

HANDOK INC.

SEPARATE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

AND INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Shareholders of

Handok Inc.

March 15, 2022

Audit Opinion

We have audited the separate financial statements of Handok Inc. (the “Company”), which comprise the separate statements of financial position as of December 31, 2021 and 2020, respectively, and the separate statements of profit or loss, comprehensive income, changes in shareholders’ equity and cash flows, for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, respectively, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards (“K-IFRS”).

We also have audited, in accordance with Korean Standards on Auditing (“KSAs”), the Company’s Internal Control over Financial Reporting (“ICFR”) as of December 31, 2021 and 2020, based on the criteria established in the Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 15, 2022 expressed an unmodified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Audit Opinion

We conducted our audits in accordance with the Korean Standards on Auditing (“KSAs”). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

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

- Impairment testing of investments in subsidiaries and associates

(1) Why it was determined to be a Key Audit Matter

The carrying amount of investments in subsidiaries and associates (“investments in associates”) recorded in the separate financial statements amounted to ₩136,242 million as of December 31, 2021. As described in

Note 2 to the financial statements, the Company identifies whether there are any impairment indicators of investments in associates annually at the end of each reporting period and performs impairment testing on investments in associates for which impairment indicators have been identified. The Company calculates the amount of impairment as the amount by which the carrying amount of investments in associates exceeds its recoverable amount. We determined impairment testing of investments in associates to be a key audit matter as there are inherent uncertainties and management's judgment involved in the estimation of significant key assumptions used to estimate the value-in-use such as sales growth rate, discount rate and terminal growth rate.

(2) How the Key Audit Matter was addressed in the audit

Audit procedures we have performed to address this key audit matter included the following:

- ① Assessing the independence and competence of the external valuation specialists engaged by the Company to estimate value-in-use.
- ② Engaging our internal specialists to assist in assessing the appropriateness of key assumptions such as sales growth rate, discount rate, and terminal growth rate applied to estimate value-in-use.
- ③ Assessing the reasonableness of key assumptions and variables used to estimate value-in-use by comparing the latest business plans adopted by management with historical performance and available external data.
- ④ Assessing the appropriateness of the Company's forecasts by comparing the Company's estimates of cash flow calculations from the previous year with the actual results for the current year.

Other Matters

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

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

Management is responsible for the preparation and fair presentation of the accompanying separate financial statements in accordance with K-IFRS, and for such internal control as they determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit 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 Company'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 the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 auditors' report is Byoung Kyu Song.

Shizhan Accounting Corporation

Notice to Readers

This report is effective as of the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

HANDOK INC. (the "Company")

SEPARATE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

The accompanying separate financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, Handok Inc.'s management.

Young-Jin Kim, Chairman & CEO / Jin-ki Baik, President
Handok Inc.

HANDOK INC.

SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2021 AND 2020

	Notes	Korean won	
		December 31, 2021	December 31, 2020
		(in Korean won)	
<u>ASSETS:</u>			
Current Assets:			
Cash and cash equivalents	4, 5, 6	₩ 27,284,690,674	₩ 21,775,628,727
Trade and other receivables	4, 5, 6, 9, 39	171,811,388,480	171,631,680,963
Other current assets	10	32,442,869,851	38,418,655,423
Inventories	11	83,266,325,400	81,966,915,908
Other financial assets	4, 5, 6, 12	5,433,763,093	10,000,000,000
		<u>320,239,037,498</u>	<u>323,792,881,021</u>
Non-current Assets:			
Long-term other financial assets	4, 5, 6, 12	5,000,000	5,000,000
Long-term trade and other receivables	4, 5, 6, 9	1,284,963,616	1,343,170,945
Financial assets at fair value through profit or loss	4, 5, 6, 7, 39	40,930,656,572	31,043,711,727
Financial assets at fair value through other comprehensive income	4, 5, 6, 8	20,172,395	20,172,395
Property, plant and equipment	13, 38	209,140,165,974	173,909,066,794
Investment properties	15	53,370,243,614	53,585,316,054
Intangible assets	14	65,371,552,993	69,014,654,676
Investments in subsidiaries and associates	17	136,241,507,126	141,262,007,126
Other non-current assets	10, 16	1,619,011,009	2,162,598,586
		<u>507,983,273,299</u>	<u>472,345,698,303</u>
Total assets		<u>₩ 828,222,310,797</u>	<u>₩ 796,138,579,324</u>

LIABILITIES AND SHAREHOLDER'S EQUITY:**LIABILITIES:**

Current Liabilities:

Trade and other payables	4, 5, 6, 18, 39	₩ 136,097,758,506	₩ 123,322,805,871
Other current liabilities	19	3,803,567,925	4,024,706,223
Other financial liabilities	4, 5, 6, 16, 20	816,605,264	600,508,001
Short-term borrowings	4, 5, 6, 20	118,164,960,000	49,050,160,000
Current portion of debentures	4, 5, 6, 20	-	29,983,491,725
Provisions for other liabilities	21	12,785,796,465	7,560,855,649
Current tax liabilities		4,425,181,630	11,161,289,119
		<u>276,093,869,790</u>	<u>225,703,816,588</u>

(Continued)

HANDOK INC.

SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2021 AND 2020 (CONTINUED)

	Notes	Korean won	
		December 31, 2021	December 31, 2020
(in Korean won)			
Non-current liabilities:			
Long-term trade and other payables	4, 5, 6, 18, 25	₩ 7,415,420,577	₩ 7,664,016,459
Other non-current liabilities	19	56,424,951	124,134,867
Long-term other financial liabilities	4, 5, 6, 16, 20, 38, 39	900,051,734	6,649,272,708
Long-term borrowings	4, 5, 6, 20	54,709,880,000	118,399,840,000
Debentures	4, 5, 6, 20	84,076,178,918	34,447,200,356
Long-term provisions for other liabilities	21	2,927,801,573	2,893,861,061
Employee benefit obligations	22	3,360,478,229	8,243,913,719
Deferred tax liabilities	23	13,308,666,116	14,827,161,042
		<u>166,754,902,098</u>	<u>193,249,400,212</u>
Total liabilities		<u>442,848,771,888</u>	<u>418,953,216,800</u>
SHAREHOLDER'S EQUITY:			
Share capital	1, 24	6,881,766,500	6,881,766,500
Share premium		36,748,103,056	36,748,103,056
Other components of equity	26	41,926,746,577	41,612,612,431
Retained earnings	27	299,816,922,776	291,942,880,537
Total shareholder's equity		<u>385,373,538,909</u>	<u>377,185,362,524</u>
Total liabilities and shareholder's equity		<u>₩ 828,222,310,797</u>	<u>₩ 796,138,579,324</u>

(Concluded)

See accompanying notes to separate financial statements.

HANDOK INC.

SEPARATE STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Notes	Korean won	
		2021	2020
(in Korean won)			
Revenue	28, 39	₩ 511,148,488,062	₩ 497,227,615,112
Cost of sales	28, 29, 39	<u>346,810,615,729</u>	<u>332,132,359,189</u>
Gross profit		164,337,872,333	165,095,255,923
Selling and administrative expenses	29, 30, 31, 32	<u>135,408,204,245</u>	<u>134,574,690,887</u>
Operating profit		28,929,668,088	30,520,565,036
Other income	6, 33, 39	11,894,878,603	2,733,252,861
Other expenses	6, 33, 39	10,423,236,903	12,325,625,700
Finance income	6, 34, 39	8,432,335,183	15,142,773,729
Finance costs	6, 34	<u>22,803,694,886</u>	<u>15,161,745,443</u>
Profit before income tax		16,029,950,085	20,909,220,483
Income tax expense	23	<u>4,695,113,359</u>	<u>12,126,180,045</u>
Net profit for the period		<u>₩ 11,334,836,726</u>	<u>₩ 8,783,040,438</u>
Basic earnings per share	35	<u>₩ 824</u>	<u>₩ 638</u>
Diluted earnings per share	35	<u>₩ 824</u>	<u>₩ 638</u>

See accompanying notes to separate financial statements.

HANDOK INC.

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Notes	Korean won	
		2021	2020
(in Korean won)			
Net profit for the period		₩ 11,334,836,726	₩ 8,783,040,438
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liability	22, 23	668,265,413	856,612,679
Items that are subsequently reclassified to profit or loss:			
Cash flow hedge	23,34,38	314,134,146	232,365,666
Other comprehensive income for the period, net of tax		982,399,559	1,088,978,345
Total comprehensive income for the period		₩ 12,317,236,285	₩ 9,872,018,783

See accompanying notes to separate financial statements.

HANDOK INC.

SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Korean won				
	Share Capital	Share Premium	Other Components of Equity (in Korean won)	Retained earnings	Total equity
Balance at January 1, 2020	₩ 6,881,766,500	₩ 36,748,103,056	₩ 41,409,448,600	₩ 286,058,997,160	₩ 371,098,315,316
Total comprehensive income for the period:					
Net profit for the period	-	-	-	8,783,040,438	8,783,040,438
Remeasurements of net defined benefit liability	-	-	-	856,612,679	856,612,679
Cash flow hedge	-	-	203,163,831	29,201,835	232,365,666
Transactions with owners:					
Dividends	-	-	-	(3,784,971,575)	(3,784,971,575)
Balance at December 31, 2020	₩ 6,881,766,500	₩ 36,748,103,056	₩ 41,612,612,431	₩ 291,942,880,537	₩ 377,185,362,524
Balance at January 1, 2021	₩ 6,881,766,500	₩ 36,748,103,056	₩ 41,612,612,431	₩ 291,942,880,537	₩ 377,185,362,524
Total comprehensive income for the period:					
Net profit for the period	-	-	-	11,334,836,726	11,334,836,726
Remeasurements of net defined benefit liability	-	-	-	668,265,413	668,265,413
Cash flow hedge	-	-	314,134,146	-	314,134,146
Transactions with owners:					
Dividends	-	-	-	(4,129,059,900)	(4,129,059,900)
Balance at December 31, 2021	₩ 6,881,766,500	₩ 36,748,103,056	₩ 41,926,746,577	₩ 299,816,922,776	₩ 385,373,538,909

See accompanying notes to separate financial statements.

HANDOK INC.

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Notes	Korean won	
		2021	2020
(in Korean won)			
Cash flows from operating activities:			
Cash generated from operations	37	₩ 54,520,295,946	₩ 33,967,715,501
Income tax paid		(13,263,357,850)	(3,677,266,350)
Interest paid		(6,223,644,072)	(6,699,009,174)
Interest received		389,732,920	665,584,717
Dividends received		437,249,753	96,850
Net cash provided by operating activities		<u>35,860,276,697</u>	<u>24,257,121,544</u>
Cash flows from investing activities:			
Increase in short-term loans		(1,000,000,000)	(2,500,000,000)
Increase in long-term loans to employees		(120,000,000)	(210,000,000)
Increase in leasehold deposits		(40,000,000)	(210,000,000)
Purchases of financial assets at fair value through profit or loss		(13,654,975,227)	(2,741,192,550)
Purchases of other financial assets		(148,000,000,000)	(225,300,000,000)
Purchases of investments in subsidiaries and associates		(6,055,000,000)	(14,627,928,333)
Purchases of property, plant and equipment		(43,006,345,813)	(20,437,921,960)
Purchases of intangible assets		(426,842,525)	(2,228,827,999)
Decrease in long-term loans to employees		171,340,000	207,880,000
Proceeds from sale of financial assets at fair value through profit or loss		2,891,404,984	2,176,247
Proceeds from sale of other financial assets		153,000,000,000	227,800,000,000
Proceeds from sale of investments in subsidiaries and associates		-	296,640,000
Decrease in leasehold deposits		-	187,000,000
Decrease in other deposits		18,000,000	-
Proceeds from sale of property, plant and equipment		10,314,801,737	1,282,004,142
Proceeds from sale of intangible assets		36,088,639	360,000,000
Net cash used in investing activities		<u>(45,871,528,205)</u>	<u>(38,120,170,453)</u>

(Continued)

HANDOK INC.

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (CONTINUED)

Notes	Korean won	
	2021	2020
	(in Korean won)	
Cash flows from financing activities:		
Proceeds from short-term borrowings	₩ 222,000,000,000	₩ 176,050,000,000
Proceeds from long-term borrowings	5,000,000,000	62,204,000,000
Proceeds from issuance of debentures	49,299,480,000	34,345,930,000
Receipts of government grants	59,784,000	59,348,000
Increase in lease liabilities	461,673,827	606,471,493
Payment of cash dividends	(4,129,059,900)	(3,784,971,575)
Repayments of short-term borrowings	(226,450,160,000)	(179,300,000,000)
Repayments at Debentures	(30,000,000,000)	(70,000,000,000)
Decrease in government grants	(55,203,088)	(177,375,812)
Repayments of lease liabilities	(666,191,691)	(666,721,587)
Net cash provided by financing activities	<u>15,520,323,148</u>	<u>19,336,680,519</u>
Net increase in cash and cash equivalents	5,509,071,640	5,473,631,610
Cash and cash equivalents at the beginning of the financial year	21,775,628,727	16,306,835,206
Effects of exchange rate changes on cash and cash equivalents	(9,693)	(4,838,089)
Cash and cash equivalents at the end of the year	<u>₩ 27,284,690,674</u>	<u>₩ 21,775,628,727</u>

(Concluded)

See accompanying notes to separate financial statements.

HANDOK INC.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

1. General Information

Handok Inc. (the "Company") was incorporated on August 19, 1958, under the Commercial Code of the Republic of Korea, to engage in the manufacture and sale of pharmaceutical products and lease of real estate. The head office of the Company is located in Gangnam-gu, Seoul, with its factory in Eumsung County, North Chungcheong Province in Korea and research laboratory in Gangseo-gu, Seoul. In addition, the Company established and operates branches in Korea.

The Company's shares were offered to the public on June 30, 1976, and all issued and outstanding shares were listed on the Korea Stock Exchange.

As at December 31, 2021, the Company's paid-in capital amounted to ₩6,882 million and 13,763,533 shares of ordinary shares are issued and outstanding, which are owned by the following shareholders:

Name of shareholder	Number of Ordinary shares	Percentage of Ownership	Remarks
Y.J. Kim	1,878,397	13.65%	Representative director
Y&S International Co., Ltd.	2,435,290	17.69%	Related parties
National Pension Service	909,743	6.61%	
Others	8,540,103	62.05%	
	<u>13,763,533</u>	<u>100.00%</u>	

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

The Company prepares its financial statements in accordance with K-IFRS 1027, *Separate Financial Statements*. The separate financial statements require investors with joint control or significant influence over the parent or investee to invest their assets in accordance with the cost method or the method prescribed in K-IFRS 1109, *Financial Instruments*, or using the equity method of accounting as prescribed in K-IFRS 1028, *Investments in Associates and Joint Ventures*.

The principal accounting policies are set out below. Except for the effect of the Amendments to K-IFRSs and new interpretations set out below, the principal accounting policies used to prepare the separate financial statements as of and for the year ended December 31, 2021 are consistent with the accounting policies used to prepare the separate financial statements as of and for the year ended December 31, 2020.

The accompanying separate financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given.

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

(a) New and amended standards adopted by the Company

In the current year, the Company has applied a number of new and amended K-IFRSs and new interpretations issued that are effective accounting periods beginning on or after January 1, 2021.

- K-IFRS 1116 Leases – Impact of the initial application of Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment)

The Company adopted *Covid-19-Related Rent Concessions beyond June 30, 2021* (Amendment to K-IFRS 1116) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to K-IFRS 1116. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before June 30, 2022.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying K-IFRS 1116 as if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022).
- There is no substantive change to other terms and conditions of the lease.

- Impact of the initial application of Interest Rate Benchmark Reform

In the current year, the Company adopted the Phase 2 amendments Interest Rate Benchmark Reform – Amendments to K-IFRS 1109, 1039, 1104, 1107 and 1116. Adopting these amendments enables the Company to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as ‘risk free rates’ or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The application of the amendments impacts the Company’s accounting in the following ways.

- The Company has issued [USD]-denominated fixed rate debt that is subject to a fair value hedge using [USD]-fixed to [USD] LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, [USD] LIBOR, may no longer be separately identifiable and there is uncertainty about the replacement of the floating interest rates included in the interest rate swaps. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship will be discontinued.

The Company will continue to apply the Phase 1 amendments to K-IFRS 1109 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Company is exposed ends. The Company expects this uncertainty will continue until the Company's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flow of the alternative benchmark rate are determined including any fixed spread.

Note 38 provides the required disclosures related to these amendments.

Adoption of the above amendments has not had any material impact on the Company's separate financial statements.

(b) New and revised K-IFRSs in issue but not yet effective

At the date of authorization of these financial statements, the Company has not applied the following new and revised K-IFRS Standards that have been issued but are not yet effective:

- K-IFRS 1117 *Insurance Contracts* (Enactment)

K-IFRS 1117 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes K-IFRS 1104 Insurance Contracts.

K-IFRS 1117 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

- K-IFRS 1001 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current* (Amendment)

The amendments to K-IFRS 1001 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

- K-IFRS 1103 *Business Combinations - Reference to the Conceptual Framework* (Amendment)

The amendments update K-IFRS 1103 so that it refers to the 2018 Conceptual Framework instead of the 2007 Framework. They also add to K-IFRS 1103 a requirement that, for obligations within the scope of K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, an acquirer applies K-IFRS 1037 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of K-IFRS 2121 *Levies*, the acquirer applies K-IFRS 2121 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references published together with the updated Conceptual Framework at the same time or earlier.

- K-IFRS 1016 *Property, Plant and Equipment - Proceeds before Intended Use* (Amendment)

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with K-IFRS 1002 *Inventories*.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

- K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract* (Amendment)

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

- Annual Improvements to IFRS Standards 2018-2020

The Annual Improvements include amendments to K-IFRS 1101 *First-time Adoption of K-IFRS*, K-IFRS 1109 *Financial Instruments*, K-IFRS 1116 *Leases*, and K-IFRS 1041 *Agriculture*.

① K-IFRS 1101 *First-time Adoption of K-IFRS* (Amendment)

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in K-IFRS 1101, paragraph D16(1) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in K-IFRS 1101, paragraph D16(1).

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

② K-IFRS 1109 *Financial Instruments* (Amendment)

The amendment clarifies that in applying the '10 percent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

③ K-IFRS 1116 *Leases* (Amendment)

The amendment removes the illustration of the reimbursement of leasehold improvements found in Illustrative Example 13 of K-IFRS 1116.

As the amendment only regards an illustrative example, no effective date is stated.

④ K-IFRS 1041 *Agriculture* (Amendment)

The amendment removes the requirement in K-IFRS 1041 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in K-IFRS 1041 with the requirements of K-IFRS 1113 to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

- K-IFRS 1001 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* – Disclosure of Accounting Policies (Amendment)

The amendments change the requirements in K-IFRS 1001 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'.

The supporting paragraphs in K-IFRS 1001 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to K-IFRS 1001 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

- K-IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates* (Amendment)

The amendments replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The amendments are effective for annual periods beginning on or after January 1, 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

- K-IFRS 1012 *Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendment)

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying K-IFRS 1116 at the commencement date of a lease.

Following the amendments to K-IFRS 1012, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in K-IFRS 1012.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

The Company does not anticipate that the application of the enactment and amendments will have a significant impact on the Company’s separate financial statements.

2.2 Accounting Policies

2.2.1 Subsidiaries and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with K-IFRS 1027, *Separate Financial Statements*. Investments in subsidiaries and associates are recognized at cost based on direct equity investments. Management applied the carrying amounts under the previous K-GAAP at the time of transition to the K-IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries and associates in profits or loss when its right to receive the dividend is established.

2.2.2 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The separate financial statements are presented in Korean won, which is the Company's functional and presentational currency.

(b) Transactions and balances

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

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as par of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognized in other comprehensive income.

2.2.3 Financial Assets

(a) Classification

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

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

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

Foreign exchange gains and losses resulting from the translation of borrowings in foreign currencies are recognized in profit or loss as financial costs. Other foreign exchange gains and losses are classified as other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as par of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognized in other comprehensive income.

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 being held. The Company 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 Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt Instruments

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

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

B. Equity Instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments, which held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as finance income when the right to receive 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 instruments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

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

(d) Recognition and Derecognition

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

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

(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 Company or the counterparty.

2.2.4 Derivative Instruments

Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company enters into a variety of derivative financial instruments to manage its exposure risks, including the following hedging instruments:

- Hedges of changes in the fair value of recognized assets or liabilities (Fair value hedge)
- Hedges of changes in the expected future cash flows of specific assets or liabilities (Cash flow hedge)
- Hedges of net investments in foreign operations (Net investment hedge)

A derivative that is designated as a hedging instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realized or settled within 12 months. A derivative that is designated as a hedging instrument is presented as a current asset or a current liability if the remaining maturity of the instrument is less than 12 months. Other derivative liabilities that are not designated as hedging instruments are presented as current or non-current derivative liabilities based on the date of settlement, and other derivative assets that are not designated as hedging

instruments are presented as current or non-current derivative assets based on their expected maturity date.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The Company designates only the changes in the intrinsic value of the option of option contracts as the hedging instrument in cash flow hedging relationships. The gains and losses in the effective portion of changes in the intrinsic value of the option is recognized as cash flow hedge within equity. Changes in the time value of options is recognized as cash flow hedge in other comprehensive income.

The Company generally designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is recognized as cash flow hedge within equity. The change in the forward element of a hedged forecast transaction is recognized as costs of hedging in other comprehensive income. In certain cases, the Company designates the change in fair value of the forward exchange contract as the hedging instrument in cash flow hedging relationships. In which case, the effective portion of changes in the fair value of the forward exchange contract is recognized as cash flow hedge in equity.

Amounts previously accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, with the following provisions:

- When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, changes in the value of the time value of options, and changes in the value of the forward elements of forward contracts are included directly in the initial cost of the non-financial item when it is recognized. The deferred amounts are ultimately recognized in profit or loss in items such as cost of sales.
- Gains and losses arising on the effective portion of changes in the value of the interest rate swaps are included as financial costs in profits or loss in the periods when the hedged item affects profit or loss.

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

2.2.5 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method (the specific identification method for work-in-process and inventories in-transit).

2.2.6 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 rather than through continued use, and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.2.7 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are 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:

	<u>Useful lives</u>
Buildings	10 ~ 60 years
Structures	5 ~ 20 years
Machinery and equipment	5 ~ 20 years
Vehicles	5 ~ 10 years
Tools and furniture	3 ~ 10 years
Financial lease assets	5 years

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

2.2.8 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or product 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 pending their expenditure 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.

2.2.9 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.2.10 Intangible Assets

(a) Goodwill

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

(b) License and industrial property rights

License (including technology transfer contract regarding new drug discovery) and industrial property rights acquired from third parties are shown at acquisition cost. License and industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of license and industrial property rights over their estimated useful lives.

(c) Other intangible assets

Other intangible assets include development costs and software and are stated net of accumulated amortization calculated using straight-line method based on estimated useful lives. However, membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	<u>Useful Lives</u>
License and franchise	5 ~ 12 years
Industrial property rights	3 ~ 10 years
Other intangible assets	5 ~ 20 years

(d) Research and Development

Research expense are recognized as an expense as incurred. Development costs that are directly attributable to identifiable and unique development project controlled by the Company are recognized as intangible assets when all of the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use.
- Management intends to complete the intangible asset and use or sell it.
- There is the ability to use or sell the intangible asset.
- It can be demonstrated how the intangible asset will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available, and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs recognized as assets are amortized over their estimated useful lives based on straight-line method from the day they are available for sale or use and are tested for impairment.

2.2.11 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement 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 Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 10 – 60 years.

2.2.12 Impairment of Non-financial Assets

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

2.2.13 Financial Liabilities

(a) Classification and measurement

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

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

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

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified. 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.

2.2.14 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of following and recognized in the statement of financial position within other financial liabilities.

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

The Company recognized financial guarantee contracts provided to the subsidiaries for no compensation by adding to investments in subsidiaries.

2.2.15 Provisions

Provisions are recognized as part of reserve for incentive bonuses, refund liabilities, and government grants repayable when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provision for incentive bonuses is recognized as provisions for the estimated future payment, which is paid to the employees based on the performance for the period. Refund liabilities are estimated for the future amount of sales return and recognized based on the past experience rate. Also, the portion, among government subsidy, that the Company has repayment obligation for is recognized as liability.

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.

2.2.16 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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of 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 separate financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

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

2.2.17 Employee Benefits

(a) Post-employment benefits

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

For defined contribution plans, the Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Company has no further payment obligation once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depends on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions

are recognized in the period in which they occur, directly in other comprehensive income.

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

(b) Share-based payments

Under cash-settled share-based payment plan, the Company compensates the difference of the fair value and the exercise price of option as the consideration for employee services received. Total expense that will be recognized over the vesting period is determined by reference to the fair value of the option granted. Until the liability is settled, the Company is required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognized in profit or loss for the year.

(c) Other long-term employee benefits

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

2.2.18 Revenue Recognition

From January 1, 2018, the Company has applied K-IFRS 1115 *Revenue from Contracts with Customers*.

(a) Identification of performance obligations

The Company provides pharmaceutical products, health functional food, and reagent for medical device to a customer. The Company identifies performance obligations from reagent for medical device contract with a customer such as (a) provision of reagent, (b) lease of medical device, and (c) maintenance of medical device.

(b) Variable consideration

The Company estimates an amount of variable consideration by using the expected values which the Company expects to better predict the amount of consideration. The Company 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. The refund liability is measured at the amount of consideration received for which the Company does not expect to be entitled.

(c) Allocating the transaction price

The Company allocates the transaction price in an arrangement to each separate performance obligation based on the relative standalone selling prices. The Company determines the standalone selling price for each separate performance obligation by using expected cost plus a margin approach to estimate expected cost plus a reasonable margin.

(d) Returns

The Company recognizes a refund liability for the expected refunds to customers and adjusts the revenue. At the same time, a right to recover the product from the customer where the customer exercises the right of return is recognized as an asset and a corresponding adjustment to cost of sales. A right to recover the product is measured by reference to the former carrying amount of the product less any expected costs to recover those products.

(e) Performance obligation satisfied over time

The Company provides contractual clinical trial services to clients. The Company itself does not have

alternative uses for any assets created during such services, and recognizes revenue for such completed contractual services for which the Company has an enforceable right to demand payment.

2.2.19 Lease

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of

the lease, a provision is recognized and measured under K-IFRS 1037. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies K-IFRS 1036 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

2.2.20 Approval of Issuance of the Financial Statements

The separate financial statements are expected to be approved for issue by the Board of Directors on March 16, 2022 and will be reported at the Annual Shareholder's Meeting.

3. Critical Accounting Estimates and Assumptions

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

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

(a) Estimated goodwill impairment

The Company tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (see Note 14).

(b) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (see Note 23).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System for Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(c) Fair value of financial instruments

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

(d) Impairment of financial assets

The provision for impairment of financial assets is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (see Note 4.1.2).

(e) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (see Note 22).

(f) Provisions

As at December 31, 2021, the Company recognizes provisions for estimated incentive and estimated returns as explained in Note 21. These provisions are estimated based on past experience.

The recent outbreaks of Covid-19 have resulted in significant impacts on the economy. Significant accounting estimates and assumptions applied in the preparation of the separate financial statements may be adjusted depending on the changes in uncertainties from Covid-19. However, the exact impact that Covid-19 may have on the Company's financial position and performance cannot presently be determined.

4. Financial Risk Management

4.1 Financial Risk Factors

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

Risk management is carried out by a treasury department under policies approved by the Board of Directors. The Board reviews and approves written policies for overall risk management, as well as 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. The Company's treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units.

4.1.1 Market risk

(a) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and the Japanese yen. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

The Company's financial instruments exposed to foreign exchange risk as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Cash and cash equivalents:		
USD	₩ 2,016	₩ 283,002
Trade receivables:		
USD	1,858,929	1,414,329
Non-trade receivables:		
USD	1,126	25,775
Trade payables:		
USD	8,646,237	7,460,520
EUR	1,185,909	2,650,958
JPY	909,438	302,686
Non-trade payables:		
USD	120,145	218,415
EUR	28,395	48,333
JPY	-	21,612
Short-term borrowings in foreign currency:		
USD	35,565,000	-
Long-term borrowings in foreign currency:		
USD	23,710,000	54,400,000
Derivative assets (cash flow hedge):		
USD	433,763	-
Derivative liabilities (cash flow hedge):		
USD	453,744	5,796,481

The table below summarizes the impact of increases/decreases of foreign exchange rate on the Company's profit before tax for the year. The analysis is based on the assumption that foreign exchange rate has increased/decreased by 10 percent with all other variables held constant (Unit: in thousands of Korean won).

	<u>2021</u>		<u>2020</u>	
	<u>10% Increase</u>	<u>10% Decrease</u>	<u>10% Increase</u>	<u>10% Decrease</u>
USD	₩6,619,929 decrease	₩6,619,929 increase	₩6,035,583 decrease	₩6,035,583 increase
EUR	121,430 decrease	121,430 increase	269,929 decrease	269,929 increase
JPY	90,944 decrease	90,944 increase	32,430 decrease	32,430 increase

The above table estimate of the impact of increases/decreases on monetary assets and liabilities does not include the effect of hedges created by derivative instruments. The Company has entered into a swap agreement in order to hedge the currency exchange risk from long-term borrowings in foreign currencies (see Note 38).

(b) Interest rate risk

Interest rate risk refers to the risk of changes in interest income and interest expenses arising from changes in the market interest rate, which affect deposits and borrowings subject to variable interest rates. The Company manages interest rate risk to minimize uncertainties and interest expenses created by changes in interest rate and maximize the Company's value.

The Company's borrowings and trade receivables are estimated at amortized cost. Borrowings issued at variable rates are exposed to the risk of changes in market interest rate.

The book amounts of borrowings exposed to interest rate risk as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Borrowings	₩ 128,274,840	₩ 120,400,000

The table below summarizes the impact of increases/decreases of interest rate on the Company's profit before tax for the year. The analysis is based on the assumption that interest rate has increased/decreased by 1 percent with all other variables held constant (Unit: in thousands of Korean won).

	<u>2021</u>		<u>2020</u>	
	<u>1% Increase</u>	<u>1% Decrease</u>	<u>1% Increase</u>	<u>1% Decrease</u>
Interest expense	<u>₩1,282,748 increase</u>	<u>₩1,282,748 decrease</u>	<u>₩1,204,000 increase</u>	<u>₩1,204,000 decrease</u>

The above estimate of the impact of increases/decreases of interest rate does not include the effect of hedges created by derivative instruments. The Company has entered into a swap contract in order to hedge the risk arising from the floating interest rate on long-term borrowings in foreign currencies (see Note 38).

4.1.2 Credit Risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail 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. If there is no independent rating, the credit quality of the customer is evaluated after taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash, notes or using major credit cards.

No credit limits were exceeded during the reporting period, and management does not expect any losses if the above counterparties are in default under the terms of the agreements.

The maximum exposure to credit risk as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Cash and cash equivalents	₩ 27,284,691	₩ 21,775,629
Trade and other receivables	171,811,388	171,631,681
Other financial assets	5,000,000	10,000,000
Derivative financial instruments	433,763	-
Long-term other financial assets	5,000	5,000
Long-term trade and other receivables	1,284,964	1,343,171
Financial assets at fair value through profit or loss	40,930,657	31,043,712
Financial assets at fair value through other comprehensive income	20,172	20,172
Financial guarantee contracts (*)	2,016,172	2,354,154

(*) Financial guarantee contracts represent the total amounts of financial guarantee contracts provided by the Company for office rental contracts and payment of payables on price of goods of Theravalues Corporation, a subsidiary.

4.1.3 Liquidity Risk

Cash flow forecasting is performed by the Company's treasury. The Company's treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The Company's treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the end of the reporting period, the Company held ₩27,285 million (2020: ₩21,776 million) in cash and cash equivalents that are expected to readily generate cash inflows for managing liquidity risk.

The analyses of the Company's liquidity risk as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021			
	Within 1 year	Over 1 year and Within 5 years	Over 5 years	Total
Trade and other payables	₩ 136,097,759	₩ 7,415,421	₩ -	₩ 143,513,180
Borrowings	121,513,292	31,673,101	25,357,642	178,544,035
Debentures	1,898,650	87,214,588	-	89,113,238
Financial guarantee liabilities (*)	470,812	1,545,360	-	2,016,172
Other financial liabilities	558,250	706,376	-	1,264,626
	<u>₩ 260,538,763</u>	<u>₩ 128,554,846</u>	<u>₩ 25,357,642</u>	<u>₩ 414,451,251</u>
	December 31, 2020			
	Within 1 year	Over 1 year and Within 5 years	Over 5 years	Total
Trade and other payables	₩ 123,322,806	₩ 7,664,016	₩ -	₩ 130,986,822
Borrowings	51,567,191	106,667,740	20,597,182	178,832,113
Debentures	31,538,150	36,130,738	-	67,668,888
Financial guarantee liabilities (*)	-	772,764	1,581,390	2,354,154
Other financial liabilities	628,466	821,202	-	1,449,668
	<u>₩ 207,056,613</u>	<u>₩ 152,056,460</u>	<u>₩ 22,178,572</u>	<u>₩ 381,291,645</u>

(*) Financial guarantee liabilities represents the total amounts of financial guarantee contracts provided by the Company for office rental contracts and payment of payables on price of goods of Theravalues Corporation, a subsidiary.

The table above analyzes the Company's non-derivative financial liabilities based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

4.2 Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so the Company can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with other companies in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is 'equity' as shown in the statements of financial position plus net debt.

The gearing ratios as at December 31, 2021 and 2020, were as follows (Unit: in thousands of Korean won):

	December 31, 2021		December 31, 2020	
Total borrowings	₩	256,951,019	₩	231,880,692
Less: cash and cash equivalents		(27,284,691)		(21,775,629)
Net debt		229,666,328		210,105,063
Total equity		385,373,539		377,185,363
Total capital	₩	615,039,867	₩	587,290,426
Gearing ratio		37.34%		35.77%

5. Fair Value Estimation

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	₩ 27,284,691	₩ 27,284,691	₩ 21,775,629	₩ 21,775,629
Trade and other receivables	171,811,388	171,811,388	171,631,681	171,631,681
Other financial assets	5,000,000	5,000,000	10,000,000	10,000,000
Long-term other financial assets	5,000	5,000	5,000	5,000
Derivative financial assets (cash flow hedge)	433,763	433,763	-	-
Long-term trade and other receivables	1,284,964	1,284,964	1,343,171	1,343,171
Financial assets at fair value through profit or loss	40,930,657	40,930,657	31,043,712	31,043,712
Financial assets at fair value through other comprehensive income	20,172	20,172	20,172	20,172
	₩ 246,770,635	₩ 246,770,635	₩ 235,819,365	₩ 235,819,365

	December 31, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Trade and other payables	₩ 136,097,759	₩ 136,097,759	₩ 123,322,806	₩ 123,322,806
Other financial liabilities	1,691	1,691	-	-
Short-term borrowings	118,164,960	118,164,960	49,050,160	49,050,160
Current portion of debentures	-	-	29,983,492	29,983,492
Long-term trade and other payables	7,415,421	7,415,421	7,664,016	7,664,016
Long-term other financial liabilities	38,260	38,260	53,074	53,074
Derivative financial liabilities (cash flow hedge)	281,005	281,005	-	-
Long-term derivative financial liabilities (cash flow hedge)	172,739	172,739	5,796,481	5,796,481
Lease liabilities	1,222,962	1,222,962	1,400,226	1,400,226
Long-term borrowings	54,709,880	54,709,880	118,399,840	118,399,840
Debentures	84,076,179	84,076,179	34,447,200	34,447,200
	<u>₩ 402,180,856</u>	<u>₩ 402,180,856</u>	<u>₩ 370,117,295</u>	<u>₩ 370,117,295</u>

5.2 Fair Value Hierarchy

Items that are measured at fair value or for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

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

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets:				
Financial assets at fair value through profit or loss	₩ 17,160,690	₩ -	₩ 23,769,967	₩ 40,930,657
Financial assets at fair value through other comprehensive income	-	-	20,172	20,172
Derivative financial assets	-	433,763	-	433,763
Liabilities:				
Derivative financial liabilities	-	281,005	-	281,005
Long-term derivative financial liabilities	-	172,739	-	172,739

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets:				
Financial assets at fair value through profit or loss	₩ 19,707,089	₩ -	₩ 11,336,623	₩ 31,043,712
Financial assets at fair value through other comprehensive income	-	-	20,172	20,172
Liabilities:				
Long-term derivative financial liabilities	-	5,796,481	-	5,796,481

5.3 Valuation Technique and the Inputs

Valuation techniques and inputs used in level 2 and level 3 fair value measurements are as follows (Unit: in thousands of Korean won):

	December 31, 2021				
	Fair value	Level	Valuation techniques	Input	Range of inputs (weighted average)
Financial assets at fair value through profit or loss:					
Investment convertible notes	₩ 4,649,000	3	Transaction price of inactive market	-	-
Debt instruments	976,376	3	Net asset valuation method	-	-
Debt instruments	5,295,302	3	Net asset valuation method	-	-
Debt instruments	6,000,000	3	Net asset valuation method	-	-
Equity instruments	567,850	3	Transaction price of inactive market	-	-
Equity instruments	280,573	3	Transaction price of inactive market	-	-
Equity instruments	3,000,842	3	Transaction price of inactive market	-	-
Equity instruments	3,000,024	3	Transaction price of inactive market	-	-
Financial assets at fair value through other comprehensive income:					
Equity instruments	20,172	3	Transaction price of inactive market	-	-
Derivative financial assets:					
Currency swap	433,763	2	Net present value	-	-
Derivative financial liabilities:					
Currency swap	281,005	2	Net present value	-	-
Long-term derivative financial liabilities:					
Currency swap	172,739	2	Net present value	-	-

	December 31, 2020				
	Fair value	Level	Valuation techniques	Input	Range of inputs (weighted average)
Financial assets at fair value through profit or loss:					
Investment convertible notes	₩ 4,102,000	3	Transaction price of inactive market	-	-
Debt instruments	976,376	3	Net asset valuation method	-	-
Debt instruments	3,909,824	3	Net asset valuation method	-	-
Debt instruments	1,500,000	3	Net asset valuation method	-	-
Equity instruments	567,850	3	Transaction price of inactive market	-	-
Equity instruments	280,573	3	Transaction price of inactive market	-	-
Financial assets at fair value through other comprehensive income:					
Equity instruments	20,172	3	Transaction price of inactive market	-	-
Long-term derivative financial liabilities:					
Currency swap	5,796,481	2	Net present value	-	-

5.4 Valuation Processes for Fair Value Measurements Categorized as Level 3

Investment convertible notes categorized as level 3 were measured by a specialized external rating agency.

5.5 Sensitivity Analysis for Recurring Fair Value Measurements Categorized as Level 3

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the most favorable or most unfavorable amounts are presented.

The results of the sensitivity analysis for the effect on profit or loss from changes in inputs by 10 percent for financial instrument, which is categorized as Level 3 and subject to sensitivity analysis, are as follows (Unit: in thousands of Korean won):

	2021		2020	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets at fair value through profit or loss:				
Investment convertible notes	₩ 200,845	₩ (192,455)	₩ 88,846	₩ (91,307)
Debt instruments	-	-	-	-
Equity instruments	-	-	-	-

6. Financial Instruments by Category

Categorizations of financial assets as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Financial assets at amortized cost:		
Cash and cash equivalents	₩ 27,284,691	₩ 21,775,629
Trade and other receivables	171,811,388	171,631,681
Long-term trade and other receivables	1,284,964	1,343,171
Other financial assets	5,433,763	10,000,000
Long-term other financial assets	5,000	5,000
Financial assets at fair value:		
Financial assets at fair value through other comprehensive income	20,172	20,172
Financial assets at fair value through profit or loss	40,930,657	31,043,712
	<u>₩ 246,770,635</u>	<u>₩ 235,819,365</u>

Categorizations of financial liabilities as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Financial liabilities at amortized cost:		
Trade and other payables	₩ 136,097,759	₩ 123,322,806
Short-term borrowings	118,164,960	49,050,160
Current portion of debentures	-	29,983,492
Long-term trade and other payables	7,415,421	7,664,016
Financial guarantee liabilities (*1)	39,951	53,074
Lease liabilities	1,222,962	1,400,226
Long-term borrowings	54,709,880	118,399,840
Debentures	84,076,179	34,447,200
Financial liabilities at fair value:		
Derivative financial liabilities (cash flow hedge) (*2)	453,744	5,796,481
	<u>₩ 402,180,856</u>	<u>₩ 370,117,295</u>

(*1) Financial guarantee liabilities are recognized for leasehold deposits and price of goods of Theravalues Corporation.

(*2) Derivative financial liabilities (cash flow hedge) categorized as financial liabilities at fair value are recognized as the fair value of the swap agreement used to hedge cash flow risk arising from the floating interest rate on long-term borrowings in foreign currencies (see Note 38).

Gains and losses on financial instruments by category for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>	<u>2020</u>
Financial assets at fair value through profit or loss:		
Gains (losses) on valuation of financial assets at fair value through profit or loss	₩ (9,961,054)	₩ 7,271,010
Losses from sale of financial assets at fair value through profit or loss	(9,573)	(50,016)
Distribution income from investment funds	437,153	-
Financial assets at fair value through other comprehensive income:		
Distribution income from investment funds	97	97
Financial assets at amortized cost:		
Interest income	430,122	680,632
Gains on foreign currency translation	8,361	596
Losses on foreign currency translation	(322)	(19,481)
Other financial assets:		
Losses on valuation of derivative financial instruments	-	(423,359)
Financial liabilities at amortized cost:		
Interest expense	(5,755,171)	(6,757,103)
Gains on foreign currency translation	43,915	5,282,783
Losses on foreign currency translation	(4,879,098)	(5,154)
Financial liabilities at fair value through profit or loss:		
Losses on valuation of derivative financial instruments	5,362,076	(5,695,395)
Cash flow hedge (other comprehensive income) (*)	(414,425)	(306,551)

(*) Value before income tax effect

7. 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 (Unit: in thousands of Korean won):

	Issued by	December 31, 2021	December 31, 2020
Beneficiary certificates	MaC Fund, L.P.	₩ 976,376	₩ 976,376
Beneficiary certificates	RMGP Bio-Pharma Investment Fund, L.P.	5,295,302	3,909,824
Convertible preferred shares	SANA HEALTH, Inc.	280,573	280,573
Ordinary shares	BiomX Ltd.	757,580	2,772,404
Convertible preferred shares	HD Medical Inc.	567,850	567,850
Ordinary shares	SCM Life Science, Co.	2,743,384	12,882,719
Ordinary shares (*1)	Adicet Bio, Inc.	6,022,388	4,051,966
Convertible notes (*2)	NB Postech, Inc.	4,649,000	4,102,000
Beneficiary certificates	Intervest Open Innovation Private Equity Fund	6,000,000	1,500,000
Ordinary shares (*3)	WELT Corp.	3,000,842	-
Ordinary shares (*4)	Compass Therapeutics, Inc.	7,637,338	-
Ordinary shares (*3)	Spark Biopharma, Inc.	3,000,024	-
		₩ 40,930,657	₩ 31,043,712

(*1) In 2020, Adicet Bio, Inc., agreed to a merger with NASDAQ issuer resTORbio, Inc. The Company converted previously held convertible preferred shares issued by Adicet Bio, Inc. into ordinary shares, and adjusted book amounts to match the market value.

(*2) In 2020, the Company acquired convertible notes issued by NB Postech, Inc. (maturity year: 2025).

(*3) In 2021, the Company acquired ordinary shares issued by WELT Corp. and Spark Biopharma, Inc. These investments were classified as financial assets at fair value through profit or loss upon acquisition.

(*4) In 2021, TRIGR Therapeutics, Inc., agreed to a merger with Compass Therapeutics, Inc. The Company reclassified these investments as financial assets at fair value through profit or loss after taking into consideration the changes in percentage ownership after the merger.

Changes in financial assets at fair value through profit or loss for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Beginning balance	₩	31,043,712	₩	17,083,701
Acquisition		13,654,975		2,741,193
Disposal (*1)		(2,900,978)		(52,192)
Reclassification (*2)		9,094,002		4,000,000
Valuation		(9,961,054)		7,271,010
Ending balance	₩	40,930,657	₩	31,043,712

(*1) In 2020, disposal amounts includes amounts from the disposal of impaired financial assets. Gains and losses related to the disposal were included in finance income.

(*2) In 2021, investments in TRIGR Therapeutics, previously an associate of the Company, were reclassified as financial assets at fair value through profit or loss following its merger with Compass Therapeutics, Inc. In 2020, loans previously issued to NB Postech, Inc., were converted into convertible notes.

8. 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 (Unit: in thousands of Korean won):

	December 31, 2021		December 31, 2020	
Non-current				
Unlisted shares:				
The Korea Economic Daily Company Limited	₩	10,760	₩	10,760
Doctor Yonsei		9,266		9,266
Korea Management Association		145		145
Real-telecom Company, Limited		1		1
	₩	20,172	₩	20,172

Upon disposal of these equity instruments, 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.

Details of financial assets at fair value through other comprehensive income as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021				December 31, 2020	
	Shares owned	Acquisition cost	Book value	Book value		
The Korea Economic Daily Company Limited	1,937	₩ 22,940	₩ 10,760	₩ 10,760		
Doctor Yonsei	4,000	100,000	9,266	9,266		
Korea Management Association	100	145	145	145		
Real-telecom Company, Limited	55,641	977,350	1	1		
		₩ 1,100,435	₩ 20,172	₩ 20,172		

9. Trade and Other Receivables

Trade and other receivables as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Trade receivables	₩ 164,021,284	₩ 166,696,197
Provision for impairment	(237,865)	(311,267)
Trade receivables, net	<u>163,783,419</u>	<u>166,384,930</u>
Other receivables	8,027,969	5,246,751
	<u>171,811,388</u>	<u>171,631,681</u>
Long-term other receivables	1,284,964	1,343,171
	<u>₩ 173,096,352</u>	<u>₩ 172,974,852</u>

The book amounts of other receivables as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other receivables:		
Non-trade receivables	₩ 6,818,748	₩ 5,087,022
Accrued income	31,781	6,889
Short-term loans	<u>1,177,440</u>	<u>152,840</u>
	<u>8,027,969</u>	<u>5,246,751</u>
Long-term other receivables:		
Long-term loans	618,200	694,140
Guarantee deposits	<u>666,764</u>	<u>649,031</u>
	<u>1,284,964</u>	<u>1,343,171</u>
	<u>₩ 9,312,933</u>	<u>₩ 6,589,922</u>

The aging analysis of trade and other receivables as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Receivables not past due	<u>₩ 172,802,310</u>	<u>₩ 172,319,988</u>
Past due but not impaired (*1)		
Up to 3 months	281,077	673,931
Over 3 months	<u>34,138</u>	<u>70,593</u>
	<u>315,215</u>	<u>744,524</u>
Impaired (*2)		
Receivables not past due	2,398	-
Up to 3 months	-	-
Over 3 months	<u>214,294</u>	<u>221,607</u>
	<u>216,692</u>	<u>221,607</u>
	<u>₩ 173,334,217</u>	<u>₩ 173,286,119</u>

(*1) Trade receivables past due, but not impaired, relates to a number of clients for whom there is no recent history of doubtful debt.

(*2) Provisions for impaired receivables amount to ₩217 million as at December 31, 2021 (2020: ₩222 million).

Movements on the provision for impairment of trade receivables for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Beginning balance	₩ 311,267	₩ 303,452
Increase in provision for impairment recognized in profit or loss during the year	(61,553)	16,093
Receivables written off during the year as uncollectible	(11,849)	(8,278)
Ending balance	<u>₩ 237,865</u>	<u>₩ 311,267</u>

Provisions for impaired trade receivables are included in selling and general expenses in the statement of profit or loss. The provision for impairment of trade receivables is offset by trade receivables if the trade receivable is considered to be uncollectible.

The maximum exposure of trade and other receivables to credit risk at the reporting date is the book amount of each class of receivable mentioned above.

10. Other Current Assets and Non-current Assets

Other current assets and non-current assets as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other current assets:		
Advance payments	₩ 29,414,282	₩ 34,134,853
Prepaid expenses	2,839,496	3,633,719
Right to the returned goods	189,092	650,083
	<u>32,442,870</u>	<u>38,418,655</u>
Other non-current assets:		
Long-term prepaid expenses	390,000	750,000
Right to the returned goods	20,205	29,984
Right-of-use assets (see Note 16)	1,208,806	1,382,615
	<u>1,619,011</u>	<u>2,162,599</u>
	<u>₩ 34,061,881</u>	<u>₩ 40,581,254</u>

11. Inventories

Inventories as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021		
	Total	Provision for valuation	Net
Merchandise	₩ 46,634,955	₩ (3,202,118)	₩ 43,432,837
Finished goods	21,829,573	(933,931)	20,895,642
Work-in process	3,674,150	-	3,674,150
Raw materials	10,207,803	-	10,207,803
Packing materials	1,713,343	-	1,713,343
Inventories in transit	3,342,550	-	3,342,550
	<u>₩ 87,402,374</u>	<u>₩ (4,136,049)</u>	<u>₩ 83,266,325</u>
	December 31, 2020		
	Total	Provision for valuation	Net
Merchandise	₩ 42,552,398	₩ (636,334)	₩ 41,916,064
Finished goods	24,580,553	(1,217,657)	23,362,896
Work-in process	2,605,456	-	2,605,456
Raw materials	11,704,588	-	11,704,588
Packing materials	1,252,841	-	1,252,841
Inventories in transit	1,125,071	-	1,125,071
	<u>₩ 83,820,907</u>	<u>₩ (1,853,991)</u>	<u>₩ 81,966,916</u>

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩326,431 million (2020: ₩314,329 million).

The Company recognized losses on valuation of inventories based on net realizable value amounting to ₩1,443 million (2020: ₩123 million) and losses on other valuation amounting to ₩839 million (2020: ₩621 million) for the year ended December 31, 2021.

12. Other Financial Assets

Other financial assets and long-term other financial assets as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021	December 31, 2020
Other financial assets:		
Financial assets at amortized cost	₩ 5,000,000	₩ 10,000,000
Derivative financial assets (*)	433,763	-
	<u>₩ 5,433,763</u>	<u>₩ 10,000,000</u>
Long-term other financial assets:		
Guarantee deposits for checking accounts	₩ 5,000	₩ 5,000
	<u>₩ 5,000</u>	<u>₩ 5,000</u>

(*) Derivative financial assets are recognized as the fair value of the swap agreement entered into by the Company to hedge cash flow risk associated with the floating interest rate and currency exchange rate of borrowings in foreign currencies (see Note 38).

13. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2021 and 2020, are as follows
(Unit: in thousands of Korean won):

	2021			
	Land	Buildings and Structures	Machinery	Vehicles and tools
Opening net book amount	₩ 65,276,629	₩ 51,470,758	₩ 23,813,682	₩ 14,000,280
Acquisition	-	71,220	3,769,136	6,424,799
Reclassification	-	54,365,195	2,868,449	71,654
Disposal	(4,361,010)	(1,667,372)	(5,694)	(509,684)
Depreciation	-	(2,490,718)	(5,046,127)	(5,962,011)
Closing net book amount	<u>₩ 60,915,619</u>	<u>₩ 101,749,083</u>	<u>₩ 25,399,446</u>	<u>₩ 14,025,038</u>
Acquisition cost	₩ 60,915,619	₩ 142,552,595	₩ 85,312,916	₩ 45,777,379
Government grants	-	(116,478)	-	-
Accumulated depreciation	-	(40,687,034)	(59,913,470)	(31,752,341)
Net book amount	<u>₩ 60,915,619</u>	<u>₩ 101,749,083</u>	<u>₩ 25,399,446</u>	<u>₩ 14,025,038</u>

	2021		
	Financial lease assets	Construction in progress	Total
Opening net book amount	₩ 4	₩ 19,347,714	₩ 173,909,067
Acquisition	-	46,160,300	56,425,455
Reclassification	-	(58,457,038)	(1,151,740)
Disposal	-	-	(6,543,760)
Depreciation	-	-	(13,498,856)
Closing net book amount	<u>₩ 4</u>	<u>₩ 7,050,976</u>	<u>₩ 209,140,166</u>
Acquisition cost	₩ 271,850	₩ 7,050,976	₩ 341,881,335
Government grants	-	-	(116,478)
Accumulated depreciation	(271,846)	-	(132,624,691)
Net book amount	<u>₩ 4</u>	<u>₩ 7,050,976</u>	<u>₩ 209,140,166</u>

	2020			
	Land	Buildings and Structures	Machinery	Vehicles and tools
Opening net book amount	₩ 65,293,929	₩ 53,535,091	₩ 23,292,917	₩ 17,554,608
Acquisition	-	498	2,118,208	2,857,179
Reclassification	-	468,500	3,571,132	135,114
Disposal	(17,300)	(15,900)	(543)	(815,904)
Depreciation	-	(2,517,431)	(5,168,032)	(5,730,717)
Closing net book amount	<u>₩ 65,276,629</u>	<u>₩ 51,470,758</u>	<u>₩ 23,813,682</u>	<u>₩ 14,000,280</u>
Acquisition cost	₩ 65,276,629	₩ 90,711,001	₩ 78,752,870	₩ 42,431,709
Government grants	-	(209,661)	-	-
Accumulated depreciation	-	(39,030,582)	(54,939,188)	(28,431,429)
Net book amount	<u>₩ 65,276,629</u>	<u>₩ 51,470,758</u>	<u>₩ 23,813,682</u>	<u>₩ 14,000,280</u>

	2020		
	Financial lease assets	Construction in progress	Total
Opening net book amount	₩ 4	₩ 7,581,097	₩ 167,257,646
Acquisition	-	16,820,248	21,796,133
Reclassification	-	(4,763,991)	(589,245)
Disposal	-	(289,640)	(1,139,287)
Depreciation	-	-	(13,416,180)
Closing net book amount	<u>₩ 4</u>	<u>₩ 19,347,714</u>	<u>₩ 173,909,067</u>
Acquisition cost	₩ 271,850	₩ 19,347,714	₩ 296,791,773
Government grants	-	-	(209,661)
Accumulated depreciation	(271,846)	-	(122,673,045)
Net book amount	<u>₩ 4</u>	<u>₩ 19,347,714</u>	<u>₩ 173,909,067</u>

Details of depreciation expense for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021	2020
Cost of sales	₩ 7,352,087	₩ 7,406,402
Administrative and selling expense	5,698,015	5,457,536
Research and development expense	448,754	552,242
	<u>₩ 13,498,856</u>	<u>₩ 13,416,180</u>

Details of property, plant and equipment provided as collaterals as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021				
	Book amount	Secured amount	Related line item	Related amount	Secured party
Land, buildings, and investment property (Head office building)	₩ 83,299,588	₩ 36,000,000	Borrowings (see Note 20)	₩ 77,599,840	Korea Development Bank (*1)
		4,800,000	Rental deposits received (see Note 18)	4,000,000	Industrial Bank of Korea
		8,500,000	Sales contract	-	Siemens Co., Ltd.
		1,000,000	Sales contract	-	Beckman Coulter Korea Ltd.
		6,000,000	Sales contract	-	QIAGEN Korea., Ltd.
		4,700,000	Sales contract	-	Pfizer Korea., Ltd.
Land and buildings (Plant in Eumseong)	₩ 58,453,620	₩ 36,000,000	Borrowings (see Note 20)	₩ 77,599,840	Korea Development Bank (*1)
Land and buildings (Magok) (*2)	₩ 68,024,887	₩ 12,172,788	Borrowings (see Note 20)	₩ 77,599,840	Korea Development Bank (*1)

(*1) The Company provides the head office building, plant in Eumseong and land in Magok as collateral (₩84,173 million) for borrowings amounting to ₩77,600 million from the Korea Development Bank.

(*2) The Company plans to provides additional collateral (land and buildings totaling ₩72,000 million) for borrowings from the Korea Development Bank for the construction of a new office building in Magok after the current construction is complete.

		December 31, 2020				
	Book amount	Secured amount	Related line item	Related amount	Secured party	
Land, buildings, and investment property (Head office building)	₩ 83,635,270	₩ 36,000,000	Borrowings (see Note 20)	₩ 77,050,000	Korea Development Bank	
		4,800,000	Rental deposits received (see Note 15)	4,000,000	Industrial Bank of Korea	
		8,500,000	Sales contract	-	Siemens Co., Ltd.	
		1,000,000	Sales contract	-	Beckman Coulter Korea Ltd.	
		6,000,000	Sales contract	-	QIAGEN Korea., Ltd.	
Land and buildings (Plant in Eumseong)	₩ 61,036,081	₩ 36,000,000	Borrowings (see Note 20)	₩ 77,050,000	Korea Development Bank	
Land and buildings (Office in Jungwha-dong)	₩ 5,894,456	₩ 199,000	Rental deposits received (see Note 15)	₩ 199,000	SIST Co., Ltd.	
		4,700,000	Sales contract	-	Pfizer Korea Ltd.	
Land (Magok)	₩ 13,867,014	₩ 12,172,788	Borrowings (see Note 20)	₩ 77,050,000	Korea Development Bank	

In 2018 and 2017, the Company received government grants of ₩466 million from the Eumseong County Office in relation to the construction of Factory Tour Center.

During the year, the Company has capitalized borrowing costs amounting to ₩632 million (2020: ₩164 million) on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 2.42 percent (2020: 3.23 percent).

14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021				
	Goodwill	License	Industrial property rights	Other intangible assets	Total
Opening net book amount	₩ 38,151,899	₩ 20,741,461	₩ 2,695,194	₩ 7,426,101	₩ 69,014,655
Acquisition	-	-	45,163	381,679	426,842
Reclassification	-	-	129,963	1,021,777	1,151,740
Disposal	-	-	(7,775)	(28,805)	(36,580)
Amortization	-	(3,223,870)	(894,998)	(803,013)	(4,921,881)
Impairment	-	(263,223)	-	-	(263,223)
Closing net book amount	₩ 38,151,899	₩ 17,254,368	₩ 1,967,547	₩ 7,997,739	₩ 65,371,553
Acquisition cost	₩ 38,151,899	₩ 54,289,416	₩ 8,990,662	₩ 21,143,232	₩ 122,575,209
Government grants	-	-	(3,033)	-	(3,033)
Accumulated amortization and impairment	-	(37,035,048)	(7,020,082)	(13,145,493)	(57,200,623)
Net book amount	₩ 38,151,899	₩ 17,254,368	₩ 1,967,547	₩ 7,997,739	₩ 65,371,553
	2020				
	Goodwill	License	Industrial property rights	Other intangible assets	Total
Opening net book amount	₩ 38,151,899	₩ 22,416,213	₩ 3,482,152	₩ 7,240,734	₩ 71,290,998
Acquisition	-	1,466,520	51,868	682,306	2,200,694
Reclassification	-	-	68,793	520,452	589,245
Disposal	-	-	(22)	(134,008)	(134,030)
Amortization	-	(3,141,272)	(907,597)	(883,383)	(4,932,252)
Impairment	-	-	-	-	-
Closing net book amount	₩ 38,151,899	₩ 20,741,461	₩ 2,695,194	₩ 7,426,101	₩ 69,014,655
Acquisition cost	₩ 38,151,899	₩ 54,289,416	₩ 8,831,299	₩ 20,002,501	₩ 121,275,115
Government grants	-	-	(4,433)	-	(4,433)
Accumulated amortization and impairment	-	(33,547,955)	(6,131,672)	(12,576,400)	(52,256,027)
Net book amount	₩ 38,151,899	₩ 20,741,461	₩ 2,695,194	₩ 7,426,101	₩ 69,014,655

In 2015, the Company received government grants of ₩7 million in relation to foreign patents on glaucoma, which the Company uses to offset amortization expenses of patents.

Amortization expenses of intangible assets for the years ended December 31, 2021 and 2020, are as follows
(Unit: in thousands of Korean won):

	2021		2020	
Selling and administrative expenses	₩	2,373,795	₩	2,501,417
Cost of sales		254,997		205,583
Research and development expense		2,293,089		2,225,252
	₩	4,921,881	₩	4,932,252

Carrying amount and remaining amortization period of the major development project as at December 31, 2021 are as follows (Unit: in thousands of Korean won):

Related account	Name of separate asset	Carrying amount	Remaining amortization period
License	Technology transfer contract of Long Acting Human growth hormone (*)	₩ 13,625,694	6.5 years

(*) In 2012, the Company signed a technology transfer contract with Genexine, Inc., for the technology transfer of Long Acting Human growth hormone.

The Company recognized impairment losses on license for ₩263 million due to termination of contract in 2021. Impairment losses are included in other expenses within statement of comprehensive income (Unit: in thousands of Korean won).

Related account	Separate asset	Carrying amount	Impairment Loss		Recoverable amount valuation method
			2021	Accumulated	
License	Opsumit license (*)	₩ -	₩ (263,223)	₩ (263,223)	Value-in-use

(*) The Company has determined that the above project has no recoverable amount due to the termination of license contract.

The Company examines the memberships for impairment at the end of each reporting period, or when there are events that may indicate impairment. The recoverable value of memberships is estimated at net fair value, which is the price in an active market less the disposal cost.

Goodwill was allocated to the Company's cash generating units (CGU). Recoverable amounts of cash generating units are determined based on value-in-use calculations and the assumptions used for calculations are presented below:

Key assumptions	Pharmaceutical business department of Pacific Pharmaceuticals Co., Ltd.
Profit margin ratio	61.24% ~ 64.16%
Sales growth rate (*1)	5.78% ~ 8.42%
Terminal growth rate (*2)	0%
After-tax discount rate	7.38%

(*1) Sales growth is the weighted average annual growth rate over the five-year forecast period. It is based on population growth rate and long-term inflation forecasts.

(*2) Terminal growth rate was assumed to be 0 percent.

Impairment test suggests that the carrying amount of CGU does not exceed the recoverable amount.

15. Investment Properties

Changes in investment properties for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		
	Land	Building	Total
Opening net book amount	₩ 46,706,082	₩ 6,879,234	₩ 53,585,316
Depreciation	-	(215,072)	(215,072)
Closing net book amount	₩ 46,706,082	₩ 6,664,162	₩ 53,370,244
Acquisition cost	₩ 46,706,082	₩ 13,998,492	₩ 60,704,574
Accumulated Depreciation	-	(7,334,330)	(7,334,330)
Net book amount	₩ 46,706,082	₩ 6,664,162	₩ 53,370,244
	2020		
	Land	Building	Total
Opening net book amount	₩ 46,706,082	₩ 7,094,306	₩ 53,800,388
Depreciation	-	(215,072)	(215,072)
Closing net book amount	₩ 46,706,082	₩ 6,879,234	₩ 53,585,316
Acquisition cost	₩ 46,706,082	₩ 13,998,492	₩ 60,704,574
Accumulated Depreciation	-	(7,119,258)	(7,119,258)
Net book amount	₩ 46,706,082	₩ 6,879,234	₩ 53,585,316

Fair value of investment properties as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Land	₩ 59,177,852	₩ 59,177,852
Building	9,461,702	9,461,702
	<u>₩ 68,639,554</u>	<u>₩ 68,639,554</u>

The fair value of investment properties as at December 31, 2021 was evaluated on October 25, 2018 by an independent third-party real estate appraiser, Dae Hwa Co., Ltd., who has been determined to have the sufficient qualifications and experience to appraise real estate in the corresponding location.

Rent income and expenses from investment properties for the year ended December 31, 2021 are ₩3,950 million (2020: ₩3,912 million) and ₩1,838 million (2020: ₩1,833 million), respectively.

16. Lease

The Company leases buildings and vehicles, where the lease provider retains legal ownership of the right-of-use assets.

Details of right-of-use assets as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>		
	<u>Buildings</u>	<u>Vehicles</u>	<u>Total</u>
Acquisition cost	₩ 47,517	₩ 2,283,213	₩ 2,330,730
Accumulated Depreciation	(3,721)	(1,118,203)	(1,121,924)
Net book amount	<u>₩ 43,796</u>	<u>₩ 1,165,010</u>	<u>₩ 1,208,806</u>
	<u>2020</u>		
	<u>Buildings</u>	<u>Vehicles</u>	<u>Total</u>
Acquisition cost	₩ 251,662	₩ 2,371,322	₩ 2,622,984
Accumulated Depreciation	(167,775)	(1,072,594)	(1,240,369)
Net book amount	<u>₩ 83,887</u>	<u>₩ 1,298,728</u>	<u>₩ 1,382,615</u>

Changes in the book amounts of right-of-use assets for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021					
	Buildings		Vehicles		Total	
Opening net book amount	₩	83,887	₩	1,298,728	₩	1,382,615
Increase		47,517		566,255		613,772
Decrease		(4,997)		(140,459)		(145,456)
Depreciation		(82,611)		(559,514)		(642,125)
Closing net book amount	₩	43,796	₩	1,165,010	₩	1,208,806

	2020					
	Buildings		Vehicles		Total	
Opening net book amount	₩	209,718	₩	1,215,069	₩	1,424,787
Increase		-		789,728		789,728
Decrease		-		(183,257)		(183,257)
Depreciation		(125,831)		(522,812)		(648,643)
Closing net book amount	₩	83,887	₩	1,298,728	₩	1,382,615

Details of related expenses included in the statement of profits or loss for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Right-of-use assets depreciation expense	₩	(642,125)	₩	(648,643)
Lease liabilities interest expense		(33,685)		(36,415)
Right-of-use assets interest revenue		2,375		2,577
Short-term lease related expenses		(94,000)		(54,600)
Petty asset lease related expenses		(36,282)		(32,885)

The book amounts of short-term lease contracts held by the Company as at December 31, 2021, is ₩20 million.

Total cash flows attributed to leases for the year ended December 31, 2021, is ₩796 million.

17. Investments in Subsidiaries and Associates

Details of investments in subsidiaries and associates as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

Company	Location	Percentage of ownership (%)	December 31, 2021	December 31, 2020
Subsidiaries:				
Theravalues Corporation	Japan	100.00	₩ 17,181,000	₩ 25,107,000
Unins (HK) International, Ltd.	Hong Kong	100.00	159,065	159,065
JUST-C, Inc. (*1)	U.S.A.	-	-	-
Innocuve Inc. (*2)	Korea	100.00	200,000	-
Associates:				
Kalos Medical Inc. (*3)	Korea	49.96	996,300	996,300
Teva-Handok Pharma Co., Ltd. (*4)	Korea	49.00	23,520,000	23,520,000
Genexine, Inc. (*5)	Korea	15.11	51,858,595	51,858,595
NB Postech, Inc.	Korea	34.99	6,437,000	3,894,000
TRIGR Therapeutics, Inc. (*6)	U.S.A.	-	-	5,692,500
Joint ventures:				
Rezolute, Inc. (*7)	U.S.A.	17.90	35,889,547	30,034,547
			<u>₩ 136,241,507</u>	<u>₩ 141,262,007</u>

(*1) In 2021, JUST-C, Inc. was liquidated and subsequently excluded from the list of subsidiaries.

(*2) In 2021, Innocuve Inc. was established with 100 percent ownership by the Company.

(*3) The percentage of ownership is 49.96 percent, and the percentage of voting rights of the Company is 39.2 percent due to convertible preferred shares with voting rights. In 2021, Handok Kalos Medical Inc. changed its name to Kalos Medical Inc.

(*4) The percentage of ownership is 49 percent, and the percentage of voting rights of the Company is 40 percent due to non-voting stock.

(*5) Although the Company holds less than 20 percent, the Company has significant influence over the entity as the Company's CEO participates in the investing company's Board of Directors.

(*6) In 2021, TRIGR Therapeutics, Inc., agreed to a merger with Compass Therapeutics, Inc. The Company determined that the Company no longer has significant influence over the entity and subsequently excluded TRIGR Therapeutics, Inc. from the list of associates.

(*7) According to a joint venture agreement between the Company and Genexine, Inc., the Company and Genexine Inc. maintain equal controlling interests in Rezolute, Inc. The Company considered such contractual relationship to determine the classification of the investment as a joint venture.

Changes in investments in subsidiaries and associates for the years ended December 31, 2021 and 2020 are as follows (Unit: in thousands of Korean won):

	2021		2020	
Beginning balance	₩	141,262,007	₩	135,950,650
Acquisition		6,055,000		14,599,711
Disposal		-		(20,372)
Reclassification		(5,692,500)		-
Impairment loss (Reversal of impairment loss)		(5,383,000)		(9,267,982)
Ending balance	₩	<u>136,241,507</u>	₩	<u>141,262,007</u>

Summary of condensed financial information of major subsidiaries and associates as of and for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021											
	Assets		Liabilities		Revenue		Gain (loss) from continuing operations	Other comprehensive income	Total comprehensive income			
Unins (HK) International, Ltd.	₩	140,686	₩	17,260	₩	-	₩	(3,738)	₩	9,657	₩	5,919
Theravalues Corporation		5,570,273		1,779,331		6,875,158		1,071,441		(75,207)		996,234
JUST-C, Inc. (*1)		-		-		14,720		302,482		(4,322)		298,160
Innocuve Inc.		200,000		92,860		-		(91,420)		-		(91,420)
Kalos Medical Inc.		3,018,215		11,932,775		-		(7,333,971)		11,174		(7,322,797)
Teva-Handok Pharma Co., Ltd.		23,178,785		7,822,160		26,678,143		853,842		227,900		1,081,742
Genexine, Inc.		639,925,862		113,609,635		36,828,455		(44,003,404)		17,620,206		(26,383,198)
NB Postech, Inc.		4,658,504		6,323,079		4,757,067		437,848		-		437,848
Rezolute, Inc.		45,949,024		20,391,786		-		(28,745,542)		3,514,718		(25,230,824)
TRIGR Therapeutics, Inc. (*2)		4,381,512		3,993,025		7,817,880		(1,156,636)		(71,378)		(1,228,014)

(*1) The summary of condensed financial information is before JUST-C, Inc. was excluded from the list of subsidiaries.

(*2) The summary of condensed financial information is before TRIGR Therapeutics, Inc. was excluded from the list of associates.

		2020 (*)											
		Assets		Liabilities		Revenue		Gain (loss) from continuing operations		Other comprehensive income		Total comprehensive income	
Unins (HK) International, Ltd.	₩	133,440	₩	15,934	₩	-	₩	(6,702)	₩	(6,804)	₩	(13,506)	
Theravalues Corporation		5,091,021		2,296,313		6,773,116		43,663		(26,058)		17,605	
JUST-C, Inc.		277,975		569,419		59,611		(188,158)		(68,674)		(256,832)	
Handok Kalos Medical Inc.		8,965,310		11,544,697		-		(6,404,094)		(47,751)		(6,451,845)	
Teva-Handok Pharma Co., Ltd.		24,389,576		10,158,349		29,585,237		5,246,261		(433,058)		4,813,203	
Genexine, Inc.		596,907,821		60,374,712		18,543,495		27,535,896		119,697,905		147,233,801	
NB Postech, Inc.		2,100,467		4,202,890		235,738		(2,933,416)		-		(2,933,416)	
Rezolute, Inc.		44,344,131		3,294,464		-		(22,271,084)		(2,448,559)		(24,719,643)	
TRIGR Therapeutics, Inc.		481,202		2,056,794		-		(2,462,819)		117,195		(2,345,624)	

(*) The above summary of condensed financial information of subsidiaries and associates is a summary of financial information after the acquisition date.

Fair value of marketable investments in associates as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021				December 31, 2020			
	Fair value		Book amount		Fair value		Book amount	
Genexine, Inc.	₩	220,433,291	₩	51,858,595	₩	469,980,413	₩	51,858,595
Rezolute, Inc.		15,780,156		35,889,547		26,292,322		30,034,547

18. Trade and Other Payables

Details of trade and other payables as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Trade payables	₩ 91,732,989	₩ 92,705,630
Other payables	44,364,770	30,617,176
	<u>136,097,759</u>	<u>123,322,806</u>
Long-term other payables	7,415,421	7,664,016
	<u>₩ 143,513,180</u>	<u>₩ 130,986,822</u>

Book amounts of other payables as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other payables:		
Non-trade payables	₩ 40,148,861	₩ 25,070,288
Accrued expenses	4,165,665	5,496,644
Short-term deposits received	50,244	50,244
	<u>₩ 44,364,770</u>	<u>₩ 30,617,176</u>
Long-term other payables:		
Rental deposits received	₩ 7,124,200	₩ 7,114,200
Deposits received	25,870	25,870
Long-term accrued expenses	265,351	523,946
	<u>₩ 7,415,421</u>	<u>₩ 7,664,016</u>

19. Other Liabilities

Other current liabilities and other non-current liabilities as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other current liabilities:		
VAT payable	₩ 2,431,587	₩ 2,839,596
Advance receipts	649,828	574,546
Withholdings	722,153	610,564
	<u>₩ 3,803,568</u>	<u>₩ 4,024,706</u>
Other non-current liabilities:		
Long-term advance receipts	₩ 56,425	₩ 124,135
	<u>₩ 56,425</u>	<u>₩ 124,135</u>

20. Borrowings and Other Financial Liabilities

Borrowings and other financial liabilities as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Current:		
Short-term borrowings	₩ 118,164,960	₩ 49,050,160
Other financial liabilities	816,605	600,508
Current portion of debentures	-	30,000,000
Less: discount on debentures	-	(16,508)
	<u>118,981,565</u>	<u>79,634,160</u>
Non-current:		
Long-term other financial liabilities	900,052	6,649,273
Long-term borrowings	54,709,880	118,399,840
Debentures	85,000,000	35,000,000
Less: discount on debentures	(923,821)	(552,800)
	<u>139,686,111</u>	<u>159,496,313</u>
	<u>₩ 258,667,676</u>	<u>₩ 239,130,473</u>

Changes in borrowings for the years ended in December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>	<u>2020</u>
Opening net book amounts	₩ 167,450,000	₩ 113,456,000
Additional borrowings	227,000,000	238,254,000
Repayments of borrowings	(226,450,160)	(179,300,000)
Conversion of borrowings	4,875,000	(4,960,000)
Closing net book amounts	<u>₩ 172,874,840</u>	<u>₩ 167,450,000</u>

Details of short-term borrowings as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	Creditor	Interest rate (%)	Latest maturity date	December 31, 2021	December 31, 2020	Payment method
Borrowings from bank	Korea Development Bank (*1)	3M CD +0.75	September 2, 2022	₩ 10,000,000	₩ 10,000,000	Lump sum payment
	Korea Development Bank (*1)	3M CD +0.75	September 2, 2022	10,000,000	10,000,000	Lump sum payment
	Korea Development Bank (*1)	3M CD +0.75	September 2, 2022	10,000,000	10,000,000	Lump sum payment
	Korea Development Bank (*1)	1.24	February 10, 2022	2,100,000	4,550,000	Lump sum payment
	Korea Development Bank (*1)	1.24	February 10, 2022	7,200,000	7,200,000	Lump sum payment
	Korea Development Bank (*1)	1.24	February 10, 2022	5,300,000	5,300,000	Lump sum payment
	Korea Development Bank (*1, *2)	1Y IFD +0.51	October 26, 2022	811,476	811,676	Installment payment
	Korea Development Bank (*1, *2)	1Y IFD +0.51	October 26, 2022	1,188,484	1,188,484	Installment payment
	Suhyup Bank (*2)	3M Libor +2.0	May 26, 2022	5,927,500	-	Lump sum payment
	Suhyup Bank (*2)	3M Libor +2.15	September 16, 2022	5,927,500	-	Lump sum payment
	Woori Bank (*2)	3M CD +1.84	October 15, 2022	6,000,000	-	Lump sum payment
	KEB Hana Bank, Hong Kong branch (*2)	3M Libor +1.9	October 31, 2022	23,710,000	-	Lump sum payment
Others	KB Handok First Limited (*2)	2.78	October 7, 2022	30,000,000	-	Installment payment
				<u>₩ 118,164,960</u>	<u>₩ 49,050,160</u>	

(*1) The borrowings are collateralized with land, building, and investment properties (see Notes 13 and 38).

(*2) Long-term borrowings in 2020 have been reclassified to current portion in 2021.

Details of long-term borrowings as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	Creditor	Interest rate (%)	Latest maturity date	December 31, 2021	December 31, 2020	Payment method
Borrowings from bank	Korea Development Bank (*1, 2)	1Y IFD +0.51	October 27, 2025	₩ 2,434,444	₩ 3,245,920	Installment payment
	Korea Development Bank (*1, 2)	1Y IFD +0.51	October 27, 2025	3,565,436	4,753,920	Installment payment
	Korea Development Bank (*1)	1Y IFD +0.99	January 20, 2030	20,000,000	20,000,000	Installment payment
	Korea Development Bank (*1)	1Y IFD +1.04	January 20, 2030	5,000,000	-	Installment payment
	KEB Hana Bank, Hong Kong branch (*3, *4)	3M Libor +1.90	October 31, 2022	-	21,760,000	Lump sum payment
	Suhyup Bank (*3, *4)	3M Libor +2.00	May 26, 2022	-	5,440,000	Lump sum payment
	Suhyup Bank (*3, *4)	3M Libor +2.15	September 16, 2022	-	5,440,000	Lump sum payment
	KEB Hana Bank (*3)	3M Libor + 2.604	June 25, 2023	23,710,000	21,760,000	Lump sum payment
	Woori Bank	3M CD +1.84	October 5, 2022	-	6,000,000	Lump sum payment
Others	KB Handok First Limited (*4)	2.78	October 7, 2022	-	30,000,000	Lump sum payment
				<u>₩ 54,709,880</u>	<u>₩ 118,399,840</u>	

(*1) The borrowings are collateralized with land, building, and investment properties (see Notes 13 and 38).

(*2) Part of borrowings have been reclassified to current portion as short-term borrowings.

(*3) The Company has entered into a currency swap agreement with KEB Hana Bank and Suhyup Bank for the amount USD 50 million to hedge cash flow risk associated with the changes in interest rate and currency exchange rate for long-term borrowings in foreign currencies (see Note 38).

(*4) Long-term borrowings in 2020 have been reclassified to current portion in 2021.

Details of debentures as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

Type	Maturity date	Interest rate (%)	December 31, 2021	December 31, 2020
35 th Bearer, with coupon and non-guaranteed	July 12, 2021	3.700	-	30,000,000
36 th Bearer, with coupon and non-guaranteed	June 25, 2023	2.083	20,000,000	20,000,000
37 th Bearer, with coupon and non-guaranteed	July 23, 2023	1.927	15,000,000	15,000,000
38 th Bearer, with coupon and non-guaranteed	June 28, 2024	2.386	50,000,000	-
Sub-total			85,000,000	65,000,000
Less: discount on debentures			(923,821)	(569,308)
Sub-total			84,076,179	64,430,692
Less: current portion			-	(29,983,492)
Total			₩ 84,076,179	₩ 34,447,200

Details of other financial liabilities and long-term other financial liabilities as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021	December 31, 2020
Other financial liabilities:		
Derivative financial liabilities (*1)	₩ 281,005	₩ -
Lease liabilities	533,909	600,508
Financial guarantee liabilities (*2)	1,691	-
	816,605	600,508
Long-term other financial liabilities:		
Financial guarantee liabilities (*2)	38,260	53,074
Lease liabilities	689,053	799,718
Derivative financial liabilities (*1)	172,739	5,796,481
	900,052	6,649,273
Total	₩ 1,716,657	₩ 7,249,781

(*1) Derivative financial liabilities categorized as other financial liabilities and long-term other financial liabilities are recognized as the fair value of the swap agreement entered into by the Company to hedge cash flow risk associated with the floating interest rate and currency exchange rate of long-term borrowings in foreign currencies (see Note 38).

(*2) The Company provided financial guarantee contracts of JPY 45,699,296 and JPY 150,000,000 for office rental contracts and payment of payables on price of goods, respectively, of Theravalues Corporation, a subsidiary, and related financial guarantee expenses were recorded as liabilities.

21. Provisions for Other Liabilities

Changes in provisions for other liabilities for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021			
	Reserve for incentive	Refund liability	Government grants repayable	Total
Beginning balance	₩ 4,970,115	₩ 3,574,114	₩ 1,910,488	₩ 10,454,717
Statement of profit or loss:				
Provision	4,921,090	6,421,667	59,784	11,402,541
Settlement	(4,900,466)	(1,187,991)	(55,203)	(6,143,660)
Ending balance:	₩ 4,990,739	₩ 8,807,790	₩ 1,915,069	₩ 15,713,598
Current	₩ 4,990,739	₩ 7,774,536	₩ 20,521	₩ 12,785,796
Non-current	-	1,033,254	1,894,548	2,927,802
	2020			
	Reserve for incentive	Refund liability	Government grants repayable	Total
Beginning balance	₩ 4,761,801	₩ 4,347,045	₩ 2,028,516	₩ 11,137,362
Statement of profit or loss:				
Provision	4,687,247	399,968	59,348	5,146,563
Settlement	(4,478,933)	(1,172,899)	(177,376)	(5,829,208)
Ending balance:	₩ 4,970,115	₩ 3,574,114	₩ 1,910,488	₩ 10,454,717
Current	₩ 4,970,115	₩ 2,574,801	₩ 15,940	₩ 7,560,856
Non-current	-	999,313	1,894,548	2,893,861

22. Employee Benefit Obligations

22.1 Defined Benefit Plan

Details of employee benefit obligations as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021	December 31, 2020
Net defined benefit liabilities	₩ 990,863	₩ 5,698,190
Other long-term employee benefits	2,369,615	2,545,724
	₩ 3,360,478	₩ 8,243,914

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Present value of funded defined benefit obligations	₩ 72,062,601	₩ 69,988,077
Fair value of plan assets (*)	<u>(71,071,738)</u>	<u>(64,289,887)</u>
Net defined benefit liabilities	<u>₩ 990,863</u>	<u>₩ 5,698,190</u>

(*) The contributions to the National Pension Fund of ₩50 million (2020: ₩55 million) are added to the fair value of plan assets as at December 31, 2021.

Movements in the defined benefit obligations for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>	<u>2020</u>
Beginning balance	₩ 69,988,077	₩ 66,957,935
Current service cost	6,950,293	7,194,852
Interest expenses	1,329,069	1,403,524
Remeasurements:		
Actuarial gains (losses) from change in financial assumptions	(2,696,628)	(1,882,060)
Actuarial gains (losses) from change in demographic assumptions	(77,307)	-
Actuarial gains from experience adjustments	1,783,950	712,194
Payments from plans:		
Benefit payments	(5,214,853)	(4,398,368)
Transfer to affiliated companies	-	-
Ending balance	<u>₩ 72,062,601</u>	<u>₩ 69,988,077</u>

Movements in the fair value of plan assets for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>	<u>2020</u>
Beginning balance	₩ 64,289,887	₩ 60,559,494
Interest income	1,105,579	1,164,955
Remeasurements:		
Return on plan assets (excluding amounts included in interest income)	(108,368)	(39,771)
Contributions:		
Employers	11,000,000	7,000,000
Payments from plans:		
Benefit payments	(5,215,360)	(4,394,791)
Ending balance	<u>₩ 71,071,738</u>	<u>₩ 64,289,887</u>

Total costs that are recognized on the statements of profit or loss for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>	<u>2020</u>
Cost of sales	₩ 2,106,475	₩ 1,823,566
Selling and administrative expenses	4,406,946	4,932,708
Ordinary research and development	660,362	677,148
	<u>₩ 7,173,783</u>	<u>₩ 7,433,422</u>

Actuarial gains or losses recognized as other comprehensive income for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>	<u>2020</u>
Actuarial gains (losses) before income tax	₩ 881,617	₩ 1,130,096
Income tax effect	(213,352)	(273,483)
Actuarial gains (losses) after income tax	<u>₩ 668,265</u>	<u>₩ 856,613</u>

Plan assets are composed of cash and cash equivalents.

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Discount rate	2.70%	2.10%
Salary growth rate	3.62%	3.62%

The sensitivity of the defined benefit obligation as at December 31, 2021, to changes in the weighted principal assumptions is as follows:

	<u>Impact on defined benefit obligation</u>		
	<u>Changes in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Discount rate	1.00%	6.0% decrease	6.0% increase
Salary growth rate	1.00%	6.0% increase	6.0% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principle 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 previous period.

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

Expected contributions to post-employment benefit plans for the year ending December 31, 2022, are ₩7,267 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2021, is as follows (Unit: in thousands of Korean won):

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Pension benefits	₩ 7,174,986	₩ 10,533,031	₩ 23,773,909	₩ 41,712,580	₩ 83,194,506

The weighted average duration of the defined benefit obligations is 6.04 years.

22.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩263 million (2020: ₩251 million). Retirement consolation benefits of ₩124 million (2020: ₩57 million) was recognized separately on the statement of profits and loss for the year ended December 31, 2021 (see Note 30).

23. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>	<u>2020</u>
Current income tax:		
Current income tax on profits for the year	₩ 6,515,559	₩ 12,881,652
Adjustments in respect of prior years	11,691	(440,662)
Total current income tax	<u>6,527,250</u>	<u>12,440,990</u>
Deferred tax:		
Change in deferred tax on temporary differences	(1,518,495)	32,858
Income tax directly recognized in equity	(313,642)	(347,668)
Income tax expense	<u>₩ 4,695,113</u>	<u>₩ 12,126,180</u>

The income tax expense on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory tax rates as follows (Unit: in thousands of Korean won):

	2021		2020	
Profit before income tax	₩	16,029,950	₩	20,909,220
Income tax expense at statutory tax rates (*)		3,879,248		5,060,031
Tax effects of:				
Income not taxable for tax purposes		(2,764,689)		(2,446,096)
Expenses not deductible for tax purposes		5,991,889		5,368,378
Tax credit		(1,099,127)		(625,534)
Others		(1,312,208)		4,769,401
Income tax expense	₩	4,695,113	₩	12,126,180

(*) Income tax expense at statutory tax rates was calculated using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Income tax effects related to components of other comprehensive income for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021			2020		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liability	₩ 881,617	₩ (213,352)	₩ 668,265	₩ 1,130,096	₩ (273,483)	₩ 856,613
Cash flow hedge	414,425	(100,291)	314,134	306,551	(74,185)	232,366
Income tax effect	₩ 1,296,042	₩ (313,643)	₩ 982,399	₩ 1,436,647	₩ (347,668)	₩ 1,088,979

The analysis of deferred tax assets and liabilities as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Deferred tax assets:				
Deferred tax assets to be recovered after 12 months	₩	4,980,287	₩	6,130,692
Deferred tax assets to be recovered within 12 months		6,495,333		5,127,746
Deferred tax liabilities:				
Deferred tax liability to be recovered after 12 months		(24,738,526)		(27,319,561)
Deferred tax liability to be recovered within 12 months		(45,760)		1,233,962
Deferred tax liabilities, net	₩	(13,308,666)	₩	(14,827,161)

The movements in deferred tax assets and liabilities for the years ended December 31, 2021 and 2020, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows (Unit: in thousands of Korean won):

	2021			
	Beginning	Statement of profit or loss	Equity	Ending
Deferred tax liabilities:				
Financial assets at fair value through profit or loss (valuation)	₩ (1,464,006)	₩ 1,464,006	₩ -	₩ -
Gains(losses) on revaluation	(19,895,168)	986,932	-	(18,908,236)
Impairment losses on investments in associates	(4,529,963)	(1,032,146)	-	(5,562,109)
Advanced depreciation provision	(30,219)	-	-	(30,219)
Derivative financial liabilities	-	(225,381)	-	(225,381)
Right to the returned goods	(164,576)	113,926	-	(50,650)
Accrued income	(1,667)	(6,024)	-	(7,691)
	<u>(26,085,599)</u>	<u>1,301,313</u>	<u>-</u>	<u>(24,784,286)</u>
Deferred tax assets:				
Accrued expense	2,380,054	(185,434)	-	2,194,620
Reserve for incentive bonuses	1,202,768	4,991	-	1,207,759
Post-employment benefit obligations	2,058,260	(435,629)	(213,351)	1,409,280
Long-term employee benefits	616,065	(42,618)	-	573,447
Government grants	360,262	(21,780)	-	338,482
Derivative financial liabilities	1,172,533	(1,072,242)	(100,291)	-
Refund liability	864,936	1,266,549	-	2,131,485
Losses on valuation of inventories	421,330	579,594	-	1,000,924
Accumulated depreciation	1,203,851	(50,499)	-	1,153,352
Lease liabilities	4,262	(836)	-	3,426
Impairment losses on intangible assets	30,492	-	-	30,492
Financial assets at fair value through other comprehensive income (valuation)	261,424	-	-	261,424
Financial assets at fair value through profit or loss (valuation)	-	842,823	-	842,823
Donations	11,217	(7,029)	-	4,188
Bad debt expense	5,470	2,653	-	8,123
Short-term loans	3,709	-	-	3,709
Deemed depreciation	32,164	(1,037)	-	31,127
Other guarantee liabilities	12,844	(3,176)	-	9,668
Payment guarantee fees	9,884	217	-	10,101
Stock options	606,913	(345,723)	-	261,190
	<u>11,258,438</u>	<u>530,824</u>	<u>(313,642)</u>	<u>11,475,620</u>
	<u>₩ (14,827,161)</u>	<u>₩ 1,832,137</u>	<u>₩ (313,642)</u>	<u>₩ (13,308,666)</u>

2020

	Beginning	Statement of profit or loss	Equity	Ending
Deferred tax liabilities:				
Financial assets at fair value through profit or loss (valuation)	₩ -	₩ (1,464,006)	₩ -	₩ (1,464,006)
Losses on revaluation	(19,899,015)	3,847	-	(19,895,168)
Impairment losses on investments in associates	(3,755,430)	(774,533)	-	(4,529,963)
Advanced depreciation provision	(30,837)	618	-	(30,219)
Derivative financial liabilities	(223,745)	223,745	-	-
Right to the returned goods	(255,393)	90,817	-	(164,576)
Accrued income	(4,828)	3,161	-	(1,667)
	<u>(24,169,248)</u>	<u>(1,916,351)</u>	<u>-</u>	<u>(26,085,599)</u>
Deferred tax assets:				
Accrued expense	1,310,418	1,069,636	-	2,380,054
Reserve for incentive bonuses	1,152,356	50,412	-	1,202,768
Post-employment benefit obligations	2,310,050	21,693	(273,483)	2,058,260
Long-term employee benefits	546,480	69,585	-	616,065
Government grants	411,798	(51,536)	-	360,262
Derivative financial liabilities	-	1,246,718	(74,185)	1,172,533
Refund liability	1,051,985	(187,049)	-	864,936
Losses on valuation of inventories	268,423	152,907	-	421,330
Accumulated depreciation	1,160,054	43,797	-	1,203,851
Lease liabilities	1,979	2,283	-	4,262
Impairment losses on intangible assets	87,101	(56,609)	-	30,492
Financial assets at fair value through other comprehensive income (valuation)	261,424	-	-	261,424
Financial assets at fair value through profit or loss (valuation)	344,830	(344,830)	-	-
Donations	62,678	(51,461)	-	11,217
Bad debt expense	10,688	(5,218)	-	5,470
Short-term loans	7,119	(3,410)	-	3,709
Deemed depreciation	33,202	(1,038)	-	32,164
Other guarantee liabilities	13,856	(1,012)	-	12,844
Payment guarantee fees	14,390	(4,506)	-	9,884
Stock options	326,114	280,799	-	606,913
	<u>9,374,945</u>	<u>2,231,161</u>	<u>(347,668)</u>	<u>11,258,438</u>
	<u>₩ (14,794,303)</u>	<u>₩ 314,810</u>	<u>₩ (347,668)</u>	<u>₩ (14,827,161)</u>

The Company recognized deferred tax assets for the tax effects of temporary differences to the extent that taxable income will be available in the future based upon the Company's performance, the market environment, forecasts of future profitability and other factors. The Company periodically reassesses these factors. As at December 31, 2021, the Company recognized the temporary differences of these income tax effects as deferred tax assets.

24. Share Capital

The Company's total number of authorized shares is 30,000,000 shares and total number of ordinary shares issued is 13,763,533 shares with a par value of ₩500 per share.

25. Share-based payments

Cash-settled share-based payment stock options are granted to directors and employees and the details are as follows:

Commitment type	Grant date	Cash-settled share-based payment		Exercise price at grant date	Exercisable period
		Outstanding stock options	Settlement method		
Grant stock options (director and employees)	November 9, 2013	56,900 shares	Net cash settlement	17,250 won	November 9, 2018 ~ November 8, 2023
Grant stock options (director and employees)	February 12, 2015	3,200 shares	Net cash settlement	20,350 won	February 12, 2020 ~ February 11, 2025
Grant stock options (director and employees)	August 19, 2015	1,000 shares	Net cash settlement	32,300 won	August 19, 2020 ~ August 18, 2025
Grant stock options (director and employees)	December 8, 2015	19,000 shares	Net cash settlement	28,800 won	December 8, 2020 ~ December 7, 2025
Grant stock options (director and employees)	February 4, 2016	3,000 shares	Net cash settlement	35,800 won	February 4, 2021 ~ February 3, 2026
Grant stock options (director and employees)	May 19, 2016	32,850 shares	Net cash settlement	38,400 won	May 19, 2021 ~ May 18, 2026
Grant stock options (director and employees)	November 3, 2016	1,500 shares	Net cash settlement	25,150 won	November 3, 2021 ~ November 2, 2026
Grant stock options (director and employees)	May 16, 2017	10,950 shares	Net cash settlement	23,800 won	May 16, 2022 ~ May 15, 2027
Grant stock options (director and employees)	August 30, 2017	1,500 shares	Net cash settlement	24,050 won	August 30, 2022 ~ August 29, 2027
Grant stock options (director and employees)	December 14, 2017	550 shares	Net cash settlement	27,750 won	December 14, 2022 ~ December 13, 2027
Grant stock options (director and employees)	February 8, 2018	2,400 shares	Net cash settlement	35,550 won	February 8, 2023 ~ February 7, 2028
Grant stock options (director and employees)	March 22, 2018	5,400 shares	Net cash settlement	40,000 won	March 22, 2023 ~ March 21, 2028

Commitment type	Grant date	Cash-settled share-based payment		Exercise price at grant date	Exercisable period
		Outstanding stock options	Settlement method		
Grant stock options (director and employees)	July 19, 2018	3,650 shares	Net cash settlement	27,600 won	July 19, 2023 ~ July 18, 2028
Grant stock options (director and employees)	September 3, 2018	900 shares	Net cash settlement	28,650 won	September 3, 2023 ~ September 2, 2028
Grant stock options (director and employees)	November 6, 2018	1,550 shares	Net cash settlement	25,750 won	November 6, 2023 ~ November 5, 2028
Grant stock options (director and employees)	December 10, 2018	1,500 shares	Net cash settlement	28,150 won	December 10, 2023 ~ December 9, 2028
Grant stock options (director and employees)	February 12, 2019	3,050 shares	Net cash settlement	27,900 won	February 12, 2024 ~ February 11, 2029
Grant stock options (director and employees)	March 15, 2019	400 shares	Net cash settlement	33,000 won	March 15, 2024 ~ March 14, 2029
Grant stock options (director and employees)	March 28, 2019	300 shares	Net cash settlement	30,700 won	March 28, 2024 ~ March 27, 2029
Grant stock options (director and employees)	July 11, 2019	5,850 shares	Net cash settlement	26,150 won	July 11, 2024 ~ July 10, 2029
Grant stock options (director and employees)	October 31, 2019	2,800 shares	Net cash settlement	21,900 won	October 31, 2024 ~ October 30, 2029
Grant stock options (director and employees)	December 10, 2019	3,500 shares	Net cash settlement	21,900 won	December 10, 2024 ~ December 9, 2029
Grant stock options (director and employees)	March 3, 2020	2,500 shares	Net cash settlement	22,900 won	March 3, 2025 ~ March 2, 2030
Grant stock options (director and employees)	May 14, 2020	6,000 shares	Net cash settlement	24,100 won	May 14, 2025 ~ May 13, 2030
Grant stock options (director and employees)	June 23, 2020	1,700 shares	Net cash settlement	28,900 won	June 23, 2025 ~ June 22, 2030
Grant stock options (director and employees)	August 31, 2020	3,000 shares	Net cash settlement	38,550 won	August 31, 2025 ~ August 30, 2030
Grant stock options (director and employees)	November 11, 2020	9,600 shares	Net cash settlement	32,550 won	November 11, 2025 ~ November 10, 2030
Grant stock options (director and employees)	February 10, 2021	3,900 shares	Net cash settlement	30,800 won	February 10, 2026 ~ February 9, 2031
Grant stock options (director and employees)	March 17, 2021	3,000 shares	Net cash settlement	28,400 won	March 17, 2026 ~ March 16, 2031

Commitment type	Grant date	Cash-settled share-based payment			Exercisable period
		Outstanding stock options	Settlement method	Exercise price at grant date	
Grant stock options (director and employees)	June 22, 2021	2,400 shares	Net cash settlement	28,400 won	June 22, 2026 ~ June 21, 2031
Grant stock options (director and employees)	October 29, 2021	6,000 shares	Net cash settlement	24,700 won	October 29, 2026 ~ October 28, 2031
Grant stock options (director and employees)	December 16, 2021	4,600 shares	Net cash settlement	23,000 won	December 16, 2026 ~ December 15, 2031

Since the Company chose the net cash settlement method as the settlement method upon exercise of stock options, the Company recalculated the fair value of the net cash settlement at the end of each reporting period and recognized related profit or loss and liabilities.

Changes in the number of stock options outstanding and their related weighted average exercise prices for the year ended December 31, 2021, are as follows (Unit: in Korean won):

	Options (in number of shares)	Average exercise price per stock option
Beginning balance	200,200	₩ 25,089
Granted	19,900	26,507
Cancellation	15,650	27,060
Ending balance	204,450	₩ 26,684

Compensation costs of stock options are calculated by applying a fair value approach. The related assumptions and variables to calculate the compensation costs are as follows (Unit: in Korean won):

Grant date	Fair value as at December 31, 2021	Stock price at valuation date	Exercise price	Expected price volatility (*)	Expected dividend yield	Annual risk- free interest rate
November 9, 2013	₩ 6,525	₩ 22,800	₩ 17,176	25.35%	1.04%	2.011%
February 12, 2015	7,561	22,800	20,350	41.77%	1.04%	2.011%
August 19, 2015	5,439	22,800	32,300	46.79%	1.04%	2.011%
December 8, 2015	6,403	22,800	28,800	46.09%	1.04%	2.011%
February 4, 2016	5,111	22,800	35,800	45.66%	1.04%	2.011%
May 19, 2016	4,789	22,800	38,400	44.77%	1.04%	2.011%
November 3, 2016	8,026	22,800	25,150	45.48%	1.04%	2.011%
May 16, 2017	8,869	22,800	23,800	45.80%	1.04%	2.011%
August 30, 2017	9,187	22,800	24,050	46.84%	1.04%	2.011%
December 14, 2017	8,636	22,800	27,750	47.47%	1.04%	2.011%
February 8, 2018	7,328	22,800	35,550	47.68%	1.04%	2.011%
March 22, 2018	6,841	22,800	40,000	48.02%	1.04%	2.011%
July 19, 2018	9,825	22,800	27,600	51.18%	1.04%	2.011%
September 3, 2018	9,704	22,800	28,650	51.20%	1.04%	2.011%
November 6, 2018	10,301	22,800	25,750	50.60%	1.04%	2.011%
December 10, 2018	9,800	22,800	28,150	50.23%	1.04%	2.011%
February 12, 2019	9,911	22,800	27,900	50.00%	1.04%	2.011%
March 15, 2019	8,999	22,800	33,000	49.68%	1.04%	2.011%

Grant date	Fair value as at December 31, 2021	Stock price at valuation date	Exercise price	Expected price volatility (*)	Expected dividend yield	Annual risk- free interest rate
March 28, 2019	9,402	22,800	30,700	49.62%	1.04%	2.011%
July 11, 2019	10,292	22,800	26,150	48.72%	1.04%	2.011%
October 31, 2019	11,458	22,800	21,900	48.91%	1.04%	2.011%
December 10, 2019	11,444	22,800	21,900	48.55%	1.04%	2.011%
March 3, 2020	11,277	22,800	22,900	48.33%	1.04%	2.011%
May 14, 2020	11,144	22,800	24,100	48.49%	1.04%	2.011%
June 23, 2020	10,295	22,800	28,900	48.69%	1.04%	2.011%
August 31, 2020	9,098	22,800	38,550	49.46%	1.04%	2.011%
November 11, 2020	10,276	22,800	32,550	50.40%	1.04%	2.011%
February 10, 2021	11,027	22,800	30,800	52.00%	1.04%	2.011%
March 17, 2021	11,590	22,800	28,400	52.63%	1.04%	2.011%
June 22, 2021	11,755	22,800	28,400	52.76%	1.04%	2.011%
October 29, 2021	12,563	22,800	24,700	52.85%	1.04%	2.011%
December 16, 2021	12,906	22,800	23,000	52.72%	1.04%	2.011%

(*) The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily stock prices over the last 7.5 years. The effects of non-transferable options and restrictions on exercises (including possibility of satisfying market condition attached to options) and others are taken into account when calculating the expected option life based on the management's best estimates.

Share-based payments recognized as expenses (reversal of expenses) for the year ended December 31, 2021, amount to ₩(-)1,429 million (2020: ₩1,419 million). All expenses are related to cash-settled share-based payments (see Note 30).

26. Other Components of Equity

Details of other components of equity as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	December 31, 2021	December 31, 2020
Other reserves	₩ 254,028	₩ 254,028
Revaluation surplus	39,363,132	39,363,132
Gain on disposal of treasury shares	1,792,289	1,792,289
Cash flow hedge	517,298	203,163
	<u>₩ 41,926,747</u>	<u>₩ 41,612,612</u>

27. Retained Earnings

Details of retained earnings as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Legal reserves:		
Legally appropriate retained earnings (*1)	₩ 3,440,883	₩ 3,440,883
Other reserves:		
Reserve for financial structure improvement (*2)	240,500	240,500
Reserve for business expansion	6,000,000	6,000,000
Reserve for facility	31,000,000	31,000,000
Other discretionary appropriated retained earnings	25,994,000	25,994,000
Unappropriated retained earnings	<u>233,141,540</u>	<u>225,267,497</u>
	<u>₩ 299,816,923</u>	<u>₩ 291,942,880</u>

(*1) The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10 percent of cash dividends paid until such reserves equals 50 percent 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 of the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

(*2) The Company appropriates a certain portion of its unappropriated retained earnings for financial structure improvement as reserves.

The appropriation of retained earnings for the year ended December 31, 2021, is expected to be appropriated at the shareholders' meeting on March 24, 2022 (2020: March 26, 2021).

The appropriation of retained earnings for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	<u>2021</u>	<u>2020</u>
Retained earnings available for appropriation:		
Unappropriated retained earnings carried over from prior year	₩ 221,138,437	₩ 215,598,642
Remeasurements of net defined benefit liability	668,266	856,613
Cash flow hedge	-	29,201
Net profit for the period	<u>11,334,837</u>	<u>8,783,041</u>
	<u>233,141,540</u>	<u>225,267,497</u>
Appropriation of retained earnings:		
Legal reserve	-	-
Dividends	4,817,237	4,129,060
Dividends (ratio) per ordinary share:		
₩350 (70%) in 2021,		
₩300 (60%) in 2020		
	<u>4,817,237</u>	<u>4,129,060</u>
Unappropriated retained earnings to be carried forward	<u>₩ 228,324,303</u>	<u>₩ 221,138,437</u>

28. Revenue and Cost of Sales

Details of revenue for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Finished goods	₩	201,595,732	₩	198,373,598
Merchandise		278,826,117		268,434,682
Others		30,726,639		30,419,335
	₩	<u>511,148,488</u>	₩	<u>497,227,615</u>

Details of cost of sales for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Finished goods	₩	103,296,438	₩	104,304,033
Merchandise		223,134,915		210,025,457
Others		20,379,263		17,802,869
	₩	<u>346,810,616</u>	₩	<u>332,132,359</u>

29. Expenses by Nature

Cost of sales and selling and administrative expenses by nature for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Changes in finished goods and work-in-process	₩	(131,386,506)	₩	(122,345,272)
Changes in merchandise		223,134,915		210,025,456
Used raw materials and consumables		202,338,938		192,545,015
Employee benefit expenses (see Note 30)		81,370,733		82,287,858
Depreciation and amortization		19,277,934		19,212,148
Freight		3,303,073		3,340,237
Advertising		11,689,963		12,320,272
Traveling		4,417,735		3,980,517
Service charge		30,135,922		25,677,724
Education and training		904,276		1,159,018
Seminars		6,807,922		5,550,176
Research and development		2,048,928		3,502,580
Utilities		2,951,490		2,941,315
Repair		3,679,507		3,945,366
Subcontractors charge		5,357,721		8,440,885
Quality control		1,771,105		1,578,601
Impairment loss (reversal of impairment loss)		(61,553)		16,094
Other		14,476,717		12,529,060
Total (*)	₩	<u>482,218,820</u>	₩	<u>466,707,050</u>

(*) The total represents costs of sales and selling and administrative expenses in the statement of profit or loss.

30. Employee Benefit Expenses

Employee benefit expenses for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Salaries	₩	56,134,441	₩	54,374,268
Incentives		12,963,404		12,477,768
Post-employment benefits – defined benefit plan (see Note 22)		7,173,783		7,433,422
Post-employment benefits – defined contribution plan		263,013		251,488
Post-employment benefits – retirement bonus		124,323		57,089
Long-term employee benefits		120,741		572,228
Other employee benefits		6,019,636		5,702,152
Share-based payments (reversal of share-based payments)		(1,428,608)		1,419,443
	₩	<u>81,370,733</u>	₩	<u>82,287,858</u>

31. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Salaries	₩	45,681,126	₩	46,453,472
Post-employment benefits		4,794,282		5,241,286
Freight		3,303,073		3,340,237
Advertising		11,689,963		12,320,272
Service charge		19,856,873		21,251,456
Depreciation		6,555,213		6,321,252
Amortization		2,373,795		2,501,417
Seminars		5,537,828		4,574,748
Ordinary research and development expense		22,566,404		19,619,554
Bad debt expense (reversal of bad debt expense)		(61,553)		16,094
Other selling and administrative expense		13,111,200		12,934,903
	₩	<u>135,408,204</u>	₩	<u>134,574,691</u>

32. Research and Development Expenses

Research and development expenses for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
R&D expenses (selling and administrative expenses)	₩	<u>22,566,404</u>	₩	<u>19,619,554</u>

33. Other Income and Expenses

Other income and expenses for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021	2020
Other income:		
Gains on foreign currency transactions	₩ 536,187	₩ 1,324,150
Gains on foreign currency translation	52,276	323,379
Gains on disposal of property, plant and equipment	3,836,831	313,197
Gains on disposal of intangible assets	328	226,000
Gains on disposal of investments in associates	3,401,502	276,268
Reversal of impairment losses on investments in associates	2,543,000	-
Other income	1,524,755	270,259
	<u>11,894,879</u>	<u>2,733,253</u>
Other expenses:		
Losses on foreign currency transactions	1,005,497	1,246,093
Losses on foreign currency translation	4,410	19,797
Donations	1,129,916	1,310,435
Losses on disposal of property, plant and equipment	65,790	170,479
Losses on disposal of intangible assets	820	30
Impairment losses on intangible assets	263,223	-
Impairment losses on investments in associates	7,926,000	9,267,982
Other losses	27,581	310,809
	<u>10,423,237</u>	<u>12,325,625</u>
	<u>₩ 1,471,642</u>	<u>₩ (9,592,372)</u>

34. Finance Income and Costs

Finance income and costs for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021	2020
Finance Income:		
Bank deposits	₩ 33,192	₩ 57,606
Asset backed short term bond	258,645	508,018
Convertible notes	80,000	26,889
Loans and others	42,788	74,100
Financial guarantee liabilities	13,122	11,442
Right-of-use assets	2,375	2,577
Distribution income from investment funds	437,250	97
Gains on foreign currency translation	-	4,960,000
Gains on valuation of financial assets at fair value through profit or loss	2,202,887	9,502,044
Gains on valuation of derivative financial instruments	5,362,076	-
	<u>8,432,335</u>	<u>15,142,773</u>
Finance costs:		
Bank borrowings	4,103,949	3,719,181
Debentures	2,249,294	3,165,787
Lease liabilities	33,685	36,415
Less: amounts capitalized on qualifying assets (*)	(631,757)	(164,280)
Losses on foreign currency translation	4,875,010	4,838
Losses on valuation of financial assets at fair value through profit or loss	12,163,941	2,231,034
Losses on disposal of financial assets at fair value through profit or loss	9,573	50,016
Losses on valuation of derivative financial instruments	-	6,118,754
	<u>22,803,695</u>	<u>15,161,745</u>
	<u>₩ 14,371,360</u>	<u>₩ (18,972)</u>

(*) The amounts represent capitalized borrowing costs on qualifying assets. Borrowing costs were capitalized at the weighted average rate of 2.42 percent (2020: 3.23 percent).

35. Earnings per Share

Basic earnings per share for the years ended December 31, 2021 and 2020, are as follows (Unit: in Korean won):

	<u>2021</u>	<u>2020</u>
Profit attributable to the ordinary equity holders of the Company (*1)	₩ 11,334,836,726	₩ 8,783,040,438
Weighted average number of ordinary shares outstanding (*2)	<u>13,763,533 shares</u>	<u>13,763,533 shares</u>
Earnings per share	<u>₩ 824</u>	<u>₩ 638</u>

(*1) Profit attributable to the ordinary equity holders of the Company is equal to the Company's profit for the year.

(*2) The weighted average number of ordinary shares outstanding for the years ended December 31, 2021 and 2020 is equal to the number of ordinary shares in issue.

The Company has no outstanding dilutive potential shares, therefore diluted earnings per share is equal to the basic earnings per share.

36. Dividends

The dividends paid in 2021 and 2020 were ₩4,129 million (₩300 per share) and ₩3,785 million (₩275 per share), respectively.

For the year ended December 31, 2021, dividend of ₩350 per share, amounting to a total dividend of ₩4,817 million, is to be proposed at the annual general shareholders' meeting on March 24, 2022. These financial statements do not reflect this dividend payable.

37. Cash Generated from Operations

(a) Cash generated from operations for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020	
Profit before income tax	₩	16,029,950	₩	20,909,220
Adjustments for:				
Interest expenses		5,325,049		6,076,471
Losses (gains) on foreign currency translation		4,827,144		(5,258,744)
Bad debt expense (reversal of bad debt expense)		(61,553)		16,094
Depreciation and amortization		18,420,736		18,348,432
Rental properties depreciation expense		215,072		215,072
Right-of-use assets depreciation expense		642,125		648,643
Gains on disposal of tangible, intangible assets and investment properties		(3,770,550)		(368,688)
Impairment losses on intangible assets		263,223		-
Losses (gains) on valuation of derivative financial instruments		(5,362,076)		6,118,754
Distribution income from investment funds		(437,250)		(97)
Other income		(6,431)		(8,904)
Share-based payments (reversal of share-based payments)		(1,428,608)		1,419,443
Incentive bonuses		4,921,090		4,687,247
Post-employment benefits		7,561,119		7,741,999
Losses (gains) on valuation of financial assets at fair value through profit or loss		9,961,054		(7,271,010)
Losses on disposal of financial assets at fair value through profit or loss		9,573		50,016
Gains on disposal of investments in subsidiaries and associates		(3,401,502)		(276,268)
Impairment losses on investments in subsidiaries and associates		7,926,000		9,267,982
Reversal of impairment losses on investments in subsidiaries and associates		(2,543,000)		-
Long-term employee benefits		120,741		572,228
Changes in assets and liabilities from operations:				
Net decrease (increase) in trade receivables		2,671,117		(12,608,310)
Net increase in other receivables		(1,731,730)		(240,626)
Net decrease (increase) in other assets		5,883,890		(15,545,411)
Net decrease (increase) in inventories		(1,299,409)		11,849,447
Net increase (decrease) in trade payables		(932,669)		3,626,676
Net increase (decrease) in other payables		1,969,170		(3,646,310)
Net increase (decrease) in other liabilities		(288,848)		184,487
Net increase (decrease) in provision for other liabilities		5,233,677		(772,931)
Payment of incentive bonuses		(4,900,466)		(4,478,933)
Payment of post-employment benefits		(5,214,853)		(4,398,368)
Payment of long-term employee benefits		(296,850)		(284,686)
Increase in plan assets		(5,784,639)		(2,605,209)
Cash generated from operations	₩	54,520,296	₩	33,967,716

(b) Changes in liabilities arising from financial activities for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

2021									
	Short-term borrowings	Long-term borrowings	Liabilities held for the purpose of hedging risk from long-term borrowings in foreign currencies	Government grants	Current portion of debentures	Debentures	Lease liabilities	Total	
At January 1, 2021	₩ 49,050,160	₩ 118,399,840	₩ 5,796,481	₩ 1,910,488	₩ 29,983,492	₩ 34,447,200	₩ 1,400,226	₩	₩ 240,987,887
Cash flows	(4,450,160)	5,000,000	-	4,581	(30,000,000)	49,299,480	(666,192)	₩	19,187,709
Foreign currency translation	2,925,000	1,950,000	(4,875,000)	-	-	-	-	₩	-
Change in lease liabilities	-	-	-	-	-	-	455,243	₩	455,243
Reclassification of current portions	70,639,960	(70,639,960)	-	-	-	-	-	₩	-
Amortization of discount on debentures	-	-	-	-	16,508	329,499	33,685	₩	379,692
Change in fair value	-	-	(901,501)	-	-	-	-	₩	(901,501)
At December 31, 2021	₩ 118,164,960	₩ 54,709,880	₩ 19,980	₩ 1,915,069	₩ -	₩ 84,076,179	₩ 1,222,962	₩	₩ 260,109,030

2020									
	Short-term borrowings	Long-term borrowings	Liabilities held for the purpose of hedging risk from long-term borrowings in foreign currencies	Government grants	Current portion of debentures	Debentures	Lease liabilities	Total	
At January 1, 2020	₩ 50,300,000	₩ 63,156,000	₩ 407,637	₩ 2,028,516	₩ 69,894,249	₩ 29,953,374	₩ 1,432,965	₩	₩ 217,172,741
Cash flows	(3,250,000)	62,204,000	-	(118,028)	(70,000,000)	34,345,930	(666,721)	₩	22,515,181
Foreign currency translation	-	(4,960,000)	4,960,000	-	-	-	-	₩	-
Change in lease liabilities	-	-	-	-	-	-	597,567	₩	597,567
Reclassification of current portions	2,000,160	(2,000,160)	-	-	29,969,269	(29,969,269)	-	₩	-
Amortization of discount on debentures	-	-	-	-	119,974	117,165	36,415	₩	273,554
Change in fair value	-	-	428,844	-	-	-	-	₩	428,844
At December 31, 2020	₩ 49,050,160	₩ 118,399,840	₩ 5,796,481	₩ 1,910,488	₩ 29,983,492	₩ 34,447,200	₩ 1,400,226	₩	₩ 240,987,887

(c) Non-cash transactions for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	2021		2020
Transfer of construction-in-progress to property, plant and equipment	₩ (57,305,298)	₩	(4,174,746)
Transfer of construction-in-progress to intangible assets	(1,151,740)		(589,245)
Capitalized borrowing costs	631,757		164,280
Non-trade payables related to acquisition of property, plant and equipment	12,787,352		1,193,931
Non-trade payables related to acquisition of intangible assets	-		(28,134)
Conversion of loans to financial assets at fair value through profit or loss	-		4,000,000
Reclassification of derivative financial liabilities as investment in associates	-		35,476
Reclassification of associates as financial assets at fair value through profit or loss	5,692,500		-
Recognition of investments in subsidiaries and associates on portion of renewed payment guarantee	-		7,259
Reclassification of long-term prepaid expenses to current portion	360,000		360,000
Reclassification of loans to employees to current portion	176,440		165,340
Reclassification of long-term borrowings to current portion	70,639,960		2,000,160
Reclassification of debentures to current portion	-		29,969,269
Reclassification of lease liabilities to current portion	490,066		545,184
Reclassification of financial guarantee liabilities to current portion	2,231		-
Reclassification of other non-current liabilities to current portion	67,710		67,710
Reclassification of derivative financial liabilities to current portion	281,005		-
Recognition of right-of-use asset portion of leasehold deposits	6,642		-
Remeasurements of net defined benefit liability	668,265		856,613
Applying currency swap risk hedge	314,134		232,366
Offsetting government grants with depreciation	94,582		94,582

38. Commitments and Contingencies

(a) Borrowing agreements

The following table summarizes the borrowing agreements with the banks as at December 31, 2021 (Unit: in thousands of Korean won, in thousands of US dollars):

Bank	Type		Limits
KEB Hana Bank	Advanced credit line	₩	17,000,000
	Payment guarantees in Korean won		500,000
	Currency forward transaction agreement		1,428,571
	Borrowings in foreign currencies (USD)	\$	40,000
Suhyup bank	Borrowings in foreign currencies (USD)	\$	10,000
Shinhan bank	Payment guarantees in Korean won	₩	2,400,000
	General borrowings		10,000,000
KB Kookmin Bank	General borrowings		9,500,000
Busan bank	General borrowings		10,000,000
Woori Bank	Payment guarantees in Korean won		3,000,000
	General borrowings		6,000,000
KB Handok 1 st SPC	Borrowings in Korean won		30,000,000
Korea Development Bank	Industry facilities borrowings		72,599,840
	General borrowings		30,000,000
BNP PARIBAS	General borrowings		5,000,000

(b) Payment Guarantees Provided by Others

As at December 31, 2021, the Company has been provided with guarantees from Seoul Guarantee Insurance for its business amounting to ₩1,633 million (2020: ₩1,753 million).

In addition, as at December 31, 2021, the Company has been provided with guarantees from Shinhan Bank and others for risk sharing contracts with National Health Insurance Corporation amounting to ₩5,900 million (2020: ₩4,850 million).

(c) Payment Guarantees Provided by the Company

The Company provided financial guarantee contracts of JPY 45,699,296 for office rental contracts and of JPY 150,000,000 for supply of Theracurmin, a raw material, of Theravalues Corporation, a subsidiary, and related financial guarantee expenses were recorded as liabilities (see Note 20).

(d) Collaterals

Details of assets provided as collaterals for the Company's liabilities and sales contract as at December 31, 2021, are as follows (see Note 13) (Unit: in thousands of Korean won):

Collateral	Mortgagee	Book amount	Collateral Value
Land, buildings and investment properties	Korea Development Bank and others	₩ 209,778,095	₩ 109,172,788

(e) Distribution agreement

The Company has a distribution agreement with Zuellig Pharma Korea Company Limited to receive distribution, warehousing, collection of bills and other management services. The Company incurred service fees amounting to ₩6,740 million (2020: ₩7,080 million) for the year ended December 31, 2021.

(f) Currency swap agreement

The Company has entered into a cross-currency swap agreement with KEB Hana Bank and Suhyup Bank for the amount USD 50 million to hedge currency risk associated with the variable interest rate on borrowings in foreign currencies. The main details of the cross-currency swap are as follows:

Contract start date	Contractor	Amount	Exchange rate	Original interest rate	Swap interest rate	Contract end date
2019/10/31	KEB Hana Bank	USD 20,000,000	KRW/USD 1,165.0	USD 3M LIBOR + 1.9%	2.95%	2022/10/31
2020/05/26	Suhyup Bank	USD 5,000,000	KRW/USD 1,242.0	USD 3M LIBOR + 2.0%	2.75%	2022/05/26
2020/06/25	KEB Hana Bank	USD 20,000,000	KRW/USD 1,204.7	USD 3M LIBOR + 2.604%	2.98%	2023/06/26
2020/09/16	Suhyup Bank	USD 5,000,000	KRW/USD 1,180.0	USD 3M LIBOR + 2.15%	2.75%	2022/09/16

In 2021, the Company recognized losses of ₩314 million (2020: ₩232 million) on valuation of the above swap agreements at fair value, after tax effects, as other comprehensive income.

The above swap agreements do not contain adequate and robust alternative provisions for the suspension of the interest reference rates. Various working groups in the industry are researching alternative provisions for various financial instruments and various IBORs, which the company will closely monitor and implement when appropriate.

The Company will continue to apply the amended K-IFRS 1109 until the uncertainty in the timing and amount of the underlying cash flows exposed to the Company due to the interest rate benchmark reform ends. The Company assumes that this uncertainty will not end until the contract referencing the Company's IBOR is changed to specify the date the interest reference rate is replaced, the cash flow of the replacement interest reference rate, and the associated spread adjustment. These changes will depend in part on the addition of alternative provisions not yet added to the Company's contracts and negotiations between borrowers and lenders.

39. Related Party Transactions

As at December 31, 2021, Y&S International Co., Ltd., has significant influence over the Company (ownership: 17.69 percent).

The details of related parties as at December 31, 2021 and 2020, are as follows:

	Percentage of ownership (%)	
	2021	2020
Subsidiaries:		
Theravalues Corporation	100.00	100.00
Unins (HK) International Limited	100.00	100.00
JUST-C, Inc. (*1)	-	94.79
Innocuve Inc. (*2)	100.00	-
Associates:		
Kalos Medical, Inc. (*3)	49.96	49.96
Teva-Handok pharma Co., Ltd.	49.00	49.00
Genexine, Inc.	15.11	15.31
NB Postech, Inc.	34.99	34.99
TRIGR Therapeutics, Inc. (*4)	-	14.84
Joint ventures:		
Rezolute, Inc.	17.90	24.13
Other related parties:		
Eppendorf Korea, Ltd.	-	-
Y&S International Co., Ltd.	-	-
pH Pharma	-	-
KONG SHIN JIN HEUNG Co., Ltd.	-	-

(*1) In 2021, JUST-C, Inc. was liquidated and subsequently excluded from the list of subsidiaries.

(*2) In 2021, Innocuve Inc. was established with 100 percent ownership by the Company.

(*3) In 2021, Handok Kalos Medical Inc. changed its name to Kalos Medical Inc.

(*4) In 2021, TRIGR Therapeutics, Inc., agreed to a merger with Compass Therapeutics, Inc. The Company determined that the Company no longer has significant influence over the entity and subsequently excluded TRIGR Therapeutics, Inc. from the list of associates.

Details of associates and other related parties that have sales and other transaction with the Company or have receivables and payables balances as at December 31, 2021 and 2020, are as follows:

	2021	2020
Subsidiaries	Theravalues Corporation -	Theravalues Corporation JUST-C, Inc.
Associates	Innocuve Inc. Kalos Medical, Inc. Teva-Handok pharma Co., Ltd. Genexine, Inc. NB Postech, Inc. TRIGR Therapeutics, Inc.	- Handok Kalos Medical, Inc. Teva-Handok pharma Co., Ltd. Genexine, Inc. NB Postech, Inc. -
Other related parties	Eppendorf Korea, Ltd. Y&S International Co., Ltd.	Eppendorf Korea, Ltd. Y&S International Co., Ltd.

Transactions which occurred in the normal course of business with related parties for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

		2021			
	Name of entity	Sales	Other revenue	Purchases	Acquisition of assets and others
Subsidiaries	Theravalues Corporation	₩ -	₩ 63,406	₩ 396,281	₩ 1,016
Associates	Kalos Medical Inc.	37,778	2,038	-	-
	Teva-Handok Pharma Co., Ltd.	3,212,021	37,025	1,078,915	-
	Genexine, Inc.	-	68,848	-	1,942,353
	NB Postech, Inc.	-	42,471	642,142	5,593
	TRIGR Therapeutics, Inc. (*)	-	18,010	-	-
Other related parties	Eppendorf Korea Ltd.	-	-	4,428,538	21,854
	Y&S International Co., Ltd.	4,968	-	-	-
		₩ 3,254,767	₩ 231,798	₩ 6,545,876	₩ 1,970,816

(*) Includes transactions which occurred with TRIGR Therapeutics, Inc. before TRIGR Therapeutics, Inc. was excluded from the list of related parties.

		2020			
	Name of entity	Sales	Other revenue	Purchases	Acquisition of assets and others
Subsidiaries	Theravalues Corporation	₩ -	₩ 169	₩ 448,293	₩ 3,174
Associates	Handok Kalos Medical Inc.	58,960	3,308	-	-
	Teva-Handok Pharma Co., Ltd.	1,153,593	82,168	948,725	-
	Genexine, Inc.	-	28,625	-	1,716,093
	NB Postech, Inc.	23,147	100,712	5,850	-
Other related parties	Eppendorf Korea Ltd.	1,008	-	4,491,768	9,482
	Y&S International Co., Ltd.	4,511	9,000	-	-
		₩ 1,241,219	₩ 223,982	₩ 5,894,636	₩ 1,728,749

Outstanding balances with related parties as at December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

		2021					
		Receivables			Payables		
Name of entity		Trade receivables	Loans	Investment bond (*)	Other receivables	Trade payables	Other payables
Subsidiaries	Theravalues Corporation	₩ -	₩ -	₩ -	₩ -	₩ 102,014	₩ -
	Innocuve Inc.	-	-	-	92,860	-	-
Associates	Kalos Medical Inc.	4,028	-	-	85	-	310,450
	Teva-Handok Pharma Co., Ltd.	1,219,447	-	-	3,684	283,371	210,970
	Genexine, Inc.	-	-	-	236,106	-	59,090
	NB Postech, Inc. (*)	-	1,000,000	4,000,003	26,297	143,613	-
Other related parties	Eppendorf Korea Ltd.	-	-	-	-	1,172,257	16,633
	Y&S International Co., Ltd.	-	-	-	-	-	151,110
		<u>1,223,475</u>	<u>1,000,000</u>	<u>4,000,003</u>	<u>359,032</u>	<u>1,701,255</u>	<u>748,253</u>

(*) Investment bond is convertible note (maturity: 2025) issued by NB Postech, Inc., and includes ₩4,000 million which was reclassified from loans during the year ended December 31, 2020 (see Note 7).

		2020					
		Receivables			Payables		
Name of entity		Trade receivables	Investment bond	Other receivables	Trade payables	Other payables	
Subsidiaries	JUST-C, Inc. (*1)	₩ -	₩ 353,820	₩ -	₩ -	₩ -	₩ -
	Theravalues Corporation	-	-	-	31,303	21,501	
Associates	Handok Kalos Medical Inc.	5,130	-	450	-	310,450	
	Teva-Handok Pharma Co., Ltd.	100,033	-	261	312,318	210,970	
	Genexine, Inc.	-	-	236,106	-	120,304	
	NB Postech, Inc. (*2)	4,712	4,000,003	6,889	6,435	-	
Other related parties	Eppendorf Korea Ltd.	-	-	-	1,219,678	3,438	
	Y&S International Co., Ltd.	-	-	-	-	151,110	
		<u>₩ 109,875</u>	<u>₩ 4,353,823</u>	<u>₩ 243,706</u>	<u>₩ 1,569,734</u>	<u>₩ 817,773</u>	

(*1) Investment bond is convertible note (maturity: 2022) issued by JUST-C, Inc., classified as financial assets at fair value through profit or loss. The amount is the acquisition cost before recognizing losses on valuation.

(*2) Investment bond is convertible note (maturity: 2025) issued by NB Postech, Inc., and includes ₩4,000 million which was reclassified from loans during the year ended December 31, 2020 (see Note 7).

Financing transactions with related parties for the years ended December 31, 2021 and 2020, are as follows (Unit: in thousands of Korean won):

	Company	Details	2021
Subsidiaries	Innocuve Inc.	Share issuance	₩ 200,000
Associates	NB Postech, Inc.	Loan transactions	1,000,000
	Rezolute, Inc.	Share issuance	5,855,000

(*) No provision for impairment has been recognized for loans of related parties.

	Company	Details	2020
Subsidiaries	JUST-C, Inc.	Share issuance	₩ 627,729
Associates	Genexine, Inc. (*2)	Other	9,725,951
	NB Postech, Inc.	Loan transactions	2,500,000
		Reclassification of loans (*1)	4,000,003

(*1) The total amount of loans issued to NB Postech, Inc., were reclassified as convertible note during the year ended December 31, 2020 (see Note 7).

(*2) The amounts represent the shares of Theravalues Corporation that were acquired upon the exercise of a put option by Genexine, Inc.

The Company provided financial guarantee contracts of JPY 45,699,296 and JPY 150,000,000 for office rental contracts and payments of payables on price of goods, respectively, to Theravalues Corporation, a subsidiary of the Company. Related financial guarantee expenses were recorded as liabilities (see Note 20).

The compensation paid or payable to key management for employee services for the years ended December 31, 2021 and 2020, consists of the following (Unit: in thousands of Korean won):

	2021		2020	
Short-term benefits	₩	1,583,930	₩	1,530,316
Post-employment benefits		719,413		114,903
Other long-term employee benefits		25,503		2,865
Share-based payments		(164,494)		111,910
	₩	2,164,352	₩	1,759,994

Key management refers to the members of the Board of Directors who have significant control and responsibility for the planning, operating and controlling of the Company's business activities.



Independent Auditors' Report on Internal Control over Financial Reporting

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Shareholders of
Handok Inc.

March 15, 2022

Opinion on Internal Control over Financial Reporting

We have audited Handok Inc.'s (the "Company") Internal Control over Financial Reporting as of December 31, 2021, based on the criteria established in the Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea (the "ICFR Committee").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

We also have audited, in accordance with Korean Standards on Auditing, the separate financial statements of the Company, which comprise the separate statements of financial position as at December 31, 2021 and 2020, respectively, and its separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flow for the years then ended, and notes to the separate financial statements including a summary of significant accounting policies, and our report dated March 15, 2022 expressed an unqualified opinion.

Basis for Opinion on Internal Control over Financial Reporting

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibility under these standards are further described in the Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting section of our report.

We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of internal control over financial reporting and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report on the Effectiveness of Internal Control over Financial Reporting.

Those charged with governance have the responsibilities for overseeing internal control over financial reporting.

Auditors' Responsibilities for the Audit of Internal Control over Financial Reporting

Our responsibility is to express opinion on the Company's internal control over financial reporting based on our audit. We conducted the audit in accordance with Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditors' report is Byoung Kyu Song.

Shinhan Accounting Corporation

Notice to Readers

This report is effective as of the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the Company's internal control over financial reporting and may result in modifications to the auditors' report.

Report on Operation of Internal Accounting Control System

To the Shareholders, Board of Directors and Audit Committee of Handok Inc.

We, as the President and the Internal Accounting Manager of Handok Inc. (“the Company”), assessed operating status of the Company’s Internal Control over Financial Reporting (“ICFR”) for the year ending December 31, 2021.

Design and the operation of the Internal Accounting Control System are the responsibility of the Company’s management including the President and the Internal Accounting Manager (collectively, “We”, “Our” or “Us”).

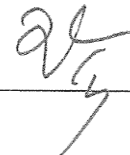
We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

We used the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting’ established by the Operating Committee of Internal Control over Financial Reporting in Korea (the “ICFR Committee”) as the criteria for design and operation of the Company’s ICFR. And we conducted an evaluation of ICFR based on the ‘Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting’ established by the ICFR Committee.

Based on our assessment, we concluded that the Company’s ICFR is designed and operated effectively as of December 31, 2021, in all material respects, in accordance with the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

Feb. 8, 2022



Jin-Ki Baik
President



Hyeon-Cheol Lee
Internal Accounting Manager