



# **Coway Co., Ltd. and its subsidiaries**

**Consolidated financial statements  
for the year ended December 31, 2020**

**ATTACHMENT: INDEPENDENT AUDITORS' REPORT**

**Coway Co., Ltd.**

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## INDEPENDENT AUDITORS' REPORT

English Translation of Independent Auditors' Report Originally Issued in Korean on March 18, 2021.

**To the Stockholders and Board of Directors of  
Coway Co., Ltd.:**

### Audit Opinion

We have audited the consolidated financial statements of Coway Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statement, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statement present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

### 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

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

#### (1) Impairment of finance lease receivables

As described in Note 2 to the consolidated financial statements, the Group recognizes an allowance for expected credit losses on finance lease receivables at an amount equal to the lifetime expected credit losses as of the fiscal year-end. As of December 31, 2020, the Group recognizes an allowance for expected credit losses of ₩78,779 million for finance lease receivables of ₩1,071,773 million.

The Group prepares a provision matrix based on the collection information of large number of receivables that are in small amounts arising from rental contracts classified as finance lease. The calculation of allowance for expected credit losses is complex because it considers a large number of information, and the methodology applied to the calculation requires significant judgment of management. Considering the possibility of incurring errors in the calculation and the involvement of subjective judgment in the calculation process, we have selected the impairment of finance lease receivables as a key audit matter.

The major audit procedures we have conducted in this regard are as follows:

- Assessed the Group's accounting policies for the allowance for expected credit losses
- Understood internal control on the allowance for expected credit losses
- Assessed the accuracy and completeness of a provision matrix, which is used in calculating the allowance for expected credit losses
- Recalculated and verified the results on the provision matrix

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## Other Matter

The consolidated financial statements of the Group as of December 31, 2019, were audited by other auditors whose report dated March 20, 2020, expressed an unqualified opinion on those statements.

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

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

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

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

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

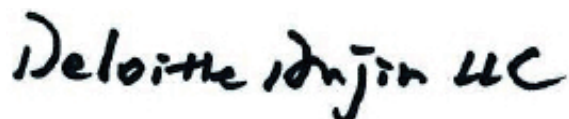
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 Moon Sung Uk.

A handwritten signature in black ink that reads "Deloitte idnjin LLC". The signature is written in a cursive, slightly slanted style.

March 18, 2021

This report is effective as of March 18, 2021, 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 consolidated financial statements and may result in modifications to the auditors' report.

# **Coway Co., Ltd. and its subsidiaries (the “Group”)**

Consolidated financial statements  
for the years ended December 31, 2020 and 2019

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

Hae Sun Lee  
Chief Executive Officer  
Coway Co., Ltd.

**Coway Co., Ltd. and its subsidiaries**  
**Consolidated statements of financial position**  
**as of December 31, 2020 and 2019**

(In Korean won)

	Notes	2020	2019
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,5,20,37,38	₩ 115,815,623,716	₩ 60,540,530,995
Trade receivables	4,6,37,38	317,000,159,504	310,190,424,300
Finance lease receivables	4,6,37,38	261,902,255,978	180,165,616,755
Other short-term financial assets	4,7,37,38	42,610,842,681	60,739,871,422
Other current assets	8	25,237,043,379	42,280,868,182
Inventories	9	134,014,469,724	112,845,477,767
Current tax assets		274,055,354	180,643,880
<b>Total current assets</b>		<b>896,854,450,336</b>	<b>766,943,433,301</b>
<b>Non-current assets</b>			
Long-term trade receivables	4,6,37,38	13,340,836,072	21,594,721,694
Long-term finance lease receivables	4,6,37,38	625,763,700,290	487,364,051,476
Other long-term financial assets	4,7,20,37,38	16,532,008,764	20,937,293,114
Other non-current assets	8	14,933,160,806	21,724,521,450
Financial assets at FVPL	4,10,37,38	1,248,879,774	1,232,702,566
Financial assets at FVOCI	4,10,37,38	365,501,064	365,501,064
Property, plant and equipment	3,11,20,27	1,225,129,331,186	1,270,778,209,455
Intangible assets	3,12	140,394,648,676	168,401,886,170
Investment properties	3,13	8,061,576,545	24,009,598,321
Deferred tax assets	33	86,398,978,989	71,602,875,269
<b>Total non-current assets</b>		<b>2,132,168,622,166</b>	<b>2,088,011,360,579</b>
<b>Total assets</b>		<b>₩ 3,029,023,072,502</b>	<b>₩ 2,854,954,793,880</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	4,37,38	₩ 68,692,821,337	₩ 57,967,769,416
Lease liabilities	4,27,37,38	13,922,485,369	14,981,011,978
Other short-term financial liabilities	4,14,37,38	222,612,308,831	212,388,285,386
Other current liabilities	14	217,260,299,234	220,359,071,696
Short-term borrowings	4,15,37,38	700,130,000,000	860,550,000,000
Current portion of long-term borrowings	4,16,37,38	536,000,000	536,000,000
Current tax liabilities		64,085,067,879	97,119,200,461
Provisions	18	1,388,726,154	2,751,180,293
Refund liabilities	26	128,650,421,663	120,170,915,196
<b>Total current liabilities</b>		<b>1,417,278,130,467</b>	<b>1,586,823,434,426</b>
<b>Non-current liabilities</b>			
Lease liabilities	4,27,37,38	8,828,774,115	16,300,850,883
Other long-term financial liabilities	4,14,19,37,38	10,915,924,409	12,269,961,137
Other non-current liabilities	14	39,265,871,294	30,231,596,887
Long-term borrowings	4,16,37,38	9,350,000,000	9,449,000,000
Net defined benefit liabilities	17	832,215,768	15,604,406,200
Provisions	18,20	52,543,265,243	107,079,959,813
<b>Total non-current liabilities</b>		<b>121,736,050,829</b>	<b>190,935,774,920</b>
<b>Total liabilities</b>		<b>1,539,014,181,296</b>	<b>1,777,759,209,346</b>
<b>Equity</b>			
Issued capital	21	1,491,301,665,306	1,078,307,584,664
Share premium		40,662,398,000	40,662,398,000
Retained earnings	22	97,773,449,148	97,773,449,148
Other components of equity	23,24,25	1,365,152,148,740	953,976,131,459
<b>Equity attributable to equity holders of the parent</b>		<b>(12,286,330,582)</b>	<b>(14,104,393,943)</b>
Non-controlling interests		(1,292,774,100)	(1,112,000,130)
<b>Total equity</b>		<b>1,490,008,891,206</b>	<b>1,077,195,584,534</b>
<b>Total liabilities and equity</b>		<b>₩ 3,029,023,072,502</b>	<b>₩ 2,854,954,793,880</b>

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

**Coway Co., Ltd. and its subsidiaries**  
**Consolidated statements of comprehensive income**  
**for the years ended December 31, 2020 and 2019**

(In Korean won)

	Notes	2020	2019
Sales	3,4,26,32	₩ 3,237,411,475,094	₩ 3,018,912,502,707
Cost of sales	26,31	(1,043,913,994,271)	(1,010,411,575,802)
<b>Gross profit</b>		<b>2,193,497,480,823</b>	<b>2,008,500,926,905</b>
Selling and general administrative expenses	4,28,31	(1,587,058,764,243)	(1,550,225,463,327)
<b>Operating profit</b>		<b>606,438,716,580</b>	<b>458,275,463,578</b>
Other income	4,29	50,930,613,654	47,989,744,467
Other expenses	4,29	(96,994,906,816)	(34,218,846,210)
Finance income	4,30	1,208,650,675	1,351,748,020
Finance costs	4,30	(21,203,992,027)	(21,979,551,633)
<b>Profit before tax</b>		<b>540,379,082,066</b>	<b>451,418,558,222</b>
Income tax expenses	33	(135,668,222,416)	(119,210,881,686)
<b>Profit for the year</b>		<b>₩ 404,710,859,650</b>	<b>₩ 332,207,676,536</b>
<b>Profit for the year attributable to:</b>			
Equity holders of the parent		₩ 404,891,633,620	₩ 332,942,167,271
Non-controlling interests		(180,773,970)	(734,490,735)
		<b>₩ 404,710,859,650</b>	<b>₩ 332,207,676,536</b>
<b>Other comprehensive income (loss) for the year</b>			
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		₩ (14,225,716,385)	₩ 5,482,017,032
<b>Net other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>		<b>(14,225,716,385)</b>	<b>5,482,017,032</b>
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on defined benefit plans		₩ 5,053,508,583	₩ (7,811,654,440)
<b>Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>5,053,508,583</b>	<b>(7,811,654,440)</b>
<b>Other comprehensive income (loss) for the year</b>		<b>(9,172,207,802)</b>	<b>(2,329,637,408)</b>
<b>Total comprehensive income (loss) for the year</b>		<b>₩ 395,538,651,848</b>	<b>₩ 329,878,039,128</b>
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the parent		₩ 395,719,425,818	₩ 330,612,529,863
Non-controlling interests		(180,773,970)	(734,490,735)
		<b>₩ 395,538,651,848</b>	<b>₩ 329,878,039,128</b>
<b>Earnings per share attributable to owners of the parent:</b>			
Basic earnings per share	34	₩ 5,584	₩ 4,611
Diluted earnings per share	34	5,583	4,603

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

**Coway Co., Ltd. and its subsidiaries**  
**Consolidated statements of changes in equity**  
**for the years ended December 31, 2020 and 2019**

(In Korean won)

	Attributable to the equity holders of the parent							Non-controlling interests	Total equity
	Issued capital	Share premium	Retained earnings	Other components of equity	Total				
<b>As of January 1, 2019</b>	₩ 40,662,398,000	₩ 97,773,449,148	₩ 888,762,472,628	₩ (17,176,891,901)	₩ 1,010,021,427,875	₩ (377,509,395)	₩ 1,009,643,918,480		
Profit for the year	-	-	332,942,167,271	-	332,942,167,271	(734,490,735)	332,207,676,536		
Remeasurements of net defined benefit liabilities	-	-	(7,811,654,440)	-	(7,811,654,440)	-	(7,811,654,440)		
Exchange differences on translation of foreign operations	-	-	-	5,482,017,032	5,482,017,032	-	5,482,017,032		
Total Comprehensive income	-	-	325,130,512,831	5,482,017,032	330,612,529,863	(734,490,735)	329,878,039,128		
<b>Transaction with owners</b>									
Dividends	-	-	(259,916,854,000)	-	(259,916,854,000)	-	(259,916,854,000)		
Stock options	-	-	-	(4,851,860,462)	(4,851,860,462)	-	(4,851,860,462)		
Treasury shares	-	-	-	2,442,341,388	2,442,341,388	-	2,442,341,388		
<b>As of December 31, 2019</b>	₩ 40,662,398,000	₩ 97,773,449,148	₩ 953,976,131,459	₩ (14,104,393,943)	₩ 1,078,307,584,664	₩ (1,112,000,130)	₩ 1,077,195,584,534		
<b>As of January 1, 2020</b>	₩ 40,662,398,000	₩ 97,773,449,148	₩ 953,976,131,459	₩ (14,104,393,943)	₩ 1,078,307,584,664	₩ (1,112,000,130)	₩ 1,077,195,584,534		
Profit for the year	-	-	404,891,633,620	-	404,891,633,620	(180,773,970)	404,710,859,650		
Remeasurement gain on defined benefit plans	-	-	5,053,508,583	-	5,053,508,583	-	5,053,508,583		
Exchange differences on translation of foreign operations	-	-	-	(14,225,716,385)	(14,225,716,385)	-	(14,225,716,385)		
Total Comprehensive income	-	-	409,945,142,203	(14,225,716,385)	395,719,425,818	(180,773,970)			
<b>Transaction with owners</b>									
Stock options	-	-	-	(5,475,691,762)	(5,475,691,762)	-	(5,475,691,762)		
Treasury shares	-	-	-	22,750,346,586	22,750,346,586	-	22,750,346,586		
Other	-	-	1,230,875,078	(1,230,875,078)	-	-	-		
<b>As of December 31, 2020</b>	₩ 40,662,398,000	₩ 97,773,449,148	₩ 1,365,152,148,740	₩ (12,286,330,582)	₩ 1,491,301,665,306	₩ (1,292,774,100)	₩ 1,490,008,891,206		

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

**Coway Co., Ltd. and its subsidiaries**  
**Consolidated statements of cash flows**  
**for the years ended December 31, 2020 and 2019**

(In Korean won)

	Notes	2020	2019
<b>Operating activities</b>			
Profit for the year		₩ 404,710,859,650	₩ 332,207,676,536
Adjustments to reconcile profit before tax to net cash flows	35	916,015,405,054	926,688,624,123
Changes in operating assets and liabilities	35	(566,961,582,136)	(571,231,219,035)
Cash generated from operations		753,764,682,568	687,665,081,624
Dividend received		9,475,000	6,715,000
Income tax paid		(190,935,069,510)	(148,412,215,997)
<b>Net cash flows provided by operating activities</b>		<b>562,839,088,058</b>	<b>539,259,580,627</b>
<b>Investing activities</b>			
Increase in other short-term financial assets		₩ (371,933,292)	₩ (4,214,146,141)
Decrease in other short-term financial assets		3,094,266,347	10,040,635,400
Increase in other long-term financial assets		(2,072,840,202)	(5,584,640,140)
Decrease in other long-term financial assets		1,737,463,204	469,104,196
Acquisition of property, plant and equipment		(325,205,007,516)	(390,623,930,756)
Proceeds from disposal of property, plant and equipment		245,892,142	24,651,666,591
Acquisition of intangible assets		(3,042,893,171)	(3,373,909,221)
Proceeds from disposal of intangible assets		1,751,863,662	633,836,317
Disposal of assets held for sale		-	23,940,000,000
Expenditure of business combination	39	-	(40,110,586,000)
Interests received		801,869,668	1,068,355,175
<b>Net cash flows used in investing activities</b>		<b>(323,061,319,158)</b>	<b>(383,103,614,579)</b>
<b>Financing activities</b>			
Increase (decrease) in short-term borrowings, net		(160,420,000,000)	129,438,000,000
Decrease in long-term borrowings, net		(99,000,000)	(536,000,000)
Repayment of current lease liabilities		(20,983,252,721)	(14,914,558,066)
Dividends paid	22	-	(259,916,854,000)
Exercise of stock options		20,396,681,200	2,176,571,800
Interests paid		(20,465,080,307)	(21,139,906,041)
<b>Net cash flows used in financing activities</b>		<b>(181,553,319,696)</b>	<b>(164,892,746,307)</b>
Net increase (decrease) in cash and cash equivalents		58,224,449,204	(8,736,780,259)
Cash and cash equivalents as of January 1		60,540,530,995	69,353,967,482
Net foreign exchange difference		(2,949,356,483)	(76,656,228)
<b>Cash and cash equivalents as of December 31</b>		<b>₩ 115,815,623,716</b>	<b>₩ 60,540,530,995</b>

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

**Coway Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2020 and 2019**

**1. CORPORATE INFORMATION**

The general information of Coway Co., Ltd. (the “Company”) and its 9 subsidiaries including Coway (M) SDN BHD. (collectively, the “Group”) are as follows:

**1.1 Company overview**

The Company was incorporated on May 2, 1989 under the laws of the Republic of Korea to engage in the manufacture and sales or lease of water purifiers and home appliances, construction of waste disposal facilities and other related businesses. The Company’s ordinary shares have been listed on the Korea Exchange since 2001. The name of the Company is changed from Woongjin Coway Co., Ltd. to Coway Co., Ltd. on February 11, 2020.

The Company’s operations are headquartered in Gongju si, Chungcheongnam-do. As of December 31, 2020, the Company’s majority stockholder is Netmarble Corp. 25.08% of equity ownership.

**1.2 Subsidiaries**

The Group’s consolidated subsidiaries as of December 31, 2020 and 2019, are as follows:

Subsidiaries	Equity ownership		Country of domicile	Year-end	Principal activity
	2020	2019			
Coway China Co., Ltd.	100%	100%	China	December	Sales of air cleaner and others
Coway (Thailand) Co., Ltd.	100%	100%	Thailand	December	Sales and lease of water purifiers and others
Coway (M) SDN. BHD.	100%	100%	Malaysia	December	Sales and lease of water purifiers and others
Coway USA Inc.	100%	100%	U.S.A.	December	Sales and lease of water purifiers and others
PT COWAY INTERNATIONAL INDONESIA	100%	100%	Indonesia	December	Sales and lease of water purifiers and others
Coway Vina Co., Ltd.	100%	-	Vietnam	December	Sales and lease of water purifiers and others
Coway EnTech Co., Ltd.	100%	100%	Korea	December	Construction of waste disposal facilities and operating facilities and others
Pocheon Malkunmul Co., Ltd.(*)	70%	70%	Korea	December	Construction and operating industrial water facilities
Michuhol Malkunmul Co., Ltd.(*)	100%	-	Korea	December	Construction and operating industrial water facilities

(\* ) Its shares are owned by Coway EnTech Co., Ltd., which is one of subsidiaries.

**Coway Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2020 and 2019**

**1.3 Summary of the subsidiaries' financial information**

Summarized financial information of subsidiaries as of and for the years ended December 31, 2020 and 2019, is as follows (Korean won in thousands):

	2020					
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
Coway USA Inc.	₩ 111,368,677	₩ 97,348,079	₩ 14,020,599	₩ 152,443,148	₩ 13,304,669	₩ 12,300,574
Coway (Thailand) Co., Ltd.	49,424,238	60,967,271	(11,543,032)	28,935,976	(1,413,822)	(399,482)
Coway (M) SDN. BHD.	753,156,715	437,228,968	315,927,747	708,492,771	104,974,023	90,858,239
Coway China Co., Ltd.	2,565,232	10,473,169	(7,907,938)	2,015,434	(141,124)	(194,667)
PT COWAY INTERNATIONAL INDONESIA	10,657,171	4,953,015	5,704,156	4,178,496	(5,688,045)	(5,691,561)
Coway Vina Co., Ltd.	1,793,482	481,711	1,311,770	-	(578,890)	(642,010)
Coway EnTech Co., Ltd.	39,013,298	14,967,018	24,046,281	44,136,455	(1,738,619)	(1,738,233)
Pocheon Malkunmul Co., Ltd.	11,855,788	16,162,716	(4,306,928)	3,003,131	(602,256)	(602,256)
Michuhol Malkunmul Co., Ltd.	2,500,114	39,554	2,460,560	-	(39,440)	(39,440)
	2019					
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
Coway USA Inc.	₩ 71,209,561	₩ 71,769,575	₩ (560,014)	₩ 97,345,050	₩ 5,727,976	₩ 5,474,610
Coway (Thailand) Co., Ltd.	33,299,780	49,341,054	(16,041,274)	20,292,946	229,702	(1,578,338)
Coway (M) SDN. BHD.	601,386,717	376,317,209	225,069,508	526,264,198	56,759,991	64,444,146
Coway China Co., Ltd.	3,243,144	10,956,415	(7,713,271)	3,651,483	(2,175,089)	(2,238,763)
PT COWAY INTERNATIONAL INDONESIA	4,889,638	2,292,014	2,597,624	310,628	(1,381,679)	(1,458,737)
Coway EnTech Co., Ltd.	41,823,712	16,039,198	25,784,514	80,985,554	(1,204,954)	(1,597,285)
Pocheon Malkunmul Co., Ltd.	10,797,957	14,502,629	(3,704,672)	1,821,000	(2,446,985)	(2,446,985)

Subsidiaries newly included in the consolidation for the year ended December 31, 2020, are as follows:

Subsidiary	Details
Coway Vina Co., Ltd.	Newly established
Michuhol Malkunmul Co., Ltd.	Newly established

## **2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of preparation**

The Company and its subsidiaries (the "Group") have prepared the consolidated financial statements in accordance with the Korean International Financial Reporting Standards ("K-IFRSs").

The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

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 consolidated financial statements as of and for the year ended December 31, 2020, are consistent with the accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2019.

The accompanying consolidated 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102 Share-based payment, leasing transactions that are within the scope of K-IFRS 1116 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in K-IFRS 1002 Inventories or value in use in K-IFRS 1036 Impairment of Assets.

The directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

#### **2.1.1 In the current year, the Group 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, 2020.**

##### **(1) K-IFRS 1109 and K-IFRS 1107 – Impact of the initial application of Interest Rate Benchmark Reform (Amendments)**

These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. These amendments have no impact on the consolidated financial statements of the Group.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **(2) K-IFRS 1116 Leases – Impact of the Initial Application of COVID-19-Related Rent Concessions (Amendment)**

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, 2021 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021).
- There is no substantive change to other terms and conditions of the lease.

These amendments have no impact on the consolidated financial statements of the Group.

### **(3) K-IFRS 1103 Definition of a Business (Amendment)**

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020. These amendments have no impact on the consolidated financial statements of the Group.

### **(4) K-IFRS 1001 and K-IFRS 1008 Definition of Material (Amendment)**

The amendments make the definition of material in K-IFRS 1001 easier to understand and are not intended to alter the underlying concept of materiality in K-IFRSs. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence.'

The definition of material in K-IFRS 1008 has been replaced by a reference to the definition of material in K-IFRS 1001. In addition, the International Accounting Standards Board (IASB) amended other standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency. These amendments have no impact on the consolidated financial statements of the Group.

## 2. Basis of preparation and summary of significant accounting policies (cont'd)

### 2.1.2 The Group has not applied the following new and revised K-IFRSs that have been issued but are not yet effective.

#### (1) K-IFRS 1001 Classification of Liabilities as Current or Non-current (Amendments)

The amendments to K-IFRS 1001 affect only the presentation of liabilities as current or non-current in the consolidated 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.

#### (2) K-IFRS 1103 Reference to the Conceptual Framework

The amendments update K-IFRS 1103 so that it refers to the Conceptual Framework (2018) instead of the Framework (2007). They also add to K-IFRS 1103 a requirement that, for obligations within the scope of K-IFRS 1037, 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.

#### (3) K-IFRS 1016 Property, Plant and Equipment (Amendments)

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.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly.' K-IFRS 1016 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

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.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

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.

### **(4) K-IFRS 1037 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.

### **(5) Annual Improvements to K-IFRS Standards 2018–2020**

The annual improvements include amendments to four standards, such as 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 IFRSs, 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 a 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 per cent' 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.

## 2. Basis of preparation and summary of significant accounting policies (cont'd)

### 3. K-IFRS 1116 *Leases* (Amendment)

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to K-IFRS 1116 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 *Fair Value Measurement* 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 applied prospectively, i.e., for fair value measurements on or after the date an entity initially applies the amendment.

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

The Group does not anticipate that the application of the enactment and amendments will have a significant impact on the Group's consolidated financial statements.

## 2.2 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) made up to December 31 each year. Control is achieved when the Company 1) has the power over the investee, 2) is exposed, or has rights, to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at 1) fair value or 2) at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition, plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable K-IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1109 Financial Instruments when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

### **2.3 Significant accounting policies**

#### **2.3.1 Cash and cash equivalents**

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less. Bank overdraft is included in short-term borrowings in the consolidated statements of financial position.

#### **2.3.2 Financial instruments**

Financial assets and financial liabilities are recognized in the Group's consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component, which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2.3.3 Financial assets**

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

#### 1) Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (1-3) below); and
- The Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (1-4) below).

#### 1-1) Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of the financial asset before adjusting for any loss allowance.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income" line item (see Note 30).

### 1-2) Debt instruments classified as at FVTOCI

The corporate bonds held by the Group are classified as at FVTOCI. Fair value is determined in the manner described in Note 37. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

### 1-3) Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with K-IFRS 1109, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item (Note 30) in profit or loss.

The Group designated all investments in equity instruments that are not held for trading as at FVTOCI on initial recognition (see Note 10).

### **1-4) Financial assets at FVTPL**

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

- investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (1-3) above).
- debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (1-1) and (1-2) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'finance income and finance costs' line item (Note 30). Interest income incurred from financial assets at FVTPL is classified as finance income (Note 30). Fair value is determined in the manner described in Note 37.

### **2) Foreign exchange gains and losses**

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gain and expenses' line item (Note 29);
- For debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other income and expenses' line item. As the foreign currency element recognized in profit or loss is the same as if it was measured at amortized cost, the residual foreign currency element based on the translation of the carrying amount (at fair value) is recognized in other comprehensive income in the investments revaluation reserve;
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other income and expenses' line item as part of the fair value gain or loss ; and
- For equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### 3) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### 3-1) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecasted economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., a significant increase in the credit spread, the credit default swap prices for the debtor or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

### **3-2) Definition of default**

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

### **3-3) Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) Significant financial difficulty of the issuer or the borrower;
- (b) A breach of contract, such as a default or past due event (see (3-2) above);
- (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) The disappearance of an active market for that financial asset because of financial difficulties.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### 3-4) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with K-IFRS 1116 Leases.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investments revaluation reserve, and does not reduce the carrying amounts of the financial asset in the consolidated statements of financial position.

#### (4) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument, which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2.3.4 Financial liabilities and equity instruments**

#### **(1) Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

#### **(2) Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### **(3) Financial liabilities**

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below

#### **(4) Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and K-IFRS 1109 permits the entire combined contract to be designated as at FVTPL.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'finance costs' line item (see Note 30) in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Group that are designated by the Group as at FVTPL are recognized in profit or loss.

Fair value is determined in the manner described in Note 37.

### **(5) Financial liabilities measured subsequently at amortized cost**

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

### **(6) Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with K-IFRS 1109 (see financial assets above); and
- the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with K-IFRS 1115

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **(7) Foreign exchange gains and losses**

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other income and expenses' line item in profit or loss (see Note 28) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

### **(8) Derecognition of financial liabilities**

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other income and expenses.

#### **2.3.5 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of inventories, except for those in in-transit, are measured under the weighted average method and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2.3.6 Property, plant and equipment**

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Useful lives</u>
Buildings	14 to 40 years
Structures	7 to 19 years
Machinery and equipment	5 to 10 years
Vehicles	5 to 8 years
Tools	5 years
Furniture and fixtures	5 to 19 years
Others	3, 5 years
Rental assets	3, 5 years

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, the estimated useful lives and the residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

### **2.3.7 Intangible assets**

#### **1) Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and the amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

summary of the policies applied to the Group's intangible assets is as follows:

	<u>Useful lives</u>
Industrial property rights	5, 10 years
Software	5 years
Other intangible assets	5 years

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2) Internally generated intangible assets - research and development expenditure**

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### **3) Intangible assets acquired in a business combination**

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### **4) Derecognition of intangible assets**

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

### **5) Patents and trademarks**

Patents and trademarks are measured initially at purchase cost and are amortized on a straight-line basis over their estimated useful lives.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2.3.8 Goodwill**

Goodwill resulting from an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### **2.3.9 Impairment of tangible and intangible assets other than goodwill**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### **2.3.10 Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives, 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

### **2.3.11 Business Combination**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held interest in the acquiree (if any); the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests(including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

### **2.3.12 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102 Share-based payment, leasing transactions that are within the scope of K-IFRS 1116 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in K-IFRS 1002 Inventories or value in use in K-IFRS 1036 Impairment of Assets.

Fair value hierarchy Levels 1 to 3 are based on the degree to which the fair value is observable:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2.3.13 Retirement benefit costs and termination benefits**

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the statement of financial position with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurements recognized in the statement of comprehensive income are not reclassified. Past service cost is recognized in profit or loss when the plan amendment or curtailment occurs, or when the Group recognizes related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognized when the settlement occurs.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurements.

Service costs are recognized in cost of sales and Selling and General Administrative expenses. Net interest expense or income is recognized within finance costs, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

### **2.3.14 Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 25.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At each reporting date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted EPS.

### **2.3.15 Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### **1) Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statements of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

#### **2) Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if, the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

### **3) Current and deferred taxes for the year**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### **2.3.16 Foreign currencies**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Korean Won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements of the Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2.3.17 Revenue recognition**

The Group is in the business of manufacturing and selling water purifiers and household appliances. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the agency services below, because it typically controls the goods or services before transferring them to the customer.

#### **(1) Sale of goods**

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer.

##### **1) Variable consideration**

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of electronics equipment provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

##### **2) Significant financing component**

Generally, the Group receives short-term advances from its customers. Using the practical expedient in K-IFRS 1115, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

#### **(2) Contract balances**

##### **1) Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

##### **2) Trade receivables**

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

##### **3) Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### (3) Assets and liabilities arising from rights of return

#### 1) Right-of-return assets

Right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

#### 2) Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

### **2.3.18 Lease**

#### (1) The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group 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 Group 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 Group 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 presented as a separate line in the consolidated statement of financial position.

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.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

The Group 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 Group 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 right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group 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 right-of-use assets are presented in 'Property, Plant and Equipment' on the consolidated statement of financial position.

The Group applies K-IFRS 1036 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 (see Note 2.3.6).

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.

As a practical expedient, K-IFRS 1116 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### (2) The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group also rents equipment to retailers necessary for the presentation and customer fitting and testing of footwear and equipment manufactured by the Group.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease .

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases .

Subsequent to initial recognition, the Group regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of K-IFRS 1109, recognizing an allowance for expected credit losses on the lease receivables.

Finance lease income is calculated with reference to the gross carrying amount of the lease receivables, except for credit-impaired financial assets for which interest income is calculated with reference to their amortized cost (i.e., after a deduction of the loss allowance).

When a contract includes both lease and non-lease components, the Group applies K-IFRS 1115 to allocate the consideration under the contract to each component.

### **2.3.19 Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the statement of financial position by deducting the grant from the carrying amount of the asset(including property, plant and equipment). The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants towards staff re-training costs are recognized as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2.3.20 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate.

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.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### **2.3.21 Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

### **2.3.22 Issued Capital**

Common shares are classified as equity and an incremental cost incurred directly with equity transactions is net of tax effects and is subtracted to equity.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **2.3.23 Earnings per share (EPS)**

The Group presents basic EPS and diluted EPS on ordinary shares, which are calculated with the profit for the year, in the consolidated statements of comprehensive income. Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted-average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for share-based payment granted to employees) by the weighted-average number of ordinary shares outstanding during the year, plus the weighted-average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

### **2.3.24 Classification of the consolidated statements of financial position for 2019.**

The Group had classified reserve for agent losses as other non-current liabilities until December 31, 2019. However, reserve for agent losses are classified as other long-term financial liabilities from January 1, 2020 for convenience of information users. Also, increase or decrease in rental assets, depreciation, sales commission etc., which consist of cash generated from operations, until December 31, 2019, are reclassified. These classifications have no impacts on net assets or profit for the year ended December 31, 2019.

## **2.4 Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in Note 2.3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### **2.4.1 Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimations (see Note 2.3.2), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

#### **(1) Significant increase in credit risk**

As explained in Note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. K-IFRS 1109 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

KIFRS 1109 provides a simplified approach in calculating an allowance for expected credit losses on lifetime ECLs for trade receivables, contract assets and finance lease receivables under certain circumstances. The Group applies the simplified approach for these assets.

#### **(2) Lease commitments – Group as lessor**

The Group has entered into lease contracts on the rental assets as a provider. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lease contracts are operating leases if they retain the significant portions of risks and rewards of these rental assets. However, if the significant portions of risks and rewards of the rental assets are transferred to a lessee, the Group classified the contracts as finance leases at the inception of the lease.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

### **(3) Determining the lease term of contracts with renewal and termination options – Group as lessee**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than three years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

### **2.4.2 Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **(1) Impairment testing**

The Group determines whether impairment indications on non-financial assets exist at the end of the reporting period. Impairment test on goodwill and intangible assets with indefinite lives is to be performed every year or when impairment indication exists. Impairment test on other non-financial assets will be performed when the recoverable amount from the assets is higher than the book value. The Group estimates the future expected cash flows from the assets or CGUs by applying the appropriate interest rates to calculate the value in use.

According to the valuation of recoverable amount on CGUs that losses have been incurred, management estimates that recoverable amount on CGUs will be sensitively influenced by whether business plan of the subsidiary for the next year would be achieved. Business plan is reviewed and approved by board of directors and consists of estimations of income, wages and indirect costs based on market status expected at present and future. Due to the nature of CGUs, there are uncertainties in estimating future income.

#### **(2) Calculation of loss allowance**

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

## **2. Basis of preparation and summary of significant accounting policies (cont'd)**

The Group uses a provision matrix to calculate ECLs for trade receivables and finance lease receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and finance lease receivables is disclosed in Note 6.

### **(3) Defined Benefit Plan**

The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables in determining the cost of providing post-retirement benefits such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of post-retirement benefit plan. At the end of this year, defined benefit liability of the plan is ₩242,652 million (2019: ₩221,209 million), as detailed in Note 17.

### **(4) Valuation of Financial Instruments**

As described in Note 37, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

### **(5) Share-based payments**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 25.

## 2. Basis of preparation and summary of significant accounting policies (cont'd)

### (6) Estimating variable consideration for returns and volume rebates

The Group estimates variable considerations to be included in the transaction price for the sale of product with rights of return and volume rebates. The Group developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As of December 31, 2020, the amount recognized as refund liabilities for the expected returns and volume rebates was ₩ 128,650 million.

## 3. SEGMENT INFORMATION

Details of the Group's reportable segments are as follows:

The management in strategic decision making of the Group determines the Group's operating segments. The management monitors operating results of its operating segments separately for the purpose of making decision about resource allocation and performance assessment. The management has responsibilities of evaluating the resource allocation and performance of each segment.

Operating segments are organized based on its products and services and has two reportable segments, as follows:

<u>Operating segments</u>	<u>Principal activity</u>
Home wellness appliances	Rental service and sales of water purifiers, bidets and others including regular services to customers with membership
Others	Sales of cosmetics and others to customers, construction contracts for water management facilities and others

Most of the Group's operations are conducted within Korea and, with regards to Home wellness appliances segment, some lease products or goods are exported to the United States of America, China, Malaysia and others.

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**3. Segment information (cont'd)**

Financial performance information by segment for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		
	Home wellness appliances	Others	Total
Sales	₩ 3,427,957,229	₩ 107,795,130	₩ 3,535,752,359
Inter-segment revenue	(295,526,939)	(2,813,945)	(298,340,884)
Revenue from external customers	3,132,430,290	104,981,185	3,237,411,475
Gross profit	2,134,468,827	59,028,654	2,193,497,481

	2019		
	Home wellness appliances	Others	Total
Sales	₩ 3,102,343,312	₩ 159,339,188	₩ 3,261,682,500
Inter-segment revenue	(241,389,997)	(1,380,000)	(242,769,997)
Revenue from external customers	2,860,953,315	157,959,188	3,018,912,503
Gross profit	1,929,712,159	78,788,768	2,008,500,927

Sales by geographic region for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020			
	Domestic	U.S.A.	Asia	Total
Total revenue	₩ 2,639,686,535	₩ 152,443,148	₩ 743,622,677	₩ 3,535,752,359
Internal revenue	(298,340,884)	-	-	(298,340,884)
Net revenue	2,341,345,651	152,443,148	743,622,677	3,237,411,475
Property, plant and equipment, intangible assets and investment properties	1,123,730,864	18,223,889	231,630,803	1,373,585,556

	2019			
	Domestic	U.S.A.	Asia	Total
Total revenue	₩ 2,613,818,195	₩ 97,345,050	₩ 550,519,255	₩ 3,261,682,500
Internal revenue	(242,769,997)	-	-	(242,769,997)
Net revenue	2,371,048,198	97,345,050	550,519,255	3,018,912,503
Property, plant and equipment, intangible assets and investment properties	1,177,812,328	27,712,599	257,664,767	1,463,189,694

No external customers account for more than 10% of the Group's sales for the years ended December 31, 2020 and 2019, respectively.

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**4. FINANCIAL INSTRUMENTS BY CATEGORY**

The Group's financial instruments by category as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020				
	Financial assets at amortized cost	Financial assets at FVTPL	Financial assets at FVTOCI	Financial liabilities at amortized cost	Total
Assets:					
<Current>					
Cash and cash equivalents	₩ 115,815,624	₩ -	₩ -	₩ -	₩ 115,815,624
Trade receivables	317,000,160	-	-	-	317,000,160
Finance lease receivables	261,902,256	-	-	-	261,902,256
Other short-term financial assets	42,610,843	-	-	-	42,610,843
<Non-current>					
Long-term trade receivables	13,340,836	-	-	-	13,340,836
Finance lease receivables	625,763,700	-	-	-	625,763,700
Other long-term financial assets	16,532,009	-	-	-	16,532,009
Financial assets at FVPL	-	1,248,880	-	-	1,248,880
Financial assets at FVOCI	-	-	365,501	-	365,501
	₩ 1,392,965,428	₩ 1,248,880	₩ 365,501	₩ -	₩ 1,394,579,809

Liabilities:					
<Current>					
Trade payables	₩ -	₩ -	₩ -	₩ 68,692,821	₩ 68,692,821
Lease liabilities	-	-	-	13,922,485	13,922,485
Other short-term financial liabilities	-	-	-	222,612,309	222,612,309
Short-term borrowings	-	-	-	700,130,000	700,130,000
Current portion of long-term borrowings	-	-	-	536,000	536,000
<Non-current>					
Lease liabilities	-	-	-	8,828,774	8,828,774
Other long-term financial liabilities	-	-	-	10,915,924	10,915,924
Long-term borrowings	-	-	-	9,350,000	9,350,000
	₩ -	₩ -	₩ -	₩ 1,034,988,313	₩ 1,034,988,313

	2019				
	Financial assets at amortized cost	Financial assets at FVTPL	Financial assets at FVTOCI	Financial liabilities at amortized cost	Total
Assets:					
<Current>					
Cash and cash equivalents	₩ 60,540,531	₩ -	₩ -	₩ -	₩ 60,540,531
Trade receivables	310,190,424	-	-	-	310,190,424
Finance lease receivables	180,165,617	-	-	-	180,165,617
Other short-term financial assets	60,739,871	-	-	-	60,739,871
<Non-current>					
Long-term trade receivables	21,594,722	-	-	-	21,594,722
Finance lease receivables	487,364,051	-	-	-	487,364,051
Other long-term financial assets	20,937,293	-	-	-	20,937,293
Financial assets at FVPL	-	1,232,703	-	-	1,232,703
Financial assets at FVOCI	-	-	365,501	-	365,501
	₩ 1,141,532,509	₩ 1,232,703	₩ 365,501	₩ -	₩ 1,143,130,713

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**4. Financial instruments by category (cont'd)**

Liabilities:

<Current>

Trade payables	₩	-	₩	-	₩	-	₩	57,967,769	₩	57,967,769
Lease liabilities		-		-		-		14,981,012		14,981,012
Other short-term financial liabilities		-		-		-		212,388,285		212,388,285
Short-term borrowings		-		-		-		860,550,000		860,550,000
Current portion of long-term borrowings		-		-		-		536,000		536,000
<Non-current>										
Lease liabilities		-		-		-		16,300,851		16,300,851
Other long-term financial liabilities		-		-		-		12,269,961		12,269,961
Long-term borrowings		-		-		-		9,449,000		9,449,000
	₩	-	₩	-	₩	-	₩	1,184,442,878	₩	1,184,442,878

Gains or losses on financial instruments by category for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

		2020		2019
Financial assets at amortized cost:				
Interest income (Rental sales)	₩	38,442,638	₩	19,658,089
Interest income (Finance income)		1,182,998		1,330,529
Gain on foreign currency translation		6,184		2,282,372
Loss on foreign currency translation		(31,965,750)		(515,841)
Loss on impairment of trade receivables		(93,562,400)		(31,210,595)
Loss on impairment of other receivables		(8,969,583)		(2,750,377)
Financial assets at FVPL:				
Gain or loss on valuation of financial assets at FVPL		16,177		14,504
Financial assets at FVOCI:				
Dividend income		9,475		6,715
Financial liabilities at amortized cost:				
Interest expenses		(21,203,992)		(21,979,552)
Gain on foreign currency translation		26,616,034		10,113,064
Loss on foreign currency translation		(16,359,617)		(1,242,404)

The Group accounted for ₩12,141 million (2019: ₩10,781 million) of gain on foreign currency transactions and ₩11,409 million (2019: ₩8,234 million) of loss on foreign currency transactions from trade receivables, other short-term financial assets, other long-term financial assets and trade payables denominated in foreign currencies.

**Coway Co., Ltd. and its subsidiaries**  
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**5. CASH AND CASH EQUIVALENTS**

Details of cash and cash equivalents as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019
Cash	₩ 373,885	₩	272,601
Checking account	6,523,307		12,267,576
Savings account	108,918,432		47,950,559
Other cash equivalents	-		49,795
	<u>₩ 115,815,624</u>	₩	<u>60,540,531</u>

**6. TRADE RECEIVABLES AND FINANCE LEASE RECEIVABLES**

Details of trade receivables and finance lease receivables as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019
Current:			
Trade receivables	₩ 400,466,046	₩	386,644,402
Less: present value discount of trade receivables	(411,036)		(668,684)
Less: allowance for expected credit losses	(83,054,851)		(75,785,294)
Finance lease receivables	299,725,127		201,935,275
Less: present value discount of lease receivables	(23,680,826)		(14,157,489)
Less: allowance for expected credit losses	(14,142,045)		(7,612,169)
	<u>₩ 578,902,415</u>	₩	<u>490,356,041</u>
Non-current:			
Trade receivables	₩ 22,691,912	₩	31,112,119
Less: present value discount of trade receivables	(906,449)		(1,448,345)
Less: allowance for expected credit losses	(8,444,628)		(8,069,052)
Finance lease receivables	772,047,620		557,284,644
Less: present value discount of lease receivables	(81,646,983)		(66,162,070)
Less: allowance for expected credit losses	(64,636,937)		(3,758,523)
	<u>₩ 639,104,535</u>	₩	<u>508,958,773</u>

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**6. Trade Receivables And Finance Lease Receivables (cont'd)**

The aging analyses of trade receivables and finance lease receivables which are past but not impaired, as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Receivables not past due	₩ 1,272,638,006	₩ 1,045,154,508
Past due but not impaired:		
Less than 6 months	46,732,200	30,707,159
6 to 12 months	4,973,552	5,779,607
More than 12 months	308,487	110,129
	<u>52,014,239</u>	<u>36,596,895</u>
Impaired	170,278,461	95,225,038
	<u>₩ 1,494,930,706</u>	<u>₩ 1,176,976,441</u>

Changes in allowance for expected credit losses on trade receivables and finance lease receivables for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
As of January 1	₩ 95,225,038	₩ 74,451,678
Impairment loss	93,562,400	31,210,595
Increase in combination of business	-	1,243,470
Write-off and disposal of uncollectable amounts	(15,743,645)	(9,404,524)
Exchange difference and others	(2,765,332)	(2,276,181)
As of December 31	<u>₩ 170,278,461</u>	<u>₩ 95,225,038</u>

**7. OTHER FINANCIAL ASSETS**

Details of other financial assets as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Other short-term financial assets:		
Short-term loans	₩ 57,414	₩ 83,280
Other receivables	46,911,100	58,327,839
Accrued income	6,869	-
Guarantee deposits	35,825,064	34,165,597
Less: allowance for expected credit losses (Current)	(40,189,604)	(31,836,845)
	<u>₩ 42,610,843</u>	<u>₩ 60,739,871</u>
Other long-term financial assets:		
Long-term financial instruments	₩ 8,326,162	₩ 8,611,057
Guarantee deposits	8,549,247	12,225,436
Other long-term trade and other receivables	3,179,073	3,179,073
Other receivables	250,000	716,600
Less: allowance for expected credit losses (Non-current)	(3,772,473)	(3,794,873)
	<u>₩ 16,532,009</u>	<u>₩ 20,937,293</u>

Impairment has occurred from refund receivables for sales commission and leasehold deposits in other financial assets. The Group recognizes the impairment loss on these other financial assets by assessing an individual analysis.

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**7. Other Financial Assets (cont'd)**

Most of the other short-term financial assets are less than one year, and most of the other long-term financial assets are between one and two years. Since other financial assets are spread to various customers, there is no significantly concentrated exposure to credit risk.

Changes in allowance for expected credit losses on other financial assets for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019
Other short-term financial assets:			
As of January 1	₩ 31,836,845	₩	30,516,383
Impairment loss	8,991,983		2,139,577
Increase in combination of business	-		10,504
Disposal of impaired receivables	(639,224)		(829,619)
As of December 31	₩ 40,189,604	₩	31,836,845
Other long-term financial assets:			
As of January 1	₩ 3,794,873	₩	3,184,073
Impairment loss	(22,400)		610,800
As of December 31	₩ 3,772,473	₩	3,794,873

**8. OTHER ASSETS**

Details of other assets as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019
Other current assets:			
Prepayments	₩ 743,557	₩	1,565,221
Prepaid expenses	21,413,250		31,692,174
Due from customers for construction contracts	2,802,527		8,664,717
Others	277,710		358,756
	₩ 25,237,044	₩	42,280,868
Other non-current assets:			
Long-term prepayments	₩ 14,074,106	₩	14,000,000
Long-term prepaid expenses	734,724		7,600,191
Others	124,330		124,330
	₩ 14,933,160	₩	21,724,521

## 9. INVENTORIES

Details of inventories as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		
	Acquisition cost	Valuation allowance	Book value
Merchandise and Finished goods	₩ 135,519,896	₩ (14,419,838)	₩ 121,100,058
Work-in-process	613,212	(83)	613,129
Raw materials	6,872,634	(92,411)	6,780,223
Materials-in-transit	5,521,060	-	5,521,060
Others	-	-	-
	<u>₩ 148,526,802</u>	<u>₩ (14,512,332)</u>	<u>₩ 134,014,470</u>

	2019		
	Acquisition cost	Valuation allowance	Book value
Merchandise and Finished goods	₩ 111,034,058	₩ (14,572,811)	₩ 96,461,247
Work-in-process	472,759	-	472,759
Raw materials	6,440,357	(164,554)	6,275,803
Materials-in-transit	9,466,263	-	9,466,263
Others	169,406	-	169,406
	<u>₩ 127,582,843</u>	<u>₩ (14,737,365)</u>	<u>₩ 112,845,478</u>

## 10. FINANCIAL ASSETS AT FAIR VALUE

Details of financial assets at FVOCI as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Non-current		
Unlisted securities		
MCscience	₩ 327,406	₩ 327,406
NEXtelecom	9,504	9,504
Nabistory Co., Ltd.	27,889	27,889
Others	702	702
	<u>₩ 365,501</u>	<u>₩ 365,501</u>

Details of financial assets at FVPL as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Non-current		
Capital contribution		
KOWPIC	₩ 5,300	₩ 5,300
Mutual aid association, etc.	1,243,580	1,227,403
	<u>₩ 1,248,880</u>	<u>₩ 1,232,703</u>

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**11. PROPERTY, PLANT AND EQUIPMENT**

Details of property, plant and equipment as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020			
	Acquisition cost	Accumulated depreciation and impairment	Government grants	Book value
Land	₩ 39,234,002	₩ -	₩ -	₩ 39,234,002
Buildings	52,876,558	(15,390,681)	-	37,485,877
Structures	3,398,030	(2,991,033)	-	406,997
Machinery and equipment	42,854,376	(26,277,417)	-	16,576,959
Vehicles	974,911	(795,767)	-	179,144
Tools	179,649,846	(139,249,853)	-	40,399,993
Furniture and fixtures	117,407,099	(95,775,317)	-	21,631,782
Rental assets	2,177,789,474	(1,158,957,799)	-	1,018,831,675
Others	31,890,734	(23,687,093)	(44,000)	8,159,641
Construction-in-progress	1,270,830	-	-	1,270,830
Right-of-use asset	85,814,553	(44,862,122)	-	40,952,431
	<u>₩ 2,733,160,413</u>	<u>₩ (1,507,987,082)</u>	<u>₩ (44,000)</u>	<u>₩ 1,225,129,331</u>

	2019			
	Acquisition cost	Accumulated depreciation and impairment	Government grants	Book value
Land	₩ 34,716,727	₩ -	₩ -	₩ 34,716,727
Buildings	38,703,416	(11,171,008)	(208,895)	27,323,513
Structures	3,317,030	(2,714,419)	-	602,611
Machinery and equipment	41,530,982	(24,506,456)	-	17,024,526
Vehicles	915,976	(771,264)	-	144,712
Tools	186,909,751	(139,880,918)	-	47,028,833
Furniture and fixtures	113,144,229	(89,492,141)	-	23,652,088
Rental assets	1,983,735,997	(906,286,964)	-	1,077,449,033
Others	30,715,406	(21,696,234)	(61,600)	8,957,572
Construction-in-progress	836,462	-	-	836,462
Right-of-use asset	47,379,759	(14,337,627)	-	33,042,132
	<u>₩ 2,481,905,735</u>	<u>₩ (1,210,857,031)</u>	<u>₩ (270,495)</u>	<u>₩ 1,270,778,209</u>

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**11. Property, plant and equipment (cont'd)**

Changes in the book value of property, plant and equipment for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020						
	Jan. 1	Acquisitions and capital expenditure	Disposal, abandonment and impairment	Depreciation	Transfers (*1)	Exchange difference	Dec. 31
Land	₩ 34,716,727	₩ -	₩ -	₩ -	₩ 4,517,275	₩ -	₩ 39,234,002
Buildings	27,323,513	9,828	-	(1,303,619)	11,456,155	-	37,485,877
Structures	602,611	81,000	-	(276,614)	-	-	406,997
Machinery and equipment	17,024,526	1,773,212	(39,262)	(3,959,998)	1,914,000	(135,519)	16,576,959
Vehicles	144,712	84,873	-	(40,794)	-	(9,647)	179,144
Tools	47,028,833	10,335,086	(1,203,750)	(17,053,663)	1,343,750	(50,263)	40,399,993
Furniture and fixtures	23,652,088	6,137,535	(130,705)	(7,641,163)	142,900	(528,873)	21,631,782
Rental assets	1,077,449,033	522,689,051	(90,669,457)	(477,393,831)	810,303	(14,053,424)	1,018,831,675
Others	8,957,572	1,580,533	(117,246)	(3,095,800)	838,187	(3,605)	8,159,641
Construction-in-progress	836,462	4,879,206	-	-	(4,444,838)	-	1,270,830
Right-of-use asset	33,042,132	15,486,067	(1,172,201)	(23,311,005)	17,456,419	(548,981)	40,952,431
	₩ 1,270,778,209	₩ 563,056,391	₩ (93,332,621)	₩ (534,076,487)	₩ 34,034,151	₩ (15,330,312)	₩ 1,225,129,331

(\*1) These were transferred from rental assets to inventories and from long-term prepaid expenses and intangible assets to right-of-use asset and from investment properties to property, plant and equipment.

	2019								
	Jan. 1	Changes in accounting policies	Combination of business (Note 39)	Acquisitions and capital expenditure	Disposal, abandonment and impairment	Depreciation	Transfers (*1)	Exchange difference	Dec. 31
Land	₩ 34,716,727	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 34,716,727
Buildings	27,883,095	-	-	152,387	-	(1,026,624)	314,655	-	27,323,513
Structures	914,765	-	-	14,200	(4,859)	(321,495)	-	-	602,611
Machinery and equipment	15,000,749	-	-	3,701,839	(106,046)	(3,168,483)	1,498,350	98,117	17,024,526
Vehicles	104,876	-	-	86,577	(24,557)	(26,902)	-	4,718	144,712
Tools	43,963,546	-	1,622,805	15,433,149	(548,375)	(16,097,746)	2,641,741	13,713	47,028,833
Furniture and fixtures	18,652,078	-	494,846	9,059,763	(123,431)	(5,668,236)	833,200	403,868	23,652,088
Rental assets	631,041,743	342,848,897	22,164,824	626,231,683	(97,972,268)	(459,298,773)	(564,704)	12,997,631	1,077,449,033
Others	8,145,582	-	-	1,716,379	(1)	(2,904,156)	1,992,603	7,165	8,957,572
Construction-in-progress	589,573	-	-	7,527,437	-	-	(7,280,548)	-	836,462
Right-of-use asset	-	22,310,959	-	26,360,909	(149,117)	(15,940,470)	-	459,851	33,042,132
	₩ 781,012,734	₩ 365,159,856	₩ 24,282,475	₩ 690,284,323	₩ (98,928,654)	₩ (504,452,885)	₩ (564,703)	₩ 13,985,063	₩ 1,270,778,209

(\*1) These were transferred from rental assets to inventories.

12. INTANGIBLE ASSETS

Details of intangible assets as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		
	Acquisition cost	Accumulated amortization, impairment	Book value
Goodwill	₩ 117,311,851	₩ (8,391,201)	₩ 108,920,650
Industrial property rights	3,592,091	(2,947,822)	644,269
Software	85,224,682	(75,027,925)	10,196,757
Usage rights	4,160,430	(943,702)	3,216,728
Others	43,715,659	(28,297,329)	15,418,330
Development-in-progress	1,997,915	-	1,997,915
	<u>₩ 256,002,628</u>	<u>₩ (115,607,979)</u>	<u>₩ 140,394,649</u>
	2019		
	Acquisition cost	Accumulated amortization, impairment	Book value
Goodwill	₩ 117,311,851	₩ -	₩ 117,311,851
Industrial property rights	3,592,091	(2,534,544)	1,057,547
Software	83,168,861	(69,110,020)	14,058,841
Usage rights	5,524,667	-	5,524,667
Others	73,968,166	(43,879,414)	30,088,752
Development-in-progress	360,227	-	360,227
	<u>₩ 283,925,863</u>	<u>₩ (115,523,978)</u>	<u>₩ 168,401,885</u>

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**12. Intangible assets (cont'd)**

Changes in the book value of intangible assets for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020							Dec.31
	Jan.1	Acquisition and capital expenditures	Disposal, abandonment and impairment	Amortization	Transfer	Exchange difference		
Goodwill	₩ 117,311,851	₩ -	₩ (8,391,201)	₩ -	₩ -	₩ -	₩ -	₩ 108,920,650
Industrial property rights	1,057,547	-	-	(413,278)	-	-	-	644,270
Software	14,058,841	1,046,046	-	(6,027,239)	1,163,454	(44,346)	-	10,196,756
Usage rights	5,524,667	-	(2,307,939)	-	-	-	-	3,216,728
Others	30,088,752	-	(21,718)	(2,595,661)	(12,054,825)	1,782	-	15,418,330
Development-in-progress	360,227	2,801,142	-	-	(1,163,454)	-	-	1,997,915
	<u>₩ 168,401,885</u>	<u>₩ 3,847,188</u>	<u>₩ (10,720,858)</u>	<u>₩ (9,036,178)</u>	<u>₩ (12,054,825)</u>	<u>₩ (42,564)</u>		<u>₩ 140,394,649</u>

	2019							Dec.31
	Jan.1	Business combination (Note 39)	Acquisition and capital expenditures	Disposal, abandonment and impairment	Amortization	Transfer	Exchange difference	
Goodwill	₩ 109,812,117	₩ 7,499,734	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 117,311,851
Industrial property rights	1,471,630	-	-	-	(414,083)	-	-	1,057,547
Software	18,028,202	-	1,587,008	(64,575)	(6,774,870)	1,249,835	33,241	14,058,841
Usage rights	6,207,302	-	-	(682,635)	-	-	-	5,524,667
Others	24,322,308	10,089,750	102,288	(1,409,915)	(3,015,905)	-	226	30,088,752
Development-in-progress	450,877	-	1,159,185	-	-	(1,249,835)	-	360,227
	<u>₩ 160,292,436</u>	<u>₩ 17,589,484</u>	<u>₩ 2,848,481</u>	<u>₩ (2,157,125)</u>	<u>₩ (10,204,858)</u>	<u>₩ -</u>	<u>₩ 33,467</u>	<u>₩ 168,401,885</u>

**Impairment test of goodwill**

Goodwill allocated to the respective cash-generating unit (CGU) as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

Business unit	2020	2019
Home wellness appliances	₩ 106,762,302	₩ 106,762,302
Cosmetics	2,158,348	5,488,348
Coway EnTech Co., Ltd.	-	5,061,201
	<u>₩ 108,920,650</u>	<u>₩ 117,311,851</u>

## 12. Intangible assets (cont'd)

Goodwill is reviewed annually for impairment. After impairment tests, the Group recognized impairment loss of ₩3,330 million and ₩5,061 million on cosmetics and Coway EnTech Co., Ltd. business unit, respectively. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Net income to sales ratio for the five-year period and terminal growth rates used for perpetual cash flow calculations beyond the five-year period are listed below. The key assumptions used for value-in-use calculations as of December 31, 2020, are as follows:

Business unit	Sales growth rate (*1)	Terminal growth rate (*2)	Discount rate (*3)
Home wellness appliances	3.02%	0.00%	9.80%
Cosmetics	5.10%	1.00%	15.83%
Coway EnTech Co., Ltd.	18.04%	0.00%	11.62%

(\*1) The rate represents the projected growth rate of average annual sales from 2021 to 2025. The Group estimated cash flows based on past experiences, actual operating performance and business plan. Revenues included in cash flows reflect business characteristics of each individual reportable segment.

(\*2) The Group used the fixed permanent growth rate to estimate the future cash flows of the periods following 2026.

(\*3) The Group used weighted-average cost of capital as the discount rate to determine the recoverable amount of each reportable segment. Risk-free discount rates, market risk premium and Beta ( $\beta$ ) were verified by external information supplied by Bloomberg and were used to calculate capital ratio of each reportable segment.

## 13. INVESTMENT PROPERTIES

Details of investment properties as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		
	Acquisition cost	Accumulated depreciation and impairment	Book value
Land	₩ 5,237,996	₩ -	₩ 5,237,996
Buildings	3,676,361	(852,780)	2,823,581
	<u>₩ 8,914,357</u>	<u>₩ (852,780)</u>	<u>₩ 8,061,577</u>
	2019		
	Acquisition cost	Accumulated depreciation and impairment	Book value
Land	₩ 9,755,271	₩ -	₩ 9,755,271
Buildings	17,864,712	(3,610,384)	14,254,328
	<u>₩ 27,619,983</u>	<u>₩ (3,610,384)</u>	<u>₩ 24,009,599</u>

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**13. INVESTMENT PROPERTIES (cont'd)**

Changes in investment properties for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020			
	Acquisition cost	Depreciation	Transfer (*1)	Book value
Land	₩ 9,755,271	₩ -	₩ (4,517,275)	₩ 5,237,996
Buildings	14,254,328	(180,592)	(11,250,155)	2,823,581
	₩ 24,009,599	₩ (180,592)	₩ (15,767,430)	₩ 8,061,577

(\*1) The amounts are transferred from investment properties to property, plant and equipment during the year ended December 31, 2020.

	2019			
	Acquisition cost	Depreciation	Transfer	Book value
Land	₩ 9,755,271	₩ -	₩ -	₩ 9,755,271
Buildings	14,701,012	(446,684)	-	14,254,328
	₩ 24,456,283	₩ (446,684)	₩ -	₩ 24,009,599

The fair value of investment properties as of December 31, 2020, is the amount of ₩5,875 million (2019: ₩20,879 million). Rental income from investment properties for the year ended December 31, 2020, is the amount of ₩753 million (2019: ₩785 million).

**14. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES**

Other financial liabilities and other liabilities as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Other short-term financial liabilities:		
Other payables	₩ 186,706,730	₩ 175,567,648
Accrued expenses	35,890,004	36,801,975
Others	15,575	18,662
	₩ 222,612,309	₩ 212,388,285
Other long-term financial liabilities:		
Long-term other payables	₩ 98,247	₩ 414,447
Guarantee deposits withheld	16,431	16,886
Rental deposits withheld	1,159,128	1,215,511
Reserve for agent losses (Note 19)	9,642,118	10,623,117
	₩ 10,915,924	₩ 12,269,961
Other current liabilities:		
Advance received	₩ 195,661,168	₩ 193,723,316
Withholdings	15,499,952	19,842,941
Unearned revenue	862,095	979,468
Liabilities related to government grants	6,614	428,846
Due to customer for construction contracts	4,871,738	5,087,793
Others	358,732	296,708
	₩ 217,260,299	₩ 220,359,072
Other non-current liabilities:		
Long-term advances received	₩ 29,819,683	₩ 24,255,873
Other long-term employee benefits liabilities	9,396,188	5,887,113
Others	50,000	88,611
	₩ 39,265,871	₩ 30,231,597

## 15. SHORT-TERM BORROWINGS

Details of short-term borrowings as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	Financial institution	Interest rate (%)	2020	2019
Working capital borrowings	Korea Development Bank	1.87 ~ 2.27%	₩ 170,000,000	₩ 70,000,000
	Kookmin Bank	2.91 ~ 3.01%	180,000,000	-
	KEB Hana Bank	3.33%	100,000,000	-
	Standard Chartered Bank Korea Limited	2.14%	150,000,000	-
Commercial paper	Shinhan Bank	-	-	50,000,000
	Korea Investment & Securities Co., Ltd.	1.75%	50,000,000	430,000,000
	Woori Investment Bank Co., Ltd.	-	-	10,000,000
	KB Securities Co., Ltd.	1.75%	50,000,000	250,000,000
	IBK Securities Co., Ltd.	-	-	50,000,000
Credit loan	Korea Development Bank	Base rate(*1)+2.0	130,000	550,000
			<u>₩ 700,130,000</u>	<u>₩ 860,550,000</u>

(\*1) The interest rate applied for project financing (variable) as of the withdrawal date.

## 16. LONG-TERM BORROWINGS

Details of long-term borrowings as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	Financial institution	Interest rate (%)	2020	2019
Project financing (fixed)	NH Bank	6.00	₩ 3,055,000	₩ 3,104,500
Project financing (variable)	"	Base rate(*1)+2.50	3,055,000	3,104,500
Project financing (fixed)	"	9.00	3,776,000	3,776,000
			<u>9,886,000</u>	<u>9,985,000</u>
	Less: current portion		<u>(536,000)</u>	<u>(536,000)</u>
			<u>₩ 9,350,000</u>	<u>₩ 9,449,000</u>

(\*1) The rate is simple arithmetic averages of final offer rates of unsecured public offering corporate bond issued by AA- credit rated company, which announced by KFIA(Korea Financial Investment Association) for 4 business days from its decision.

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**17. NET DEFINED BENEFIT LIABILITIES**

Net defined benefit liabilities (assets) as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Defined benefit obligation	₩ 242,651,816	₩ 221,209,668
Plan assets	(241,819,600)	(205,605,262)
	<u>₩ 832,216</u>	<u>₩ 15,604,406</u>

Gain and loss related to the defined benefit plan as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Current service costs	₩ 29,282,733	₩ 26,158,543
Interest costs on net defined benefit liabilities	807,377	778,520
Retirement bonus and others	207,426	488,498
	<u>₩ 30,297,537</u>	<u>₩ 27,425,561</u>

Changes in the present value of the defined benefit obligation for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Beginning balance	₩ 221,209,668	₩ 187,219,438
Pension costs charged to profit or loss:	-	-
Current service costs	29,282,733	26,158,543
Interest costs	6,167,658	6,119,859
	<u>35,450,391</u>	<u>32,278,402</u>
Benefits paid	(7,402,927)	(8,423,712)
Re-measurement gain or loss:		
Actuarial changes arising from changes in demographic assumptions	8,587,223	36,242
Actuarial changes arising from changes in financial assumptions	(9,507,130)	7,114,604
Experience adjustments	(5,652,504)	2,007,671
	<u>(6,572,412)</u>	<u>9,158,517</u>
Business combination (Note 39)	-	800,843
Others	(32,905)	176,180
Ending balance	<u>₩ 242,651,816</u>	<u>₩ 221,209,668</u>

Changes in the fair value of plan assets for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Beginning balance	₩ 205,605,262	₩ 178,814,590
Interest income	5,360,280	5,341,339
Contribution	37,300,000	30,650,000
Benefits paid	(6,696,282)	(8,075,958)
Re-measurement	195,247	(1,280,622)
Others	55,093	155,913
Ending balance	<u>₩ 241,819,600</u>	<u>₩ 205,605,262</u>

**17. Net defined benefit liabilities (cont'd)**

Key assumptions used for defined benefit plan calculations are as follows:

	2020	2019	Remark
Discount rate	2.637~2.960%	2.799~2.835%	Interest rate of high-quality corporate bonds
Salary increase rate	Rate by age	Rate by age	Historical experience

Details of plan assets as of December 31, 2020 and 2019, are as follows:

	2020	2019
Cash and bank deposits	74.88%	43.44%
Securities	25.12%	56.56%
	100.00%	100.00%

A quantitative sensitivity analysis for significant assumptions as of December 31, 2020, is as follows:

Assumptions	Discount rate		Salary increase rate	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Sensitivity level				
Impact on defined benefit obligation	4.89% decrease	5.22% increase	5.22% increase	4.90% decrease

**18. PROVISIONS**

Details of provisions as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019	
Current				
Provision for restoration	₩	1,287,116	₩	2,751,180
Provision for construction warranty		90,214		-
Provision for other loss		11,396		-
		1,388,726		2,751,180
Non-current				
Provision for restoration		1,003,102		-
Provision for construction warranty		-		108,578
Provision for other loss		51,540,163		106,971,382
		52,543,265		107,079,960
	₩	53,931,991	₩	109,831,140

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**18. Provisions (cont'd)**

Changes in provisions for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020				
	Jan. 1	Increase	Decrease	Use	Dec. 31
Provision for restoration	₩ 2,751,180	₩ 472,917	₩ (933,879)	₩ -	₩ 2,290,218
Provision for construction warranty	108,577	6,835	(21,198)	(4,000)	90,214
Provision for other loss (Note 20)	106,971,382	16,355,499	(12,828,524)	(58,946,798)	51,551,559
	<u>₩ 109,831,139</u>	<u>₩ 16,835,251</u>	<u>₩ (13,783,601)</u>	<u>₩ (58,950,798)</u>	<u>₩ 53,931,991</u>

	2019				
	Jan. 1	Change in accounting policy	Increase	Decrease	Dec. 31
Provision for restoration	₩ -	₩ 1,377,927	₩ 1,402,909	₩ (29,656)	₩ 2,751,180
Provision for construction warranty	220,281	-	30,706	(142,410)	108,577
Provision for other loss (Note 20)	2,108,019	-	104,863,363	-	106,971,382
	<u>₩ 2,328,300</u>	<u>₩ 1,377,927</u>	<u>₩ 106,296,978</u>	<u>₩ (172,066)</u>	<u>₩ 109,831,139</u>

**19. RESERVE FOR AGENT LOSSES**

In accordance with the contract between the Group and its sales agents, the Group provides a reserve by deducting a certain portion of commission fees payable to its sales agents to account for any unfavorable events that may result in losses to be absorbed by the Group.

**20. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2020, the Group has 43 pending lawsuits with total claims against the Group amounting to approximately ₩103,176 million. In relation to infringement on water purifying systems with cooling and heating functions held by Chung Ho Nais Co., Ltd., and some of the retirement payment lawsuits filed by the installer engineers whose contract of delegation was terminated, the Group lost the first trial and the second trial is in progress. The Group recognized provision for other loss at the best estimate of potential loss from the lawsuits above and lawsuit filed by installation engineers in relation to the worker's position.

## 20. Commitments and contingencies (cont'd)

### Commitments

As of December 31, 2020, details of available credit lines with various financial institutions are as follows (Korean won in thousands):

Financial institution	Limits	Description
KEB Hana Bank	₩ 100,000	Purchase loan
Korea Development Bank and four other banks	779,900,000	General loan
KB SECURITIES CO.,LTD. and one financial institution	100,000,000	Commercial paper
KEB Hana Bank and two other banks	645,000	Secured loan with trade receivables settled electronically
Woori bank	5,000,000	B2B Plus loan
IBK Bank	3,000,000	Working capital loan
Woori bank	USD 500,000	L/C
IBK Bank	SGD 50,000	L/G
Korea Specialty Contractor Financial Cooperative (KSCFC)	6,299,128	Guarantee limits
Machinery Financial Cooperative	4,994,486	Guarantee limits

### Project financing borrowing commitment

The Group has entered into borrowing commitment with lenders which consist of NongHyup Bank Co., Ltd.(KIAMCO Trust entity of Green Financial Infrastructure Private Investment Trust No. 1) and Korea Development Bank on December 2, 2013 to raise funds required to operate private investment business related to industrial water facilities of Pochen Jangja Industrial Complex. The main terms are as follows:

#### - Commitment amount and interest rate

	Interest rate		Commitment amount
	Construction period	Operating period	
Long-term borrowing I (variable)	6.5%	Base rate(*1)+2.50%	₩ 14,376 million
Long-term borrowing I (fixed)	6.5%	6.0%	
Long-term borrowing II	11.0%	9.0%	
Long-term borrowing III (variable)	Base rate(*1)+2.50%		
Long-term borrowing III (fixed)	6.0%		
Credit loan	Base rate(*2)+2.00%		
	Total		₩ 15,876 million

(\*1) The rate is simple arithmetic averages of final offer rates of unsecured public offering corporate bond issued by AA- credit rated company, which announced by KFIA for 4 business days from its decision.

(\*2) The interest rate applied for long-term borrowing I (variable) as of the withdrawal date.

**20. Commitments and contingencies (cont'd)**

- Principal repayment

	Repayment method
Long-term borrowing I	Repayment for 14 years from the first interest payment date after the earliest date of the scheduled completion date and the date two years after the first withdrawal date of long-term borrowing I
Long-term borrowing II	Repayment for 10 years from the first interest payment date after 7 years and 3 months from the first withdrawal date
Long-term borrowing III	Repayment for the period from the repayment date of the long-term loan I to the final long-term loan I repayment date, which arrives first after the first withdrawal of the long-term loan III
Credit loan	Repayment on the repayment date of credit loan

- Details of collaterals provided

Details of collaterals provided to lenders to secure the borrowings as of December 31, 2020, are as follows:

	Description
Provider to	NongHyup Bank Co., Ltd.(KIAMCO Trust entity of Green Financial Infrastructure Private Investment Trust No. 1) and Korea Development Bank
Provided by	Pocheon Malkunmul Co., Ltd., Coway EnTech Co., Ltd., Coway Co., Ltd.
Secured liabilities	₩ 15,876 million (*) (All liabilities that the Group currently owes or will owe in the future to pledgees)
Maximum pledge amount	₩ 20,639 million
Details of collaterals provided	(1) Pocheon Malkunmul Co., Ltd. <ul style="list-style-type: none"> <li>- Pledged to checking account</li> <li>- Pledged to the right on insurance contracts</li> <li>- Pledged to mortgage of transfer on mortgage of transfer contracts</li> <li>- Pledged to the right on management and operation</li> </ul> (2) Coway EnTech Co., Ltd. <ul style="list-style-type: none"> <li>- Subscription agreement</li> <li>- Pledged to the shares and blank promissory note as performance guarantee</li> </ul>

(\*) Related borrowings are ₩ 10,016 million as of December 31, 2020.

**Guarantees and collateral**

Details of guarantees provided by third parties as of December 31, 2020, are as follows (Korean won in thousands):

Guarantee provider	Description	Guarantee amount
Seoul Guarantee Insurance (SGI)	Performance guarantee	KRW 21,850,152
Hanhwa general insurance and etc.	Completed Construction All Risk and etc.	KRW 56,176,363
Machinery Financial Cooperative	Guarantee against defaults	KRW 2,679,538
Korea Specialty Contractor Financial Cooperative (KSCFC)	"	KRW 3,626,084
		KRW 84,332,137

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**20. Commitments and contingencies (cont'd)**

As of December 31, 2020, collaterals provided by the Group are as follows (Korean won in thousands):

Provided to	Secured assets	Maximum pledge amount	Book value	Details
NH Bank, Korea Development Bank	Two blank papers, other intangible asset, cash and cash equivalents and others	₩ 20,638,800	₩ 8,103,494	Performance guarantee
IBK Bank	Property, plant and equipment (land and buildings)	4,260,000	2,686,002	Collateral for payment guarantees
KSCFC	Capital contributions	185,346	185,346	Collateral for guarantee against defaults
Plant & Mechanical Contractors	"	179,758	179,758	"
Financial Cooperative of Korea	"	499,449	499,449	"
Machinery Financial Cooperative	"	341,528	341,528	"
Construction Guarantee Cooperative	"	₩ 26,104,881	₩ 11,995,577	

Details of restricted deposits as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	Financial institution	2020	2019	Description
Cash and cash equivalents	Korea Development Bank	₩ 1,532,730	₩ 166,052	Borrowings pledge
Long-term financial instruments	IBK Bank	8,300,000	8,300,000	Guarantee (*)
Long-term guarantee deposits	Woori Bank and others	7,000	7,000	Bank overdrafts
		₩ 9,839,730	₩ 8,473,052	

(\*) Represents guarantees to provide financial support for the purpose of promoting cooperation between small and medium-sized enterprises.

**21. ISSUED CAPITAL**

Details of the Group's issued capital as of December 31, 2020, are as follows (Korean won):

Number of shares authorized : 200,000,000 shares  
Par value per share : ₩500  
Number of common shares outstanding : 73,799,619 shares

The Group had previously retired 7,525,177 treasury shares through an appropriation of retained earnings. As a result, the number of ordinary shares outstanding amounts to 73,799,619 shares with a face value of ₩36,900 million, which differs from the face value and number of shares issued (issued capital: ₩40,662 million) recorded in the statement of financial position as of December 31, 2020.

Under Article 340.2 of the Commercial Law, the Group may grant stock options to its employees and directors to the extent permitted by the Group's Articles of Incorporation (Note 25) when the shareholders of the Group approve as a special resolution.

The Group is authorized to issue convertible bonds and bonds with warrants with the approval of the Board of Directors within the limit of ₩100 billion. As of December 31, 2020, no convertible bonds or bonds with warrants are issued.

**22. RETAINED EARNINGS AND STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS**

Retained earnings as of December 31, 2020 and 2019, consist of the following (Korean won in thousands):

	2020		2019
Legal reserve (*1)	₩ 20,331,199	₩	20,331,199
Voluntary reserve	935,137,063		892,047,163
Unappropriated retained earnings	409,683,887		41,597,769
	<u>₩ 1,365,152,149</u>	₩	<u>953,976,131</u>

(\*1) The Group appropriates, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital. This reserve is not available for the payment of cash dividends, but may be transferred to capital or used to reduce accumulated deficit.

Dividends paid by the Group for the years ended December 31, 2020 and 2019, are as follows (Korean won):

	2020		2019
Interim Dividends			
Dividends per share	₩ -	₩	800
Dividends paid			173,300,020,000
Annual Dividends			
Dividends per share	₩ -	₩	1,200
Dividends paid			86,616,834,000

Dividends per share were ₩ 800 and paid for three times for the year ended December 31, 2019.

**23. OTHER COMPONENTS OF EQUITY**

Other components of equity as of December 31, 2020 and 2019, consist of the following (Korean won in thousands):

	2020		2019
Gain on disposal of treasury shares	₩ 47,111,178	₩	38,317,095
Treasury shares	(51,482,799)		(65,439,062)
Stock options	3,349,378		15,360,281
Loss on valuation of financial assets at FVTOCI	(1,902,132)		(671,256)
Gain on translation of foreign operations	(12,282,998)		1,942,718
Others	2,921,042		(3,614,170)
	<u>₩ (12,286,331)</u>	₩	<u>(14,104,394)</u>

## **24. TREASURY SHARES**

Changes in treasury shares for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020					
	Jan.1		Decrease		Dec.31	
	Number of shares (*1)	Book value	Number of shares (*1)	Book value	Number of shares (*1)	Book value
Treasury shares	1,581,224	₩ 65,439,062	(337,230)	₩ (13,956,263)	1,243,994	₩ 51,482,799

(\*1) Consists of treasury stock issued at the exercise of stock options.

	2019					
	Jan.1		Decrease		Dec.31	
	Number of shares (*1)	Book value	Number of shares (*1)	Book value	Number of shares (*1)	Book value
Treasury shares	1,618,924	₩ 66,999,277	(37,700)	₩ (1,560,215)	1,581,224	₩ 65,439,062

(\*1) Consists of retirement of treasury stock and treasury stock issued at the exercise of stock options.

In order to stabilize the price of its shares, the Group acquires its own common shares and recognizes them as other components of equity. These common shares are planned to be used for retirement of treasury stock and issuance at the exercise of stock options.

## **25. SHARE-BASED PAYMENTS**

Details of stock options granted by the Group as of December 31, 2020, are as follows (Korean won and shares):

- Shares issued through stock option: Registered ordinary shares
- Grant method: Settlement of cash or treasury shares is available for the difference between the fair value or exercise price, or issuance of additional shares or treasury shares
- Vesting condition and exercisable period:

9th to 14th grant, 16th : Options are conditional on the employee completing two years' service after the grant date and in accordance with a resolution of the Board of Directors, the number of shares to be exercised are determined based on the assessment of the achievement of business goal within limits of 20% rights annually of shares granted. The option is available for 7 years from 2 years after the grant date.

17th grant : In accordance with a resolution of the Board of Directors, the number of shares to be exercised are determined based on the assessment of the achievement of the 2017 business goal. The option is available for 7 years from 2 years after the grant date.

18th to 19th grant : In accordance with a resolution of the Board of Directors, the number of shares to be exercised are determined based on the assessment of the achievement of business goal within limits of one-third of shares granted. The option is available for 7 years from 2 years after the grant date.

	9th grant	11th grant	12th grant	13th grant	14th grant
Grant date	2013-02-26	2013-11-12	2014-03-21	2015-03-31	2016-03-29
Granted shares	1,191,000	261,800	467,500	571,500	155,000
Total share balances	8,120	-	-	19,180	-
Exercise price	₩ 50,000	₩ 60,160	₩ 71,470	₩ 88,670	₩ 95,810

	16th grant	17th grant	18th grant	19th grant
Grant date	2017-03-28	2017-04-28	2018-03-23	2019-03-29
Granted shares	87,000	216,972	104,400	69,600
Total share balances	38,860	10,850	64,844	63,568
Exercise price	₩ 90,460	₩ 98,590	₩ 88,330	₩ 96,030

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**25. Share-based payments (cont'd)**

Changes in outstanding share options for the years ended December 31, 2020 and 2019, are as follows (shares in unit):

	2020				
	9th grant	11th grant	12th grant	13th grant	14th grant
As of January 1	241,530	16,820	69,800	260,375	86,740
Granted	-	-	-	-	-
Forfeited	-	-	-	-	-
Exercised	233,410	16,820	-	87,000	-
Adjustment	-	-	69,800	154,195	86,740
As of December 31	8,120	-	-	19,180	-

	2020				
	16th grant	17th grant	18th grant	19th grant	Total
As of January 1	40,020	10,850	71,340	69,600	867,075
Granted	-	-	-	-	-
Forfeited	1,160	-	6,496	6,032	13,688
Exercised	-	-	-	-	337,230
Adjustment	-	-	-	-	310,735
As of December 31	38,860	10,850	64,844	63,568	205,422

	2019				
	9th grant	11th grant	12th grant	13th grant	14th grant
As of January 1	271,690	175,124	73,385	289,420	92,460
Granted	-	-	-	-	-
Forfeited	-	9,312	3,585	21,505	5,720
Exercised	30,160	148,992	-	7,540	-
As of December 31	241,530	16,820	69,800	260,375	86,740

	2019					
	15th grant	16th grant	17th grant	18th grant	19th grant	Total
As of January 1	275,000	78,880	10,850	104,400	-	1,371,209
Granted	-	-	-	-	69,600	69,600
Forfeited	35,000	38,860	-	33,060	-	147,042
Exercised	240,000	-	-	-	-	426,692
As of December 31	-	40,020	10,850	71,340	69,600	867,075

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**25. Share-based payments (cont'd)**

The Group uses the fair-value method to calculate compensation expenses of stock options and recognizes them as compensation expenses and other components of equity over the vesting period. Details of the stock options as of December 31, 2020, are as follows (Korean won in thousands)

		9th grant	11th grant	12th grant	13th grant	14th grant
Total compensation expenses	At grant date	₩ 15,382,956	₩ 4,631,242	₩ 9,461,733	₩ 13,299,377	₩ 2,741,640
	Forfeited	(9,139,362)	(1,698,028)	(6,000,459)	(6,862,269)	(1,207,383)
	Increase	-	3,730,937	-	-	-
		6,243,594	6,664,151	3,461,274	6,437,108	1,534,257
Recognized expenses	Before the prior year	6,243,594	6,664,151	3,461,274	6,437,108	1,534,257
	For the current year	-	-	-	-	-
		6,243,594	6,664,151	3,461,274	6,437,108	1,534,257
Exercised	Before the prior year	3,123,993	-	2,048,592	377,921	-
	For the current year	3,014,724	297,546	-	2,024,577	-
		6,138,717	297,546	2,048,592	2,402,498	-
Expired	Before the prior year	-	-	-	-	-
	For the current year	-	-	1,412,682	3,588,272	1,534,257
		-	-	1,412,682	3,588,272	1,534,257
Change in method of payment(*1)	Before the prior year	-	6,366,605	-	-	-
	For the current year	-	-	-	-	-
		-	6,366,605	-	-	-
Balances as of December 31		104,877	-	-	446,338	-
Compensation expenses to be recognized		₩ -	₩ -	₩ -	₩ -	₩ -
		16th grant	17th grant	18th grant	19th grant(*2)	Total
Total compensation expenses	At grant date	₩ 1,565,217	₩ 4,205,351	₩ 1,750,266	₩ 1,034,962	₩ 54,072,744
	Forfeited	(866,087)	(3,995,056)	(663,156)	(89,697)	(30,521,497)
	Increase	-	-	-	273,423	4,004,360
		699,130	210,295	1,087,110	1,218,688	27,555,607
Recognized expenses	Before the prior year	525,415	210,295	730,870	415,092	26,222,056
	For the current year	64,934	-	174,990	676,567	916,491
		590,349	210,295	905,860	1,091,659	27,138,547
Exercised	Before the prior year	-	-	-	-	5,550,506
	For the current year	-	-	-	-	5,336,847
		-	-	-	-	10,887,353
Expired	Before the prior year	-	-	-	-	-
	For the current year	-	-	-	-	6,535,211
		-	-	-	-	6,535,211
Change in method of payment(*1)	Before the prior year	-	-	-	-	6,366,605
	For the current year	-	-	-	-	-
		-	-	-	-	6,366,605
Balances as of December 31		590,349	210,295	905,860	1,091,659	3,349,378
Compensation expenses to be recognized		₩ 108,781	₩ -	₩ 181,250	₩ 127,029	₩ 417,060

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**25. Share-based payments (cont'd)**

(\*1) The Group changed the share-based payment transaction from equity-settled to cash-settled for the year ended December 31, 2019.

(\*2) Expenses of 19th grant are increased due to differences on changes of rate of lapsing share option.

Assumptions used in calculating compensation expenses using the fair-value method are as follows (Korean won in thousands):

Valuation method	9th grant	11th grant	12th grant	13th grant	14th grant
	Black-Scholes model	Black-Scholes model	Black-Scholes model	Black-Scholes model	Black-Scholes model
Risk-free interest rate	2.80%	3.24%	3.16%	1.82%	1.59%
Expected vesting period	5 years	5 years	5 years	5 years	5 years
Expected volatility	32.16%	30.52%	29.72%	30.24%	27.91%
Expected dividend yield	2.22%	1.69%	2.21%	2.14%	2.94%
Expected rate of lapsing share option	-	-	-	-	-
Total compensation expenses	₩ 15,382,956	₩ 4,631,242	₩ 9,461,733	₩ 13,299,377	₩ 2,741,640

Valuation method	16th grant	17th grant	18th grant	19th grant
	Black-Scholes model	Black-Scholes model	Black-Scholes model	Binomial options pricing model
Risk-free interest rate	1.85%	1.86%	2.48%	1.70%
Expected vesting period	5 years	5 years	5 years	4.3 years
Expected volatility	28.08%	28.03%	24.94%	27.47%
Expected dividend yield	3.41%	3.18%	3.47%	3.81%
Expected rate of lapsing share option	48.82%	-	48.82%	48.82%
Total compensation expenses	₩ 1,565,217	₩ 4,205,351	₩ 1,750,266	₩ 1,034,947

**26. SALES AND COST OF SALES**

Details of sales for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Rental	₩ 2,763,879,930	₩ 2,490,787,735
Lump-sum sales	409,631,888	423,163,615
Others	63,899,657	104,961,153
	₩ 3,237,411,475	₩ 3,018,912,503

Details of cost of sales for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Rental	₩ 672,281,615	₩ 635,643,274
Lump-sum sales	328,321,957	297,968,658
Others	43,310,422	76,799,644
	₩ 1,043,913,994	₩ 1,010,411,576

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**26. Sales and cost of sales (cont'd)**

The disaggregation of the Group's revenue from contracts with customers is as follows (Korean won in thousands):

	2020	2019
Total sales	₩ 3,237,411,475	₩ 3,018,912,503
1. Revenue from contracts with customers		
Main goods/services		
Lump-sum sales	₩ 409,631,888	₩ 423,163,614
Other sales	63,899,657	104,961,154
	<u>₩ 473,531,545</u>	<u>₩ 528,124,768</u>
Geographical markets		
Domestic	₩ 226,749,070	₩ 336,887,179
Foreign	246,782,474	191,237,589
	<u>₩ 473,531,544</u>	<u>₩ 528,124,768</u>
Timing of revenue recognition		
Revenue recognized at a point in time	₩ 424,875,174	₩ 436,962,120
Revenue recognized over a period of time	48,656,371	91,162,648
	<u>₩ 473,531,544</u>	<u>₩ 528,124,768</u>
2. Revenue from other sources		
Finance lease, excluding interest income	₩ 543,836,737	₩ 241,220,319
Finance lease interest income	36,675,867	17,049,467
Operating lease	2,183,367,327	2,232,517,949
	<u>₩ 2,763,879,931</u>	<u>₩ 2,490,787,735</u>

Details of receivables, contract assets and contract liabilities arising from contracts with customers as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Receivables	₩ 167,109,667	₩ 160,425,129
Contract assets	2,802,527	8,664,717
Contract liabilities(*)	188,587,709	178,046,784

(\*) Include due to customer for construction contracts, advance received, and unearned revenue.

Of the balance of contract liabilities as of December 31, 2019, the amount recognized as sales in the current period is ₩146,674 million.

Refund liabilities as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Refund liabilities	₩ 128,650,422	₩ 120,170,915

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**27. Lease**

Group as a lessee

The Group has lease contracts for various items of buildings, vehicles and other equipment used in its operations. Leases of buildings generally have lease terms between 1 and 5 years, while motor vehicles and other equipment generally have lease terms between 1 and 3 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets and lease liabilities recognized and the movements as of December 31, 2020 and 2019 (Korean won in thousands):

	2020					
	Right-of-use assets				Total	Lease liabilities
	Buildings and machinery	Vehicles	Other equipment			
Jan.1	₩ 32,280,542	₩ 726,113	₩ 35,477	₩ 33,042,132	₩ 31,281,864	
Increase	15,201,391	284,708	-	15,486,099	14,303,826	
Depreciation	(22,885,770)	(401,373)	(23,848)	(23,310,991)	-	
Decrease	(1,064,835)	(107,366)	-	(1,172,201)	(886,063)	
Interest expenses	-	-	-	-	792,763	
Payment	-	-	-	-	(20,983,253)	
Exchange difference	(549,026)	-	-	(549,026)	(539,752)	
Other	17,456,418	-	-	17,456,418	(1,218,127)	
Dec. 31	₩ 40,438,720	₩ 502,082	₩ 11,629	₩ 40,952,431	₩ 22,751,259	

	2019					
	Right-of-use assets				Total	Lease liabilities
	Buildings and machinery	Vehicles	Other equipment			
Jan.1	₩ 21,748,890	₩ 500,972	₩ 61,097	₩ 22,310,959	₩ 20,524,826	
Increase	25,708,916	651,993	-	26,360,909	24,589,397	
Depreciation	(15,546,028)	(368,822)	(25,620)	(15,940,470)	-	
Decrease	(91,087)	(58,030)	-	(149,117)	(134,765)	
Interest expenses	-	-	-	-	785,088	
Payment	-	-	-	-	(14,914,558)	
Exchange difference	459,851	-	-	459,851	431,876	
Dec. 31	₩ 32,280,542	₩ 726,113	₩ 35,477	₩ 33,042,132	₩ 31,281,864	

Expense relating to short-term leases and leases of low-value assets recognized are ₩26,898,136 thousand for the year ended December 31, 2020 (2019: ₩32,645,785 thousand) and ₩2,740,074 thousand for the year ended December 31, 2020 (2019: ₩1,505,231 thousand), respectively.

Cash outflows related to lease are ₩50,621,463 thousand in 2020.

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**27. Lease (cont'd)**

Lease liabilities

Details of lease liabilities are as follows as of December 31, 2020 and 2019 (Korean won in thousands):

	2020		2019	
	Current	Non-current	Current	Non-current
Lease liabilities	₩ 13,922,485	₩ 8,828,774	₩ 14,981,012	₩ 16,300,851

The total minimum lease payments to be paid in the future as of December 31, 2020, are as follows (Korean won in thousands):

	2020
Less than 1 year	₩ 15,647,360
1 to 5 years	10,120,461
	<u>₩ 25,767,821</u>

Group as a lessor

1) Operating lease

Rental assets are provided under operating lease contracts with numerous customers, and the book value of the rental assets as of December 31, 2020 and 2019, is as follows (Korean won in thousands):

	2020	2019
Rental assets	₩ 1,018,831,675	₩ 1,077,449,033

The minimum lease payments under the operating lease contracts for the rental assets as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Within 1 year	₩ 1,951,374,857	₩ 2,003,315,861
1 year to 3 years	2,746,115,164	2,873,035,639
	<u>₩ 4,697,490,021</u>	<u>₩ 4,876,351,500</u>

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**27. Lease (cont'd)**

2) Finance leases

Gross investments in the lease and the present value of minimum lease payments as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019	
	Gross investments in the lease	PV of minimum lease payments	Gross investments in the lease	PV of minimum lease payments
Less than 1 year	₩ 299,725,127	₩ 276,044,301	₩ 201,935,275	₩ 187,777,786
1 to 5 years	736,531,307	661,662,876	526,164,755	465,794,175
More than 5 years	35,516,313	28,737,761	31,119,889	25,328,399
	<u>₩ 1,071,772,747</u>	<u>₩ 966,444,938</u>	<u>₩ 759,219,919</u>	<u>₩ 678,900,360</u>

Unrealized interest income from finance lease as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Gross investments in the lease	₩ 1,071,772,747	₩ 759,219,919
Net investments in the lease	966,444,938	678,900,360
Unrealized interest income	<u>₩ 105,327,809</u>	<u>₩ 80,319,559</u>

**28. SELLING AND GENERAL ADMINISTRATIVE EXPENSES**

Details of selling and general administrative expenses for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Wages and salaries	₩ 336,126,303	₩ 283,735,309
Pension costs	26,027,911	23,424,861
Employee welfare benefits	53,668,935	49,251,379
Travel	8,045,966	10,117,302
Communication	9,630,722	8,926,541
Taxes and dues	4,187,327	3,410,651
Rents	47,498,756	53,375,552
Depreciation	246,621,170	235,733,822
Amortization	8,408,236	9,520,437
Repairs and maintenance	4,303,759	4,044,399
Supplies	28,445,143	26,215,169
Advertising	52,456,600	50,335,115
Sales promotion	71,964,212	75,624,380
Transportation	15,129,037	9,386,584
Insurance	3,797,744	4,088,233
Commissions	189,700,051	182,940,038
Training	5,803,022	11,424,918
R&D	6,303,296	7,228,787
Sales commission	284,808,274	364,726,311
Share-based payments	916,491	3,508,181
Warranty	1,823,371	4,950,726
Impairment loss on accounts receivable	93,562,400	31,210,595
Loss on abandonment of rental assets	77,560,192	80,552,255
Others	10,269,846	16,493,918
	<u>₩ 1,587,058,764</u>	<u>₩ 1,550,225,463</u>

## 29. OTHER INCOME AND EXPENSES

Details of other income and expenses for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019
Other income:			
Rental income	₩ 836,979	₩	869,427
Gain on disposal of asset held for sale	-		15,717,903
Gain on foreign currency transactions	12,141,408		10,708,295
Gain on foreign currency translation	26,622,218		12,395,436
Miscellaneous income	10,780,843		8,272,168
Others	549,166		26,516
	<u>₩ 50,930,614</u>	<u>₩</u>	<u>47,989,745</u>
Other expenses:			
Loss on impairment of property, plant and equipment	₩ 961,800	₩	4,028,394
Loss on impairment of intangible assets	9,334,903		1,370,300
Loss on impairment of other receivables	8,969,583		2,750,377
Loss on foreign currency transactions	11,409,313		8,233,587
Loss on foreign currency translation	48,325,366		1,758,245
Miscellaneous expenses	14,976,882		14,417,170
Others	3,017,060		1,660,773
	<u>₩ 96,994,907</u>	<u>₩</u>	<u>34,218,846</u>

## 30. FINANCE INCOME AND COSTS

Details of finance income and costs for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019
Finance income:			
Interest income	₩ 1,182,999	₩	1,330,529
Dividend income	9,475		6,715
Gain on valuation of financial assets at FVPL	16,177		14,504
	<u>₩ 1,208,651</u>	<u>₩</u>	<u>1,351,748</u>
Finance costs:			
Interest expenses	₩ 21,203,992	₩	21,979,552

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**31. EXPENSES BY NATURE**

Expenses by nature for the years ended December 31, 2020 and 2019 consist of the following (Korean won in thousands):

	2020	2019
Changes in inventories of products and semi-products	₩ (7,258,071)	₩ (2,241,656)
Changes in inventories of merchandise	(17,521,109)	(7,887,229)
Use of merchandise and raw materials	622,767,776	637,302,207
Wages and salaries	366,534,048	313,229,027
Pension	30,297,537	27,425,561
Employee welfare benefits	58,048,446	53,756,178
Supplies	31,556,949	29,184,753
Outsourcing service cost	72,514,420	75,234,571
Commissions	191,789,131	185,135,593
Depreciation	534,257,079	504,899,569
Rents	47,683,038	53,567,224
Advertising	52,456,600	50,335,115
Sales promotion	71,964,212	75,624,380
Sales commissions	284,808,274	364,726,311
Impairment loss on accounts receivable	93,562,400	31,210,595
Loss on abandonment of rental assets	77,560,192	80,552,255
Warranty	1,823,371	4,950,726
Others	118,128,466	83,631,859
	<u>₩ 2,630,972,759</u>	<u>₩ 2,560,637,039</u>

**32. CONSTRUCTION CONTRACTS**

Changes in construction contracts for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

2020				
Jan.1	Increase(decrease)	Construction revenue for the year	Dec. 31	
₩ 49,061,027	₩ 31,039,588	₩ 38,677,097	₩	41,423,519
2019				
Jan.1	Increase(decrease)	Construction revenue for the year	Dec. 31	
₩ 59,626,312	₩ 65,135,591	₩ 75,700,875	₩	49,061,027

As of December 31, 2020 and 2019, accumulated profit on major construction contracts in progress is as follows (Korean won in thousands):

2020			2019		
Accumulated contracts revenue	Accumulated contracts costs	Accumulated profit	Accumulated contracts revenue	Accumulated contracts costs	Accumulated profit
₩ 127,777,042	₩ 113,495,327	₩ 14,281,715	₩ 128,256,401	₩ 111,939,467	₩ 16,316,934

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**32. Construction contracts (cont'd)**

Amounts due from (to) customers for construction contracts as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

2020		2019	
Due from customers (*1)	Due to customers (*2)	Due from customers (*1)	Due to customers (*2)
₩ 2,802,527	₩ 4,871,738	₩ 8,664,717	₩ 5,087,793

(\*1) Classified as other current assets in the consolidated statements of financial position.

(\*2) Classified as other current liabilities in the consolidated statements of financial position.

The Group recognizes provision for construction warranty for the obligation to perform warranty repairs after construction has been completed based on historical experience and the terms of construction warranty. The warranty expenses are recognized as construction costs for the year of construction completion.

There are no construction contracts that account for more than 5% of the prior year's sales from the water treatment equipment construction contracts as of December 31, 2020. The changes in estimation for current periods to total contract amounts and total contract costs, which are the contracts for which revenue is recognized on the basis for percentage of completion with cost based input method as of December 31, 2019, and impacts to profit/loss for current and future periods, due from customers, due to customers changed by the estimates are as follows:

Changes in estimated total contract amounts	Changes in estimated total contract costs	Effects to the current profit/loss (*1)	Effects to the future profit/loss (*1)	Changes in due from customers (*2)	Changes in due to customers (*2)	Changes in provision for loss (*2)
₩ 3,475,164	₩ 2,535,358	₩ 727,252	₩ 212,554	₩ 175,686	₩ 562,962	₩ (11,396)

(\*1) It is the effect of changes in project profit or loss for the current and future periods due to changes in estimated total contract amounts and estimated total contract costs.

(\*2) It is the effect of changes in due from customers, due to customers and provision for loss due to changes in estimated total contract amounts and estimated total contract costs.

**33. INCOME TAXES**

The components of income tax expense for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Current income taxes including changes from addition and reverse of income taxes paid	₩ 156,216,993	₩ 163,430,698
Changes in deferred taxes due to temporary differences	(14,796,104)	(47,603,397)
Income tax expenses recognized directly to equity (*1)	(5,752,667)	3,383,581
Income tax expense	₩ 135,668,222	₩ 119,210,882

(\*1) Deferred taxes charged directly to equity as of December 31, 2020 and 2019, consist of the following (Korean won in thousands):

	2020		
	Before tax	Income tax effect	After tax
Re-measurement of defined benefit plan	₩ 6,767,659	₩ (1,714,150)	₩ 5,053,509
Gain on disposal of treasury shares	11,777,264	(2,983,181)	8,794,083
Stock option	3,698,729	(1,055,336)	2,643,393
	₩ 22,243,652	₩ (5,752,667)	₩ 16,490,985

33. Income taxes (cont'd)

	2019		
	Before tax	Income tax effect	After tax
Re-measurement of defined benefit plan	₩ (10,439,139)	₩ 2,627,485	₩ (7,811,654)
Gain on disposal of treasury shares	1,181,367	(299,240)	882,127
Stock option	(3,698,729)	1,055,336	(2,643,393)
	<u>₩ (12,956,501)</u>	<u>₩ 3,383,581</u>	<u>₩ (9,572,920)</u>

A reconciliation of profit before income taxes at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Group for the years ended December 31, 2020 and 2019, is as follows (Korean won in thousands):

	2020	2019
Profit before income tax	₩ 540,379,082	₩ 451,418,558
Income tax based on statutory rate:	138,242,247	113,778,104
Tax credit	(4,474)	(182,651)
Permanent differences and others	(3,187,694)	6,146,218
Unrecognized deferred tax related to temporary differences	7,707,974	1,869,336
Additional payment (refund) of income taxes for the prior year	(7,928,719)	627,398
Others	838,888	(3,027,522)
Income tax expense	<u>₩ 135,668,222</u>	<u>₩ 119,210,883</u>
Effective tax rate	25.11%	26.41%

Details of deferred tax assets (liabilities) as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Deferred tax assets:		
To be recovered after 12 months	₩ 97,322,213	₩ 105,682,921
To be recovered within 12 months	142,857,275	120,108,941
Deferred tax liabilities:		
To be settled after 12 months	71,927,851	64,117,420
To be settled within 12 months	81,852,658	90,071,567
Net of deferred tax assets	<u>₩ 86,398,979</u>	<u>₩ 71,602,875</u>

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**33. Income taxes (cont'd)**

Details of changes in cumulative temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2020 and 2019 are as follows (Korean won in thousands):

	2020					
	Cumulative temporary difference			Deferred tax assets (liabilities)		
	Beginning balance	Increase (decrease)	Ending balance	Beginning balance	Increase (decrease)	Ending balance
Deductible temporary differences:						
Advance received	₩ 104,626,285	₩ (7,556,757)	₩ 97,069,528	₩ 26,641,395	₩ (1,918,856)	₩ 24,722,539
Inventory valuation allowance	38,129,851	1,819,804	39,949,655	9,281,938	383,600	9,665,538
Accrued expenses	39,183,407	1,831,414	41,014,821	9,881,896	473,310	10,355,206
Unearned revenue	31,570,550	2,431,041	34,001,591	7,588,134	581,999	8,170,133
Provision for sales return	93,802,414	(7,756,762)	86,045,652	23,760,151	(1,964,787)	21,795,364
Provision for product warranty	87,336,032	40,235,169	127,571,201	20,960,648	9,656,440	30,617,088
Allowance for ECL	86,778,657	53,425,442	140,204,099	22,257,080	13,656,152	35,913,232
Rental assets	76,770,030	15,590,049	92,360,079	19,196,906	3,467,677	22,664,583
Impairment loss on property, plant and equipment	2,373,648	398,377	2,772,025	601,245	100,909	702,154
Defined benefit liabilities	167,296,944	28,765,158	196,062,102	42,363,024	7,268,979	49,632,003
Investments in subsidiaries	40,577,767	13,026,186	53,603,953	-	-	-
Long-term investment securities	2,388,092	-	2,388,092	-	-	-
Salaries for overseas employees	3,707,670	331,903	4,039,573	-	-	-
Provision for litigation	106,971,382	(55,431,219)	51,540,163	27,095,851	(14,040,728)	13,055,123
Others	80,399,410	2,873,005	83,272,415	6,122,353	(3,026,589)	3,095,764
	<u>961,912,139</u>	<u>89,982,810</u>	<u>1,051,894,949</u>	<u>215,750,621</u>	<u>14,638,106</u>	<u>230,388,727</u>
Taxable temporary differences:						
Prepaid expenses	359,876,533	(33,242,073)	326,634,460	90,056,596	(8,203,197)	81,853,399
Provision for advanced depreciation (merger)	7,872,697	-	7,872,697	1,994,154	-	1,994,154
Provision for temporary depreciation (merger)	486,149	(16,480)	469,669	123,142	(4,175)	118,967
Plan assets	205,592,459	22,549,530	228,141,989	51,913,476	5,673,932	57,587,408
Goodwill (Woongjin Cuchen)	84,754,782	-	84,754,782	-	-	-
Goodwill (Woongjin Coway Construction)	1,564,733	-	1,564,733	-	-	-
Goodwill (Woongjin rental)	7,499,734	-	7,499,734	-	-	-
Amortization of goodwill	27,680,338	(5,347,950)	22,332,388	7,011,430	(1,354,636)	5,656,794
Other	15,295,383	8,722,836	24,018,219	3,641,658	2,727,161	6,368,819
	<u>710,622,808</u>	<u>(7,334,137)</u>	<u>703,288,671</u>	<u>154,740,456</u>	<u>(1,160,915)</u>	<u>153,579,541</u>
Charged directly to equity:						
Re-measurement of defined benefit plans	40,140,253	(6,766,887)	33,373,366	9,954,035	(1,714,065)	8,239,970
	<u>40,140,253</u>	<u>(6,766,887)</u>	<u>33,373,366</u>	<u>9,954,035</u>	<u>(1,714,065)</u>	<u>8,239,970</u>
Deferred tax expenses due to losses carried forward	-	-	-	638,675	711,148	1,349,823
	<u>₩ 291,429,584</u>	<u>₩ 90,550,060</u>	<u>₩ 381,979,644</u>	<u>₩ 71,602,875</u>	<u>₩ 14,796,104</u>	<u>₩ 86,398,979</u>

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**33. Income taxes (cont'd)**

	2019					
	Cumulative temporary difference			Deferred tax assets (liabilities)		
	Beginning balance	Increase (decrease)	Ending balance	Beginning balance	Increase (decrease)	Ending balance
Deductible temporary differences:						
Advance received	₩ 19,748,568	₩ 84,877,717	₩ 104,626,285	₩ 4,954,916	₩ 21,686,479	₩ 26,641,395
Inventory valuation allowance	36,478,978	1,650,873	38,129,851	8,979,422	302,516	9,281,938
Accrued expenses	30,036,593	9,146,814	39,183,407	7,449,912	2,431,984	9,881,896
Unearned revenue	16,155,871	15,414,679	31,570,550	3,886,225	3,701,909	7,588,134
Provision for sales return	49,524,057	44,278,357	93,802,414	12,425,586	11,334,565	23,760,151
Provision for product warranty	42,496,602	44,839,430	87,336,032	10,199,185	10,761,463	20,960,648
Allowance for ECL	83,732,603	3,046,054	86,778,657	21,260,951	996,129	22,257,080
Rental assets	56,175,174	20,594,856	76,770,030	13,432,632	5,764,274	19,196,906
Impairment loss on property, plant and equipment	8,701,525	(6,327,877)	2,373,648	2,183,213	(1,581,968)	601,245
Defined benefit liabilities	144,429,384	22,867,560	167,296,944	36,190,303	6,172,721	42,363,024
Investments in subsidiaries	40,577,767	-	40,577,767	-	-	-
Long-term investment securities	2,388,092	-	2,388,092	-	-	-
Salaries for overseas employees	3,372,513	335,157	3,707,670	-	-	-
Provision for litigation	2,108,019	104,863,363	106,971,382	528,902	26,566,949	27,095,851
Others	71,829,404	8,570,006	80,399,410	8,967,965	(2,845,612)	6,122,353
	<u>607,755,150</u>	<u>354,156,989</u>	<u>961,912,139</u>	<u>130,459,212</u>	<u>85,291,409</u>	<u>215,750,621</u>
Taxable temporary differences:						
Prepaid expenses	330,412,211	29,464,322	359,876,533	82,240,287	7,816,309	90,056,596
Provision for advanced depreciation (merger)	7,872,697	-	7,872,697	1,975,260	18,894	1,994,154
Provision for temporary depreciation (merger)	511,106	(24,957)	486,149	128,237	(5,095)	123,142
Plan assets	178,801,787	26,790,672	205,592,459	44,727,211	7,186,265	51,913,476
Goodwill (Woongjin Cuchen)	84,754,782	-	84,754,782	-	-	-
Goodwill (Woongjin Coway Construction)	1,564,733	-	1,564,733	-	-	-
Goodwill (Woongjin rental)	-	7,499,734	7,499,734	-	-	-
Amortization of goodwill	18,431,401	9,248,937	27,680,338	4,624,438	2,386,992	7,011,430
Other	2,393,354	12,902,029	15,295,383	528,680	3,112,978	3,641,658
	<u>624,742,071</u>	<u>85,880,737</u>	<u>710,622,808</u>	<u>134,224,113</u>	<u>20,516,343</u>	<u>154,740,456</u>
Charged directly to equity:						
Re-measurement of defined benefit plans	29,701,114	10,439,139	40,140,253	7,326,550	2,627,485	9,954,035
	<u>29,701,114</u>	<u>10,439,139</u>	<u>40,140,253</u>	<u>7,326,550</u>	<u>2,627,485</u>	<u>9,954,035</u>
Deferred tax expenses due to losses carried forward	-	-	-	1,684,156	(1,045,481)	638,675
	<u>₩ 12,714,193</u>	<u>₩ 278,715,391</u>	<u>₩ 291,429,584</u>	<u>₩ 5,245,805</u>	<u>₩ 66,357,070</u>	<u>₩ 71,602,875</u>

**Coway Co., Ltd. and its subsidiaries**  
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**33. Income taxes (cont'd)**

Details of temporary differences that are unrecognized for deferred tax assets and liabilities as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Investments in subsidiaries	₩ 53,603,953	₩ 40,577,767
Long-term investment securities	2,388,092	2,388,092
Payment guarantee for foreign subsidiaries	24,648	24,648
Salaries for overseas employees	4,039,573	3,707,670
Losses carried forward of subsidiaries	7,857,336	996,353
Trademarks	12,785,161	10,017,144
Others	60,544,647	45,658,409
Total deductible temporary differences	<u>₩ 141,243,410</u>	<u>₩ 103,370,083</u>
Goodwill (Woongjin Cuchen)	₩ 84,754,782	₩ 84,754,782
Goodwill (Woongjin Coway Construction)	1,564,733	1,564,733
Goodwill (Woongjin Rental)	7,499,734	7,499,734
Total taxable temporary differences	<u>₩ 93,819,249</u>	<u>₩ 93,819,249</u>

**34. Earnings per share**

**34.1 Basic earnings per share**

Basic earnings per share for the years ended December 31, 2020 and 2019, are as follows (Korean won and shares):

	2020	2019
Profit for the year attributable to equity holders of the parent	₩ 404,891,633,620	₩ 332,942,167,271
Weighted-average number of ordinary shares outstanding (*1)	72,504,171	72,204,637
Basic earnings per share	<u>₩ 5,584</u>	<u>₩ 4,611</u>

(\*1) The weighted-average number of ordinary shares for the years ended December 31, 2020 and 2019, are calculated from shares outstanding, which are weighted averaged by distribution period. Treasury shares, which are held from acquisition date until disposal date, are excluded from distributed ordinary shares.

**34.2 Diluted earnings per share**

Diluted earnings per share are calculated by adjusting the weighted-average number of ordinary shares to assume conversion of all potentially dilutive ordinary shares. The Group has potentially dilutive ordinary shares, which are stock options.

The Group's diluted earnings per share amounts for the years ended December 31, 2020 and 2019, are computed as follows (Korean won and shares):

	2020	2019
Profit for the year attributable to equity holders of the parent	₩ 404,891,633,620	₩ 332,942,167,271
Add: expenses related to potentially dilutive shares	-	-
Profit for the year adjusted for the effect of dilution	404,891,633,620	332,942,167,271
Weighted-average number of ordinary shares outstanding	72,504,171	72,204,637
Number of potentially dilutive ordinary shares (*1)	17,915	122,159
Total number of ordinary shares	<u>72,522,086</u>	<u>72,326,796</u>
Diluted earnings per share	<u>₩ 5,583</u>	<u>₩ 4,603</u>

(\*1) Represents the dilutive effect of stock options, which have been granted to executives and employees.

There were no events after the reporting period, which could change the number of potentially dilutive shares.

**35. STATEMENTS OF CASH FLOWS**

Details of non-cash adjustments for cash generated from operations for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Pension costs	₩ 30,297,537	₩ 27,425,561
Share-based payment expenses	916,491	3,484,704
Depreciation (property, plant and equipment and investment properties)	534,257,079	504,899,569
Amortization	9,036,179	10,204,857
Loss on impairment of trade receivables	93,562,400	31,210,595
Loss on impairment of other receivables	8,969,583	2,750,377
Loss on abandonment of rental assets	77,560,192	80,552,255
Loss on foreign currency translation	48,325,366	1,758,245
Loss on impairment of property, plant and equipment	961,800	4,028,394
Loss on impairment of intangible assets	9,334,903	1,370,300
Warranty	-	2,745,419
Sales commission	(10,408,525)	92,389,404
Miscellaneous expenses	13,961,744	12,473,958
Refund liabilities	10,539,422	58,332,814
Gain on disposal of asset held for sale	-	(15,717,903)
Gain on foreign currency translation	(26,622,218)	(12,395,436)
Interest income (rental income)	(38,442,638)	(19,658,089)
Interest income (finance income)	(1,182,998)	(1,330,529)
Interest expenses	21,203,992	21,979,552
Income tax expense	135,668,222	119,210,882
Others	(1,923,126)	973,695
	₩ 916,015,405	₩ 926,688,624

Details of changes in operating assets and liabilities for cash generated from operations for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Increase in trade receivables	₩ (22,084,055)	₩ (4,092,584)
Increase in finance lease receivables	(289,679,370)	(263,328,573)
Increase (decrease) in other short-term financial assets	24,072,896	(2,634,536)
Increase in other current assets	16,434,171	(13,096,966)
Increase in inventories	(25,100,328)	(5,279,308)
Increase in other long-term financial assets	466,600	500,000
Decrease (increase) in other non-current assets	(15,553,949)	3,183,145
Increase in rental asset	(224,038,354)	(284,182,021)
Increase (decrease) in trade payables	42,720,576	(8,501,585)
Increase in other short-term financial liabilities	14,580,637	10,713,967
Increase in other non-current liabilities	3,409,235	21,035,770
Decrease in other long-term financial liabilities	(727,829)	34,850
Increase in other non-current liabilities	5,773,115	5,898,486
Decrease in provisions	(58,946,797)	-
Payment of pension benefits	(7,409,603)	(8,599,103)
Net increase in plan assets	(30,878,527)	(22,882,761)
	₩ (566,961,582)	₩ (571,231,219)

**Coway Co., Ltd. and its subsidiaries**  
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**35. Statements of cash flows (cont'd)**

Significant non-cash transactions for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Transfer of construction-in-progress to respective property, plant and equipment	₩ 4,444,838	₩ 7,280,548
Transfer of development-in-progress to respective intangible assets	1,163,454	1,249,835
Acquisition of right-of-use asset	15,486,099	26,360,909

**36. RELATED PARTY TRANSACTIONS**

Related parties of the Group as of December 31, 2020, are as follows:

Relationship	2020	2019
Entity with significant influence over the Group (*1)		Woongjin ThinkBig Co., Ltd.
Others	Netmarble Corp.	Woongjin Co., Ltd.
	Indisair Co., Ltd.	Woongjin Booxen Co., Ltd.
	IGS Co., Ltd.	OPMS Co., Ltd.
	Netmarble Npark Co., Ltd.	WOONGJIN PLAYDOCI CO., Ltd.
	Netmarble Monster Co., Ltd.	WPD the First Ltd.
	Netmarble Japan Inc.	Tae Seung LP Co., Ltd.
	Netmarble US, Inc.	WoongJin tutuluv Co., Ltd.
	Netmarble (Thailand) Co., Ltd.	WOONGJIN USA, INC.
	Netmarble Neo Co., Ltd.	Woongjin Eversky Co., Ltd.
	Netmarble Joybomb Inc.	Woongjin EVERSKY ELPTM, INC.
	Netmarble Hongkong Limited	Woongjin Energy Co., Ltd.
	Netmarble Turkey Sanayi ve Ticaret A.S.	Rexfield Country Club
	JOYGAME Interactive Services Ltd.	Woongjin Compass Co., Ltd.
	Mediaweb Co., Ltd.	WoongJin Liliette Co., Ltd.
	Netmarble Nexus Co., Ltd.	
	Netmarble N2 Co., Ltd., Zempot Inc.	
	PT. NETMARBLE GAMES INDONESIA	
	Netmarble EMEA FZ LLC	
	Jam City, Inc., Ntop asset management Co., Ltd., Netmarble cherry Co., Ltd.	
	G-square PFV Co., Ltd., Gurobal games Co., Ltd., MNB production Co., Ltd., Kabam, Inc.	
	DIGIPARK SINGAPORE PTE. LTD.	
	Netmarble F&C Co., Ltd., DMK factory Co., Ltd., G-town PFV Co., Ltd.	
	Everyplay Co., Ltd., Keyring Co., Ltd.	
	Netmarble (Beijing) Limited,	
	IG S&C Philippines Inc., IGS China	
	Joybomb Hong Kong Ltd., TinyCo, Inc.	
	JCSA,S.A.S, Jam City US Subco, Inc.	
	JCTO Studios, ULC, JCBE GmbH	
	JCBA. S.A.U., Jam City Germany, GmbH	
	Kabam Games, Inc., Kabam Games UK Ltd.	
	Kabam Acadia Inc., Kabam Montreal, Inc.	
	Katorio Software Inc.	
Large group affiliates (*2)	Netmarble cultural foundation and etc.	

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**36. Related party transactions (cont'd)**

(\*1) Woongjin Thinkbig Co., Ltd., the largest shareholder of the Group as of December 31, 2019, signed a stock sale agreement to sell 18,511,446 shares (25.08%) of the Group to Netmarble Corp. and the transaction has been completed on February 11, 2020. As a result, the largest shareholder of the Group changed from Woongjin Thinkbig Co., Ltd. to Netmarble Corp. and other related parties are also changed.

(\*2) These entities are not included in related parties defined by KIFRS 1024. 9, but they are the entities classified as related parties based on the decision of Securities & Futures Commission that Large group affiliates designated by Fair Trade Commission are related parties, which have the substance of the relationship under KIFRS 1024. 10.

Sales and purchases with the related parties for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

Relationship	Company name	2020	
		Sales	Commissions, etc.
Entity with significant influence over the Group	Netmarble Corp.	₩	₩ 729,347
Others	IGS Co., Ltd.		-
	Netmarble Npark Co., Ltd.		-
	Netmarble Monster Co., Ltd.		-
	Mediaweb Co., Ltd.		-
	Zemot Inc.		-
	Netmarble cherry Co., Ltd.		-
	Gurobal games Co., Ltd.		-
	MNB production Co., Ltd.		153,004
	Netmarble F&C Co., Ltd.		-
	Keyring Co., Ltd.		-
	Woongjin ThinkBig Co., Ltd.		-
	Woongjin Co., Ltd.		1,469,760
	Woongjin Booxen Co., Ltd.		-
	WOONGJIN PLAYDOCI Co., Ltd.		-
	Woongjin tutuluv Co., Ltd.		-
	Woongjin Energy Co., Ltd.		-
	Rexfield Country Club Co., Ltd.		-
Woongjin Compass Co., Ltd.		-	
Woongjin Liliette Co., Ltd.		92,700	
		₩	₩ 2,444,811

Relationship	Company name	2019		
		Sales	Other income	Commissions, etc.
Entity with significant influence over the Group	Woongjin ThinkBig Co., Ltd.	₩	₩ 41	₩ -
Others	Woongjin Co., Ltd.		-	10,001,174
	Woongjin BooxenCo., Ltd.		275,000	461,030
	WOONGJIN PLAYDOCI CO., Ltd.		-	-
	WoongJin tutuluv Co., Ltd.		-	-
	Woongjin Energy Co., Ltd.		-	-
	Rexfield Country Club Co., Ltd.		-	5,858
	Woongjin Compass Co., Ltd.		-	-
	WoongJin Liliette Co., Ltd.		448	-
		₩	₩ 275,489	₩ 10,468,062

**Coway Co., Ltd. and its subsidiaries**  
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**36. Related party transactions (cont'd)**

Outstanding receivables and payables arising from the transactions with the related parties as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

		2020	
Relationship	Company name	Receivables Trade receivables	Payables Other payables
Entity with significant influence over the Group	Netmarble Corp.	₩ -	₩ 992,402
Others	MNB production Co., Ltd.	-	44,179
	Netmarble F&C Co., Ltd.	103	-
	Keyring Co., Ltd.	55	-
		<u>₩ 158</u>	<u>₩ 1,036,581</u>
		2019	
Relationship	Company name	Receivables Trade receivables	Payables Other payables
Entity with significant influence over the Group	Woongjin ThinkBig Co., Ltd.	₩ 34,278	₩ -
	Woongjin Co., Ltd.	-	1,220,731
Others	Woongjin Energy Co., Ltd.	3,107	-
	Rexfield Country Club Co., Ltd.	2,575	-
	WoongJin Liliette Co., Ltd.	690	-
		<u>₩ 40,650</u>	<u>₩ 1,220,731</u>

Further to the transactions above, the Group paid annual dividends of ₩19,630 million to Coway Holdings Co., Ltd. and interim dividends of ₩43,296 million to Woongjin Thinkbig Co., Ltd. for the year ended December 31, 2019. Also, the Group acquired the rental business department of Woongjin Co., Ltd. and paid ₩ 40,111 million for the year ended December 31, 2019.

Details of joint guarantees provided by chief executive officer of Coway EnTech Co., Ltd., which is one of subsidiaries, as of December 31, 2020, are as follows (Korean won in thousands):

Provider	Provided to	Guarantee amount	
Chief executive officer of Coway EnTech Co., Ltd.	IBK Bank	₩	3,600,000
	KSCFC		3,626,084
	Machinery Financial Cooperative (MFC)		2,679,538
		<u>₩</u>	<u>9,905,622</u>

Key management includes directors (register and non-register), members of the Board of Directors, Chief Financial Officer and the Head of Internal Audit. The compensation paid or payable to the key management for employee services for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Short-term employee benefits	₩ 7,861,874	₩ 9,262,318
Pension costs	763,648	710,456
Share-based payments expenses	916,491	3,940,328
	<u>₩ 9,542,014</u>	<u>₩ 13,913,102</u>

**37. FAIR VALUE MEASUREMENT**

Details of the book value and fair value of financial instruments, excluding financial instruments that the book value is closed to the reasonable fair values as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020		2019	
	Book value	Fair value (*1)	Book value	Fair value (*1)
Financial assets:				
Cash and cash equivalents	₩ 115,815,624	₩ 115,815,624	₩ 60,540,531	₩ 60,540,531
Trade receivables	330,340,996	330,340,996	331,785,146	331,785,146
Finance lease receivables	887,665,956	887,665,956	667,529,668	667,529,668
Other financial assets	59,142,852	59,142,852	81,677,165	81,677,165
Financial assets at FVPL	1,248,880	1,248,880	1,232,703	1,232,703
Financial assets at FVOCI	365,501	365,501	365,501	365,501
	<u>₩ 1,394,579,809</u>	<u>₩ 1,394,579,809</u>	<u>₩ 1,143,130,714</u>	<u>₩ 1,143,130,714</u>
Financial liabilities:				
Trade payables	₩ 68,692,821	₩ 68,692,821	₩ 57,967,769	₩ 57,967,769
Finance lease liabilities	22,751,259	22,751,259	31,281,863	31,281,863
Borrowings	710,016,000	710,016,000	870,535,000	870,535,000
Other financial liabilities	233,528,233	233,528,233	224,658,247	224,658,247
	<u>₩ 1,034,988,313</u>	<u>₩ 1,034,988,313</u>	<u>₩ 1,184,442,879</u>	<u>₩ 1,184,442,879</u>

(\*1) The Group determined that the book values of the financial assets and liabilities carried at amortized cost were similar to their fair values.

**Fair value hierarchy**

The Group uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique. The level of hierarchy of fair value is as follows:

Level 1 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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**37. Fair value measurement (cont'd)**

The level of fair value measurements of financial instruments as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Cash and cash equivalents	₩ 115,815,624	₩ -	₩ -	₩ 115,815,624
Trade receivables	-	-	330,340,996	330,340,996
Finance lease receivables	-	-	887,665,956	887,665,956
Short-term loans	-	-	27,414	27,414
Other receivables	-	-	6,751,496	6,751,496
Accrued income	-	-	6,869	6,869
Short-term deposits	-	-	35,825,064	35,825,064
Long-term financial instruments	-	8,326,162	-	8,326,162
Long-term other receivables	-	-	250,000	250,000
Long-term deposits	-	-	7,955,847	7,955,847
Financial assets at FVPL	-	-	1,248,880	1,248,880
Financial assets at FVOCI	-	-	365,501	365,501
<b>Financial liabilities:</b>				
Trade payables	-	-	68,692,821	68,692,821
Lease liabilities	-	-	22,751,259	22,751,259
Other payables	-	-	186,706,730	186,706,730
Accrued expenses	-	-	35,890,004	35,890,004
Short-term borrowings	-	-	700,130,000	700,130,000
Current portion of long-term borrowings	-	-	536,000	536,000
Long-term other payables	-	-	98,247	98,247
Reserve for agent losses	-	-	9,642,119	9,642,119
Long-term borrowings	-	-	9,350,000	9,350,000
Guarantee deposits withheld	-	-	16,431	16,431
Rental deposits withheld	-	-	1,159,128	1,159,128
Others	-	-	15,575	15,575

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**37. Fair value measurement (cont'd)**

	2019			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	₩ 60,540,531	₩ -	₩ -	₩ 60,540,531
Trade receivables	-	-	331,785,146	331,785,146
Finance lease receivables	-	-	667,529,668	667,529,668
Short-term loans	-	-	53,280	53,280
Other receivables	-	-	26,520,994	26,520,994
Short-term deposits	-	-	34,165,598	34,165,598
Long-term financial instruments	-	8,611,057	-	8,611,057
Long-term other receivables	-	-	716,600	716,600
Long-term deposits	-	-	11,609,636	11,609,636
Financial assets at FVPL	-	-	1,232,703	1,232,703
Financial assets at FVOCI	-	-	365,501	365,501
Financial liabilities:				
Trade payables	-	-	57,967,769	57,967,769
Lease liabilities	-	-	31,281,863	31,281,863
Other payables	-	-	175,567,648	175,567,648
Accrued expenses	-	-	36,801,975	36,801,975
Short-term borrowings	-	-	860,550,000	860,550,000
Current portion of				
long-term borrowings	-	-	536,000	536,000
Long-term other payables	-	-	414,447	414,447
Reserve for agent losses	-	-	10,623,117	10,623,117
Long-term borrowings	-	-	9,449,000	9,449,000
Guarantee deposits withheld	-	-	16,886	16,886
Rental deposits withheld	-	-	1,215,511	1,215,511
Others	-	-	18,663	18,663

The fair values of financial instruments traded in an active market are calculated based on market prices on the closing date of the reporting period. If the posted prices are easily and regularly usable through a clearing house, seller, intermediary, industrial group, appraisal institution or supervisory institution, and if the prices represent actual transactions between independent parties, the market of which the prices are quoted is regarded as an active market. The posted market price of a financial asset held by the Group is a bid price. The financial instrument is classified as Level 1. The instruments in the Level 1 consist of the listed equity securities of KOSPI or KOSDAQ that are mostly classified as trading securities or available-for-sale securities.

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

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

Specific valuation techniques used to measure the fair value of financial instruments include:

- Quoted or dealer price of similar instruments.
- The fair value of an interest rate swap is calculated by the present value of the estimated future cash flows that follow an observable earnings rate curve.
- The fair value of forward foreign exchange contracts determined by using forward exchange rates at the reporting date, with the resulting value discounted to present value.
- Other financial techniques, such as discounted cash flow analysis.

37. Fair value measurement (cont'd)

Changes in fair value of financial instruments categorized into Level 3 of fair value hierarchy among financial assets at fair value for the years ended December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020			
	January 1	Valuation	Transfer	December 31,
Financial assets at FVOCI	₩ 365,501	₩ -	₩ -	₩ 365,501
Financial assets at FVPL	1,232,703	16,177	-	1,248,880
	₩ 1,598,204	₩ 16,177	₩ -	₩ 1,614,381

	2019			
	January 1	Valuation	Transfer	December 31,
Financial assets at FVOCI	₩ 365,431	₩ -	₩ 70	₩ 365,501
Financial assets at FVPL	1,218,198	14,505	-	1,232,703
	₩ 1,583,629	₩ 14,505	₩ 70	₩ 1,598,204

Valuation techniques used in the fair value measurement of financial instruments except for financial instruments traded in an active market are as follows:

	Fair value measurements
Cash and cash equivalents	The book value of cash is equal to its fair value. For cash equivalents, including ordinary deposits, general deposits and time deposits whose remaining maturity is less than 3 months, their book value is used as a substitute for their fair value.
Trade receivables and other financial assets	For short-term receivables, including trade receivables and non-trade receivables, their book value is used as a substitute for their fair value.
Trade payables and other financial liabilities	For short-term payables, including trade payables and non-trade payables, their book value is used as a substitute for their fair value.
Borrowings	For borrowings whose remaining maturity is less than a year from the date of issue, their book value is used as a substitute for their fair value. For borrowings whose maturity is more than a year from the date of issue, the fair value of the borrowings is calculated by discounting the expected future cash flow using the discounting rate derived from a market interest rate and credit risk of a counterparty.

For the year ended December 31, 2020, there is no significant change in business and economic environments, which influence the fair value of financial assets and liabilities of the Group.

### 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities are exposed 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 Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department under policies approved by the Board of Directors. The Group's treasury department identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment exceeding liquidity.

#### (1) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise three types of risk: interest rate risk, foreign currency risk and other price risk, such as equity price risk.

##### 1) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's borrowings with floating interest rates as of December 31, 2020 and 2019, are ₩104,355,000 thousand and ₩3,654,500 thousand, respectively. The Group's profit before tax is affected by floating rate of its borrowings, and details are as follows (Korean won in thousands):

	1% point increase	
	2020	2019
Impact on profit before tax	₩ (1,043,550)	₩ (36,545)

##### 2) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from exporting goods and services or importing raw materials that are recognized as assets, liabilities and foreign debentures. Periodically, the Group is evaluating, managing and reporting for foreign exchange risk. To avoid such fluctuations of foreign exchange risk, the Group uses particular derivatives.

As of December 31, 2020, if the currency had weakened or strengthened by 5% points against foreign currencies with all other variables held constant, the Group's profit before tax for the year ended December 31, 2020, would have been ₩1,493 million (2019: ₩1,294 million) higher or lower.

The Group's financial instruments denominated in major foreign currencies as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020			
	USD	JPY	EUR	Total
Cash and cash equivalents	₩ 10,899,824	₩ 2,986,020	₩ 1,892,863	₩ 15,778,707
Trade receivables (*1)	16,681,757	962,621	1,626,144	19,270,522
Trade payables	3,854,792	1,184,262	151,062	5,190,116

(\*1) It is the amount before less the related impairment loss.

### 38. Financial risk management objectives and policies (cont'd)

	2019			
	USD	JPY	EUR	Total
Cash and cash equivalents	₩ 1,738,138	₩ 3,107,845	₩ -	₩ 4,845,983
Trade receivables (*1)	23,783,947	1,974,334	1,803,580	27,561,861
Trade payables	5,285,688	1,016,108	235,446	6,537,242

(\*1) It is the amount before less the related impairment loss.

### 3) Other price risk

Other price risk is the risk that the fair value or cash flows of instrument will fluctuate because of changes in market price other than interest rate risk and foreign currency risk. However, management assessed that the price movement of equity securities had no material effect on other comprehensive income as of December 31, 2020.

### (2) Credit risk

Credit risk is managed on the Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments 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 taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

A summary of maximum exposure to the credit risk as of December 31, 2020 and 2019, is as follows (Korean won in thousands):

	2020	2019
Cash and cash equivalents (*1)	₩ 115,441,739	₩ 60,267,930
Trade receivables	330,340,996	331,785,146
Finance lease receivables	887,665,956	667,529,668
Other short-term financial assets	42,610,843	60,739,871
Other long-term financial assets	16,532,009	20,937,293
	₩ 1,392,591,543	₩ 1,141,259,908

(\*1) Excluded cash on hand from cash and cash equivalents in the consolidated statements of financial position.

### (3) Liquidity risk

The Group monitors rolling forecasts of the Group'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 Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with the internal statement of financial position ratio targets and, if applicable, external regulatory or legal requirements.

The Group's treasury department invests surplus funds in interest-bearing current accounts, time deposits, money market deposits and marketable securities, which provide appropriate maturities or sufficient liquidity, to secure its liquidity as determined by the abovementioned forecasts.

### 38. Financial risk management objectives and policies (cont'd)

The Group's liquidity risk as of December 31, 2020 and 2019, is as follows (Korean won in thousands):

	2020			
	Less than 1 year	1 ~ 5 years	More than 5 years	Total
Trade payables	₩ 68,692,821	₩ -	₩ -	₩ 68,692,821
Other financial liabilities	222,612,309	10,915,924	-	233,528,233
Short-term borrowings	700,130,000	-	-	700,130,000
Long-term borrowings	536,000	-	9,350,000	9,886,000
Lease liabilities	13,922,485	8,828,774	-	22,751,259
	₩ 1,005,893,615	₩ 19,744,698	₩ 9,350,000	₩ 1,034,988,313

	2019			
	Less than 1 year	1 ~ 5 years	More than 5 years	Total
Trade payables	₩ 57,967,769	₩ -	₩ -	₩ 57,967,769
Other financial liabilities	212,388,285	1,646,844	-	214,035,129
Short-term borrowings	860,550,000	-	-	860,550,000
Long-term borrowings	536,000	-	9,449,000	9,985,000
Lease liabilities	14,981,012	16,300,851	-	31,281,863
	₩ 1,146,423,066	₩ 17,947,695	₩ 9,449,000	₩ 1,173,819,761

#### (4) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group 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, minus cash and cash equivalents. Total capital is calculated as equity shown in the statement of financial position plus net debt.

The Group's gearing ratios as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020	2019
Total borrowings	₩ 710,016,000	₩ 870,535,000
Less: cash and cash equivalents	(115,815,624)	(60,540,531)
Net debt	594,200,376	809,994,469
Total equity	1,490,008,891	1,077,195,585
Total equity and net debt	₩ 2,084,209,267	₩ 1,887,190,054
Gearing ratio	28.51%	42.9%

**Coway Co., Ltd. and its subsidiaries**  
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**38. Financial risk management objectives and policies (cont'd)**

**(5) Changes in liabilities arising from financing activities**

Changes in liabilities arising from financing activities as of December 31, 2020 and 2019, are as follows (Korean won in thousands):

	2020						
	Jan.1	Cash flows from financing activities	Interest expenses	Non-cash transactions		Dec. 31	
				New lease	Exchange difference		
Short-term borrowings	₩ 860,550,000	₩ (160,420,000)	₩ -	₩ -	₩ -	₩ 700,130,000	
Current portion of long-term borrowings	536,000	-	-	-	-	536,000	
Long-term borrowings	9,449,000	(99,000)	-	-	-	9,350,000	
Lease liabilities	31,281,863	(20,983,253)	792,763	12,199,638	(539,752)	22,751,259	

	2019						
	Jan.1	Changes in Accounting policies	Cash flows from financing activities	Non-cash transactions		Dec. 31	
				Interest expenses	Exchange difference		
Short-term borrowings	₩ 731,112,000	₩ -	₩ 129,438,000	₩ -	₩ -	₩ 860,550,000	
Long-term borrowings	9,985,000	-	(536,000)	-	-	9,449,000	
Lease liabilities	-	20,524,826	(14,914,961)	785,088	24,454,632	432,278	31,281,863

The Group classifies interest payments as cash flows from financing activities.

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**39. Business combination (2019)**

The Group has acquired the rental business department of Woongjin Co., Ltd. according to the resolution of the Board of Directors on May 17, 2019. The date of acquisition was August 1, 2019, and purchase consideration transferred is ₩ 40,111 million.

The fair values of the identifiable assets and liabilities of the rental business department of Woongjin Co., Ltd. as of the date of acquisition were as follows (Korean won in thousands):

	Fair value recognized on recognition
Assets:	
Trade receivables	₩ 1,980,200
Prepaid expense	8,750
Financial lease receivables	3,123,905
Inventories	1,195,277
Deposit	1,228,880
Property, plant and equipment	24,282,476
Intangible assets	10,089,750
	<u>41,909,238</u>
Liabilities:	
Trade payables	58,392
Accrued expense	37,942
Advance receipts	1,382,831
Withholdings	13,000
Value-added tax withheld	183,311
Refund liabilities	2,220,812
Reserve for agent losses	120,545
Defined benefit liabilities	800,843
Deferred tax liability	4,480,711
	<u>9,298,387</u>
Total identifiable net assets at fair value	<u>32,610,851</u>
Purchase consideration transferred	40,110,586
Goodwill arising on acquisition	<u>₩ 7,499,734</u>

Purchase consideration transferred are as follows (Korean won in thousands):

Cash	₩ 40,110,586
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An analysis of cash flows on acquisition for the year ended December 31, 2019, is as follows (Korean won in thousands):

Analysis of cash flows on acquisition:	
Purchase consideration transferred (cash)	₩ 40,110,586
Cash held by acquiree	-
Net cash flow on acquisition	<u>₩ 40,110,586</u>

Above initial accounting for the business combination shall be adjusted to reflect new information obtained about facts and circumstances for one year from the acquisition date.

**40. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements of the Group for the year ended December 31, 2020, were approved by the Board of Directors' meeting on February 16, 2021.

**41. EVENTS AFTER THE REPORTING PERIOD**

The Group has decided that they will acquire the share of 100% interest on IOBED Co., Ltd. for the purpose of strengthening research and development of mattresses and activating the mattress business on February 16, 2021, and the share transfer will be completed on April 1, 2021.