTD	LIBOR 3M + 0.85	45,049	-
Loans for working capital of JPY 1,700,000,000 (2020: JPY 1,700,000,000)	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Tibor1M + 0.2	17,514	17,922
Loans for working capital of EUR 7,000,000 (2020: EUR 7,000,000)	Citibank Europe PLC	MAX(EURIBOR 3M, 0) + 1.05	9,396	9,368
Loans for working capital of HKD 130,000,000 (2020: HKD 130,000,000)	DBS BANK LTD., HONG KONG BRANCH	HIBOR 3M + 0.85	19,764	18,245
Loans for working capital of EUR 3,000,000 (2020: EUR 3,000,000)	Citibank Europe PLC	MAX(EURIBOR 3M, 0) + 1.05	4,027	4,015
Loans for working capital of HKD 313,000,000 (2020: HKD 313,000,000)	CITI N.A HONG KONG	1.4	47,585	43,929
Loans for working capital of EUR 5,000,000 (2020: EUR 3,000,000)	KEB Hana Bank Paris Branch	MAX(EURIBOR 3M, 0) + 0.88	6,712	4,015

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<i>(in millions of Korean won, in EUR, USD, JPY, HKD, INR, AUD, AED, PHP, CAD)</i>	<b>Creditor</b>	<b>Interest rate(%), December 31, 2021</b>	<b>2021</b>	<b>2020</b>
Loans for working capital of AUD 7,000,000 (2020: AUD 7,000,000)	Citibank N.A. Sydney Branch	BBSY 3M + 0.80	6,012	5,856
Loans for working capital of AED 1,500,000 (2020: AED 1,500,000)	Citibank N.A. United Arab Emirates	EIBOR 3M + 1.90	484	444
Loans for working capital of AED 1,600,000 (2020: AED -)	Citibank N.A. United Arab Emirates	EIBOR 3M + 1.20	517	-
Loans for working capital of INR 45,000,000 (2020: INR 70,000,000)	Citibank India	1M T Bill + 2.81	717	1,040
Loans for working capital of USD 5,300,000 (2020: USD 4,000,000)	Citibank N.A. Indonesia	LIBOR 3M +1.25	6,251	4,379
Loans for working capital of CAD 3,000,000 (2020: CAD -)	Citibank N.A. Canadian Branch	CDOR 3M + 1.20	2,792	-
Loans for working capital of PHP 83,000,000 (2020: PHP -)	Citibank N.A. Philippine Branch	2.89	1,928	-
Loans for working capital of USD 1,800,000 (2020: USD -)	Citibank Berhad	3M USD COF + 1.50	2,129	-
Facility loans	Korea Development Bank	2.01	5,600	6,300
Loans for working capital	Korea Development Bank	2.04	2,000	8,000
Facility loans	Korea Development Bank	-	-	6,300
Loans for working capital	Korea Development Bank	-	-	1,000
Loans for working capital	Korea Development Bank	-	-	3,000
Loans for working capital	BNP Paribas S.A.	1.25	6,000	-
Loans for working capital	Woori Bank	-	-	6,000
Facility loans	Korea Development Bank	2.01	16,000	48,000
Loans for working capital	Korea Development Bank	2.11	31,000	22,000
Loans for working capital	Woori Bank	2.88	10,000	10,000
Loans for working capital	BNP Paribas S.A.	1.35	2,000	-
Loans for working capital	Korea Development Bank	2.21	5,000	1,000
Loans for working capital	Woori Bank	-	-	2,000
Loans for working capital	BNP Paribas S.A.	1.36	3,000	-
Bank overdrafts	Woori Bank	4.62	-	209
Other loans	Nara Technology Corporation	4.60	500	500
			<u>₩ 257,724</u>	<u>₩ 267,760</u>
Liabilities of disposal group			<u>-</u>	<u>(10,300)</u>
			<u>₩ 257,724</u>	<u>₩ 257,460</u>

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**17. Provisions**

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

<i>(in millions of Korean won)</i>	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	₩	-	₩	6,962	₩	1,169	₩	2,162	₩	10,293	₩	9,609	₩	10,952	₩	20,561
Increase		3,131		1,000		2,148		168		6,447		15		215		230
Decrease		(2,912)		(205)		(36)		(2,215)		(5,368)		(4,778)		(4,108)		(8,886)
Reclassification		(67)		(106)		-		-		(173)		-		-		-
Exchange differences		-		-		-		79		79		-		576		576
Ending balance	₩	152	₩	7,651	₩	3,281	₩	194	₩	11,278	₩	4,846	₩	7,635	₩	12,481

<i>(in millions of Korean won)</i>	2020															
	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	₩	2,786	₩	7,737	₩	2,112	₩	1,908	₩	14,543	₩	9,231	₩	12,178	₩	21,409
Increase		-		199		98		1,534		1,831		661		165		826
Decrease		(2,866)		(718)		(1,240)		(1,225)		(6,049)		(56)		(2,393)		(2,449)
Reclassification		-		(269)		199		-		(70)		(227)		(199)		(426)
Exchange differences		80		13		-		(55)		38		-		1,201		1,201
Ending balance	₩	-	₩	6,962	₩	1,169	₩	2,162	₩	10,293	₩	9,609	₩	10,952	₩	20,561

**18. Contract Liabilities**

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

<i>(in millions of Korean won)</i>	2021					
	Customer loyalty program	Advances from customers	Total			
Beginning balance	₩	31,462	₩	15,568	₩	47,030
Decrease		(6,460)		(88)		(6,548)
Ending balance	₩	25,002	₩	15,480	₩	40,482

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	2020					
	Customer loyalty program		Advances from customers		Total	
Beginning balance	₩	38,123	₩	19,259	₩	57,382
Decrease		(6,661)		(3,691)		(10,352)
Ending balance	₩	31,462	₩	15,568	₩	47,030

**19. Other Liabilities**

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

(in millions of Korean won)	2021		2020	
	Current	Non-current	Current	Non-current
Withholdings	₩ 40,252	₩ -	₩ 28,393	₩ -
Value added tax withheld	43,582	-	17,482	-
Advances from customers	4,564	-	18,325	-
Deposits received	10,156	11,097	4,761	12,835
Accrued expenses	175,412	427	170,390	587
Dividends payable	534	-	511	-
Refund liabilities	8,145	-	8,255	-
Others	5,379	12,786	5,480	54
	₩ 288,024	₩ 24,310	₩ 253,597	₩ 13,476

**20. Post-employment Benefits**

**20.1 Defined Benefit Plan**

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

(in millions of Korean won)	2021		2020	
Present value of funded defined benefit obligations	₩	440,543	₩	406,944
Present value of unfunded defined benefit obligations		4,059		3,832
Total		444,602		410,775
Fair value of plan assets <sup>1</sup>		(550,136)		(541,822)
Net defined benefit liabilities (assets)	₩	(105,534)	₩	(131,046)

<sup>1</sup> The contributions to the National Pension Fund of ₩ 62 million are included in the fair value of plan assets as at December 31, 2020.

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Beginning balance	₩ 410,776	₩ 397,365
Current service cost	35,801	43,156
Interest expense	10,818	12,083
Remeasurements:		
Actuarial loss from change in demographic assumptions	718	-
Actuarial loss (gain) from change in financial assumptions	41,406	(23,524)
Actuarial loss from experience adjustments	26,460	4,736
Exchange differences	25	72
Payments from plans:		
Benefit payments	(81,260)	(15,689)
Others <sup>1</sup>	(142)	(7,423)
Ending balance	<u>₩ 444,602</u>	<u>₩ 410,776</u>

<sup>1</sup> In 2020, the Group classified ₩ 7,423 million as assets held-for-sale (Note 14).

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Beginning balance	₩ 541,822	₩ 522,972
Interest income	15,052	16,218
Remeasurements:		
Return on plan assets	(5,750)	(5,989)
Contributions:		
Employers	80,160	33,420
Payments from plans:		
Benefit payments	(81,188)	(15,733)
Others <sup>1</sup>	40	(9,066)
Ending balance <sup>2</sup>	<u>₩ 550,136</u>	<u>₩ 541,822</u>

<sup>1</sup> In 2020, the Group classified ₩ 9,066 million as assets held-for-sale (Note 14).

<sup>2</sup> As at December 31, 2021, the obligation to pay has been confirmed, but the unpaid amount has been included in the Benefit payments.



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

	<b>2021</b>	<b>2020</b>
Discount rate	3.34~4.05%	2.73~3.58%
Salary growth rate	4.0%	2.10%

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

	<b>Impact on defined benefit obligation</b>		
	<b>Changes in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
Discount rate	1.00%P	6.55% decrease	7.43% increase
Salary growth rate	1.00%P	7.34% increase	6.60% decrease

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

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant; however, in practice, multiple assumptions fluctuate in conjunction with each other. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

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

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

*(in millions of Korean won)*

	<b>2021</b>		<b>2020</b>	
	<b>Unquoted price</b>	<b>Composition (%)</b>	<b>Unquoted price</b>	<b>Composition (%)</b>
Deposits	₩ 550,136	100.0	₩ 541,760	99.9
National Pension Fund	-	-	62	0.1
	<u>₩ 550,136</u>	<u>100.0</u>	<u>₩ 541,822</u>	<u>100.0</u>

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

<i>(in millions of Korean won)</i>	<b>Less than 1 year <sup>1</sup></b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Between 5 and 10 years</b>	<b>Total</b>
Pension benefits	₩ 49,794	₩ 60,317	₩ 137,165	₩ 269,388	₩ 516,664

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

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

Expected contributions to post-employment benefit plans for the year ending December 31, 2022 are ₩ 52,137 million (2020: ₩ 46,642 million).

**20. 2 Defined Contribution Plan**

The expense recognized in the current period in relation to defined contribution plan was ₩ 532 million (2020: ₩ 584 million).

**21. Share Capital and Share Premium**

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Ordinary shares	₩	41,229	₩	41,229
Preferred shares <sup>1</sup>		6,768		6,768
	₩	47,997	₩	47,997

<sup>1</sup> The types and contents of preferred shares issued by the Group as at December 31, 2021 are as follows:

<b>Type</b>	<b>Dividend rate</b>	<b>Number of shares</b>	<b>Remarks</b>
Preferred shares	Ordinary share dividend rate+1%	6,443,770	Non-participating, Non-cumulative
Convertible preferred shares <sup>1</sup>	Preferred share dividend rate <sup>2</sup>	7,092,200	Participating, cumulative

<sup>1</sup> Convertible preferred share newly issued in 2019 were issued with a par value of ₩ 500 and an issue price of ₩ 33,350. After 10 years of issuance, they will be converted into ordinary shares of AMOREPACIFIC Group, Inc. (7,092,200 shares to be issued after conversion). (However, if the prescribed dividend is not paid during that period, the period will be extended until the prescribed

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dividend is paid.)

<sup>2</sup> The preferential dividend of the newly issued convertible preferred shares shall be calculated by multiplying the par value by the preferential dividend rate, and the preferential dividend rate shall be as follows:

2019.01.01 ~ 12.31 : (issue price per share / par value per share) X 2.50%
2020.01.01 ~ 12.31 : (issue price per share / par value per share) X 2.25%
2021.01.01 ~ : (issue price per share / par value per share) X 2.00%

However, if the dividend calculated according to the above preferential dividend rate after January 1, 2019 is less than the dividend of ₩ 15 added to the dividend per share of ordinary shares, the dividend of ₩ 15 added to the dividend per share of ordinary shares shall be the preferred dividend per share of new shares.

Changes in share capital and share premium for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>Ordinary shares</b>		<b>Preferred shares</b>		<b>Share premium</b>		<b>Total</b>	
At January 1, 2020	₩	41,229	₩	6,768	₩	903,711	₩	951,708
At December 31, 2020		41,229		6,768		903,711		951,708
At January 1, 2021		41,229		6,768		903,711		951,708
At December 31, 2021	₩	41,229	₩	6,768	₩	903,711	₩	951,708

**22. Other Components of Equity and Accumulated Other Comprehensive Income**

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Treasury shares <sup>1</sup>	₩	(189,700)	₩	(189,699)
Share-based payments <sup>2</sup>		930		-
Capital adjustments		(6,333)		(6,333)
	₩	(195,103)	₩	(196,032)

<sup>1</sup> Represents 6,208,915 ordinary shares (2020: 6,208,913 shares) and 62,463 preferred shares of treasury shares (2020: 62,462 shares) as at December 31, 2021 and 2020.

<sup>2</sup> Recognized as compensation for labor services for employees.

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Loss on valuation of financial assets at fair value through other comprehensive income	₩	(5,462)	₩	(5,938)
Exchange differences on transaction of foreign operations		3,545		(7,009)
Share of other comprehensive income of associates		<u>(645)</u>		<u>(700)</u>
	₩	<u>(2,562)</u>	₩	<u>(13,647)</u>

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

<i>(in millions of Korean won)</i>	<b>2021</b>				
	<b>Beginning balance</b>	<b>Increase</b>	<b>Reclassification to retained earnings</b>	<b>Transfer to non-controlling interest</b>	<b>Ending balance</b>
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩ (5,938)	₩ 308	₩ 274	₩ (106)	₩ (5,462)
Exchange differences on transaction of foreign operations	(7,009)	31,359	-	(20,806)	3,545
Share of other comprehensive income of associates	(700)	227	-	(172)	(645)
	₩ (13,647)	₩ 31,895	₩ 274	₩ (21,084)	₩ (2,562)

<i>(in millions of Korean won)</i>	<b>2020</b>				
	<b>Beginning balance</b>	<b>Increase (decrease)</b>	<b>Reclassification to retained earnings</b>	<b>Transfer to non-controlling interest</b>	<b>Ending balance</b>
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩ (5,719)	₩ (429)	₩ -	₩ 210	₩ (5,938)
Exchange differences on transaction of foreign operations	(8,521)	5,356	-	(3,843)	(7,009)
Share of other comprehensive income of associates	(743)	142	-	(98)	(700)
	₩ (14,983)	₩ 5,068	₩ -	₩ (3,732)	₩ (13,647)

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

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**23. Share-based Payments**

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

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

(in millions of Korean won)		Recognized expenses in 2021	Basis for selection
Long-term executive incentive	₩	5,736	Calculated the number of shares to be paid by estimating the rate of achievement of mid-term and long-term performance goals (2019~2021) for executives
Other long-term employee benefits		3,743	Estimation based on actuarial valuation
Rewards for purchase of treasury shares		7,658	5% of growth profit based on management accounting standards
	₩	<u>17,137</u>	

<sup>1</sup> Share compensation expenses for subsidiaries' shares granted to employees of subsidiaries are classified as changes in non-controlling interests.

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**24. Retained Earnings**

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Legal reserves <sup>1</sup>	₩	28,615	₩	26,826
Discretionary reserves		739,337		824,507
Retained earnings before appropriation		<u>1,993,913</u>		<u>1,780,574</u>
	₩	<u>2,761,864</u>	₩	<u>2,631,907</u>

<sup>1</sup> 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 equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

**25. Dividends**

The dividends paid in 2021 and 2020, are as follows:

	<b>2021</b>			<b>2020</b>		
	<b>Ordinary shares</b>	<b>Preferred shares</b>	<b>Convertible preferred shares</b>	<b>Ordinary shares</b>	<b>Preferred shares</b>	<b>Convertible preferred shares</b>
Dividends paid	₩ 17,537 million	₩ 1,500 million	₩ 5,326 million	₩ 22,875 million	₩ 1,946 million	₩ 5,915 million
Dividends per share (in Korea won)	230	235	751	300	305	834

Dividends in respect of the year ended December 31, 2021, of ₩ 450 per ordinary share and ₩ 455 per preferred share, ₩ 667 per convertible preferred shares amounting to a total dividend of ₩ 34,312 million on ordinary shares, ₩ 2,903 million on preferred shares and ₩ 4,730 million on convertible preferred shares are to be proposed at the annual general shareholders' meeting on March 24, 2022. These financial statements do not reflect these dividend payables.

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**26. Tax Expense and Deferred Tax**

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Current tax <sup>1</sup>	₩	140,000	₩	36,026
Deferred tax		<u>(2,405)</u>		<u>(26,789)</u>
Income tax expense	₩	<u>137,595</u>	₩	<u>9,237</u>

<sup>1</sup> The Group determined that Advance Pricing Arrangement (APA) between Korean and China, applied to tax authorities, was probable to be agreed by both tax authorities. Accordingly, the Group adjusted and reflected ₩ 20,347 million in the current tax, based on uncertainty of income tax treatments.

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Profit before income tax expense	₩	<u>429,574</u>	₩	<u>31,284</u>
Tax at domestic tax rates applicable to profits in the respective countries	₩	106,019	₩	6,370
Tax effects of:				
Income not subject to tax		(8,158)		(1,808)
Expenses not deductible for tax purposes		14,732		10,193
Changes in previously unrecognized deferred tax		8,516		17,093
Tax credits		(1,987)		(1,394)
Adjustments in respect of prior years		23,477		(17,186)
Others		<u>(5,004)</u>		<u>(4,031)</u>
Income tax expense	₩	<u>137,595</u>	₩	<u>9,237</u>

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

<i>(in millions of Korean won)</i>	2021			2020		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Loss on valuation of available-for-sale assets	₩ 405	₩ (97)	₩ 308	₩ (555)	₩ 126	₩ (429)
Remeasurements	(74,333)	16,700	(57,633)	12,799	(2,723)	10,076
Share of other comprehensive income of associates	227	-	227	142	-	142
Exchange differences on transaction of foreign operations	31,359	-	31,359	5,356	-	5,356
	<u>₩ (42,342)</u>	<u>₩ 16,603</u>	<u>₩ (25,739)</u>	<u>₩ 17,742</u>	<u>₩ (2,597)</u>	<u>₩ 15,145</u>

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

<i>(in millions of Korean won)</i>	2021	2020
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 191,250	₩ 155,049
Deferred tax asset to be recovered within 12 months	82,169	71,400
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(306,959)	(284,552)
Deferred tax liability to be recovered within 12 months	(2,352)	(3,750)
Deferred tax liabilities, net	<u>₩ (35,892)</u>	<u>₩ (61,853)</u>



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

(in millions of Korean won)

	2021				
	Beginning balance	Statement of profit or loss	Other comprehensive income	Exchange differences	Ending balance
Deferred tax assets(liabilities)					
Trade receivables	₩ 3,323	₩ (2,463)	₩ -	₩ 191	₩ 1,051
Inventories	17,849	2,220	-	119	20,188
Lease liabilities	646	28,183	-	929	29,758
Property, plant and equipment	(64,485)	7,870	-	532	(56,083)
Intangible assets	(3,492)	1,585	-	(244)	(2,151)
Financial assets at fair value through other comprehensive income	2,226	606	(97)	-	2,735
Investments in subsidiaries	(20,268)	(770)	-	(79)	(21,117)
Contract liabilities	7,320	(1,654)	-	308	5,974
Retirement benefit obligations	68,177	204	15,442	2	83,825
Accrued expenses	36,161	3,969	-	4,333	44,463
Tax loss carryforwards	21,028	(17,190)	-	1,157	4,995
Plain assets	(110,138)	(9,688)	1,258	-	(118,568)
Right-of-use assets	(171)	(20,350)	-	(597)	(21,118)
Others	(20,029)	9,883	-	301	(9,845)
	<u>₩ (61,853)</u>	<u>₩ 2,405</u>	<u>₩ 16,603</u>	<u>₩ 6,952</u>	<u>₩ (35,893)</u>

(in millions of Korean won)

	2020					
	Beginning balance	Statement of profit or loss	Other comprehensive income	Exchange differences	Others <sup>1</sup>	Ending balance
Deferred tax assets(liabilities)						
Trade receivables	₩ 2,089	₩ 1,354	₩ -	₩ (33)	₩ (87)	₩ 3,323
Inventories	21,428	(3,577)	-	(2)	-	17,849
Lease liabilities	57,960	(58,469)	-	1,174	(19)	646
Property, plant and equipment	(78,463)	16,535	-	(24)	(2,533)	(64,485)
Intangible assets	(4,408)	978	-	(62)	-	(3,492)
Financial assets at fair value through other comprehensive income	2,880	(780)	126	-	-	2,226
Investments in subsidiaries	(22,771)	2,455	-	48	-	(20,268)
Contract liabilities	8,546	(1,221)	-	(5)	-	7,320
Retirement benefit obligations	75,732	(2,040)	(4,172)	17	(1,360)	68,177
Accrued expenses	32,993	2,998	-	170	-	36,161
Tax loss carryforwards	12,910	8,312	-	(194)	-	21,028
Plain assets	(118,230)	4,858	1,449	-	1,785	(110,138)
Right-of-use assets	(56,789)	57,729	-	(1,134)	23	(171)
Others	(17,351)	(2,343)	-	(155)	(181)	(20,029)
	<u>₩ (83,474)</u>	<u>₩ 26,789</u>	<u>₩ (2,597)</u>	<u>₩ (200)</u>	<u>₩ (2,372)</u>	<u>₩ (61,853)</u>

<sup>1</sup> During 2020, the Group classified ₩ 2,372 million as assets held-for-sale (Note 14).

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Deferred income tax assets are recognized for tax loss and credit 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 ₩ 487,307 million in respect of losses that can be carried forward against future taxable income.

The maturity of unused tax losses are as follows:

<i>(in millions of Korean won)</i>	<b>Tax losses</b>	
2022 ~ 2023	₩	2,753
2024 ~ 2038		191,854
No maturity		292,700
	₩	<u>487,307</u>

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Taxable temporary differences	₩	(267,050)	₩	(190,931)
Deductible temporary differences		123,656		104,454
	₩	<u>(143,394)</u>	₩	<u>(86,477)</u>

**27. Revenue**

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Sales of goods	₩	5,263,823	₩	4,884,626
Rendering of services		33,796		22,943
Others				
Rental income		20,019		19,979
Royalty income		107		5
Others		8,335		2,530
		<u>28,461</u>		<u>22,514</u>
	₩	<u>5,326,080</u>	₩	<u>4,930,083</u>

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**28. Breakdown of Expenses by Nature**

Breakdown of expenses by nature for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Changes in inventories	₩ (64,367)	₩ 46,096
Purchase of raw materials and merchandise	1,123,292	976,001
Employee benefit expense	911,072	915,635
Depreciation and amortization <sup>1</sup>	414,468	533,971
Advertising expense	660,735	567,555
Service fees	553,892	537,087
Distribution commission	866,205	778,242
Other expenses	504,613	424,834
Total <sup>2</sup>	<u>₩ 4,969,909</u>	<u>₩ 4,779,422</u>

<sup>1</sup> Depreciation of investment properties and right-of-use assets is included.

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

**29. Selling and Administrative Expenses**

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Salaries and post-employment benefits	₩ 638,226	₩ 644,639
Employee benefits	96,999	108,049
Advertising expense	660,735	567,555
Depreciation and amortization <sup>1</sup>	326,104	436,549
Service fees	452,948	447,572
Distribution commission	866,205	778,242
Freight expense	133,486	121,298
Taxes and dues	30,163	33,509
Research and development	105,555	91,006
Other	197,922	179,878
	<u>₩ 3,508,343</u>	<u>₩ 3,408,297</u>

<sup>1</sup> Depreciation of investment properties and right-of-use assets is included.

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**30. Finance Income and Costs**

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Finance income		
Interest income	₩ 9,060	₩ 10,726
Interest income - others	1,235	1,255
Gain on valuation and disposal of financial assets at fair value through profit or loss	10,605	11,243
Gain on valuation of financial liabilities	161	-
	<u>₩ 21,061</u>	<u>₩ 23,224</u>
Finance costs		
Interest expense	₩ (4,670)	₩ (4,057)
Interest expense - others	(9,653)	(18,856)
	<u>₩ (14,323)</u>	<u>₩ (22,913)</u>

**31. Other Non-operating Gains / (Losses)**

Other non-operating gains / (losses) for the years ended December 31, 2021 and 2020, consist of:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Other non-operating income		
Gain on foreign currency transactions	₩ 39,030	₩ 53,050
Gain on foreign currency translation	8,505	9,122
Gain on disposal of property, plant and equipment	1,042	5,947
Gain on disposal of intangible assets	251	348
Gain on disposal of right-of-use assets	1,147	15,828
Gain on disposal of non-current assets held-for-sale	95,566	76
Dividend income	96	196
Others	37,523	27,930
	<u>183,160</u>	<u>112,498</u>
Other non-operating expenses		
Loss on foreign currency transactions	(12,258)	(62,283)
Loss on foreign currency translation	-	(19,562)
Loss on disposal of property, plant and equipment	(11,392)	(20,286)
Impairment loss on property, plant and equipment	(11,359)	(7,368)
Loss on disposal of intangible assets	(1,334)	(2,710)
Impairment loss on intangible assets	(594)	(10,489)

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<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Loss on disposal of investment property	(2,077)	-
Impairment loss on investment property	-	(3,716)
Loss on disposal of right-of-use assets	(245)	(6,261)
Impairment loss on right-of-use assets	(50,143)	(42,787)
Donations	(13,980)	(14,416)
Others	(18,775)	(43,685)
	<u>(122,155)</u>	<u>(233,564)</u>
	<u>₩ 61,004</u>	<u>₩ (121,065)</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 (Note 22).

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Profit attributable to owners of the Parent Company	₩ 179,995	₩ 10,381
Profit attributable to ordinary shares	151,630	5,655
Weighted average number of ordinary shares outstanding (unit: shares)	76,249,265	76,249,267
Basic earnings per ordinary share (in Korean won)	1,989	74

Basic earnings per preferred share<sup>1</sup> for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Profit attributable to owners of the Parent Company	₩ 179,995	₩ 10,381
Profit attributable to preferred shares	12,722	505
Weighted average number of preferred shares outstanding (unit: shares)	6,381,307	6,381,309
Basic earnings per preferred share (in Korean won)	1,994	79

<sup>1</sup> The preferred share is determined as an ordinary share with a different dividend rate (annually 1% additional dividends) from other types of ordinary share and therefore, it is included in calculation of basic earnings per share.

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

<i>(in millions of Korean won and in shares)</i>	<b>2021</b>	<b>2020</b>
Profit attributable to the ordinary equity holders of the Parent Company	₩ 179,995	₩ 10,381
Profit attributable to ordinary shares	151,630	5,655
Weighted average number of diluted ordinary shares outstanding (unit: shares)	<u>76,266,900</u>	<u>76,249,267</u>
Diluted earnings per ordinary shares (in Korean won) <sup>1</sup>	<u>₩ 1,988</u>	<u>₩ 74</u>

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

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

<i>(in shares)</i>	<b>2021</b>	<b>2020</b>
Weighted average number of ordinary shares outstanding	76,249,265	76,249,267
Exercise effect of share-based compensation <sup>1</sup>	<u>17,635</u>	<u>-</u>
Weighted average number of diluted ordinary shares outstanding	<u>76,266,900</u>	<u>76,249,267</u>

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has a dilutive potential ordinary share: convertible preferred shares. The convertible preferred shares is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the dividend and the net profit belong to the convertible preferred shares. Since there is no dilutive potential ordinary shares in 2021, diluted earnings per share is identical to the earnings per share.

The Group did not issue any potential preferred shares; thus, basic earnings per share is identical to diluted earnings per share for the years ended December 31, 2021 and 2020.

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**33. Cash Generated from Operations**

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Profit for the year	₩ 291,979	₩ 22,048
Adjustments for:	601,980	716,953
Finance cost, net	3,844	10,932
Loss (gain) on foreign currency translation, net	(8,505)	10,441
Depreciation and amortization <sup>1</sup>	414,560	534,159
Loss on disposal of property, plant and equipment and intangible assets	11,433	16,700
Impairment loss on property, plant and equipment and intangible assets	11,640	17,857
Gain on disposal of right-of-use assets	(902)	(9,567)
Impairment loss on right-of-use assets	50,456	42,787
Loss on disposal of investment property	2,075	-
Impairment loss on investment property	-	3,716
Gain on disposal of non-current assets held-for-sale	(107,133)	(76)
Gain on valuation of financial assets at fair value through profit or loss	(8,986)	(11,243)
Income tax expense	137,595	9,237
Share of profit of associates	(5,660)	(1,376)
Share-based payments for employees	16,984	-
Post-employment benefits	31,568	39,021
Loss on valuation and disposal of inventories	58,231	45,167
Others	(5,220)	9,198
Changes in assets and liabilities from operating activities	(101,325)	63,026
Decrease (increase) in trade receivables	(15,318)	73,796
Decrease in other receivables	838	6,666
Decrease (increase) in inventories	(123,011)	928
Decrease in other assets	29,664	8,416
Increase (decrease) in trade payables	22,055	(23,500)
Increase in other payables	39,727	25,893
Decrease in provisions	(7,358)	(5,934)
Increase in other liabilities	38,858	20,488
Decrease in contract liabilities	(6,548)	(10,351)
Benefits payment	(81,260)	(15,689)
Decrease (increase) in plan assets	1,028	(17,687)
Cash generated from operations	<u>₩ 792,634</u>	<u>₩ 802,027</u>

<sup>1</sup> Depreciation of investment properties and right-of-use assets is included.

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Significant transactions not affecting cash flows for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Reclassification of construction in-progress to property, plant and equipment	₩ 8,741	₩ 39,921
Reclassification of construction in-progress to Intangible assets	12,945	17,054
Reclassification of right-of-use assets to investment property	-	(783)
Reclassification of property, plant and equipment to investment property	34,142	(30,128)
Reclassification of property, plant and equipment to assets held-for-sale	4,066	40,575
Increase in right-of-use as recognition of lease liabilities	69,183	(5,603)
Changes in non-trade payables related to the acquisition of property, plant and equipment and intangible assets	19,893	21,669

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

<i>(in millions of Korean won)</i>	<b>Short-term borrowings</b>	<b>Current portion of long-term borrowings<sup>1</sup></b>	<b>Long-term borrowings</b>	<b>Lease liabilities</b>	<b>Total</b>
At January 1, 2020	₩ 157,605	₩ 46,531	₩ -	₩ 609,830	₩ 813,966
Lease agreements	-	-	-	(2,609)	(2,609)
Cash flows (interest expenses)	-	-	-	(18,828)	(18,828)
Cash flows	119,281	(49,003)	-	(250,381)	(180,103)
Exchange differences	(9,126)	2,472	-	(1,329)	(7,983)
Others	(10,300)	-	-	-	(10,300)
At December 31, 2020	<u>₩ 257,460</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 336,683</u>	<u>₩ 594,143</u>
At January 1, 2021	₩ 257,460	₩ -	₩ -	336,683	₩ 594,143
Lease agreements	-	-	-	53,902	53,902
Cash flows (interest expenses)	-	-	-	(9,627)	(9,627)
Cash flows	(8,796)	-	-	(176,295)	(185,091)
Exchange differences	9,060	-	-	16,941	26,001
At December 31, 2021	<u>₩ 257,724</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 221,603</u>	<u>₩ 479,327</u>

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



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**34. Commitments and Contingencies**

Significant commitments entered into with financial institutions at the end of reporting period are as follows:

<i>(in millions of Korean won and thousands of USD, EUR, HKD, JPY, AUD, CAD, AED, INR and PHP)</i>		Financial institution	Commitment	2021		2020	
				Limit	Outstanding balance	Limit	Outstanding balance
AMOREPACIFIC CORPORATION	Woori Bank	Electronic loan agreement	₩ 6,000	₩ 30	₩ 4,300	₩ 83	
		Letter of credit	USD 3,000	-	USD 4,000	USD 277	
Etude Corporation	Korea Development Bank	Operating fund loan agreement	35,000	31,000	35,000	22,000	
	Woori Bank	Operating fund loan agreement	17,000	10,000	10,000	10,000	
Espoir Corporation	Woori Bank	Corporate working capital loan agreement	-	-	2,000	2,000	
	BNP Paribas S.A.	Corporate working capital loan agreement	2,000	2,000	-	-	
	BNP Paribas S.A.	Corporate working capital loan agreement	3,000	3,000	-	-	
AMOS Professional Corporation	Korea Development Bank	Operating fund loan agreement	5,000	5,000	5,000	1,000	
	Woori Bank	Electronic loan agreement	1,000	-	-	-	
AESTURA Corporation <sup>1</sup>	Woori Bank	Electronic loan agreement	-	-	3,000	33	
	Woori Bank	Overdraft	-	-	3,000	-	
Verescence Pacific, Inc. <sup>2</sup>	Korea Development Bank	Operating fund loan agreement	-	-	4,000	4,000	
	Korea Development Bank	Facility loan agreement	-	-	6,300	6,300	
	Woori Bank	Overdraft	-	-	1,000	-	
PACIFIC PACKAGE Corporation		Letter of credit	-	-	USD 1,000	-	
	Korea Development Bank	Operating fund loan agreement	9,000	2,000	9,000	8,000	
COSVISION CO., LTD.	Korea Development Bank	Facility loan agreement	5,600	5,600	6,300	6,300	
	Korea Development Bank	Facility loan agreement	42,000	16,000	48,000	48,000	

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(in millions of Korean won and thousands of USD, EUR, HKD, JPY, AUD, CAD, AED, INR and PHP)	Financial institution	Commitment	2021		2020	
			Limit	Outstanding balance	Limit	Outstanding balance
	BNP Paribas S.A.	Corporate working capital loan agreement	10,000	6,000	-	-
	Woori Bank	Corporate working capital loan agreement	-	-	10,000	6,000
Core Technology Corporation.	Woori Bank	Overdraft	450	-	500	209
	CITI N.A HONG KONG	Short-term borrowings	HKD 313,000	HKD 313,000	HKD 313,000	HKD 313,000
Amorepacific Global Operations Limited.	DBS BANK LTD., HONG KONG BRANCH	Short-term borrowings	HKD 220,000	HKD 130,000	HKD 220,000	HKD 130,000
	CITY N.A HONG KONG	Overdraft	USD 10,000	-	USD 10,000	-
AMOREPACIFIC Hong Kong Co., Limited	Hang Seng Bank	Overdraft and others	HKD 10,000	-	HKD 15,000	-
	Bank of East Asia	Overdraft	HKD 10,000	-	HKD 10,000	-
AMOREPACIFIC Japan CO., LTD	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Short-term borrowings t	JPY 2,000,000	JPY 1,700,000	JPY 2,000,000	JPY 1,700,000
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 2,000	EUR 1,901
	KEB Hana Bank Paris Branch	Overdraft	EUR 6,000	EUR 4,282	EUR 6,000	EUR 3,920
Annick Goutal S.A.S	Citibank Europe PLC	Short-term borrowings	EUR 3,000	EUR 3,000	EUR 3,000	EUR 3,000
	KEB Hana Bank Paris Branch	Short-term borrowings	EUR 5,000	EUR 5,000	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 45,200	USD 33,500
	DBS BANK LTD	Short-term borrowings	USD 50,000	USD 38,000	-	-
Amorepacific Canada Inc	Citibank N.A. Canadian Branch	Short-term borrowings	CAD 5,100	CAD 3,000	CAD 4,000	-
	Citibank N.A. United Arab Emirates	Short-term borrowings	AED 1,500	AED 1,500	AED 1,500	AED 1,500
Amorepacific ME FZ-LLC	Citibank N.A. United Arab Emirates	Short-term borrowings	AED 1,600	AED 1,600	-	-
Innisfree Cosmetics India	Citibank N.A.	Short-term	INR 70,000	INR 45,000	INR 70,000	INR 70,000

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(in millions of Korean won and thousands of USD, EUR, HKD, JPY, AUD, CAD, AED, INR and PHP)	Financial institution	Commitment	2021		2020	
			Limit	Outstanding balance	Limit	Outstanding balance
PVT LTD	India	borrowings				
PT. LANEIGE INDONESIA PACIFIC	Citibank N.A.	Short-term borrowings	USD 5,300	USD 5,300	USD 4,000	USD 4,000
AMOREPACIFIC Philippines Co.,LTD	Citibank N.A. Philippine Branch	Short-term borrowings	PHP 90,000	PHP 83,000	PHP 23,000	-
AMOREPACIFIC MALAYSIA SDN. BHD.	Citibank Berhad	Short-term borrowings	USD 1,800	USD 1,800	-	-

<sup>1</sup> During 2021, it was merged into AMOREPACIFIC CORPORATION, a subsidiary.

<sup>2</sup> On July 2021, the entity's name of PACIFICGLAS, Inc. has changed to Verescence Pacific, Inc., and was excluded from the scope of consolidation during the year ended December 31, 2021.

Details of payment guarantees provided to the Group at the end of reporting period are as follows:

(in millions of Korean won)	Guaranteed by	Remark	2021		2020	
AMOREPACIFIC Corporation	Seoul Guarantee Insurance	Performance guarantees	₩	34,546	₩	50,526
Innisfree Corporation	Seoul Guarantee Insurance	Performance guarantees		90		94
Etude Corporation	Seoul Guarantee Insurance	Performance guarantees		45		40
AMOS Professional Corporation	Seoul Guarantee Insurance	Performance guarantees		5		-
Espoir Corporation	Seoul Guarantee Insurance	Performance guarantees		25		30
Osulloc	Seoul Guarantee Insurance	Performance guarantees		80		88
Verescence Pacific, Inc. <sup>1</sup>	Seoul Guarantee Insurance	Performance guarantees		-		150
PACIFIC PACKAGE Corporation	Seoul Guarantee Insurance	Performance guarantees		269		26
Osulloc Fam Co., Ltd.	Seoul Guarantee Insurance	Performance guarantees		100		99

<sup>1</sup> On July 2021, the entity's name of PACIFICGLAS, Inc. has changed to Verescence Pacific, Inc., and was excluded from the scope of consolidation for the year ended December 31, 2021.

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Details of payment guarantees provided by the Parent Company at the end of reporting period are as follows:

<i>(in millions of Korean won)</i>				
<b>Beneficiary</b>		<b>2021</b>	<b>Financial institution</b>	<b>Guarantee period</b>
Employee stock ownership association	₩	31,495	Korea Securities Finance Corp.	2019.12.5 ~ 2022.12.5

Restricted financial instruments in use at the end of the reporting period are as follows:

<i>(in millions of Korean won, thousands of RMB, HKD and USD)</i>					
	<b>Remark</b>		<b>2021</b>		<b>2020</b>
Current financial deposits	Collateral provided for borrowings of subsidiaries	₩	162,135	₩	159,478
Current financial deposits	Agreement of shared growth and cooperation		18,100		16,500
Non-current financial deposits	Deposit for checking account		31		34
Non-current financial deposits	Pledge as a collateral		500		500
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	Deposit for stores and offices in USA		USD 655		USD 655

PACIFIC PACKAGE Corporation and Taeshin Inpack Corporation, the surviving company, have joint and several guarantee obligation for outstanding payables (including contingent liabilities incurred before the spin-off date).

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

<i>(in millions of Korean won)</i>				
	<b>Number of cases</b>		<b>Litigation value</b>	<b>Remark</b>
The Group as a defendant	11	₩	433	Compensation for damages, injunction against patent infringement and others

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 the above cases cannot be reasonably estimated, and any outflows of resources and the timing are also uncertain. Therefore, the Group does not include the potential effects for the outcome of the cases in the consolidated financial statements as at December 31, 2021.

# AMOREPACIFIC Group, Inc. and Subsidiaries

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#### Major commitments

As at December 31, 2021, the Group has entered into a long-term lease agreements with external customers in relation to a new building located in Yongsan until March 2028.

During 2018, the Group has entered into the contract for to sell shares of Elastagen Pty Ltd. to Allergan Australia Pty Ltd.(Acquirer) which includes contingent consideration depends on launching new products(contingent consideration: for the United stated market USD 7,080 thousand, for the European market USD 3,540 thousand, Other market USD 1,062 thousand). Acquirer has a control to manage the business procedures and retains ability to complete conditions related to contingent consideration to be fulfilled, which means the Group has no substantial right to make an agreement to be accomplished. The fair value of the above contingent consideration cannot be reasonably estimated, and the Group will recognise above consideration as income when its requirements are met.

#### Investment agreement

The Group has entered into an investment agreement with Fernbrook Investment Association and TBT Global Growth Equity Fund No.2, and has an investment obligation amounting to USD 5.04 million and ₩ 17,820 million, respectively. As at December 31, 2021, the amount invested by the Group is USD 4.23 million and ₩ 14,850 million, respectively.

#### Sale of shares of subsidiaries:

The Group sold 60% of Verescence Pacific, Inc.'s shares to Verescence Luxembourg Perfumery Holdings SaRL (hereinafter referred to as 'Verescence') on February 26, 2021 (Note 11).

The Group has entered into a shareholder's agreement with Verescence and the details are as follows:

- Both companies are restricted for the shares for 10 years and prohibited for the transfer of shares to competitors.
- Verescence has a Right of First Refusal.
- AMOREPACIFIC Group Co., Ltd. has a Tag-Along Right.
- In certain cases, Verescence has a Drag-Along Right.

# **AMOREPACIFIC Group, Inc. and Subsidiaries**

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#### Acquisition of other company's shares

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

#### [Call Option]

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

#### [Tag Along Rights]

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

#### [Right of First Refusal]

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

#### [Drag Along Rights]

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

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

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**35. Related Party Transactions**

Details of the parents and subsidiaries as at December 31, 2021 and 2020, are as follows:

<b>Classification</b>	<b>Name</b>
Ultimate parent	Kyung- Bae Suh
Ultimate parent company in the preparation of consolidated financial statements for disclosure	AMOREPACIFIC Group, Inc.
Associates	BBDO Korea Inc. Verescence Pacific, Inc. <sup>1,2</sup> AP&M Beauty Fashion Joint Venture Smart AP-WE Untact Fund No. 1 Taiwan AMORE Co.,Ltd. Rationale Group Pty Ltd Partner One Value up 2 Private Equity Fund <sup>3</sup> COSRX INC <sup>4</sup>
Other related parties	Taeshin Inpack Corporation

<sup>1</sup> During 2021, 60% of Verescence Pacific, Inc.'s shares were sold, and the other 40% were reclassified as investments in associates.

<sup>2</sup> On July 2021, the entity's name of PACIFICGLAS, Inc. has changed to Verescence Pacific, Inc.

<sup>3</sup> During 2021, the Group newly acquired 29.7% of shares.

<sup>4</sup> During 2021, the Group newly acquired 40% of shares.

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

	2021							
	Sales	Dividend income	Acquisition of property, plant and equipment and intangible assets	Disposal of property, plant and equipment and intangible assets	Purchases	Other income	Other cost	
<i>(in millions of Korean won)</i>								
<b>Ultimate parent</b>								
Kyung-Bae Suh <sup>2</sup>	₩ -	₩ -	₩ -	₩ 2,693	₩ -	₩ -	₩ -	₩ -
<b>Associates</b>								
BBDO Korea Inc.	939	810	-	-	-	-	-	23,762
Verescence Pacific, Inc. <sup>1</sup>	245	-	360	-	54,553	33	-	-
<b>Other related party</b>								
Taeshin Inpack Corporation	-	-	-	-	12,915	-	4	-
	₩ 1,184	₩ 810	₩ 360	₩ 2,693	₩ 67,468	₩ 33	₩ 23,766	

<sup>1</sup> Only transactions after reclassification as associates are included.

<sup>2</sup> Dividends, salaries, bonuses, and post-employment benefits for the ultimate parent are included in fund transactions with related parties and the compensation for key management disclosed in Note 35.

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<i>(in millions of Korean won)</i>	2020			
	Sales	Purchases	Dividend income	Other cost
<b>Associates</b>				
BBDO Korea Inc.	₩ 908	₩ -	₩ 990	₩ 27,356
<b>Other related party</b>				
Taeshin Inpack Corporation	-	11,976	-	-
	<u>₩ 908</u>	<u>₩ 11,976</u>	<u>₩ 990</u>	<u>₩ 27,356</u>

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

<i>(in millions of Korean won)</i>	2021			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Associates</b>				
BBDO Korea Inc.	₩ -	₩ -	₩ -	₩ 5,960
Verescence Pacific, Inc.	23	3	5,283	467
<b>Other related party</b>				
Taeshin Inpack Corporation	-	-	500	-
	<u>₩ 23</u>	<u>₩ 3</u>	<u>₩ 5,783</u>	<u>₩ 6,427</u>

<i>(in millions of Korean won)</i>	2020			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Associates</b>				
BBDO Korea Inc.	₩ -	₩ -	₩ -	₩ 3,525
<b>Other related party</b>				
Taeshin Inpack Corporation	-	-	745	-
	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 745</u>	<u>₩ 3,525</u>

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



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

Details of fund transactions arising from acquisition of associates:

(in millions of Korean won)

Classification	Name	Contributions in cash	
Associates	Smart AP-WE Untact Fund No. 1	₩	9,000
	Partner One Value up 2 Private Equity Fund		1,500

The Group paid ₩ 17,714 million in dividends to related parties for the year ended December 31, 2021.

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

Cash investment by related parties:

(in millions of Korean won)

Classification	Name	Contributions in cash	
Associates	Rationale Group Pty Ltd	₩	10,912
	AP&M Beauty Fashion Joint Venture		4,900
	Smart AP-WE Untact Fund No. 1		1,000

The Group paid ₩ 22,381 million in dividends to related parties for the year ended December 31, 2020.

As at December 31, 2021, there are no collateral and payment guarantees provided to or provided by related parties other than the Group. The details of collateral provided by the Group for the financial supports to the related parties as at December 31, 2021, are as follows:

(in millions of Korean won)

				2021			
Collateral	Book amount	Guaranteed amount	Guaranteed by	Guarantee period	Remark		
<b>Associates</b>							
Verescence Pacific, Inc.	Time deposits	₩ 3,600	₩ 3,600	Korea Development Bank	July 29, 2021 ~ July 29, 2022	Borrowings	
	Time deposits	7,000	6,720	Korea Development Bank	Sep 6, 2021 ~ Sep 6, 2022		

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Short-term employee benefits	₩	21,341	₩	11,212
Post-employment benefits		1,374		2,079
	₩	<u>22,715</u>	₩	<u>13,291</u>

**36. Information About Non-controlling Interests**

**36.1 Changes in Accumulated Non-controlling Interests**

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2021 and 2020, is as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>						
	<b>Non-controlling interest rate (%) <sup>1</sup></b>	<b>Accumulated non-controlling interests at the beginning of the year</b>	<b>Profit or loss allocated to non-controlling interests</b>	<b>Dividends paid to non-controlling interests</b>	<b>Changes in non-controlling interests</b>	<b>Others</b>	<b>Accumulated non-controlling interests at the end of the year</b>
AMOREPACIFIC Corporation	65.58	₩ 2,952,455	₩ 117,400	₩ (36,271)	₩ 82,336	₩ (10,244)	₩ 3,105,676
Innisfree Corporation	18.18	73,547	1,876	(311)	-	(553)	74,558
Etude Corporation	19.52	(1,658)	(2,411)	-	-	(362)	(4,431)
Others		(1,844)	(4,881)	-	-	8	(6,716)
		<u>₩ 3,022,500</u>	<u>₩ 111,984</u>	<u>₩ (36,582)</u>	<u>₩ 82,336</u>	<u>₩ (11,151)</u>	<u>₩ 3,169,087</u>

<sup>1</sup> Non-controlling interest rate considering the preferred shares.

<i>(in millions of Korean won)</i>	<b>2020</b>						
	<b>Non-controlling interest rate (%) <sup>1</sup></b>	<b>Accumulated non-controlling interests at the beginning of the year</b>	<b>Profit or loss allocated to non-controlling interests</b>	<b>Dividends paid to non-controlling interests</b>	<b>Changes in non-controlling interests</b>	<b>Others</b>	<b>Accumulated non-controlling interests at the end of the year</b>
AMOREPACIFIC Corporation	66.10	₩ 3,035,880	₩ 10,055	₩ (46,204)	₩ (64,197)	₩ 16,921	₩ 2,952,455
Innisfree Corporation	18.18	71,113	3,656	(1,422)	-	200	73,547
Etude Corporation	19.52	2,759	(4,445)	-	-	28	(1,658)
Others		3,072	2,401	-	-	(7,317)	(1,844)
		<u>₩ 3,112,824</u>	<u>₩ 11,667</u>	<u>₩ (47,626)</u>	<u>₩ (64,197)</u>	<u>₩ 9,832</u>	<u>₩ 3,022,500</u>

<sup>1</sup> Non-controlling interest rate considering the preferred shares.

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**36.2 Summarized Financial Information of Subsidiaries**

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarized consolidated statements of financial position as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>					
	<b>AMOREPACIFIC Corporation</b>		<b>Innisfree Corporation</b>		<b>Etude Corporation</b>	
Current assets	₩	2,018,527	₩	386,654	₩	33,616
Non-current assets		4,098,187		101,264		5,827
Current liabilities		1,157,485		60,830		60,707
Non-current liabilities		214,929		8,014		2,498
Equity		4,744,300		419,074		(23,762)

<i>(in millions of Korean won)</i>	<b>2020</b>					
	<b>AMOREPACIFIC Corporation</b>		<b>Innisfree Corporation</b>		<b>Etude Corporation</b>	
Current assets	₩	1,825,732	₩	403,545	₩	34,799
Non-current assets		3,876,186		79,021		15,758
Current liabilities		965,947		49,052		52,060
Non-current liabilities		271,574		17,932		5,070
Equity		4,464,398		415,582		(6,573)

Summarized consolidated statements of comprehensive income for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>					
	<b>AMOREPACIFIC Corporation</b>		<b>Innisfree Corporation</b>		<b>Etude Corporation</b>	
Revenue	₩	4,863,128	₩	307,171	₩	105,620
Profit (loss) for the year		180,858		8,242		(15,335)
Other comprehensive loss		(15,641)		(3,039)		(1,854)
Total comprehensive income (loss)		165,217		5,203		(17,189)

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<i>(in millions of Korean won)</i>	<b>2020</b>		
	<b>AMOREPACIFIC Corporation</b>	<b>Innisfree Corporation</b>	<b>Etude Corporation</b>
Revenue	₩ 4,432,179	₩ 348,596	₩ 111,295
Profit (loss) for the year	21,869	10,218	(23,352)
Other comprehensive income	12,242	952	144
Total comprehensive income (loss)	34,111	11,170	(23,207)

Summarized consolidated statements of cash flows for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		
	<b>AMOREPACIFIC Corporation</b>	<b>Innisfree Corporation</b>	<b>Etude Corporation</b>
Cash flows from operating activities	₩ 691,434	₩ 33,114	₩ (7,269)
Cash flows from investing activities	(708,415)	(103,402)	5,962
Cash flows from financing activities	(225,981)	(12,839)	1,511
Effects of exchange rate changes on cash and cash equivalents	(13,073)	1,107	-
Net increase (decrease) in cash and cash equivalents	(256,035)	(82,020)	201
Cash and cash equivalents at the beginning of the year	793,728	177,826	3,373
Cash and cash equivalents at the end of the year	₩ 537,694	₩ 95,807	₩ 3,574

<i>(in millions of Korean won)</i>	<b>2020</b>		
	<b>AMOREPACIFIC Corporation</b>	<b>Innisfree Corporation</b>	<b>Etude Corporation</b>
Cash flows from operating activities	₩ 554,359	₩ 64,950	₩ (5,106)
Cash flows from investing activities	(206,409)	(122,677)	133
Cash flows from financing activities	(215,987)	(23,880)	2,853
Effects of exchange rate changes on cash and cash equivalents	(11,815)	(1,635)	-
Net increase (decrease) in cash and cash equivalents	120,148	(83,242)	(2,119)
Cash and cash equivalents at the beginning of the year	673,580	261,068	5,493
Cash and cash equivalents at the end of the year	₩ 793,728	₩ 177,826	₩ 3,373

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**37. Risk Management**

**37.1 Financial Risk Management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize any adverse effects on the financial performance of the Group.

Risk management is carried out under policies approved by the Board of Directors. The Board of Directors reviews and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

*(a) Market risk*

i) Foreign exchange risk

The Group operates internationally and 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 Group's value by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

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

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
USD	₩ 305,531	₩ 212,725	₩ 280,421	₩ 187,985
EUR	3	334	49	843
JPY	1,845	2,514	348	2,298
CNY	1,174	187	1,618	20
Others	96	-	-	-
	<u>₩ 308,649</u>	<u>₩ 215,760</u>	<u>₩ 282,436</u>	<u>₩ 191,146</u>

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

<i>(in millions of Korean won)</i>	2021		2020	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ 9,281	₩ (9,281)	₩ 9,244	₩ (9,244)
EUR	(33)	33	(79)	79
JPY	(67)	67	(195)	195
CNY	99	(99)	160	(160)
Others	10	(10)	-	-

The above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not the Group's functional currency.

ii) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises on floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty in interest rates fluctuations and net interest expense.

At the end of the reporting period, the Group has more floating rate deposits than floating rate borrowings, and because of this, net interest expenses decrease when interest rates increase. However, the Group adequately minimizes risks from interest rate fluctuations through various policies, such as sharing excess cash within the Group (internal cash sharing) to minimize external borrowings, avoiding high rate borrowings, reforming capital structure, managing an appropriate ratio of fixed rate borrowings and floating rate borrowings, monitoring a fluctuation of domestic and foreign interest rates daily, weekly and monthly, establishing alternatives, 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 minor as the investments are short-term deposits.

At the end of the reporting period, if interest rates on floating rate borrowings had been 1% higher/lower with all other variables held constant, profit before income tax for the year would be ₩1,204 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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iii) Price risk

The Group is exposed to equity securities price risk arises from investments held by the Group that are classified as available-for-sale in the consolidated statement of financial position.

The Group's equity investments are publicly traded and are included in the NASDAQ index.

The table below summarizes the impact of increases/decreases of this index on the Group's equity and before-tax profit for the period. The analysis is based on the assumption that the equity indexes has increased/decreased by 10% with all other variables held constant, and that all the Group's equity instruments moved in line with the indexes.

<i>(in millions of Korean won)</i>	2021		2020	
	10% Increase	10% Decrease	10% Increase	10% Decrease
NASDAQ	₩ 11	₩ (11)	₩ 30	₩ (30)

(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, only independently rated parties with a minimum rating of 'A' are accepted.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. If customers have no independent rating and their credit risk needs to be reduced, their credit is enhanced through pledged property and deposit and 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 major credit cards.

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

(c) Liquidity Risk

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

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The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings 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. These contracts are managed on a net-fair value basis rather than by maturity date.

<i>(in millions of Korean won)</i>	2021					Book amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 95,482	₩ -	₩ -	₩ 95,482	₩ 95,482	₩ 95,482
Borrowings	259,491	-	-	259,491	257,724	257,724
Other payables	354,970	-	-	354,970	354,970	354,970
Other liabilities	194,247	2,268	24,555	221,069	218,392	218,392
Lease liability	113,769	98,877	32,387	245,032	221,603	221,603
Financial guarantee contract	31,495	-	-	31,495	88	88

<i>(in millions of Korean won)</i>	2020					Book amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 74,306	₩ -	₩ -	₩ 74,306	₩ 74,306	₩ 74,306
Borrowings	259,367	-	-	259,367	257,460	257,460
Other payables	316,939	-	-	316,939	316,939	316,939
Other liabilities	183,917	4,344	11,933	200,194	197,339	197,339
Lease liability	187,435	133,745	51,313	372,492	336,683	336,683
Financial guarantee contract	37,807	-	-	37,807	163	163

### 37.2 Capital Risk Management

The Group's capital risk management purpose is maximising 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 are as follows:

<i>(in millions of Korean won)</i>	2021	2020
Liabilities (A)	₩ 1,562,518	₩ 1,516,701
Equity (B)	6,475,625	6,272,043
Cash and cash equivalents, and current financial deposits (C)	1,211,453	1,433,891
Borrowings (D)	257,724	257,460
Debt-to-equity ratio (A/B)	24.13%	24.18%
Net borrowings ratio (D-C)/B	(-)14.73%	(-)18.76%



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**38. Fair Value Estimation**

**38.1 Fair Value Hierarchy**

There are no significant changes in business and economic circumstances which affect the fair value of financial assets and liabilities of the Group for the year ended December 31, 2021.

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)*

	<b>2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ -	₩ 1,062,403	₩ 74,659	₩ 1,137,062
Financial assets at fair value through other comprehensive income	1,063	-	4,347	5,410
Disclosed fair value				
Investment property	-	-	444,489	444,489

*(in millions of Korean won)*

	<b>2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 1,129	₩ 783,300	₩ 48,419	₩ 832,847
Financial assets at fair value through other comprehensive income	2,320	-	2,070	4,389
Disclosed fair value				
Investment property	-	-	386,424	386,424

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**38.2 Valuation Technique**

Valuation techniques used in the recurring fair value measurements categorized as Level 2 and Level 3 of the fair value hierarchy as at December 31, 2021, are as follows:

*(a) Investment property*

The fair value of investment property is measured on a basis of a valuation by an independent appraiser who holds a recognized and relevant professional qualification or a value of land determined by the local government in Korea for property tax assessment purposes and a valuation by reflecting the similar recent transaction price which is available to use.

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

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

	<b>2021</b>			
	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>
<i>(in millions of Korean won)</i>				
Financial assets at fair value through other comprehensive income				
Unlisted equity securities	₩ 4,347	3	Present value technique	Perpetual earning growth rate and others
Financial assets at fair value through profit or loss				
Debt securities such as redeemable convertible preferred shares	8,155	3	Option pricing model	Stock price of underlying assets and others
Equity instruments such as unlisted shares	51,947	3	Option pricing model	Stock price of underlying assets and others
Private equity investment trust	14,557	3	Valuation Multiples	Stock price of peer companies and others
Beneficiary certificates	1,043,403	2	Present value technique	Credit risk adjusted discount rate
Variable annuities insurance	19,000	2	Present value technique	Credit risk adjusted discount rate

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**38.3 Financial Instruments Measured at Cost**

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

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Debt instruments at amortized cost		
Government-issued securities	₩ 1,966	₩ 3,280
	<u>₩ 1,966</u>	<u>₩ 3,280</u>

Debt instruments at amortized cost are measured at fair values, because the difference between their fair values and the acquisition costs is immaterial.

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