
HANDOK INC.

Consolidated Financial Statements

December 31, 2023

(With Independent Auditors' Report Thereon)

HANDOK INC
Consolidated Statement of Financial Position
As of December 31, 2023 and 2022
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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
Handok Inc.

Opinion

We have audited the consolidated financial statements of Handok and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2023, the consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising of material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the *Auditors' 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 statement 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 Matter

Key audit matters is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statement as of and for the year ended on December 31, 2023. This matter was addressed in the context of our audit of the consolidated financial statement as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Impairment testing of cash generating units including goodwill and investments in associates

As described in Notes 14 and 17 to the consolidated financial statements, the Group performs impairment tests on cash-generating units (CGUs) that include goodwill at the end of each reporting period. For non-financial assets other than CGUs that include goodwill, the Group reviews whether there are any indications of impairment or reversal of impairment losses. If such indications are present, the Group measures the recoverable amount and recognizes an impairment loss if the carrying amount exceeds the recoverable amount. Conversely, if a previous impairment loss has been recognized and the recoverable amount exceeds the current carrying amount, the Group recognizes a reversal of the impairment loss to the extent of the carrying amount that would have been determined had no impairment loss been recognized in prior periods.

The goodwill allocated to each cash generating unit on the consolidated financial statement of the Group amounts to KRW 44,468,668 thousand, and the investments in associates are recorded at KRW 86,057,324 thousand. The carrying amounts of these cash generating units, including goodwill, and the investments are significant on the consolidated financial statement and are influenced by key assumptions such as sales growth rate, discount rate, and perpetual growth rate, which involve management's judgement in their determination. Given the significant impact of these assumptions on the consolidated financial statement and the potential for management bias in such critical estimates, we have identified the measurement of the recoverable amounts of cash generating units including goodwill and investments in associates as a key audit matter.

Our audit procedures to address the key audit matter include the following:

- Understanding and evaluating the design and operating effectiveness of controls for the Group's impairment assessment procedures
- Reviewing the basis for judgments on indicators of impairment or impairment losses (reversal)
- Assessing the competence and independence of external experts utilized by management for measuring the recoverable amount
- Evaluating the appropriateness of the valuation models used by management for measuring the recoverable amount
- Assessing the appropriateness of key assumptions used by management in measuring the recoverable amount, by involving internal valuation experts
- Evaluating the results of sensitivity analyses on discount rates performed by management to assess the impact of changes in key assumptions on the recoverable amount
- Evaluating the adequacy of disclosures in the consolidated financial statements related to impairment assessments

Other Matters

The consolidated financial statements of the Group for the year ended on December 31, 2022, were audited by another auditor who expressed an unqualified opinion on those statements on March 9, 2023.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with K-IFRS, and for such internal control as management 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 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.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements 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 remain solely responsible for our audit opinion.

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

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

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

KPMG Samjong Accounting Corp.

Seoul, Korea
March 12, 2024

This report is effective as of March 12, 2024, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

HANDOK INC
Consolidated Statement of Financial Position
As of December 31, 2023 and 2022

(In Korea won)

	Notes		December 31, 2023	December 31, 2022
ASSETS:				
Current Assets:				
Cash and cash equivalents	4, 5, 6	₩	16,555,040,864	36,845,841,836
Trade and other receivables	4, 5, 6, 9, 39		167,399,057,144	172,465,451,540
Other current assets	10		13,244,822,893	47,760,378,686
Inventories	11		94,464,588,683	92,463,060,871
Short-term other financial assets	4, 5, 6, 12		3,626,382,432	4,637,255,258
			<u>295,289,892,016</u>	<u>354,171,988,191</u>
Non-current Assets:				
Long-term other financial assets	4, 5, 6, 12		4,000,000	4,000,000
Long-term trade and other receivables	4, 5, 6, 9		4,747,185,892	1,219,197,860
Financial assets at fair value through profit or loss	4, 5, 6, 7, 34		37,118,015,060	46,828,256,086
Financial assets at fair value through other comprehensive income	4, 5, 6, 8		10,905,415	10,905,415
Property, plant and equipment	13, 38		222,795,113,239	220,203,408,013
Investment properties	15, 38		48,397,416,252	48,594,033,762
Intangible assets	14		82,926,991,909	82,738,517,030
Investments in joint ventures and associates	17		86,057,324,355	100,768,193,738
Other non-current assets	10, 16, 22		12,992,814,039	16,567,669,972
			<u>495,049,766,161</u>	<u>516,934,181,876</u>
Total assets		₩	<u>790,339,658,177</u>	<u>871,106,170,067</u>

(continued)

HANDOK INC

Consolidated Statement of Financial Position, Continued

As of December 31, 2023 and 2022

(In Korea won)

	Notes	December 31, 2023	December 31, 2022
LIABILITIES AND SHAREHOLDER'S EQUITY:			
LIABILITIES:			
Current Liabilities:			
Trade and other payables	4, 5, 6, 18, 39	₩ 108,703,982,538	138,602,334,668
Other current liabilities	19	6,113,600,623	4,687,229,838
Other current financial liabilities	4, 5, 6, 16, 20	733,459,102	400,151,451
Short-term borrowings	4, 5, 6, 20	124,638,240,000	77,469,210,000
Short-term corporate bonds	4, 5, 6, 20	49,881,013,051	34,882,962,924
Provisions for other liabilities	21	11,103,163,811	9,810,977,833
Income tax liabilities		294,432,425	5,077,583,820
		<u>301,467,891,550</u>	<u>270,930,450,534</u>
Non-current liabilities:			
Long-term trade and other payables	4, 5, 6, 18, 25, 39	7,024,648,285	7,274,308,885
Other non-current liabilities	19	150,737,302	-
Other non-current financial liabilities	4, 5, 6, 16, 20, 38	4,478,495,100	5,066,201,671
Long-term borrowings	4, 5, 6, 20	99,770,430,000	135,045,670,000
Corporate bonds	4, 5, 6, 20	24,009,844,899	49,644,167,652
Long-term provisions for other liabilities	21	1,371,117,577	1,265,888,288
Defined benefit liabilities	22	2,973,892,662	2,306,536,460
Deferred tax liabilities	23	8,459,468,045	17,716,904,064
		<u>148,238,633,870</u>	<u>218,319,677,020</u>
Total liabilities		449,706,525,420	489,250,127,554
EQUITY:			
Equity attributable to owners of the Parent Company			
Common stock	1, 24	6,881,766,500	6,881,766,500
Capital surplus		36,748,103,056	36,748,103,056
Other components of equity	26	41,799,115,173	37,589,774,541
Retained earnings	27	253,302,993,252	298,592,828,584
Non-controlling interest		1,901,154,776	2,043,569,832
Total equity		<u>340,633,132,757</u>	<u>381,856,042,513</u>
Total liabilities and equity	₩	<u>790,339,658,177</u>	<u>871,106,170,067</u>

(Concluded)

See accompanying notes to the consolidated financial statements.

HANDOK INC
Consolidated Statement of Profit or Loss
For the years ended December 31, 2023 and 2022

(In Korea won)

	Notes		2023	2022
Revenue	28, 39, 40	₩	522,741,079,531	543,759,151,916
Cost of sales	28, 29, 39		356,393,415,376	370,045,335,693
Gross profit			166,347,664,155	173,713,816,223
Selling, general and administrative expenses	29, 30, 31, 32		153,768,832,137	145,217,630,263
Operating profit			12,578,832,018	28,496,185,960
Other income	6, 33, 39		16,560,953,446	17,204,904,987
Other expenses	6, 33, 39		3,780,131,794	5,894,918,072
Finance income	6, 34, 39		2,691,792,777	11,416,779,761
Finance costs	6, 34		32,342,153,240	20,722,343,496
Share of profit of associates	17		(29,217,164,320)	(23,184,451,026)
Profit before income tax			(33,507,871,113)	7,316,158,114
Income tax expense	23		(4,567,444,921)	(3,279,674,582)
Profit (loss) for the period		₩	(28,940,426,192)	10,595,832,696
Owners of the Parent Company			(28,797,445,620)	10,683,543,868
Non-controlling interests			(142,980,572)	(87,711,172)
Basic earnings per share attributable to owners of the parent	35	₩	(2,091)	776
Diluted, earnings per share attributable to owners of the parent	35	₩	(2,091)	776

See accompanying notes to the consolidated financial statements.

HANDOK INC
Consolidated Statement of Comprehensive Income
For the years ended December 31, 2023 and 2022

(In Korea won)

	Notes	2023	2022
Profit (loss) for the period	₩	(28,940,426,192)	10,595,832,696
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liability	22, 23	(6,638,486,607)	4,969,295,753
Change in retained earnings in equity method		(4,348,489,905)	(1,156,401,480)
Losses on valuation of financial assets at fair value through other comprehensive income		-	(7,024,371)
Items that are or may be subsequently reclassified to profit or loss:			
Changes in retained earnings adjustment in equity method		5,286,445,619	(13,651,817,834)
Exchange differences on translation of foreign operations		(929,961,656)	(1,730,303,541)
Cash flow hedge	23, 38	(147,143,331)	(339,961,657)
Other comprehensive income for the period, net of tax		(6,777,635,880)	(11,916,213,130)
Total comprehensive income (loss) for the period	₩	(35,718,062,072)	(1,320,380,434)
Owners of the Parent Company		(35,575,081,500)	(1,232,669,262)
Non-controlling interests		(142,980,572)	(87,711,172)

See accompanying notes to the consolidated financial statements.

HANDOK INC
Consolidated Statement of Changes in Equity
For the years ended December 31, 2023 and 2022

(In Korean won)

		Common stock	Capital surplus	Other Components of Equity	Retained earnings	Non-controlling interest	Total equity
Balance at January 1, 2022	₩	6,881,766,500	36,748,103,056	51,445,890,188	288,920,651,364	-	383,996,411,108
Total comprehensive income(loss) for the period:							
Profit (loss) for the period		-	-	-	10,683,543,868	(87,711,172)	10,595,832,696
Remeasurements of net defined benefit liability		-	-	-	4,969,295,753	-	4,969,295,753
Losses on valuation of financial assets at fair value through other comprehensive income		-	-	-	(7,024,371)	-	(7,024,371)
Changes in capital surplus in equity method		-	-	(13,651,817,834)	-	-	(13,651,817,834)
Changes in retained earnings adjustment in equity method		-	-	-	(1,156,401,480)	-	(1,156,401,480)
Changes in foreign operation currency translation differences		-	-	(1,730,303,541)	-	-	(1,730,303,541)
Cash flow hedge		-	-	(339,961,657)	-	-	(339,961,657)
Transactions with owners of the Company, recognized directly in equity:							
Dividends		-	-	-	(4,817,236,550)	-	(4,817,236,550)
Share-based payment transaction		-	-	-	-	518,389	518,389
Change in scope of consolidation		-	-	1,865,967,385	-	2,130,762,615	3,996,730,000
Balance at December 31, 2022	₩	6,881,766,500	36,748,103,056	37,589,774,541	298,592,828,584	2,043,569,832	381,856,042,513

(continued)

HANDOK INC
Consolidated Statement of Changes in Equity, Continued
For the years ended December 31, 2023 and 2022

(In Korean won)

	Common stock	Capital surplus	Other Components of Equity	Retained earnings	Non-controlling interes	Total equity
Balance at January 1, 2023	₩ 6,881,766,500	36,748,103,056	37,589,774,541	298,592,828,584	2,043,569,832	381,856,042,513
Total comprehensive income(loss) for the period:						
Profit (loss) for the period	-	-	-	(28,797,445,620)	(142,980,572)	(28,940,426,192)
Remeasurements of net defined benefit liability	-	-	-	(6,638,486,607)	-	(6,638,486,607)
Changes in capital surplus in equity method	-	-	5,286,445,619	-	-	5,286,445,619
Changes in retained earnings in equity method	-	-	-	(4,348,489,905)	-	(4,348,489,905)
Exchange differences on translation of foreign operations	-	-	(929,961,656)	-	-	(929,961,656)
Cash flow hedge	-	-	(147,143,331)	-	-	(147,143,331)
Transactions with owners of the Company, recognized directly in equity:						
Dividends	-	-	-	(5,505,413,200)	-	(5,505,413,200)
Share-based payment transaction	-	-	-	-	565,516	565,516
Balance at December 31, 2023	₩ 6,881,766,500	36,748,103,056	41,799,115,173	253,302,993,252	1,901,154,776	340,633,132,757

See accompanying notes to the consolidated financial statements.

HANDOK INC
Consolidated Statement of Cash Flows
For the years ended December 31, 2023 and 2022

(In Korean won)

	Notes	2023	2022
Cash flows from operating activities:			
Cash generated from operating activities	37	₩ 55,085,818,633	39,009,512,163
Income taxes paid		(7,510,228,938)	(1,532,053,900)
Interest paid		(13,163,705,665)	(7,408,340,825)
Interest received		1,564,870,524	449,974,506
Dividends received		96,850	96,850
Net cash provided by operating activities		<u>35,976,851,404</u>	<u>30,519,188,794</u>
Cash flows from investing activities:			
Increase in short-term loans		(4,680,000,000)	-
Increase in long-term loans to employees		(295,000,000)	(90,000,000)
Increase in leasehold deposits		(10,494,000)	(5,348,337)
Purchases of financial assets at fair value through profit or loss		(7,051,830,029)	(7,347,267,087)
Purchases of other financial assets		(43,500,000,000)	(38,000,000,000)
Acquisition of investments in associates and joint ventures		(12,814,019,400)	(15,755,600,013)
Acquisition of property, plant and equipment		(19,208,259,902)	(36,204,534,965)
Acquisition of intangible assets		(6,967,982,489)	(7,534,260,146)
Decrease in short-term loans		1,400,000,000	-
Decrease loans to employees		154,200,000	314,940,000
Proceeds from disposal of financial assets at fair value through profit or loss		18,646,769	511,668,793
Proceeds from disposal of other financial assets		43,000,000,000	40,000,000,000
Decrease in leasehold deposits		14,272,697	105,420,000
Decrease in other deposits		-	1,000,000
Proceeds from disposal of property, plant and Equipment		219,879,833	209,787,827
Proceeds from disposal of intangible assets		3,000,000	293,972,727
Net cash used in investing activities	₩	<u>(49,717,586,521)</u>	<u>(63,500,221,201)</u>

(Continued)

HANDOK INC
Consolidated Statement of Cash Flows, Continued
For the years ended December 31, 2023 and 2022

(In Korean won)

		2023	2022
Cash flows from financing activities:			
Proceeds from short-term borrowings	₩	131,200,000,000	181,650,000,000
Proceeds from long-term borrowings		24,000,000,000	117,347,500,000
Proceeds from issuance of corporate bonds		23,862,715,000	-
Paid in Capital Increase		-	3,996,730,000
Receipts of government grants		61,372,000	59,784,000
Increase in lease liabilities		-	91,116,598
Payment of cash dividends		(5,505,413,200)	(4,817,236,550)
Repayments of short-term borrowings		(143,969,210,000)	(257,664,960,000)
Repayments at Corporate bonds		(35,000,000,000)	-
Decrease in government grants		(66,060,878)	(55,371,872)
Decrease in deposits		(170,000,000)	-
Repayments of lease liabilities		(805,591,215)	(775,849,720)
Net cash provided by financing activities		(6,392,188,293)	39,831,712,456
Net decrease in cash and cash equivalents		(20,132,923,410)	6,850,680,049
Cash and cash equivalents at January 1		36,845,841,836	30,438,789,903
Effects of exchange rate changes on cash and cash equivalents		(157,877,562)	(443,628,116)
Cash and cash equivalents at December 31	₩	16,555,040,864	36,845,841,836

See accompanying notes to the consolidated financial statements.

HANDOK INC
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

1. General Information

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

As of December 31, 2023, Parent Company's capital stock is KRW 6,882 million (number of issued shares: 13,763,533 shares), and its shares were listed on the Korea Stock Exchange on June 30, 1976.

As of December 31, 2023, the current shareholder detail is as follows:

Name of shareholder	Number of Ordinary shares	Percentage of Ownership (%)	Remarks
Y.J. Kim	1,878,397	13.65	Representative director
Y&S International Co., Ltd.	2,435,290	17.69	Related parties
Others	9,449,846	68.66	
Total	13,763,533	100.00	

1.1 Consolidated subsidiaries

Consolidated subsidiaries as of December 31, 2023 are as follows:

Subsidiaries	Location	Percentage of ownership (%)	Year-end date	Principal activities
Theravalues Corporation	Japan	100.00	Dec.31	Development and sales of functional raw materials
Unins(HK) International Limited	Hong Kong	100.00	May.31	Sales of pharmaceuticals
Innocuve Inc.	Korea	72.97	Dec.31	Services
INNO Health Fund No. 1 (*)	Korea	90.98	Dec.31	Venture investment associations

(*) It was established through investment during the current period and has been incorporated into a subsidiary company.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

The following table summarizes the financial information of consolidated subsidiaries as of and for the year ended December 31, 2023.

(In thousands of Korean won)

Company	2023					
	Assets	Liabilities	Net assets	Revenue	Net income(loss) for the Period	Total comprehensive income
Theravalues Corporation	6,333,804	1,397,957	4,935,847	5,034,567	310,924	122,440
Unins(HK) International Limited	147,123	18,756	128,367	-	(1,155)	826
Innocuve Inc.	8,302,969	1,249,089	7,053,880	168,709	(505,663)	(505,663)
INNO Health Fund No. 1	1,504,711	30,003	1,474,708	-	(25,292)	(25,292)

(In thousands of Korean won)

Company	2022					
	Assets	Liabilities	Net assets	Revenue	Net income(loss) for the Period	Total comprehensive income
Theravalues Corporation	6,599,557	1,786,151	4,813,406	7,881,664	1,347,481	1,022,464
Unins(HK) International Limited	146,012	18,471	127,541	-	(4,491)	4,116
Innocuve Inc.	8,873,589	1,314,611	7,558,978	27,583	(345,361)	(345,361)

2. Material Accounting Policies

The Group applied the revised accounting policy disclosure (Korean International Financial Reporting Standards No. 1001 'Indication of Financial Statements') from January 1, 2023. This amendment requires the disclosure of 'Material' accounting policies rather than 'significant' accounting policies. These revisions do not result in changes in accounting policy but affect the published accounting policy information.

The following are the significant accounting policies applied in the preparation of the financial statements. These policies have been consistently applied during the periods presented, unless otherwise stated.

2.1 Basis of Preparation

The Group's financial statements have been prepared in accordance with Korean International Financial Reporting Standards (K-IFRS). K-IFRS refers to the standards and interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The material accounting policies applied in the preparation of these financial statements are described below. These accounting policies have been consistently applied to all periods presented in the financial statements, except for the effects of the adoption of new standards or interpretations as described below.

The financial statements have been prepared on a historical cost basis, except for certain non-current assets and financial assets that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally measured as the fair value of the consideration given to acquire the asset. 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 the price is directly observable or estimated using a 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 that market participants would consider when pricing the asset or liability at the measurement date.

2. Material Accounting Policies, Continued

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

Korean International Financial Reporting Standards (K-IFRS) permit the use of significant accounting estimates in the preparation of financial statements and require management to exercise judgment when applying accounting policies. Areas that require more complex and higher-level judgments, or areas where significant assumptions and estimates are required, are described in Note 3.

2.2 Changes in Accounting Policies

The Group has adopted the following new and amended standards starting from the accounting period beginning on January 1, 2023.

Material Accounting Policies Information

The Group has applied the amendments to the disclosure of accounting policies (K-IFRS 1001 'Presentation of Financial Statements') starting from January 1, 2023. These amendments do not change the accounting policies themselves but affect the accounting policy information disclosed in these financial statements.

These amendments require the disclosure of 'material' accounting policies instead of 'significant' accounting policies. Additionally, by providing guidance on applying materiality to accounting policy disclosures, they aim to provide entity-specific accounting policy information that is essential for users of the financial statements to understand.

The Group's management has reviewed the accounting policies and updated the material accounting policies (2022: significant accounting policies) information disclosed in Note 2 in accordance with these amendments.

2.3 Accounting Policies

2.3.1 Subsidiaries and Associates

The Group prepares its consolidated financial statements in accordance with K-IFRS 1110, "Consolidated Financial Statements."

(a) Subsidiaries

Subsidiaries are all entities that are controlled by the parent company. Control is determined when the consolidated company is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date the Group obtains control and are excluded from the consolidated financial statements from the date control is lost.

(b) Associates

Associates are entities over which the consolidated company has significant influence. Investments in associates are initially recognized at acquisition cost and accounted for using the equity method. Unrealized gains arising from transactions between the consolidated company and its associates are eliminated to the extent of the consolidated Group's interest in the associates. Additionally, if there is objective evidence of impairment for an investment in an associate, the difference between the recoverable amount of the investment and its carrying amount is recognized as an impairment loss.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.3.2 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equity instruments held at fair value through other comprehensive income are recognized in other comprehensive income.

2.3.3 Financial Assets

(a) Classification

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

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

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

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

Translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equity instruments held at fair value through other comprehensive income are recognized in other comprehensive income.

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

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

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

(b) Measurement

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

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

i. Debt Instruments

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

Amortized cost:

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the financial asset is derecognized or impaired. Interest income from financial assets is included in 'finance income' using the effective interest rate method.

Fair value through other comprehensive income:

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the financial assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Changes in the carrying amount are recognized in other comprehensive income, except changes in the carrying amount as a result of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from to profit or loss. Interest income from these financial assets calculated using the effective interest method is included in 'finance income'. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

Fair value through profit or loss:

Financial assets that do not meet the criteria for being measured at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. Any gain or loss on a debt investment that is measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and is included in 'finance income or costs' in the period in which it is incurred.

ii. Equity Instruments

The Group subsequently measures all investments in equity instruments at fair value. The Group may designate equity instruments held for long-term investment or strategic purposes as at fair value through other comprehensive income. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. The cumulative gain or loss in other comprehensive income is not reclassified to profit or loss on disposal of the equity investments, instead, it is reclassified to retained earnings. Dividend income from such equity instruments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

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

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

(c) Impairment

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

(d) Recognition and Derecognition

All regular way purchases and sales of financial assets are recognized and derecognized on a trade date basis. The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial assets and substantial all the risks and rewards of ownership of the asset to another entity.

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 an associated financial liability for the consideration received. The Group classifies such associated financial liabilities as 'borrowings' in the statement of financial position.

(e) Offsetting of financial instruments

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

2.3.4 Derivative Instruments

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

The Group enters into a variety of derivative financial instruments to manage its exposure risks, including the following hedging instruments:

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

The Group documents the economic relationship between the hedging instrument and the hedged item at the inception of the hedge, including whether the hedging instrument is expected to offset changes in cash flows of the hedged item

A derivative that is designated as a hedging instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realized or settled within 12 months. A derivative that is designated as a hedging instrument is presented as a current asset or a current liability if the remaining maturity of the instrument is less than 12 months.

Other derivative liabilities that are not designated as hedging instruments are presented as current or non-current derivative liabilities based on the date of settlement, and other derivative assets that are not designated as hedging instruments are presented as current or non-current derivative assets based on their expected maturity date.

2. Material Accounting Policies, Continued

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve.

The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

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

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

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

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

When the hedging instrument expires, is sold, terminated, or exercised, or when the hedging relationship no longer meets the qualifying criteria, the accumulated amount in the cash flow hedge reserve remains in the cash flow hedge reserve until the forecast transaction occurs and results in the recognition of a non-financial asset such as inventory. If the forecast transaction is no longer expected to occur, the accumulated amount in the cash flow hedge reserve and any deferred costs related to the hedge are immediately reclassified to profit or loss.

2.3.5 Inventories

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

2.3.6 Non-current Assets (and Disposal groups) Held for Sale

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use, and a sale is considered highly probable. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.3.7 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less any accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives as follows:

Description	Useful lives
Buildings	10 ~ 60 years
Structures	5 ~ 20 years
Machinery and equipment	5 ~ 20 years
Vehicles	5 ~ 10 years
Tools and furniture	3 ~ 10 years
Finance lease assets	5 years

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.

2.2.8 Government Grants

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

2.3.9 Intangible Assets

(a) Goodwill

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

(b) License and industrial property rights

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

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

(c) Other intangible assets

Other intangible assets include development costs and software, and are amortized on a straight-line basis over their estimated useful lives when they are available for use or sale. However, membership rights that have indefinite useful lives are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with finite useful lives using the straight-line method over the following periods:

Description	Useful lives
License and franchise	5 ~ 12 years
Industrial property rights	3 ~ 10 years
Other intangible assets	5 ~ 20 years

(d) Research and Development

Research expenses are recognized as an expense in the period in which it is incurred. Development costs that are directly attributable to identifiable and unique development project controlled by the Group are recognized as intangible assets when 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.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

2.3.10 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at cost. Subsequent to initial recognition, investment property is measured at cost less any accumulated depreciation and accumulated impairment losses. The Group depreciates investment properties, except for land, using the straight-line method over their useful lives of 10 – 60 years.

2.3.11 Impairment of Non-financial Assets

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

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.3.12 Financial Liabilities

(a) Classification and measurement

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the near term. Derivative instruments that are not designated and effective hedging instruments, and embedded derivatives that have been separated from their financial instrument hosts are also classified as held for trading.

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

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

(b) Derecognition

The Group derecognizes financial liabilities when the Group's obligations are discharged, cancelled, or have expired, or when the terms of an existing financial liability have been substantially modified. The difference between the carrying amount of the financial liability derecognized or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.3.13 Financial Guarantee Contracts

The Group recognizes financial guarantee contracts as 'other financial liabilities' in the statement of financial position. Financial guarantee contracts are measured initially at their fair values, and are measured subsequently at the higher of:

- The amount of the loss allowance determined in accordance with the expected credit loss model of financial instruments, and
- The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with K-IFRS 1115 Revenue from Contracts with Customers.

2.3.14 Provisions

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

Provision for incentive bonuses is recognized as provisions for the estimated future payment, which is paid to employees based on their performance for the period. Refund liabilities are estimated for the future amount of sales return and recognized based on the past experience rate. The portion of government grants for which the Group has repayment obligations for is recognized as 'government grants repayable'.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.3.15 Employee Benefits

(a) Post-employment benefits

The Groups' pension plans are classified as defined contribution plans and defined benefit plans.

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

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

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

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur in other comprehensive income.

Past service cost is recognized in profit or loss when the plan amendment or curtailment occurs, and gains or losses on settlement of a defined benefit plan are recognized when the settlement occurs.

(b) Share-based payments

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

(c) Other long-term employee benefits

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

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.3.16 Revenue Recognition

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

(1) Identification of performance obligations

The Group provides pharmaceutical products, health functional food, and reagent for medical devices to a customer.

(2) Variable consideration

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

(3) Allocating the transaction price

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

(4) Returns

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

(5) Performance obligation satisfied over time

The Group provides contractual clinical trial services to clients. The Company itself does not have alternative uses for any assets created during such services, and recognizes revenue for such completed contractual services for which the Company has an enforceable right to demand payment.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.3.17 Lease

(1) The Company as lessee

If a contract contains multiple lease components or both lease and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices at the inception date or the effective date of the modification. However, for real estate leases, the Group applies a practical expedient that does not separate non-lease components from lease components, treating them as a single lease component for accounting purposes.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date. The Group determines the incremental borrowing rate by adjusting the interest rates obtained from various external financial sources to reflect the terms of the lease and the characteristics of the leased asset.

Short-term leases and small underlying assets

The Group has elected a practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, including office equipment, with a lease term of 12 months or less. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(2) The Company as lessor

As a lessor, the Group determines at the inception date whether the lease is a finance lease or an operating lease. The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'Other Income.'

2.3.18 Unimplemented revised standards

The major new and revised standards and interpretations that have been enacted and announced but whose effective date falls after January 1, 2023, are as follows. The Group did not early adopt the following new and revised standards and interpretations when preparing financial statements.

- K-IFRS 1001 "Statement of Financial Position Presentation" - Classification of Current/Non-current Liabilities

It is deemed that the impact on the company's financial statements is not significant when applying the following standards and interpretations.

- Sale and Leaseback Transactions (K-IFRS 1116 'Leases')

- Lack of Exchangeability (K-IFRS 1021 '(The Effects of Changes in Foreign Exchange Rates)')

2.3.19 Operating segments

The Group does not disclose segment information as it has a single reportable segment in accordance with Korean International Financial Reporting Standards (K-IFRS) 1108 (Operating Segments) (see Note 40).

2.3.20 Approval of Issuance of the Financial Statements

The Consolidated financial statements are expected to be approved for issue by the Board of Directors on March 13, 2023, and will be reported at the Annual Shareholder's Meeting.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

3. Critical Accounting Estimates and Assumptions

Under the Korean International Financial Reporting Standards (K-IFRS), the preparation of financial statements requires the use of estimates and assumptions based on management's best judgment. These estimates and assumptions affect the reported amounts of assets, liabilities, income, and expenses as of the reporting date. If the actual environment differs from the conditions that were assumed at the reporting date, the actual results may differ from those estimates.

The basic assumptions about estimates and estimations are continuously under review, and changes in accounting estimates are recognized during the period in which the estimates have been altered and for the future impacts.

Information on key management judgments related to the application of accounting policies that significantly impact the amounts recognized in the financial statements is included in the following notes.

- Note 17: Scope of Subsidiaries - Whether control is practically held
- Note 17: Investments in Associates - Whether the Group exercises significant influence
- Note 29: Lease Term - Whether the likelihood of exercising the extension option is quite certain

Information regarding significant uncertainties related to assumptions and estimates where important adjustments may occur within the next reporting period is included in the following notes:

- Note 11: Inventory asset valuation allowance - Key assumptions for measuring net realizable value
- Note 14: Intangible Assets (Goodwill) - Key Assumptions for Estimating Recoverable Amounts
- Note 17: Investments in associates and joint ventures - Key assumptions for recoverable amount estimation
- Note 30: Employee Benefit Expenses - Key actuarial assumptions

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

4. Financial Risk Management

4.1 Financial Risk Factors

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

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

4.1.1 Market risk

(a) Foreign exchange risk

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

The Group's financial instruments exposed to foreign exchange risk as of December 31, 2023 and 2022, are as follows

(In thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Cash and cash equivalents:		
USD	164,666	5,771,973
JPY	4,563	-
Trade receivables:		
USD	734,933	1,928,039
EUR	35,665	-
Non-trade receivables:		
USD	-	27,184
Trade payables:		
USD	6,934,106	6,044,439
EUR	3,678,298	717,372
JPY	389,551	108,663
Non-trade payables:		
USD	546,555	1,068,608
EUR	615,937	-
JPY	10,678	2,383
Short-term borrowings in foreign currency:		
USD	12,894,000	25,346,000
Long-term borrowings in foreign currency:		
USD	25,788,000	38,019,000
Derivative assets (cash flow hedge):		
USD	126,382	1,637,255
Derivative liabilities (cash flow hedge):		
USD	3,500,651	4,220,529

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

4. Financial Risk Management, Continued

The table below summarizes the impact of increases/decreases of foreign exchange rates on the Group's profit before tax for the year. The analysis is based on the assumption that foreign exchange rates have increased/decreased by 10 percent with all other variables held constant.

(In thousands of Korean won)

Classification	December 31, 2023		December 31, 2022	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	(4,863,733)	4,863,733	(6,605,085)	6,275,085
EUR	(425,857)	425,857	(71,737)	71,737
JPY	(39,567)	39,567	(11,105)	11,105

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

(b) Interest rate risk

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

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

The carrying amounts of borrowings exposed to interest rate risk as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Borrowings	177,708,670	155,364,880

The table below summarizes the impact of increases/decreases of interest rate on the Group's profit before tax for the year. The analysis is based on the assumption that interest rate has increased/decreased by 1 percent with all other variables held constant.

(In thousands of Korean won)

Account	2023		2022	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Interest expense	1,777,087	(1,777,087)	1,553,649	(1,553,649)

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

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

4. Financial Risk Management, Continued

4.1.2 Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated after taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash, notes or using major credit cards.

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

The maximum exposure to credit risk as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Cash and cash equivalents	16,555,041	36,845,842
Trade and other receivables	167,399,057	172,465,452
Financial assets carried at amortized cost	3,500,000	3,000,000
Derivative financial instruments	126,382	1,637,255
Long-term other financial assets	4,000	4,000
Long-term trade and other receivables	4,747,186	1,219,198
Financial assets at fair value through profit or loss	37,118,015	46,828,256
Financial assets at fair value through other comprehensive income	10,905	10,905

4.1.3 Liquidity Risk

Cash flow forecasting is performed by the Group's treasury. The Group's treasury 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.

The Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The Group's treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the end of the reporting period, the Group held ₩ 16,555 million (2022: ₩ 36,846 million) in cash and cash equivalents that are expected to readily generate cash inflows for managing liquidity risk.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

4. Financial Risk Management, Continued

The analyses of the Group's liquidity risk as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	Within 1 year	Over 1 year and Within 5 years	Over 5 years	Total
December 31, 2023				
Trade and other payables	108,703,983	7,024,648	-	115,728,631
Borrowings	134,240,430	69,252,189	37,219,057	240,711,676
Corporate bonds	51,821,640	25,242,455	-	77,064,095
Other financial liabilities	764,719	1,007,180	-	1,771,899
Total	295,530,772	102,526,472	37,219,057	435,276,301
December 31, 2022				
Trade and other payables	138,602,335	7,274,309	-	145,876,644
Borrowings	85,504,138	101,582,786	44,765,868	231,852,792
Corporate bonds	36,618,088	50,596,500	-	87,214,588
Other financial liabilities	415,360	855,244	-	1,270,604
Total	261,139,921	160,308,839	44,765,868	466,214,628

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

4.2 Capital Management

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

Consistent with other companies in the industry, the 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 less cash and cash equivalents. Total capital is 'equity' as shown in the statements of financial position plus net debt.

The gearing ratios as at December 31, 2023 and 2022, were as follows :

(In thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Total borrowings	224,408,670	297,042,011
Less: cash and cash equivalents	(16,555,041)	(36,845,842)
Net debt	207,853,629	260,196,169
Total equity	340,633,133	381,856,043
Total capital	548,486,762	642,052,212
Gearing ratio	37.90%	40.53%

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

5. Fair Value Estimation

5.1. Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	16,555,041	16,555,041	36,845,842	36,845,842
Trade and other receivables	167,399,057	167,399,057	172,465,452	172,465,452
Short-term other financial assets	3,500,000	3,500,000	3,000,000	3,000,000
Long-term other financial assets	4,000	4,000	4,000	4,000
Derivative financial assets (cash flow hedge)	126,382	126,382	1,637,255	1,637,255
Long-term trade and other receivables	4,747,186	4,747,186	1,219,198	1,219,198
Financial assets at fair value through profit or loss	37,118,015	37,118,015	46,828,256	46,828,256
Financial assets at fair value through other comprehensive income	10,905	10,905	10,905	10,905
Total	229,460,586	229,460,586	262,010,908	262,010,908
Financial liabilities:				
Trade and other payables	108,703,983	108,703,983	138,602,335	138,602,335
Short-term borrowings	124,638,240	124,638,240	77,469,210	77,469,210
Short-term corporate bonds	49,881,013	49,881,013	34,882,963	34,882,963
Long-term trade and other payables	7,024,648	7,024,648	7,274,309	7,274,309
Lease liabilities	1,711,303	1,711,303	1,245,824	1,245,824
Long-term derivative financial liabilities (cash flow hedge)	3,500,651	3,500,651	4,220,529	4,220,529
Long-term borrowings	99,770,430	99,770,430	135,045,670	135,045,670
Corporate bonds	24,009,845	24,009,845	49,644,168	49,644,168
Total	419,240,113	419,240,113	448,385,008	448,385,008

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

5. Fair Value Estimation, Continued

5.2. Fair Value Hierarchy

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

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

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	December 31, 2023			
	Level 1	Level 2	Level 3 (*)	Total
Recurring fair value measurements				
Assets:				
Financial assets at fair value through profit or loss	5,579,650	-	5,513,384	11,093,034
Derivative financial assets	-	126,382	-	126,382
Liabilities:				
Long-term derivative financial liabilities	-	3,500,651	-	3,500,651

(*) The amounts measured at cost and excluded from the fair value hierarchy disclosures are KRW 26,024,981 thousand at the end of the current period and KRW 18,534,481 thousand at the end of the prior period.

(In thousands of Korean won)

Classification	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets:				
Financial assets at fair value through profit or loss	18,378,126	-	9,915,649	28,293,775
Derivative financial assets	-	1,637,255	-	1,637,255
Liabilities:				
Long-term derivative financial liabilities	-	4,220,529	-	4,220,529

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

5. Fair Value Estimation, Continued

5.3. Valuation Technique and the Inputs

Valuation techniques and inputs used in Level 2 and Level 3 fair value measurements are as follows :

(In thousands of Korean won)

Account	December 31, 2023				
	Fair value	Level	Valuation Techniques	Input	Range of inputs (weighted average)
Financial assets at fair value through profit or loss:					
Debt instruments	5,513,384	3	Net asset valuation method	Return Rate :	-
Derivative financial assets:					
Currency swap	126,382	2	Present value discount method	-	-
Long-term derivative financial liabilities:					
Currency swap	3,500,651	2	Present value discount method	-	-

(In thousands of Korean won)

Account	December 31, 2022				
	Fair value	Level	Valuation Techniques	Input	Range of inputs (weighted average)
Financial assets at fair value through profit or loss:					
Investment convertible notes	3,999,000	3	Binomial Model	Discount rate:	3.8%~16.77%
				Volatility:	
				Price :	54.78%
				Volatility:	
Debt instruments	5,916,649	3	Net asset valuation method	Return Rate :	-
Derivative financial assets:					
Currency swap	1,637,255	2	Present value discount method	-	-
Long-term derivative financial liabilities:					
Currency swap	4,220,529	2	Present value discount method	-	-

HANDOK INC

Notes to the Consolidated Financial Statements, Continued For the years ended December 31, 2023 and 2022

5. Fair Value Estimation, Continued

5.4. Valuation Processes for Fair Value Measurements Categorized as Level 3

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

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

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

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

(In thousands of Korean won)

Account	2023		2022	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets at fair value through profit or loss:				
Investment convertible notes	-	-	23,141	(18,995)

HANDOK INC

Notes to the Consolidated Financial Statements, Continued For the years ended December 31, 2023 and 2022

6. Financial Instruments by Category

Categorizations of financial assets as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Financial assets measured at amortized cost :		
Cash and cash equivalents	16,555,041	36,845,842
Trade and other receivables	167,399,057	172,465,452
Long-term trade and other receivables	4,747,186	1,219,198
Short-term other financial assets	3,500,000	3,000,000
Long-term other financial assets	4,000	4,000
Financial assets at fair value :		
Financial assets at fair value through profit or loss	37,118,015	46,828,256
Financial assets at fair value through other comprehensive income	10,905	10,905
Derivative financial assets	126,382	1,637,255
Total	229,460,586	262,010,908

Categorizations of financial liabilities as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Financial liabilities measured at amortized cost :		
Trade and other payables	108,703,983	138,602,335
Short-term borrowings	124,638,240	77,469,210
Short-term corporate bonds	49,881,013	34,882,963
Long-term trade and other payables	7,024,648	7,274,309
Lease liabilities	1,711,303	1,245,824
Long-term borrowings	99,770,430	135,045,670
Corporate bonds	24,009,845	49,644,168
Financial liabilities at fair value :		
Derivative financial liabilities (cash flow hedge) (*)	3,500,651	4,220,529
Total	419,240,113	448,385,008

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

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

6. Financial Instruments by Category, Continued

Gains and losses on financial instruments by category for the years ended December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	2023	2022
Financial assets measured at amortized cost :		
Interest income	1,500,198	382,070
Gains on foreign currency translation	286	422
Losses on foreign currency translation	(18,551)	(279,219)
Financial assets at fair value through profit or loss :		
Gains (losses) on valuation of financial assets at fair value through profit or loss	(15,216,471)	(937,999)
Gains from sale of derivative financial instruments	49,696	-
Interest income	69,814	80,000
Financial assets at fair value through other comprehensive income :		
Distribution income from investment funds	97	97
Financial liabilities measured at amortized cost :		
Interest expense	(13,781,043)	(8,228,484)
Gains on foreign currency translation	246,300	3,837,723
Losses on foreign currency translation	(718,614)	(1,641,831)
Financial liabilities at fair value :		
Gains (losses) on valuation of derivative financial instruments recognized in profit or loss (*)	(592,881)	(2,114,795)
Cash flow hedge recognized in other comprehensive income (*)	(198,113)	(448,498)

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

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

7. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	Company	December 31, 2023	December 31, 2022
Beneficiary certificates	MaC Fund, L.P.	464,707	464,707
Beneficiary certificates	RMGP Bio-Pharma Investment Fund, L.P.	5,513,384	5,916,648
Ordinary shares	BiomX Ltd.	144,196	94,500
Ordinary shares	SCM Life Science, Co.	639,791	2,038,144
Ordinary shares	Adicet Bio, Inc.	707,827	3,290,746
Convertible notes (*1)	NB Postech, Inc.	-	3,999,000
Beneficiary certificates	Interinvest Open Innovation Private Equity Fund	12,750,000	9,750,000
Ordinary shares	WELT Corp.	3,602,047	3,000,842
Ordinary shares	Compass Therapeutics, Inc	4,087,836	12,954,737
Ordinary shares	Spark Biopharma, Inc.	3,000,024	3,000,024
Convertible preferred shares	ImmPACT Bio USA Inc.	1,319,018	1,319,018
Ordinary shares (*2)	Aum Biosciences Pte. Ltd.	987,225	-
Ordinary shares (*3)	Dr. Diary Co., Ltd	484,155	-
Convertible preferred shares (*3)	Dr. Diary Co., Ltd	1,520,833	-
Ordinary shares	Mitos.Therapeutics, Inc	499,890	499,890
Ordinary shares	BNJ Biopharma, Inc	500,000	500,000
Ordinary shares (*3)	Supernova bio Co. Ltd.	297,000	-
Convertible preferred shares	Igenetech Inc.	300,002	-
Convertible preferred shares (*3)	JL Biotherapeutics, Inc.	300,080	-
Total		37,118,015	46,828,256

(*1) During the current term, all convertible bonds of NB Postech, Inc were converted into ordinary shares and classified as related corporate investment shares, and related gains and losses are included in financial gains and losses.

(*2) During the current term, the ordinary shares of Aum Biosciences Pte. Ltd was acquired in return for the performance of performance obligations under the technology transfer contract concluded in May 2021 and was classified as a profit and loss-fair value financial asset.

(*3) During the current term, the Group acquired Dr. Diary Co., Ltd ordinary shares and redeemable convertible preferred stock and classified them as financial assets at fair value through profit or loss.

Changes in financial assets at fair value through profit or loss during the reporting period are as follows :

(in thousands of Korean won)

Classification	2023	2022
Beginning balance	46,828,256	40,930,657
Acquisition	8,039,055	7,347,267
Disposal	-	(511,669)
Reclassification (*)	(1,538,147)	-
Valuation	(16,211,149)	(937,999)
Ending balance	37,118,015	46,828,256

(*) During the current term, the convertible bonds of NB Postech, Inc. of related companies were converted into ordinary shares and replaced by related company stocks.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

8. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Non-current		
Unlisted shares :		
The Korea Economic Daily Group Limited	10,760	10,760
Korea Management Association	145	145
Total	10,905	10,905

Upon disposal of the above equity instruments, the accumulated other comprehensive income is not reclassified to profit or loss and is instead reclassified to retained earnings

Details of financial assets at fair value through other comprehensive income as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Group	December 31, 2023			December 31, 2022
	Shares owned	Acquisition cost	Carrying value	Carrying value
The Korea Economic Daily Group Limited	1,937Shares	22,940	10,760	10,760
Korea Management Association	100 Shares	145	145	145
Total	2,037 Shares	23,085	10,905	10,905

Changes in financial assets at fair value through other comprehensive income for the years ended December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	2023	2022
Beginning balance	10,905	20,172
Write-off (*)	-	(9,267)
Ending balance	10,905	10,905

(*) The accumulated other comprehensive income (₩ 7,024,000) related to the write-off was reclassified to retained earnings.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

9. Trade and Other Receivables

Trade and other receivables as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Trade receivables	139,668,825	165,297,535
Provision for impairment	(95,409)	(156,310)
Trade receivables, net	139,573,416	165,141,225
Other receivables	27,825,642	7,324,226
Subtotal	167,399,058	172,465,451
Long-term other receivables	4,747,186	1,219,198
Total	172,146,244	173,684,649

The carrying amounts of other receivables as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Other receivables:		
Non-trade receivables	26,755,219	6,136,150
Accrued income	43,216	43,876
Short-term loans	815,000	1,144,200
Guarantee deposits	212,207	-
Subtotal	27,825,642	7,324,226
Long-term other receivables:		
Long-term loans	4,176,500	426,500
Guarantee deposits	570,686	792,698
Subtotal	4,747,186	1,219,198
Total	32,572,828	8,543,424

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

9. Trade and Other Receivables, Continued

The aging analysis of trade and other receivables as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Receivables not past due	169,190,000	172,164,265
Subtotal	169,190,000	172,164,265
Past due but not impaired (*1)		
Up to 3 months	2,892,447	1,326,922
Over 3 months	126,186	277,879
Subtotal	3,018,633	1,604,801
Impaired receivables (*2)		
Receivables not past due	-	-
Up to 3 months	-	-
Over 3 months	33,020	71,893
Subtotal	33,020	71,893
Total	172,241,653	173,840,959

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

(*2) Provisions for impaired receivables amount to ₩ 33 million as at December 31, 2023 (2022: ₩ 72 million).

Movements on the provision for impairment of trade receivables for the years ended December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	2023	2022
Beginning balance	156,310	237,865
Increase in provision for impairment recognized in profit or loss during the year	(5,520)	66,739
Receivables written off during the year as uncollectible	(55,381)	(148,294)
Ending balance	95,409	156,310

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

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

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

10. Other Current Assets and Non-current Assets

Other current assets and non-current assets as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Other current assets:		
Advance payments	11,029,325	43,967,485
Prepaid expenses	1,916,083	3,418,485
VAT payments	241,190	359,136
Prepaid income taxes	24,770	752
Right to the returned goods	33,455	14,521
Subtotal	13,244,823	47,760,379
Other non-current assets:		
Long-term advance payments	1,634,889	1,201,246
Long-term prepaid expenses	2,136	30,000
Right to the returned goods	21,660	6,557
Net defined benefit assets (see Note 22)	9,655,768	14,103,745
Right-of-use assets (see Note 16)	1,678,361	1,226,122
Subtotal	12,992,814	16,567,670
Total	26,237,637	64,328,049

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

11. Inventory

Inventories as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023			December 31, 2022		
	Total	Provision for Valuation	Net	Total	Provision for Valuation	Net
Merchandise	42,848,338	(4,592,315)	38,256,023	45,870,359	(996,050)	44,874,309
Finished goods	27,699,768	(320,098)	27,379,670	24,031,006	(172,036)	23,858,970
Work-in-process	2,709,464	-	2,709,464	2,451,470	-	2,451,470
Raw materials	20,539,247	-	20,539,247	17,645,655	-	17,645,655
Packing materials	2,024,447	-	2,024,447	1,706,628	-	1,706,628
Inventories in transit	3,555,738	-	3,555,738	1,926,028	-	1,926,028
Total	99,377,002	(4,912,413)	94,464,589	93,631,146	(1,168,086)	92,463,060

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 333,630 million (2022: ₩ 345,305 million) for the year ended December 31, 2023.

The Group recognized losses on valuation of inventories based on net realizable value amounting to ₩ 155 million (2022: reversal of losses amounting to ₩ 1,546 million) and losses on other valuation amounting to ₩ 3,589 million (2022: reversal of losses amounting ₩ 1,422 million) for the year ended December 31, 2023.

12. Other Financial Assets

Short-term other financial assets and long-term other financial assets as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Short-term other financial assets:		
Financial assets at amortized cost	3,500,000	3,000,000
Derivative financial assets (*)	126,382	1,637,255
Total	3,626,382	4,637,255
Long-term other financial assets:		
Guarantee deposits for checking accounts	4,000	4,000
Total	4,000	4,000

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

HANDOK INC

Notes to the Consolidated Financial Statements, Continued For the years ended December 31, 2023 and 2022

13. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Account	2023					
	Land	Buildings and Structures	Machinery	Vehicles and tools	Construction in progress	Total
Opening net carrying amount	64,978,491	103,850,255	27,436,713	15,770,404	8,167,545	220,203,408
Acquisition	1,870,874	209,451	1,503,350	5,401,103	9,430,469	18,415,247
Reclassification (*)	-	-	2,114,967	-	(2,850,793)	(735,826)
Net increase (decrease) by exchange fluctuations	-	(702)	(633)	(823)	-	(2,158)
Disposal	-	-	(66)	(117,326)	(27,000)	(144,392)
Depreciation	-	(3,441,525)	(5,337,065)	(6,162,576)	-	(14,941,166)
Closing net carrying amount	66,849,365	100,617,479	25,717,266	14,890,782	14,720,221	222,795,113
December 31, 2023 :						
Acquisition cost	66,849,365	149,088,174	92,934,797	51,048,802	14,720,221	374,641,359
Accumulated depreciation	-	(48,470,695)	(67,217,531)	(36,158,020)	-	(151,846,246)
Net carrying amount	66,849,365	100,617,479	25,717,266	14,890,782	14,720,221	222,795,113

(*) Of the above amount ₩ 736 million was reclassified to intangible assets.

(in thousands of Korean won)

Account	2022						
	Land	Buildings and Structures	Machinery	Vehicles and tools	Financial lease assets	Construction in progress	Total
Opening net carrying amount	60,915,619	101,777,893	25,399,446	14,099,397	4	7,050,976	209,243,335
Acquisition	55,118	2,722,425	2,008,766	6,351,748	-	13,539,173	24,677,230
Reclassification (*)	4,007,754	2,693,284	5,143,105	1,370,385	-	(11,119,874)	2,094,654
Net increase (decrease) by exchange fluctuations	-	(1,934)	(552)	(4,267)	-	-	(6,753)
Disposal	-	-	(15,762)	(92,920)	(4)	(1,302,730)	(1,411,416)
Depreciation	-	(3,341,413)	(5,098,290)	(5,953,939)	-	-	(14,393,642)
Closing net carrying amount	64,978,491	103,850,255	27,436,713	15,770,404	-	8,167,545	220,203,408
December 31, 2022 :							
Acquisition cost	64,978,491	148,890,450	91,055,988	50,930,474	-	8,167,545	364,022,948
Government grants	-	(45,016,899)	(63,619,275)	(35,160,070)	-	-	(143,796,244)
Accumulate depreciation	-	(23,296)	-	-	-	-	(23,296)
Net carrying amount	64,978,491	103,850,255	27,436,713	15,770,404	-	8,167,545	220,203,408

(*) Of the above amount ₩ 2,468 million was reclassified to intangible assets and ₩ 4,563 million was reclassified by property, plant and equipment from investment properties due to the change in rental ratio.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

13. Property, Plant and Equipment, Continued

Details of depreciation expense for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023	2022
Cost of Sales	7,201,783	7,288,012
Administrative and selling expense	5,767,184	5,740,450
Research and development expense	1,972,199	1,365,180
Total	14,941,166	14,393,642

Details of property, plant and equipment provided as collaterals as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

December 31, 2023					
Collateral	Carrying amount	Secured amount	Related account	Related amount	Secured party
Land, buildings, and investment property (Head office building)	82,628,224	36,000,000	Borrowings (see Note 20)	112,726,670	Korea Development Bank (*1)
		4,800,000	Security deposits (see Note 18)	4,000,000	Industiral Bank of Korea
		8,500,000	Sales contract	-	Siemens Co., Ltd.
		1,000,000	Sales contract	-	Beckman Coulter Korea Ltd.
		6,000,000	Sales contract	-	QIAGEN Korea., Ltd.
		4,700,000	Sales contract	-	Pfizer Korea., Ltd.
Land, buildings (Plant)	54,531,633	36,000,000	Borrowings (see Note 20)	112,726,670	Korea Development Bank (*1)
Land, buildings (Magok)	71,994,102	72,000,000	Borrowings (see Note 20)	112,726,670	Korea Development Bank (*1)

(*1) The Group provides the head office building, plant in Eumseong, land and buildings in Magok as collateral (₩ 144,000 million) for borrowings amounting to ₩ 112,727 million from the Korea Development Bank. (See Note 20, 38)

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

13. Property, Plant and Equipment, Continued

(in thousands of Korean won)

December 31, 2022					
Collateral	Carrying amount	Secured amount	Related account	Related amount	Secured party
Land, buildings, and investment property (Head office building)	82,963,906	36,000,000	Borrowings (see Note 20)	98,149,880	Korea Development Bank (*1)
		4,800,000	Security deposits (see Note 18)	4,000,000	Industiral Bank of Korea
		8,500,000	Sales contract	-	Siemens Co., Ltd.
		1,000,000	Sales contract	-	Beckman Coulter Korea Ltd.
		6,000,000	Sales contract	-	QIAGEN Korea., Ltd.
		4,700,000	Sales contract	-	Pfizer Korea., Ltd.
Land, buildings (Plant)	56,466,331	36,000,000	Borrowings (see Note 20)	98,149,880	Korea Development Bank (*1)
Land, buildings (Magok)	71,170,299	72,000,000	Borrowings (see Note 20)	98,149,880	Korea Development Bank (*1)

(*1) The Group provides the head office building, plant in Eumseong, land and buildings in Magok as collateral (₩ 144,000 million) for borrowings amounting to ₩ 98,150 million from the Korea Development Bank.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2023 and 2022, are as follows

(in thousands of Korean won)

Account	2023				
	Goodwill	License	Industrial property rights	Other intangible assets	total
Opening net carrying amount	44,749,118	19,836,850	1,146,655	17,005,894	82,738,517
Acquisition	-	-	50,236	6,917,747	6,967,983
Reclassification	-	-	29,975	705,851	735,826
Net increase (decrease) by exchange fluctuations	(280,450)	(683,925)	-	(343)	(964,718)
Disposal	-	-	(15)	(3,000)	(3,015)
Depreciation	-	(4,574,001)	(891,100)	(1,082,500)	(6,547,601)
Closing net carrying amount	44,468,668	14,578,924	335,751	23,543,649	82,926,992
December 31, 2023 :					
Acquisition cost	49,120,925	68,671,999	9,138,822	38,042,683	164,974,429
Accumulated depreciation	(4,652,257)	(54,093,075)	(8,802,838)	(14,499,034)	(82,047,204)
Government grants	-	-	(233)	-	(233)
Net carrying amount	44,468,668	14,578,924	335,751	23,543,649	82,926,992

(in thousands of Korean won)

Account	2022				
	Goodwill	License	Industrial property rights	Other intangible assets	total
Opening net carrying amount	45,282,471	25,830,991	1,967,547	8,010,627	81,091,636
Acquisition	-	-	52,530	7,481,731	7,534,261
Reclassification	-	-	41,352	2,426,666	2,468,018
Net increase (decrease) by exchange fluctuations	(533,353)	(1,300,673)	-	(880)	(1,834,906)
Disposal	-	-	(333)	(144,476)	(144,809)
Depreciation	-	(4,693,468)	(914,441)	(767,774)	(6,375,683)
Closing net carrying amount	44,749,118	19,836,850	1,146,655	17,005,894	82,738,517
December 31, 2022 :					
Acquisition cost	50,489,218	69,355,924	9,074,964	30,623,999	159,544,105
Accumulated depreciation	(5,740,100)	(49,519,074)	(7,926,676)	(13,618,105)	(76,803,955)
Government grants	-	-	(1,633)	-	(1,633)
Net carrying amount	44,749,118	19,836,850	1,146,655	17,005,894	82,738,517

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

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

14. Intangible Assets, Continued

Details of amortization expense of intangible assets for the years ended December 31, 2023 and 2022, are as follows

(in thousands of Korean won)

Classification	2023	2022
Cost of Sales	281,641	282,511
Administrative and selling expense	3,906,609	3,750,632
Research and development expense	2,359,351	2,342,540
Total	6,547,601	6,375,683

Carrying amount and remaining amortization period of the major project as at December 31, 2023 are as follows

(in thousands of Korean won)

Related account	Project name	Carrying amount	Remaining amortization period
License	Technology transfer contract of Long Acting Human growth hormone (*)	9,433,173	4.5 years

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

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

Goodwill was allocated to each of the Group's cash-generating units(CGU). The recoverable amount of cash-generating units are determined based on value-in-use calculations and the key assumptions used in the calculations are as follows.

Key assumptions	Pharmaceutical business department of Pacific Pharmaceuticals Co., Ltd.	Theravalues Corporation
Profit margin ratio	59.53% ~ 61.53%	45.19% ~ 45.21%
Sales growth rate (*1)	13.17% ~ 14.18%	9.99% ~ 43.42%
Terminal growth rate (*2)	0%	1%
After-tax discount rate	11.70%	9.6%

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

(*2) Terminal growth rate was assumed to be 0% for the Pharmaceutical business department of Pacific Pharmaceuticals Co., Ltd. and Theravalues Corporation applied 1% to reflect the characteristics of the industry in which the company is operating.

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

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

14. Intangible Assets, Continued

Details of ongoing development projects recognized as other intangible assets as at December 31, 2023, are as follows :

(in thousands of Korean won)

Related account	Phase	Project name	Research and development expense recognized as intangible assets			Research and development expense		Remaining amortization period
			Phase 3 clinical trials	Other	Total	Accumulated amortization	Carrying amount	
Other intangible assets	Indevelopment	SCM-AD (*1)	-	1,000,000	1,000,000	-	1,000,000	-
		Ketotop Russia (*2)	604,697	-	604,697	-	604,697	-
		TERA (*3)	4,617,680	-	4,617,680	-	4,617,680	-
		Reuben (*4)	7,520,632	-	7,520,632	-	7,520,632	-
		SBP-101 (*5)	-	1,000,000	1,000,000	-	1,000,000	-
		Dutasteride 0.2mg (*6)	-	301,524	301,524	-	301,524	-
	Subtotal	12,743,009	2,301,524	15,044,533	-	15,044,533	-	
	Completed development	Etc. (*7)	-	2,222,557	2,222,557	(2,222,455)	102	-
		Subtotal	-	2,222,557	2,222,557	(2,222,455)	102	-
	Total		12,743,009	4,524,081	17,267,090	(2,222,455)	15,044,635	-

(*1) A stem cell therapy for treatment of severe atopic dermatitis. Currently in joint development with SCM Life Sciences. The amount refers to upfront costs paid to SCM Life Sciences.

(*2) A treatment for joint pain. Currently undergoing phase 3 clinical trials in Russia. As the clinical trials are currently proceeding normally, it was determined that there is a high probability for successful completion of the development project.

(*3) A treatment for diabetes. Currently undergoing phase 3 clinical trials. As the clinical trials are currently proceeding normally, it was determined that there is a high probability for successful completion of the development project.

(*4) A treatment for hypertension. Currently undergoing phase 3 clinical trials. As the clinical trials are currently proceeding normally, it was determined that there is a high probability for successful completion of the development project.

(*5) An immuno-oncology candidate drug that regulates the immune microenvironment. Currently in joint development with Spark Biopharma, Inc. The amount refers to upfront costs paid to Spark Biopharma, Inc.

(*6) A treatment for alopecia. Including Handok, Inc., five companies are undergoing joint development. The amount refers to upfront costs, research and development expense paid to Addpharma, Inc.

(*7) Assets of completed development or completed amortization.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

15. Investment Properties

Changes in investment properties for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023		
	Land	Building	Total
Opening net carrying amount	42,698,328	5,895,706	48,594,034
Depreciation	-	(196,618)	(196,618)
Closing net carrying amount	42,698,328	5,699,088	48,397,416
December 31, 2023 :			
Acquisition cost	42,698,328	12,797,310	55,495,638
Accumulated depreciation	-	(7,098,222)	(7,098,222)
Net carrying amount	42,698,328	5,699,088	48,397,416

(in thousands of Korean won)

Classification	2022		
	Land	Building	Total
Opening net carrying amount	46,706,082	6,664,162	53,370,244
Reclassification (*)	(4,007,754)	(554,918)	(4,562,672)
Depreciation	-	(213,538)	(213,538)
Closing net carrying amount	42,698,328	5,895,706	48,594,034
December 31, 2022 :			
Acquisition cost	42,698,328	12,797,310	55,495,638
Accumulated depreciation	-	(6,901,604)	(6,901,604)
Net carrying amount	42,698,328	5,895,706	48,594,034

(*) The Group reclassified investment property to property, plant and equipment after taking into consideration the decrease in proportion of the property used for rentals in 2022.

Fair value of investment properties as at December 31, 2023 and 2022, are as follows

(in thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Land	101,108,400	101,108,400
Building	7,891,600	7,891,600
Total	109,000,000	109,000,000

The fair value of the Group's investment properties as at December 31, 2023 has been arrived at on the basis of a valuation carried out on November 30, 2022 by an independent third-party real estate appraiser, Mirae & Saehan Appraisal Co., Ltd., who has been determined to have the sufficient qualifications and experience to appraise real estate in the corresponding location.

Rent income and expenses from investment properties for the year ended December 31, 2023 are ₩ 4,114 million (2022: ₩ 4,009 million) and ₩ 1,957 million (2022: ₩ 1,933 million), respectively.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

16. Lease

The Group leases buildings and vehicles, where the lessor retains legal ownership of the right-of-use assets as collateral for the lease liability.

Details of right-of-use assets as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	December 31, 2023			December 31, 2022		
	Building	Vehicles	Total	Building	Vehicles	Total
Acquisition cost	502,516	2,421,874	2,924,390	527,911	1,692,468	2,220,379
Accumulated depreciation	(311,098)	(934,931)	(1,246,029)	(69,086)	(925,171)	(994,257)
Net carrying amount	191,418	1,486,943	1,678,361	458,825	767,297	1,226,122

Changes in the carrying amounts of right-of-use assets and lease liability for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023		2022	
	Right-of-use assets	Lease liability	Right-of-use assets	Lease liability
Opening net carrying amount	1,226,122	1,245,824	1,426,052	1,443,277
Increase	1,530,112	1,530,112	765,168	779,609
Decrease	(267,002)	(285,690)	(185,818)	(195,559)
Depreciation	(802,879)	-	(776,053)	-
Interest expense	-	40,749	-	22,986
Payment	-	(805,592)	-	(780,498)
Exchange fluctuations	(7,992)	(14,100)	(3,227)	(23,994)
Closing net carrying amount	1,678,361	1,711,303	1,226,122	1,245,821
Liquidity classification:				
Current lease liability	-	733,459	-	400,151
Long-term lease liability	-	977,844	-	845,670

Details of related expenses included in the statement of profits or loss for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023	2022
Short-term lease related expenses	35,334	42,335
Petty asset lease related expenses	39,926	50,310
Total cash outflows attributed to leases	805,592	775,850
Total	880,852	868,495

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

17. Investments in Associates and Joint ventures

Details of investments in associates and joint ventures as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Classification	Company	Location	Percentage of ownership (%)	Carrying value	
				December 31, 2023	December 31, 2022
Associates	Kalos Medical Inc. (*1)	Korea	49.96	3,882,241	6,948,458
Associates	Teva-Handok Pharma Co., Ltd (*2)	Korea	49.00	5,656,957	8,397,637
Associates	Genexine, Inc. (*3)	Korea	14.57	51,428,984	47,831,275
Associates	NB Postech, Inc. (*4)	Korea	34.61	3,672,951	3,363,007
Associates	Rezolute, Inc. (*3)	U.S.A	15.00	21,416,192	34,227,817
Total				86,057,325	100,768,194

(*1) The percentage of ownership is 49.96 percent, and the percentage of voting rights of the Company is 34.85 percent due to convertible preferred shares with voting rights.

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

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

(*4) The Company exercised its right to convert the convertible bonds of NB Postech, Inc. and incurred a valuation loss of ₩ 874 million in the conversion process.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

17. Investments in Associates and Joint ventures, Continued

The equity method valuation of investments in associates and joint ventures during the reporting period are as follows :
(In thousands of Korean won)

2023							
Company	Beginning balance	Acquisition	Equity method gains and losses	Equity method changes in equity	Changes in equity method retained earnings	Other (*2)	Ending balance
Kalos Medical Inc.	6,948,458	-	(3,057,113)	-	(9,103)	-	3,882,242
Teva-Handok Pharma Co., Ltd	8,397,637	-	(2,755,370)	-	14,690	-	5,656,957
Genexine, Inc.	47,831,275	12,814,019	(10,148,846)	6,161,886	(5,660,320)	430,969	51,428,983
NB Postech, Inc. (*1)	3,363,007	1,538,147	(1,358,591)	-	-	130,389	3,672,952
Rezolute, Inc.	34,227,817	-	(11,897,243)	712,555	-	(1,626,938)	21,416,191
Total	100,768,194	14,352,166	(29,217,163)	6,874,441	(5,654,733)	(1,065,580)	86,057,325

(*1) The acquisition amount of NB Postech is the amount of convertible bonds converted into shares of an associate during the year.

(*2) Other amounts consist of disposals and impairment recognition, differences resulting from changes in equity interests, etc.

(In thousands of Korean won)

2022							
Company	Beginning balance	Acquisition	Equity method gains and losses	Equity method changes in equity	Changes in equity method retained earnings	Other (*)	Ending balance
Kalos Medical Inc.	11,949,289	-	(5,006,835)	-	6,004	-	6,948,458
Teva-Handok Pharma Co., Ltd	7,484,585	-	750,828	-	162,224	-	8,397,637
Genexine, Inc.	84,942,361	-	(8,870,365)	(26,763,917)	(1,673,958)	197,154	47,831,275
NB Postech, Inc.	3,701,455	-	(338,448)	-	-	-	3,363,007
Rezolute, Inc.	20,175,439	15,755,600	(9,719,631)	8,988,113	-	(971,704)	34,227,817
Total	128,253,129	15,755,600	(23,184,451)	(17,775,804)	(1,505,730)	(774,550)	100,768,194

(*) Other amounts consist of gains and losses from disposals and changes in equity interest.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

17. Investments in Associates and Joint ventures, Continued

The summarized financial information of our principal investee are as follows :

(In thousands of Korean won)

Company	December 31, 2023					
	Assets	Liabilities	Revenue	Gain (loss) from continuing operations	Other comprehensive income	Total comprehensive income
Kalos Medical Inc.	1,235,676	25,804,818	-	(5,860,918)	(18,221)	(5,879,139)
Teva-Handok Pharma Co., Ltd.	27,802,857	16,190,811	29,240,273	(5,553,172)	(339,338)	(5,892,510)
Genexine, Inc.	376,586,600	79,682,984	4,426,627	(66,860,297)	(11,811,087)	(78,671,384)
NB Postech, Inc.	3,528,227	872,501	-	(3,585,684)	-	(3,585,684)
Rezolute, Inc.	145,699,792	12,165,489	-	(73,729,557)	3,805,445	(69,924,112)

(In thousands of Korean won)

Company	December 31, 2022					
	Assets	Liabilities	Revenue	Gain (loss) from continuing operations	Other comprehensive income	Total comprehensive income
Kalos Medical Inc.	2,396,067	21,224,618	-	(10,021,649)	12,017	(10,009,632)
Teva-Handok Pharma Co., Ltd.	33,119,103	15,983,864	30,638,311	1,447,544	(44,652)	1,402,892
Genexine, Inc.	390,415,986	108,013,330	16,139,032	(55,689,108)	(190,358,151)	(246,047,259)
NB Postech, Inc.	3,568,818	5,338,157	3,590,043	(104,764)	-	(104,764)
Rezolute, Inc.	197,682,493	3,672,635	-	(55,624,907)	4,535,037	(51,089,870)

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

17. Investments in Associates and Joint ventures, Continued

Reconciliations of the financial information amounts of significant associates and joint ventures to the carrying amounts of the Group's interests in associates and joint ventures during the reporting period are as follows.

(In thousands of Korean won)

December 31, 2023						
Company	Net assets at the end of the year (a)	Equity ratio (b)	Net asset equity amount (a x b)	Goodwill	Other (*3)	Carrying amount
Kalos Medical Inc. (*2)	(26,326,667)	49.96%	(13,152,855)	17,035,096	-	3,882,241
Teva-Handok Pharma Co., Ltd.	11,612,046	49.00%	5,689,903	-	(32,946)	5,656,957
Genexine, Inc. (*1, *2, *4)	289,678,389	14.59%	42,271,145	9,800,416	(642,580)	51,428,984
NB Postech, Inc. (*1, *2)	8,419,967	34.61%	2,913,835	759,116	-	3,672,951
Rezolute, Inc. (*1, *2)	125,486,726	15.00%	18,819,293	2,596,899	-	21,416,192

(*1) Net assets above include fair value assessments (excluding goodwill).

(*2) Net assets above exclude share-based compensation, which is recorded in equity.

(*3) Insider transaction amounts are included.

(*4) The common stock ownership percentage is 14.57%, but the effective ownership percentage after accounting for treasury stock is 14.59%.

(In thousands of Korean won)

December 31, 2022						
Company	Net assets at the end of the year (a)	Equity ratio (b)	Net asset equity amount (a x b)	Goodwill	Other (*3)	Carrying amount
Kalos Medical Inc. (*2)	(20,189,348)	49.96%	(10,086,638)	17,035,096	-	6,948,458
Teva-Handok Pharma Co., Ltd.	17,135,239	49.00%	8,396,267	-	1,370	8,397,637
Genexine, Inc. (*1, *2)	257,537,750	15.04%	38,725,604	10,098,896	(993,225)	47,831,275
NB Postech, Inc. (*1, *2)	4,866,583	34.99%	1,702,907	1,660,100	-	3,363,007
Rezolute, Inc. (*1, *2)	195,097,230	16.14%	31,481,529	2,746,288	-	34,227,817

(*1) Net assets above include fair value assessments (excluding goodwill).

(*2) Net assets above exclude share-based compensation, which is recorded in equity.

(*3) Insider transaction amounts are included.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

17. Investments in Associates and Joint ventures, Continued

Fair value of marketable investments in associates and joint ventures as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Company	December 31, 2023		December 31, 2022	
	Fair value	Carrying amount	Fair value	Carrying amount
Genexine, Inc.	59,880,487	51,428,984	70,705,018	47,831,275
Rezolute, Inc.	7,509,162	21,416,191	15,589,333	34,227,817

Impairment loss

During the year, the Consolidated Company's investments in associates were reviewed for indicators of impairment and assessed for recoverable amount. As of December 31, 2023, there was no impairment loss to be recognized as the recoverable amount exceeded the carrying amount.

The recoverable amount has been assessed at value in use and the key assumptions used to estimate the recoverable amount are set out below. The key assumptions reflect management's assessment of future trends in the industry and are based on internal and external information.

Company	Sales growth rate	Permanent growth rate	Discount rate
Teva-Handok Pharma Co., Ltd.	3.2~34.4%	1.00%	9.60%
Rezolute, Inc.	18.6~173.9%	-5.00%	12.80%

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

18. Trade and Other Payables

Details of trade and other payables as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Trade payables	81,904,512	108,701,556
Other payables	26,799,470	29,900,778
Subtotal	108,703,982	138,602,334
Long-term other payables	7,024,648	7,274,309
Total	115,728,630	145,876,643

Carrying amounts of other payables as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Other payables:		
Non-trade payables	23,927,301	25,730,498
Accrued expenses	2,831,925	4,130,036
Short-term deposits received	40,244	40,244
Total	26,799,470	29,900,778
Long-term other payables:		
Rental deposits received	6,878,750	7,068,750
Deposits received	25,870	25,870
Long-term accrued expenses	120,028	179,689
Total	7,024,648	7,274,309

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

19. Other Liabilities

Other current liabilities and other non-current liabilities as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Other current liabilities :		
VAT payable	2,951,717	3,401,772
Advance receipts	2,306,466	540,984
Withholdings	855,418	744,474
Subtotal	6,113,601	4,687,230
Other non-current liabilities :		
Long-term advance receipts	150,737	-
Total	6,264,338	4,687,230

20. Borrowings and Other Financial Liabilities

Borrowings and other financial liabilities as at December 31, 2023 and 2022, are as follows :

(In thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Current liability :		
Short-term borrowings	124,638,240	77,469,210
Other current financial liabilities	733,459	400,151
Short-term corporate bonds	50,000,000	35,000,000
Less: discount on corporate bonds	(118,987)	(117,037)
Subtotal	175,252,712	112,752,324
Non-current liability :		
Other non-current financial liabilities	99,770,430	135,045,670
Long-term borrowings	4,478,495	5,066,202
Corporate bonds	24,500,000	50,000,000
Less: discount on corporate bonds	(490,155)	(355,832)
Subtotal	128,258,770	189,756,040
Total	303,511,482	302,508,364

Changes in borrowings for the years ended in December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Account	2023	2022
Opening net carrying amount	212,514,880	172,874,840
Additional borrowings	155,200,000	298,997,500
Repayments of borrowings	(143,969,210)	(257,664,960)
Conversion of borrowings	663,000	(1,692,500)
Closing net carrying amount	224,408,670	212,514,880

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

20. Borrowings and Other Financial Liabilities, Continued

Details of short-term borrowings as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Account	creditor	Interest rate as at December 31, 2023	Amount	
			December 31, 2023	December 31, 2022
Borrowings from bank	Korea Development Bank (*1, *2)	1Y IFD+0.43%	9,700,000	12,150,000
		1Y IFD+0.51%	1,999,960	1,999,960
		1Y IFD+1.04%	7,044,280	5,973,250
		1Y IFD+0.77%	55,000,000	-
		3M CD+0.77%	-	30,000,000
	Shinhan Bank (*2)	3Y FD+1.15%	2,000,000	2,000,000
	Woori Bank (*2)	3M CD+1.98%	6,000,000	-
	KB Kookmin Bank (*2)	3M MOR+2.07%	30,000,000	-
	Suhyup Bank (*2)	SOFR 3M+1.44%	6,447,000	-
		SOFR 3M+1.5%	6,447,000	-
KEB Hana Bank (*3)	3M libor+2.604%	-	25,346,000	
Total			124,638,240	77,469,210

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

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

(*3) The Group has entered into a currency swap agreement with KEB Hana Bank and Suhyup Bank for the amount USD 30 million to hedge cash flow risk associated with the changes in interest rate and currency exchange rate for long-term borrowings in foreign currencies. (see Note 38)

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

20. Borrowings and Other Financial Liabilities, Continued

Details of long-term borrowings as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	Creditor	Interest rate as at December 31, 2023	Final maturity date	Amount		Payment method
				December 31, 2023	December 31, 2022	
Borrowings from bank	Korea Development bank (*1, *2)	1Y IFD+0.51%	2025.10.27	811,480	1,622,964	Installment payment
		1Y IFD+0.51%	2025.10.27	1,188,480	2,376,956	Installment payment
		1Y IFD+1.04%	2030.01.20	14,482,650	17,241,250	Installment payment
		1Y IFD+1.04%	2030.01.20	3,749,970	4,464,250	Installment payment
		1Y IFD+1.04%	2030.01.20	11,249,910	13,392,750	Installment payment
		1Y IFD+1.04%	2030.01.20	7,499,940	8,928,500	Installment payment
	Suhyup Bank (*3, *4)	SOFR 3M +1.44%	2024.05.26	-	6,336,500	Lump sum payment
		SOFR 3M +1.5%	2024.07.12	-	6,336,500	Lump sum payment
	Woori Bank (*4)	3M CD+1.98%	2024.10.05	-	6,000,000	Lump sum payment
	KB Kookmin Bank (*4)	3M MOR+2.07%	2024.10.07	-	30,000,000	Lump sum payment
	Shinhan Bank (*2)	3Y FD+1.15%	2025.09.23	11,000,000	13,000,000	Installment payment
	KEB Hana Bank (*3)	5.60%	2025.10.31	25,788,000	25,346,000	Lump sum payment
		5.57%	2026.06.26	24,000,000	-	Lump sum payment
Total				99,770,430	135,045,670	

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

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

(*3) The Group has entered into a currency swap agreement with KEB Hana Bank and Suhyup Bank for the amount USD 30 million to hedge cash flow risk associated with the changes in interest rate and currency exchange rate for long-term borrowings in foreign currencies. (see Note 38)

(*4) Long-term borrowings in 2022 have been reclassified to current portion in 2023.

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Notes to the Consolidated Financial Statements, Continued For the years ended December 31, 2023 and 2022

20. Borrowings and Other Financial Liabilities, Continued

Details of corporate bonds as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	Maturity date	Interest rate	December 31, 2023	December 31, 2022
36th Bearer, with coupon and non-guaranteed	2023.06.25	2.083%	-	20,000,000
37th Bearer, with coupon and non-guaranteed	2023.07.23	1.927%	-	15,000,000
38th Bearer, with coupon and non-guaranteed	2024.06.28	2.386%	50,000,000	50,000,000
39th Bearer, with coupon and non-guaranteed	2025.06.26	5.040%	14,000,000	-
40th Bearer, with coupon and non-guaranteed	2025.07.20	4.948%	10,500,000	-
Subtotal			74,500,000	85,000,000
Less: discount on corporate bonds			(609,142)	(472,869)
Total			73,890,858	84,527,131
Short-term corporate bonds			49,881,013	34,882,963
Long-term corporate bonds			24,009,845	49,644,168

Details of other current financial liabilities and other non-current financial liabilities as at December 31, 2023 and 2022 are as follows :

(in thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Other current financial liabilities :		
Derivative financial liabilities (*)	-	-
Lease liabilities	733,459	400,151
Subtotal	733,459	400,151
Other non-current financial liabilities :		
Derivative financial liabilities (*)	3,500,651	4,220,529
Lease liabilities	977,844	845,673
Subtotal	4,478,495	5,066,202
Total	5,211,954	5,466,353

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

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Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2023 and 2022

21. Provisions for Other Liabilities

Changes in provisions for other liabilities for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Account	2023			
	Reserve for incentive	Refund liability	Government grants repayable	Total
Beginning balance	5,087,027	4,070,358	1,919,481	11,076,866
Statement of profit or loss :				
Provision	5,081,068	1,753,060	61,372	6,895,500
Amount used	(4,774,860)	(657,164)	(66,061)	(5,498,085)
Ending balance	5,393,235	5,166,254	1,914,792	12,474,281
Liquidity classification:				
Current	5,393,235	3,795,136	1,914,792	11,103,163
Non-current	-	1,371,118	-	1,371,118

(in thousands of Korean won)

Account	2022			
	Reserve for incentive	Refund liability	Government grants repayable	Total
Beginning balance	4,990,739	8,807,790	1,915,069	15,713,598
Statement of profit or loss :				
Provision	4,747,933	1,367,564	59,784	6,175,281
Amount used	(4,651,645)	(6,104,996)	(55,372)	(10,812,013)
Ending balance	5,087,027	4,070,358	1,919,481	11,076,866
Liquidity classification:				
Current	5,087,027	2,804,470	1,919,481	9,810,978
Non-current	-	1,265,888	-	1,265,888

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

22. Employee Benefit Obligations

22.1 Defined Benefit Plan

Details of employee benefit obligations and assets as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Net defined benefit assets	(9,655,768)	(14,103,745)
Net defined benefit liabilities	53,878	13,477
Other long-term employee benefits	2,920,015	2,293,059
Total	(6,681,875)	(11,797,209)

Details of defined benefit liabilities recognized in the statements of financial position as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	December 31, 2023	December 31, 2022
Present value of funded defined benefit obligations	53,878	13,477
Fair value of plan assets	-	-
Net defined benefit liabilities	53,878	13,477

Details of defined benefit liabilities and assets recognized in the statements of financial position as of December 31, 2023 and 2022, are as follows

(in thousands of Korean won)

Account	December 31, 2023	December 31, 2022
Present value of funded defined benefit obligations	84,266,385	70,758,826
Fair value of plan assets (*)	(93,922,153)	(84,862,571)
Net defined benefit assets	(9,655,768)	(14,103,745)

(*) The contributions to the National Pension Fund of ₩ 34 million (2022: ₩ 44 million) are added to the fair value of plan assets as at December 31, 2023.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

22. Employee Benefit Obligations, Continued

Movements in the defined benefit obligations for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023	2022
Beginning balance	70,772,303	72,062,601
Current service cost	6,456,227	6,863,568
Interest expenses	3,328,198	1,751,966
Effect of changes in plan policies	-	1,469,779
Remeasurements :		
Actuarial gains(losses) from change in financial assumptions	7,300,331	(8,110,602)
Actuarial gains(losses) from change in demographics assumptions	-	-
Actuarial gains from experience adjustments	1,552,666	1,354,205
Payments from plans :		
Benefit payments	(5,089,462)	(4,619,214)
Ending balance	84,320,263	70,772,303

Movements in the fair value of plan assets for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023	2022
Beginning balance	84,862,571	71,071,738
Interest income	3,938,642	1,610,431
Remeasurements :		
Return on plan assets (excluding amounts included in interest income)	220,375	(200,598)
Contributions :		
Employers	10,000,000	17,000,000
Payments from plans :		
Benefit payments	(5,099,435)	(4,619,000)
Ending balance	93,922,153	84,862,571

Actuarial gains or losses recognized as other comprehensive income for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023	2022
Actuarial gains (losses) before income tax	(8,632,622)	6,555,799
Income tax effect	1,994,135	(1,586,503)
Actuarial gains (losses) after income tax	(6,638,487)	4,969,296

Plan assets are composed of cash and cash equivalents.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

22. Employee Benefit Obligations, Continued

The significant actuarial assumptions as at December 31, 2023 and 2022, are as follows :

Classification	December 31, 2023	December 31, 2022
Discount rate	4.10%	5.30%
Salary growth rate	4.90%	4.38%

The sensitivity of the defined benefit obligation as at December 31, 2023, to changes in the weighted principal assumptions is as follows :

Classification	Impact on defined benefit obligation		
	Changes in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	5.0% decrease	6.0% increase
Salary growth rate	1.00%	6.0% increase	5.0% decrease

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

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

Effect of defined benefit plan on future cash flows.

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

Expected contributions to retirement benefit plans for the year ending December 31, 2024, are ₩8,689 million.

The expected maturity analysis of undiscounted retirement benefits as at December 31, 2023, is as follows.

(in thousands of Korean won)

Classification	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 9 years	Total
Retirement benefits	8,866,525	12,692,200	30,844,258	52,632,416	105,035,399

The weighted average duration of the defined benefit obligations is 5.52 years.

22.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 434 million (2022: ₩ 285 million), and an additional ₩ 271 million in unpaid severance pay for retirement was paid this year.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

23. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023	2022
Current income tax :		
Current income tax on profits for the year	2,927,974	2,389,217
Adjustments in respect of prior years	(1,336)	(12,698)
Total current income tax	2,926,638	2,376,519
Deferred tax :		
Change in deferred tax on temporary differences	(9,257,436)	(7,939,004)
Effect of future tax rate changes (*)	-	(714,782)
Total deferred tax	(9,257,436)	(8,653,786)
Income tax directly recognized in equity	1,763,353	2,997,592
Income tax expense(profit)	(4,567,445)	(3,279,675)

(*) The effect of the tax rate change that will be applied starting from the this financial year in accordance with the revised tax law.

The income tax expense on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rates as follows :

(in thousands of Korean won)

Classification	2023	2022
Profit before income tax	(33,507,871)	7,316,158
Income tax expense at statutory tax rates (*)	(7,740,318)	1,770,510
Tax effects of :		
Income not taxable for tax purposes	(11,946,556)	(4,646,615)
Expenses not deductible for tax purposes	16,470,317	5,772,344
Tax credit	(874,696)	(624,070)
Others	(476,192)	(5,551,844)
Income tax profit	(4,567,445)	(3,279,675)

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

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Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2023 and 2022

23. Tax Expense and Deferred Tax, Continued

Income tax effects related to components of other comprehensive income for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023			2022		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurement loss on defined benefit plans`	(8,632,623)	1,994,136	(6,638,487)	6,555,799	(1,586,503)	4,969,296
Gains (losses) on valuation of financial assets at fair value through other comprehensive income	-	-	-	(9,267)	2,243	(7,024)
Changes in retained earnings by equity method	(5,654,733)	1,306,243	(4,348,490)	(1,505,731)	349,329	(1,156,402)
Changes in capital by equity method	6,874,442	(1,587,996)	5,286,446	(17,775,804)	4,123,987	(13,651,817)
Cash flow hedge	(198,113)	50,970	(147,143)	(448,498)	108,536	(339,962)
Total	(7,611,027)	1,763,353	(5,847,674)	(13,183,501)	2,997,592	(10,185,909)

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

23. Tax Expense and Deferred Tax, Continued

The movements in deferred tax assets and liabilities for the years ended December 31, 2023 and 2022, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows :

(in thousands of Korean won)

Classification	January 1, 2023	Income statement	Equity	December 31, 2023
Deferred tax liabilities :				
Gains (losses) on revaluation	(18,126,904)	78,134	-	(18,048,770)
Retirement benefit obligations	(661,960)	661,960	-	-
Impairment gains and losses on investments in associates	(5,640,523)	3,143,329	(281,753)	(2,778,947)
Advanced depreciation provision	(28,970)	124	-	(28,846)
Derivative financial assets	(379,843)	379,843	-	-
Right to the returned goods	(4,890)	(7,841)	-	(12,731)
Accrued income	(6,072)	(1,136)	-	(7,208)
Etc	(1,814,042)	718,499	-	(1,095,543)
Subtotal	(26,663,204)	4,972,912	(281,753)	(21,972,045)
Deferred tax assets :				
Accrued expense	2,386,661	(654,174)	-	1,732,487
Reserve for incentive bonuses	1,180,190	65,647	-	1,245,837
Retirement benefit obligations	-	(958,122)	1,994,136	1,036,014
Long-term employee benefits	531,990	142,533	-	674,523
Government grants	303,575	(8,096)	-	295,479
Derivative financial liabilities	979,163	(250,677)	50,970	779,456
Refund liability	944,323	249,082	-	1,193,405
Losses on valuation of inventories	270,996	863,771	-	1,134,767
Accumulated depreciation	1,104,433	(62,498)	-	1,041,935
Lease liabilities	4,302	2,582	-	6,884
Impairment losses on intangible assets	29,232	(126)	-	29,106
Financial assets at fair value through other comprehensive income and losses (valuation)	2,826	(13)	-	2,813
Financial assets at fair value through profit or loss (valuation)	1,008,677	3,171,739	-	4,180,416
Unrealized gains(losses)	56,144	(6,504)	-	49,640
Donations	10,440	28,715	-	39,155
Short-term loans	3,556	(16)	-	3,540
Deemed depreciation	28,846	(1,114)	-	27,732
Stock options	100,946	(61,558)	-	39,388
Subtotal	8,946,300	2,521,171	2,045,106	13,512,577
Total	(17,716,904)	7,494,083	1,763,353	(8,459,468)

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Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2023 and 2022

23. Tax Expense and Deferred Tax, Continued

(in thousands of Korean won)

Classification	January 1, 2023	Income statement	Equity	December 31, 2023
Deferred tax liabilities :				
Gains (losses) on revaluation	(18,908,236)	781,332	-	(18,126,904)
Retirement benefit obligations	-	(661,960)	-	(661,960)
Impairment gains and losses on investments in associates	(16,074,733)	5,960,894	4,473,316	(5,640,523)
Advanced depreciation provision	(30,219)	1,249	-	(28,970)
Derivative financial liabilities	4,834	(4,834)	-	-
Derivative financial assets	-	(381,625)	1,782	(379,843)
Right to the returned goods	(50,650)	45,760	-	(4,890)
Accrued income	(7,691)	1,619	-	(6,072)
Etc	(2,770,346)	956,304	-	(1,814,042)
Subtotal	(37,837,041)	6,698,739	4,475,098	(26,663,204)
Accrued expense	2,194,620	192,041	-	2,386,661
Reserve for incentive bonuses	1,207,759	(27,569)	-	1,180,190
Retirement benefit obligations	1,409,280	177,223	(1,586,503)	-
Long-term employee benefits	573,447	(41,457)	-	531,990
Government grants	338,482	(34,907)	-	303,575
Derivative financial liabilities	-	872,409	106,754	979,163
Refund liability	2,131,485	(1,187,162)	-	944,323
Losses on valuation of inventories	1,000,924	(729,928)	-	270,996
Accumulated depreciation	1,153,352	(48,919)	-	1,104,433
Lease liabilities	3,426	876	-	4,302
Impairment losses on intangible assets	30,492	(1,260)	-	29,232
Financial assets at fair value through other comprehensive income and losses (valuation)	261,424	(260,841)	2,243	2,826
Financial assets at fair value through profit or loss (valuation)	842,823	165,854	-	1,008,677
Unrealized gains(losses)	10,500	45,644	-	56,144
Donations	4,188	6,252	-	10,440
Bad debt expense	8,123	(8,123)	-	-
Short-term loans	3,709	(153)	-	3,556
Deemed depreciation	31,127	(2,281)	-	28,846
Stock options	261,190	(160,244)	-	100,946
Subtotal	11,466,351	(1,042,545)	(1,477,506)	8,946,300
Total	(26,370,690)	5,656,194	2,997,592	(8,247,204)

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

23. Tax Expense and Deferred Tax, Continued

The Group recognized deferred tax assets for the tax effects of temporary differences to the extent that taxable income will be available in the future based upon the Group's performance, the market environment, forecasts of future profitability and other factors. The Group periodically reassesses these factors. As at December 31, 2023, the Group recognized the temporary differences of these income tax effects as deferred tax assets. For deferred tax assets related to investment in subsidiaries and related companies, the Group can control the time of extinction of temporary differences and does not recognize deferred tax assets for items that are unlikely to disappear in the foreseeable future, and as of the Dec 31, 2023 and 2022 are ₩ 89,623 million and ₩ 69,541 million, respectively.

24. Common stock

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

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

25. Share-based payments

The Group grants stock options to its directors and employees in accordance with the resolution of the board of directors. The details of the stock options are as follows:

Payment method	Cash-settled share-based payment						
Commitment type	Grant stock options (director and employees)						
Grant date	2015. 2. 12	2015. 8. 19	2015. 12. 8	2016. 2. 4	2016. 5. 19	2016. 11. 3	2017. 5. 16
Stock options outstanding	3,200 shares	1,000 shares	19,000 shares	3,000 shares	32,450 shares	1,500 shares	10,950 shares
Settlement method	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement
Exercise price at grant date	20,350 won	32,300 won	28,800 won	35,800 won	38,400 won	25,150 won	23,800 won
Exercisable period	2020. 2. 12 ~ 2025. 2. 11	2020. 8. 19 ~ 2025. 8. 18	2020. 12. 8 ~ 2025. 12. 7	2021. 2. 4 ~ 2026. 2. 3	2021. 5. 19 ~ 2026. 5. 18	2021. 11. 3 ~ 2026. 11. 2	2022. 5. 16 ~ 2027. 5. 15

Payment method	Cash-settled share-based payment						
Commitment type	Grant stock options (director and employees)						
Grant date	2017. 8. 30	2017. 12. 14	2018. 02. 08	2018. 03. 22	2018. 7. 19	2018. 9. 3	2018. 11. 6
Stock options outstanding	1,500 shares	550 shares	1,500 shares	4,400 shares	3,500 shares	300 shares	1,250 shares
Settlement method	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement
Exercise price at grant date	24,050 won	27,750 won	35,550 won	40,000 won	27,600 won	28,650 won	25,750 won
Exercisable period	2022. 8. 30 ~ 2027. 8. 29	2022. 12. 14 ~ 2027. 12. 13	2023. 2. 8 ~ 2028. 2. 7	2023. 3. 22 ~ 2028. 3. 21	2023. 7. 19 ~ 2028. 7. 18	2023. 9. 3 ~ 2028. 9. 2	2023. 11. 6 ~ 2028. 11. 5

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

25. Share-based payments, Continued

Payment method	Cash-settled share-based payment						
Commitment type	Grant stock options (director and employees)						
Grant date	2018. 12. 10	2019. 2. 12	2019. 3. 15	2019. 3. 28	2019. 7. 11	2019.10. 31	2019. 12. 10
Stock options outstanding	500 shares	3,050 shares	400 shares	300 shares	5,550 shares	2,800 shares	3,500 shares
Settlement method	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement
Exercise price at grant date	28,150 won	27,900 won	33,000 won	30,700 won	26,150 won	21,900 won	21,900 won
Exercisable period	2023. 12. 10 ~ 2028. 12. 09	2024. 2. 12 ~ 2029. 2. 11	2024. 3. 15 ~ 2029. 3. 14	2024. 3. 28 ~ 2029. 3. 27	2024. 7. 11 ~ 2029. 7. 10	2024. 10. 31 ~ 2029. 10. 30	2024. 12. 10 ~ 2029. 12. 09

Payment method	Cash-settled share-based payment						
Commitment type	Grant stock options (director and employees)						
Grant date	2020. 3. 3	2020. 5. 14	2020. 6. 23	2020. 8. 31	2020. 11. 11	2021. 2. 10	2021. 3. 17
Stock options outstanding	2,500 shares	5,500 shares	700 shares	3,000 shares	9,300 shares	3,900 shares	1,500 shares
Settlement method	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement
Exercise price at grant date	22,900 won	24,100 won	28,900 won	38,550 won	32,550 won	30,800 won	28,400 won
Exercisable period	2025. 3. 3 ~ 2030. 3. 2	2025. 5. 14 ~ 2030. 5. 13	2025. 6. 23 ~ 2030. 6. 22	2025. 8. 31 ~ 2030. 8. 30	2025. 11. 11 ~ 2030. 11. 10	2026. 2. 10 ~ 2031. 2. 9	2026. 3. 17 ~ 2031. 3. 16

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

25. Share-based payments, Continued

Payment method	Cash-settled share-based payment						
Commitment type	Grant stock options (director and employees)						
Grant date	2021. 6. 22	2021. 10. 29	2021. 12. 16	2022. 2. 9	2022. 3. 16	2022. 3. 24	2022. 5. 11
Stock options outstanding	2,400 shares	3,500 shares	3,900 shares	1,800 shares	9,000 shares	3,500 shares	1,350 shares
Settlement method	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement
Exercise price at grant date	28,400 won	24,700 won	23,000 won	21,550 won	20,950 won	21,800 won	21,900 won
Exercisable period	2026. 6. 22 ~ 2031. 6. 21	2026. 10. 29 ~ 2031. 10. 28	2026. 12. 16 ~ 2031. 12. 15	2027. 2. 9 ~ 2032. 2. 8	2027. 3. 16 ~ 2032. 3. 15	2027. 3. 24 ~ 2032. 3. 23	2027. 5. 11 ~ 2032. 5. 10

Payment method	Cash-settled share-based payment						
Commitment type	Grant stock options (director and employees)						
Grant date	2022. 7. 11	2022. 10. 18	2022. 12. 8	2023. 2. 9	2023. 3. 9	2023. 3. 24	2023. 7. 21
Stock options outstanding	3,900 shares	2,950 shares	2,400 shares	4,000 shares	1,200 shares	5,900 shares	7,550 shares
Settlement method	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement	Net cash settlement
Exercise price at grant date	18,050 won	15,300 won	16,350 won	17,200 won	16,650 won	15,600 won	14,000 won
Exercisable period	2027. 7. 11 ~ 2032. 7. 10	2027. 10. 18 ~ 2032. 10. 17	2027. 12. 8 ~ 2032. 12. 7	2028. 2. 9 ~ 2033. 2. 8	2028. 3. 9 ~ 2033. 3. 8	2028. 3. 24 ~ 2033. 3. 23	2028. 7. 21 ~ 2033. 7. 20

Payment method	Cash-settled share-based payment	
Commitment type	Grant stock options (director and employees)	
Grant date	2023. 10. 26	2023. 12. 12
Stock options outstanding	4,200 shares	3,900 shares
Settlement method	Net cash settlement	Net cash settlement
Exercise price at grant date	12,300 won	12,850 won
Exercisable period	2028. 10. 26 ~ 2033. 10. 25	2028. 12. 12 ~ 2033. 12. 11

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

25. Share-based payments, Continued

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

Changes in the number of stock options outstanding and their related weighted average exercise prices for the year ended December 31, 2023, are as follows

Classification	Number of stock options (in number of shares)	Average exercise price per stock option (in number of Korean won)
Beginning balance	226,450	25,718
Granted	26,750	14,516
Cancellation	65,150	18,131
Ending balance	188,050	26,753

Compensation costs of stock options are calculated by applying a fair value approach. The related assumptions and variables to calculate the compensation costs are as follows

Classification	2015. 2. 12	2015. 8. 19	2015. 12. 8	2016. 2. 4	2016. 5. 19	2016. 11. 3	2017. 5. 16
Fair value as at December 31, 2023	339 won	25 won	95 won	39 won	43 won	603 won	1,017 won
Share price at valuation date	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won
Exercise price	20,350 won	32,300 won	28,800 won	35,800 won	38,400 won	25,150 won	23,800 won
Expected price volatility (*1)	36.24%	24.86%	27.47%	29.15%	28.93%	30.55%	29.51%
Expected dividend yield	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%
Annual risk- free interest rate	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%

Classification	2017. 8. 30	2017. 12.14	2018. 02.08	2018. 03.22	2018. 7. 19	2018. 9. 3	2018. 11. 6
Fair value as at December 31, 2023	1,038 won	848 won	418 won	310 won	995 won	976 won	1,280 won
Share price at valuation date	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won
Exercise price	24,050 won	27,750 won	35,550 won	40,000 won	27,600 won	28,650 won	25,750 won
Expected price volatility (*1)	30.06%	29.60%	30.05%	29.76%	29.46%	28.82%	28.81%
Expected dividend yield	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%
Annual risk-free interest rate	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%

25. Share-based payments, Continued

Classification	2018. 12.10	2019. 2. 12	2019. 3. 15	2019. 3. 28	2019. 7. 11	2019.10.31	2019.12.10
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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

Fair value as at December 31, 2023	1,048 won	1,059 won	711 won	856 won	1,378 won	2,402 won	2,730 won
Share price at valuation date	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won
Exercise price	28,150 won	27,900 won	33,000 won	30,700 won	26,150 won	21,900 won	21,900 won
Expected price volatility (*1)	28.62%	28.65%	29.89%	31.03%	31.16%	35.64%	39.72%
Expected dividend yield	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%
Annual risk-free interest rate	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%

Classification	2020. 3. 3	2020. 5. 14	2020. 6. 23	2020. 8. 31	2020.11.11	2021. 2. 10	2021. 3. 17
Fair value as at December 31, 2023	2,842 won	3,114 won	2,556 won	1,765 won	2,318 won	2,702 won	2,973 won
Share price at valuation date	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won
Exercise price	22,900 won	24,100 won	28,900 won	38,550 won	32,550 won	30,800 won	28,400 won
Expected price volatility (*1)	39.45%	38.91%	39.29%	39.75%	40.35%	40.65%	41.70%
Expected dividend yield	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%
Annual risk-free interest rate	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%

Classification	2021. 6. 22	2021. 10.29	2021. 12.16	2022. 2. 9	2022. 3. 16	2022. 3. 24	2022. 5. 11
Fair value as at December 31, 2023	3,108 won	3,883 won	4,166 won	4,464 won	4,611 won	4,502 won	4,565 won
Share price at valuation date	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won
Exercise price	28,400 won	24,700 won	23,000 won	21,550 won	20,950 won	21,800 won	21,900 won
Expected price volatility (*1)	41.98%	42.39%	43.40%	44.34%	45.92%	45.92%	45.87%
Expected dividend yield	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%
Annual risk-free interest rate	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%

25. Share-based payments, Continued

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

Classification	2022. 7. 11	2022. 10.18	2022. 12. 8	2023. 2. 9	2023. 3. 9	2023. 3. 24	2023. 7. 21
Fair value as at December 31, 2023	5,524 won	6,065 won	5,861 won	5,743 won	5,839 won	6,032 won	6,352 won
Share price at valuation date	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won	14,300 won
Exercise price	18,050 won	15,300 won	16,350 won	17,200 won	16,650 won	15,600 won	14,000 won
Expected price volatility (*1)	45.62%	45.39%	45.12%	44.86%	44.66%	45.18%	45.13%
Expected dividend yield	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%
Annual risk-free interest rate	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%	3.156%

Classification	2023. 10.26	2023. 12. 12
Fair value as at December 31, 2023	6,782 won	6,656 won
Share price at valuation date	14,300 won	14,300 won
Exercise price	12,300 won	12,850 won
Expected price volatility (*1)	45.13%	44.81%
Expected dividend yield (*2)	2.01%	2.01%
Annual risk-free interest rate	3.156%	3.156%

(*1) The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices over the last 7.5 years.

(*2) The impact of non-transferability, exercise restrictions (including the possibility of meeting market conditions attached to the option), etc. are considered when calculating the expected maturity based on management's best estimate.

The Group recognized reversal of share-based payment expenses of ₩ 265 million (2022: reversal of share-based payment expenses of ₩ 644 million) related to cash-settled share-based payments for the year ended December 31, 2023, (see Note 30).

The Subsidiaries, Innocube Co., Ltd. grants stock options to its directors and employees. The details of the stock options are as follows and are included in non-controlling equities.

Payment method	Stock-settled share-based payment
Commitment type	Grant stock options (director and employees)
Grant date	2022. 2. 22
Grant quantity	2,000 shares
Grant method	Issuance of new common stock (or treasury stock, compensation for difference)
Exercise price	10,000 won
Exercisable period	2024. 2. 22 ~ 2027. 2. 21

25. Share-based payments, Continued

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

	2022. 2. 22
Fair value as at grant date (*1)	566 won

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

Share price at grant date	4,348 won
Exercise price	10,000 won
Expected price volatility (*2)	38.65%
Expected dividend yield	-
Annual risk-free interest rate	1.99%

(*1) The impact of non-transferability, exercise restrictions (including the possibility of meeting market conditions attached to the option), etc. are considered when calculating the expected maturity based on management's best estimate.

(*2) The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices over the last 2 years.

26. Other Components of Equity

Details of other components of equity as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won):

Classification	December 31, 2023	December 31, 2022
Other equity surplus	1,242,972	1,242,972
Revaluation surplus	39,363,132	39,363,132
Changes in equity in earnings of associates	2,498,834	(2,787,612)
Gain on disposal of treasury shares	1,792,288	1,792,288
Cash flow hedge	30,193	177,336
Gain or loss on translation of foreign operations	(3,128,304)	(2,198,342)
Total	41,799,115	37,589,774

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

27. Retained Earnings

Details of retained earnings as at December 31, 2023 and 2022, are as follows.

(in thousands of Korean won):

Classification	Content	December 31, 2023	December 31, 2022
Legal reserves	Legally appropriate retained earnings (*1)	3,440,883	3,440,883
Other reserves	Reserve for financial structure improvement (*2)	240,500	240,500
	Reserve for business expansion	6,000,000	6,000,000
	Reserve for facility	31,000,000	31,000,000
	Other discretionary appropriated retained earnings	25,994,000	25,994,000
Changes in equity method retained earnings	Changes in equity method retained earnings	(1,124,204)	3,224,287
Unappropriated retained earnings	-	187,751,814	228,693,159
Total		253,302,993	298,592,829

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

(*2) The Group appropriates a certain portion of its unappropriated retained earnings for financial structure improvement as reserves. These reserves can be used to fund future dividends and more.

HANDOK INC

Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2023 and 2022

28. Revenue and Cost of Sales

Details of revenue for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won):

Classification	2023	2022
Finished goods	223,460,214	235,922,513
Merchandise	265,596,844	273,963,276
Others	29,518,259	29,884,725
Rental	4,165,763	3,988,638
Total	522,741,080	543,759,152
When to recognize revenue :		
Fulfill at a single point in time	518,451,547	539,575,510
Fulfill over time	4,289,533	4,183,642
Total	522,741,080	543,759,152

Details of cost of sales for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won):

Classification	2023	2022
Finished goods	113,537,037	115,894,727
Merchandise	220,092,817	229,410,724
Others	20,806,124	22,806,651
Rental	1,957,437	1,933,234
Total	356,393,415	370,045,336

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

29. Expenses by Nature

Cost of sales and Selling, general and administrative expenses by nature for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

	2023	2022
Changes in finished goods and work-in-process	(149,639,419)	(151,461,512)
Changes in merchandise	(44,317,970)	(20,033,663)
Used raw materials and consumables	226,037,784	233,654,445
Purchasing of goods	264,410,786	249,444,387
Employee benefit expenses (see Note 30)	87,728,864	87,190,479
Depreciation and amortization	22,483,899	21,756,968
Freight	4,359,465	4,084,290
Advertising	14,075,906	11,612,991
Traveling	4,948,378	4,864,270
Service charge	30,817,194	32,471,124
Education and training	1,105,345	1,168,481
Seminars	8,821,112	7,891,564
Research and development	4,414,659	3,249,911
Utilities	5,014,099	4,275,158
Repair	3,959,310	3,482,639
Subcontractors charge	8,929,404	6,369,463
Quality control	2,146,024	1,983,658
Impairment loss (reversal of impairment loss)	(5,520)	65,104
Other	14,872,928	13,193,209
Total (*)	510,162,248	515,262,966

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

30. Employee Benefit Expenses

Employee benefit expenses for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

	2023	2022
Salaries	59,846,055	57,930,597
Incentives	13,339,578	14,441,530
Post-employment benefits – defined benefit plan (see Note 22)	5,845,782	8,474,881
Post-employment benefits – defined contribution plan	705,708	284,578
Long-term employee benefits	953,021	161,574
Other employee benefits	7,302,755	6,540,984
Share-based payments (reversal of share-based payments)	(264,035)	(643,666)
Total	87,728,864	87,190,478

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Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2023 and 2022

31. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won):

Classification	2023	2022
Salaries	49,294,275	47,535,103
Post-employment benefits	4,356,187	5,692,132
Freight	4,250,074	3,835,848
Advertising	14,075,905	11,612,991
Service charge	20,574,409	20,874,028
Depreciation	6,742,839	6,650,567
Amortization	3,906,608	3,750,631
Seminars	7,345,009	6,725,443
Research and development	28,671,530	23,995,160
Bad debt expense	1,874	66,739
Other selling, general and administrative expenses	14,547,627	14,478,988
Total	153,766,337	145,217,630

32. Research and Development Expenses

Research and development expenses for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

	2023	2022
Research and development expenses (Selling, general and administrative expenses)	28,671,530	23,995,160
Development expenses recognized as intangible assets	6,271,182	7,168,725
Total	34,942,712	31,163,885

HANDOK INC

Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2023 and 2022

33. Other Income and Expenses

Other income and expenses for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Account	2023	2022
Gains on foreign currency transactions	3,048,648	1,599,034
Gains on foreign currency translation	246,328	509,645
Gains on disposal of property, plant and equipment	82,227	114,921
Gains on disposal of intangible assets	-	149,545
Gains on disposal of investment in associates	561,358	197,154
Other commission income	12,504,800	12,494,103
Miscellaneous income	117,592	2,140,503
Subtotal of Other Income	16,560,953	17,204,905
Losses on foreign currency transactions	991,336	3,660,755
Losses on foreign currency translation	74,156	97,571
Donations	932,267	1,054,469
Losses on disposal of property, plant and equipment	6,739	81,094
Losses on disposal of intangible assets	15	381
Losses on disposal of investment in associates	1,626,938	971,703
Miscellaneous losses	148,681	28,945
Subtotal of Other Expenses	3,780,132	5,894,918
Net Other Income	12,780,821	11,309,987

HANDOK INC

Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2023 and 2022

34. Finance Income and Costs

Finance income and costs for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Account	2023	2022
<Finance income>		
Interest income :		
Bank deposits	648,351	220,660
Loans and deposits	102,950	45,919
Convertible notes	69,814	80,000
Asset backed short-term bond	748,897	115,491
Right-of-use assets	8,710	8,528
Distribution income from investment funds	97	97
Gains on foreign currency translation	257	3,328,500
Gains on valuation of financial assets at fair value through profit or loss	49,696	5,317,399
Gains on disposal of financial assets at fair value through profit or loss	18,647	-
Gains on valuation of derivative financial instruments	1,044,374	2,300,186
Subtotal of finance income	2,691,793	11,416,780
<Finance costs>		
Interest costs :		
Bank borrowings	11,086,819	5,855,896
Corporate bonds	2,653,475	2,349,602
Lease liabilities	40,749	22,986
Losses on foreign currency translation	663,010	1,823,479
Losses on valuation of financial assets at fair value through profit or loss	16,260,845	6,255,398
Losses on valuation of derivative financial instruments	1,637,255	4,414,982
Subtotal of finance costs	32,342,153	20,722,343
Net finance costs	(29,650,360)	(9,305,563)

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

35. Earnings per Share

Basic earnings per share attributable to owners of the parent for the years ended December 31, 2023 and 2022, are as follows :

:

(in number of Korean won, in number of shares)

Classification	2023	2022
Profit or loss attributable to the ordinary equity holders of the Parent company	(28,797,445,620)	10,683,543,868
Weighted average number of ordinary shares outstanding (*)	13,769,533	13,769,533
Earnings per share	(2,091)	776

(*) The weighted average number of ordinary shares outstanding is equal to the number of ordinary shares in issue.

The Group has no outstanding dilutive potential shares, therefore Diluted, earnings per share attributable to owners of the parent is equal to the Basic earnings per share attributable to owners of the parent.

36. Dividends

The dividends paid in 2023 and 2022 were ₩ 5,505 million (₩ 400 per share) and ₩ 4,817 million (₩ 350 per share), respectively.

For the year ended December 31, 2023, dividends of ₩ 300 per share, amounting to a total dividend of ₩4,129 million, is to be proposed at the annual general shareholders' meeting on March 22, 2024. These financial statements do not reflect this dividend payable.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

37. Cash generated from operating activities

Cash generated from operating activities for the years ended December 31, 2023 and 2022, are as follows

(in thousands of Korean won)

Classification	2023	2022
Profit(Loss) before income tax	(33,507,871)	7,316,158
Adjustments for :		
Interest expenses (income)	12,202,321	7,757,887
Losses (gains) on foreign currency translation	490,580	(1,917,095)
Bad debt expense (reversal of bad debt expense)	1,874	66,739
Loss of equity method	29,217,164	23,184,451
Depreciation	14,941,165	14,393,642
Amortization	6,547,601	6,375,683
Investment properties depreciation expense	196,618	213,538
Right-of-use assets depreciation expense	802,880	776,053
Reversal of share-based payments	(264,036)	(643,666)
Gains on disposal of tangible, intangible assets and investment properties	(75,473)	(182,991)
Losses (gains) on disposal of derivative financial instruments	(18,647)	-
Gains on disposal of investments in associates	(561,358)	(197,154)
Distribution income from investment funds	(97)	(97)
Incentive bonuses	5,081,068	4,747,933
Post-employment benefits	6,551,490	8,759,460
Long-term employee benefits	953,021	161,574
Losses on valuation of financial assets at fair value through profit or loss	16,211,149	937,999
Losses on disposal of investments in associates	1,626,938	971,703
Losses (gains) on valuation of derivative financial instruments	592,881	2,114,795
Other income	(38,689)	(6,316)
Refund liability expenses	1,095,896	(4,737,432)
Gains from stock dividends	(987,225)	-
Changes in assets and liabilities from operations :		
Net decrease (increase) in trade receivables	25,529,544	(786,184)
Net decrease (increase) in other receivables	(20,510,497)	572,622
Net decrease (increase) in other assets	8,745,070	(15,780,197)
Net decrease (increase) in inventories	(2,032,806)	(8,465,606)
Net increase (decrease) in trade payables	(971,689)	16,436,059
Net increase (decrease) in other payables	(4,657,048)	(1,856,437)
Net increase (decrease) in other liabilities	3,236,945	686,379
Payment of incentive bonuses	(4,774,860)	(4,651,645)
Payment of post-employment benefits	(5,311,463)	(4,619,214)
Payment of long-term employee benefits	(326,065)	(238,130)
Increase in plan assets	(4,900,565)	(12,380,999)
Cash generated from operating activities	55,085,816	39,009,512

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Notes to the Consolidated Financial Statements, Continued For the years ended December 31, 2023 and 2022

37. Cash generated from operating activities, Continued

Changes in liabilities arising from financial activities for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023							
	Short-term borrowings	Long-term borrowings	Derivatives financial liabilities (assets)	Government grants	Short-term corporate bonds	Corporate bonds	Lease liabilities	Total
At January 1, 2023	77,469,210	135,045,670	2,583,274	1,919,481	34,882,963	49,644,168	1,245,824	302,790,590
Cash flows	(12,769,210)	24,000,000	-	(4,689)	(35,000,000)	23,862,715	(805,591)	(716,775)
Foreign currency translation	221,000	442,000	(663,000)	-	-	-	(14,100)	(14,100)
Change in lease liabilities	-	-	-	-	-	-	1,244,421	1,244,421
Reclassification of current portions	59,717,240	(59,717,240)	-	-	49,759,773	(49,759,773)	-	-
Amortization of discount on corporate bonds	-	-	-	-	238,277	262,735	40,749	541,761
Change in fair value	-	-	1,453,995	-	-	-	-	1,453,995
At December 31, 2023	124,638,240	99,770,430	3,374,269	1,914,792	49,881,013	24,009,845	1,711,303	305,299,892

(in thousands of Korean won)

Classification	2022							
	Short-term borrowings	Long-term borrowings	Derivatives financial liabilities (assets)	Government grants	Short-term corporate bonds	Corporate bonds	Lease liabilities	Total
At January 1, 2022	118,164,960	54,709,880	19,980	1,915,069	-	84,076,179	1,443,278	260,329,346
Cash flows	(76,014,960)	117,347,500	-	4,412	-	-	(780,498)	40,556,454
Foreign currency translation	1,636,000	(3,328,500)	1,692,500	-	-	-	(23,993)	(23,993)
Change in lease liabilities	-	-	-	-	-	-	584,051	584,051
Reclassification of current portions	33,683,210	(33,683,210)	-	-	34,882,963	(34,882,963)	-	-
Amortization of discount on corporate bonds	-	-	-	-	-	450,952	22,986	473,938
Change in fair value	-	-	870,794	-	-	-	-	870,794
At December 31, 2022	77,469,210	135,045,670	2,583,274	1,919,481	34,882,963	49,644,168	1,245,824	302,790,590

HANDOK INC

Notes to the Consolidated Financial Statements, Continued
For the years ended December 31, 2023 and 2022

37. Cash generated from operating activities, Continued

Non-cash transactions for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won)

Classification	2023	2022
Transfer of construction-in-progress to property, plant and equipment	(2,114,967)	(8,651,857)
Transfer of construction-in-progress to intangible assets	(735,826)	(2,468,018)
Non-trade payables related to acquisition of property, plant and equipment	(793,013)	(12,791,319)
Reclassification of financial assets at fair value through profit or loss as associates	(1,538,147)	-
Reclassification of loans to employees to current portion	145,000	144,200
Reclassification of short-term loan to current portion	(3,600,000)	-
Reclassification of long-term borrowings to current portion	59,717,240	33,683,210
Reclassification of corporate bonds to current portion	49,759,773	34,882,963
Reclassification of lease liabilities to current portion	440,542	375,007
Net increase (decrease) in right-of use assets	1,263,110	-
Reclassification of finance lease receivables	107,792	-
Reclassification of long-term advance received to personnel expenses	(1,658,110)	-
Reclassification of net defined liabilities as net defined benefit assets	(14,427,973)	14,103,745
Remeasurements of net defined benefit liabilities	(6,638,487)	4,969,296

HANDOK INC

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

38. Commitments and Contingencies

(a) Borrowing agreements

The following table summarizes the borrowing agreements with the banks as at December 31, 2023.

(in thousands of Korean won, in number of US dollars)

Bank	Type	Limits	Borrowing amount
KEB Hana Bank	Advanced credit line	17,000,000	-
	Payment guarantees in Korean won	500,000	500,000
	Currency forward transaction agreement	1,428,571	-
	Borrowings in foreign currencies (USD)	20,000,000	20,000,000
	General borrowings	24,000,000	24,000,000
Suhyup bank	Borrowings in foreign currencies (USD)	10,000,000	10,000,000
Shinhan bank	General borrowings	13,000,000	13,000,000
KB Kookmin Bank	General borrowings	39,500,000	30,000,000
Busan bank	General borrowings	5,000,000	-
Woori Bank	Payment guarantees in Korean won	3,000,000	2,520,000
	General borrowings	6,000,000	6,000,000
Korea Development Bank	Industry facilities borrowings	57,726,670	57,726,670
	General borrowings	55,000,000	55,000,000
Korea Eximbank	General borrowings	10,000,000	-
BNP PARIBAS	General borrowings	5,000,000	-

(b) Terms and conditions of the borrowing debt

The Group includes a special clause for reinforcing creditors' credit in relation to the Korea Development Bank's general borrowing agreement as at December 31, 2023.

(c) Payment Guarantees Provided by Others

As at December 31, 2023, The Parent Company has been provided with guarantees from Seoul Guarantee Insurance for its business amounting to ₩ 3,789 million(2022: ₩ 1,412 million).

In addition, as at December 31, 2023, the Group has been provided with guarantees from Woori Bank and others for risk sharing contracts with National Health Insurance Corporation amounting to ₩ 3,500 million(2022: ₩ 5,900 million).

(d) Collaterals

Details of assets provided as collaterals for the Group's liabilities and purchase contract as at December 31, 2023, are as follows (see Note 13).

(in thousands of Korean won)

Collateral	Mortgagee	Carrying amount	Secured amount
Land, Buildings and investment properties	Korea Development Bank and others	209,153,959	169,000,000

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

38. Commitments and Contingencies, Continued

(e) Distribution agreement

The Parent Company has a distribution agreement with Zuellig Pharma Korea Company Limited to receive distribution, warehousing, collection of bills and other management services. The Company incurred service fees amounting to ₩ 6,808 million (2022: ₩ 7,425 million) for the year ended December 31, 2023.

(f) Currency swap agreement

The Group has entered into a cross-currency swap agreement with KEB Hana Bank and Suhyup Bank for the amount USD 30 million to hedge currency risk associated with the variable interest rate on borrowings in foreign currencies. The main details of the cross-currency swap are as follows.

Contract start date	Contractor	Amount	Exchange rate	Original interest rate	Swap interest rate	Contract end date
2022-05-26	Suhyup Bank	USD 5,000,000	KRW/USD 1,268.5	USD 3M SOFR + 1.44%	3.99%	2024-05-26
2022-07-12	Suhyup Bank	USD 5,000,000	KRW/USD 1,315.0	USD 3M SOFR + 1.50%	4.67%	2024-07-12
2022-10-31	KEB Hana Bank	USD 20,000,000	KRW/USD 1,421.5	USD 3M SOFR + 2.00%	5.60%	2025-10-31

In 2023, the Group recognized losses of ₩ 147 million (2022: losses of ₩ 340 million) on valuation of the above swap agreements at fair value, after tax effects, as other comprehensive income.

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

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

(g) Cyber security

The Group confirmed that some of the customer's information was leaked due to the hacking attack in June 2023, and an investigation is underway by the Personal Information Protection Commission.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

39. Related Party

Status of controlling/subsidiary companies, etc

(a) As at December 31, 2023, Y&S International Co., Ltd., has significant influence over the Company (ownership: 17.69 percent).

(b) The details of related parties as at December 31, 2023 and 2022, are as follows.

Classification	Company	Percentage of ownership (%)	
		December 31, 2023	December 31, 2022
Associates	Kalos Medical, Inc.	49.96	49.96
	Teva-Handok pharma Co., Ltd	49.00	49.00
	Genexine, Inc.	14.57	15.04
	NB Postech, Inc.	34.61	34.99
	Rezolute, Inc.	15.00	16.14
Other related parties (*1)	Y&S International Co., Ltd.	-	-
	Peak Bio, Inc (*2)	-	-
	KONG SHIN JIN HEUNG Co., Ltd.	-	-

(*1) Entities or individuals that have significant influence over the Company have been classified as other related parties.

(*2) During the year, pH Pharma was renamed to Peak Bio, Inc.

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

39. Related Party, Continued

Transactions which occurred in the normal course of business with related parties for the years ended December 31, 2023 and 2022, are as follows :

(in thousands of Korean won):

2023					
Classification	Name of entity	Sales	Other income	Purchases	Acquisition of assets and others
Associates	Kalos Medical, Inc.	11,678	81,938	-	-
	Teva-Handok pharma Co., Ltd	1,698,536	3,225	911,039	-
	Genexine, Inc.	218,559	3,811	-	3,326,516
	NB Postech, Inc.	-	91,277	-	-
	Rezolute, Inc.	-	30,255	-	-
Other related parties	Y&S International Co., Ltd.	4,968	-	-	-
Total		1,933,741	210,506	911,039	3,326,516

(in thousands of Korean won):

2022					
Classification	Name of entity	Sales	Other income	Purchases	Acquisition of assets and others
Associates	Kalos Medical, Inc.	21,277	3,838	-	-
	Teva-Handok pharma Co., Ltd	1,857,007	2,064	997,200	-
	Genexine, Inc.	2,143	391,884	-	356,185
	NB Postech, Inc.	-	125,874	331,316	5,593
Joint venture	Rezolute, Inc.	-	28,090	-	-
Other related parties	Y&S International Co., Ltd.	4,968	-	-	-
Total		1,885,395	551,750	1,328,516	361,778

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

39. Related Party, Continued

Outstanding balances with related parties as at December 31, 2023 and 2022, are as follows :

(in thousands of Korean won):

December 31, 2023						
Classification	Name of entity	Receivables			Payables	
		Trade receivables	Loans	Other receivables	Trade payables	Other payables
Associates	Kalos Medical, Inc.	823	3,000,000	21,992	-	-
	Teva-Handok pharma Co., Ltd	620,749	680,000	1,837	281,848	210,970
	Genexine, Inc.	272	-	-	-	3,327
	NB Postech, Inc.	-	600,000	7,373	-	-
Other related parties	Y&S International Co., Ltd.	-	-	-	-	151,110
Total		621,844	4,280,000	31,202	281,848	365,407

(in thousands of Korean won):

December 31, 2022							
Classification	Name of entity	Receivables				Payables	
		Trade receivables	Loans	Investment	Other receivables	Trade payables	Other payables
Associates	Kalos Medical, Inc.	1,747	-	-	426	-	190,000
	Teva-Handok pharma Co., Ltd	279,709	-	-	457	274,230	210,970
	Genexine, Inc.	265	-	-	-	-	62,777
	NB Postech, Inc.	-	1,000,000	4,000,003	26,171	-	-
Other related parties	Y&S International Co., Ltd.	-	-	-	-	-	151,110
Total		281,721	1,000,000	4,000,003	27,054	274,230	614,857

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

39. Related Party, Continued

Financing transactions with related parties for the years ended December 31, 2023 and 2022, are as follows.

(in thousands of Korean won):

2023					
Classification	Company	Funding transactions		Share issuance, etc.	Other
		Loans	Retrieval		
Associates	Genexine, Inc.	-	-	12,814,019	-
Associates	Kalos Medical, Inc.	3,000,000	-	-	-
Associates	Teva-Handok pharma Co., Ltd	680,000	-	-	-
Associates	NB Postech, Inc.	1,000,000	1,400,000	-	-
Employees	Employee benefits	295,000	154,200	-	-

There are no provision for impairment from related parties.

(in thousands of Korean won):

2022					
Classification	Company	Funding transactions		Share issuance, etc.	Other
		Loans	Retrieval		
Associates	Rezolute, Inc.	-	-	15,755,600	-
Employees	Employee benefits	90,000	314,940	-	-

Compensation for key management

The compensation paid or payable to key management(named executive officers) for employee services for the years ended December 31, 2023 and 2022, are as follows.

(in thousands of Korean won):

Classification	2023	2022
Short-term benefits	1,671,231	1,522,754
Post-employment benefits	702,345	223,081
Other long-term employee benefits	36,663	6,460
Share-based payments (reversal of share-based payments)	(14,611)	(40,193)
Total	2,395,628	1,712,102

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

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Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2023 and 2022

40. Segment Information

The Group does not disclose segment information as it has a single reportable segment in accordance with K-IFRS 1108 (Operating Segments).

However, information by region is as follows :

(in thousands of Korean won):

Classification	2023			2022		
	Korea	Non-Korea	Total	Korea	Non-Korea	Total
Sales	509,333,252	13,407,828	522,741,080	516,088,499	27,670,653	543,759,152

There are no external customers accounting for more than 10% of the Group's total sales during the reporting period.