

BINGGRAE CO., LTD. AND ITS SUBSIDIARIES

Consolidated Financial Statements

December 31, 2023 and 2022

(With Independent Auditor's Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

To the Shareholders and Board of Directors of
Binggrae Co.,Ltd. and its Subsidiaries

Opinion

We have audited the consolidated financial statements of Binggrae Co.,Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2023 the consolidated statements of 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 years 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 statements in 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 matter is that matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2023. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Appropriateness of Revenue Recognition by Sales Channel

Reasons for Determining as Key Audit Matter

The revenue of the Group is derived from various channels, including large supermarkets (SSM), convenience stores (CVS), distributors and directly operated retail stores, and exports. Among these, revenue from directly operated retail stores is recognized upon delivery by sales representatives, while revenue from distributors and export sales is recognized at the point when control of goods transferred according to the terms of the contracts with the customers.

As a publicly listed entity in the securities market, the Group is under pressure on its financial performance from both inside and outside stakeholders, and as revenue is included in the company's key performance indicators, there is a high inherent risk that revenue is recognized before the conditions for revenue recognition are met or adjusted to meet performance targets.



Considering these inherent risks, the significance of export sales in total revenue, and the risk of misstatements on timing of revenue recognition through timing adjustments, we identified the appropriateness of revenue recognition for sales from directly operated stores to retail stores and sales from distributors and export sales as a key audit matter.

Approach to Address Key Audit Matter

Our audit procedures to address this key audit matter include:

- Testing design and operation of internal control related to revenue recognition

We evaluated the design, implementation, and operation of the company's key internal controls related to revenue recognition.

- Assessment of the appropriateness of revenue recognition for sales from directly operated retail stores and distributor and export sales

To assess whether revenue from sales from directly operated stores and distributor and export sales was recognized in the appropriate accounting period, we examined source documents from sales transactions over a certain period before and after the financial statement date. Additionally, we verified delivery conditions or terms of trade on bill of lading to assess the appropriateness of revenue recognition timing.

Other Matters

The consolidated financial statements of the Group for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on March 7, 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 determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- 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 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 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 Kim Joong Kyu.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 5, 2024

This report is effective as of March 5, 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.

Binggrae Co., Ltd. and its Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2023 and 2022

<i>(in millions of Korean won)</i>	Notes	2023	2022
Assets			
Current assets			
Cash and cash equivalents	5,31,32	₩ 147,882	79,222
Short-term financial assets	6,31,32	25,325	13,445
Accounts and notes receivable, net	7,31,32	83,255	81,104
Inventories	8	126,483	127,475
Other accounts receivable	29,31,32	1,187	1,925
Accrued income	31,32	896	285
Short term advance payments		228	166
Short-term prepaid expenses	7	7,402	9,033
Current tax assets		-	248
Other current assets		2,374	2,365
		<u>395,032</u>	<u>315,268</u>
Non-current assets			
Long-term financial assets	6,31,32	24,326	31,564
Property, plant and equipment, net	9,11	353,042	298,726
Investment property	10	2,168	2,213
Intangible assets, net	12	47,958	57,228
Right-of-use assets	18	30,719	27,217
Guarantee deposits	13,29,31,32	16,530	27,928
Long-term advance payments		1,561	1,545
Long-term prepaid expenses		458	228
Deferred tax assets	27	11,232	7,350
Net defined benefit assets	17	7,691	-
		<u>495,685</u>	<u>453,999</u>
Total assets		₩ 890,717	769,267
Liabilities			
Current liabilities			
Accounts and notes payable	31,32	₩ 73,626	75,898
Other accounts payable	29,31,32	42,752	40,280
Short-term accrued expenses	31,32	27,070	13,986
Short-term borrowings	16,31,32	5,000	-
Income taxes payable	27	19,859	7,960
Dividends payable	31,32	3	3
Short-term lease liabilities	18,31,32	10,251	8,527
Other current liabilities	15	3,564	5,792
		<u>182,125</u>	<u>152,446</u>

Bingrae Co., Ltd. and its Subsidiaries
Consolidated Statements of Financial Position, Continued
As of December 31, 2023 and 2022

<i>(in millions of Korean won)</i>	Notes	2023	2022
Non-current liabilities			
Long-term borrowings	16,31,32	11,370	-
Net defined benefit liabilities	17	14,825	3,933
Long-term guarantee deposits received	15,31,32	7,550	5,900
Long-term accrued expenses	31,32	7,709	6,822
Long-term lease liabilities	18,31,32	21,011	18,722
Other non-current liabilities	15	610	-
Deferred tax liabilities	27	3,919	5,675
		66,994	41,052
Total liabilities		₩ 249,119	193,498
Equity			
Issued capital	1,19	₩ 49,756	49,756
Share premium	19	64,769	64,769
Other components of equity	20	(22,482)	(22,482)
Accumulated other comprehensive income	21	(4,393)	(3,714)
Reserves	22	485,201	463,801
Retained earnings	23	68,747	23,639
Equity attributable to owners of the parent		641,598	575,769
Non-controlling interests		-	-
Total equity		641,598	575,769
Total liabilities and equity		₩ 890,717	769,267

See accompanying notes to the consolidated financial statements.

Binggrae Co., Ltd. and its Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2023 and 2022

<i>(in millions of Korean won)</i>	Notes	2023	2022
Sales	4,29	₩ 1,394,316	1,267,686
Cost of sales	24,29	(953,133)	(931,975)
Gross profit		441,183	335,711
Selling and administrative expenses	24,29	(328,938)	(296,303)
Operating income		112,245	39,408
Non-operating income (expenses):			
Finance income	25,32	7,093	5,566
Finance costs	25,32	(4,757)	(3,873)
Other income	26	6,972	1,041
Other expenses	26	(10,597)	(5,418)
		(1,289)	(2,684)
Net income before income taxes		110,956	36,724
Income tax expense	27	(24,738)	(11,038)
Net income for the year		₩ 86,218	25,686
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax:			
Gains (losses) on valuation of financial assets at fair value through OCI	32	₩ (720)	(1,656)
Remeasurement gains (losses) on defined benefit plans	17	(6,448)	5,694
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:			
Foreign currency translation differences for foreign operations		41	548
Total comprehensive income, net of tax		₩ 79,091	30,272
Net profit for the year attributable to:			
Equity holders of the parent	28	₩ 86,218	25,686
Non-controlling interests		-	-
Total comprehensive income attributable to:			
Equity attributable to owners of the parent company		₩ 79,091	30,272
Non-controlling interests		-	-
Earnings per share (per share amounts in Korean won):	28		
Basic earnings for the year attributable to ordinary equity holders of the parent		₩ 9,751	2,905
Diluted earnings for the year attributable to ordinary equity holders of the parent		9,751	2,905

See accompanying notes to the consolidated financial statement.

Bingrae Co., Ltd. and its Subsidiaries
Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2023 and 2022

(in millions of Korean won)

	Equity attributable to owners of the parent company							
	Issued capital	Share premium	Other components of equity	Accumulated other comprehensive income	Reserves	Retained earnings	Non-controlling interests	Total equity
As of January 1, 2022	₩ 49,756	64,769	(22,482)	(2,606)	485,501	(17,062)	-	557,876
Net income	-	-	-	-	-	25,686	-	25,686
Loss on valuation of financial assets at fair value through OCI	-	-	-	(1,656)	-	-	-	(1,656)
Re-measurement losses on defined benefit plans	-	-	-	-	-	5,694	-	5,694
Gain from translation of foreign operations	-	-	-	548	-	-	-	548
Total comprehensive income for the year	-	-	-	(1,108)	-	31,380	-	30,272
Dividends	-	-	-	-	-	(12,379)	-	(12,379)
Transfer from reserves	-	-	-	-	(23,000)	23,000	-	-
Transfer to reserves	-	-	-	-	1,300	(1,300)	-	-
Transactions with owners of the Group, recognized directly in equity	-	-	-	-	(21,700)	9,321	-	(12,379)
As of December 31, 2022	₩ 49,756	64,769	(22,482)	(3,714)	463,801	23,639	-	575,769

Bingrae Co., Ltd. and its Subsidiaries
Consolidated Statements of Changes in Equity, Continued
For the Years Ended December 31, 2023 and 2022

(in millions of Korean won)

	Equity attributable to owners of the parent company							
	Issued capital	Share premium	Other components of equity	Accumulated other comprehensive income	Reserves	Retained earnings	Non-controlling interests	Total equity
As of January 1, 2023	₩ 49,756	64,769	(22,482)	(3,714)	463,801	23,639	-	575,769
Net income	-	-	-	-	-	86,218	-	86,218
Loss on valuation of financial assets at fair value through OCI	-	-	-	(720)	-	-	-	(720)
Re-measurement losses on defined benefit plans	-	-	-	-	-	(6,448)	-	(6,448)
Gain from translation of foreign operations	-	-	-	41	-	-	-	41
Total comprehensive income for the year	-	-	-	(679)	-	79,770	-	79,091
Dividends	-	-	-	-	-	(13,262)	-	(13,262)
Transfer from reserves	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	21,400	(21,400)	-	-
Transactions with owners of the Group, recognized directly in equity	-	-	-	-	21,400	(34,662)	-	(13,262)
As of December 31, 2023	₩ 49,756	64,769	(22,482)	(4,393)	485,201	68,747	-	641,598

See accompanying notes to the consolidated financial statements.

Binggrae Co., Ltd. and its Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

<i>(in millions of Korean won)</i>	Notes	2023	2022
Operating activities			
Net income		₩ 86,218	25,686
Non-cash adjustments to reconcile net income to net cash flows provided by operating activities	30	96,532	80,385
Working capital adjustments	30	(9,910)	(107,427)
Income tax paid		(16,118)	(9,888)
Net cash flows used in operating activities		156,722	(11,244)
Investing activities			
Interest received		3,367	2,654
Dividends received		247	265
Increase(decrease) in short-term financial assets		(10,105)	57,041
Increase(decrease) in long-term financial assets		4,731	(314)
Increase in loans		333	517
Decrease in loans		(1,210)	(3,037)
Proceeds from disposal of property, plant and equipment		528	301
Acquisition of property, plant and equipment		(84,687)	(28,009)
Acquisition of intangible assets		(839)	(898)
Decrease in guarantee deposits		15,534	1,253
Increase in guarantee deposits		(3,756)	(10,393)
Net cash flows provided by investing activities		(75,857)	19,380
Financing activities			
Interest paid		(204)	(115)
Payment of dividends		(13,262)	(12,378)
Payment of lease liabilities		(14,840)	(11,717)
Increase short-term borrowings		5,000	9,916
Increase long-term borrowings		11,370	-
Decrease short-term borrowings		-	(9,916)
Net cash flows used in financing activities		(11,936)	(24,210)
Net increase (decrease) in cash and cash equivalents		68,929	(16,074)
Net increase (decrease) in cash and cash equivalents denominated in foreign currencies arising from foreign exchange differences		(269)	(554)
Cash and cash equivalents at beginning of year		79,222	95,850
Cash and cash equivalents at end of year		₩ 147,882	79,222

See accompanying notes to the consolidated financial statements.

Binggrae Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
As of December 31, 2023 and 2022
For the Years Ended December 31, 2023 and 2022

1. General information

1.1 Corporate information

Binggrae Co., Ltd. (the “Parent Company” or the “Company”) was established on September 13, 1967. The Company changed its name from Daeil Co., Ltd. to Binggrae Co., Ltd. on February 25, 1982 and is engaged in the production and sales of various dairy products. The Company’s headquarter is located at 45, Dasansunhwan-ro, Namyangjoo-si, Gyeonggi-do, and the Company’s production facilities are located in Namyangjoo-si, Gimhae-si, Gwangju-si and Nonsan-si.

The Company’s ordinary shares have been listed on the Korea Exchange since August 1978. As at the end of the current reporting period, the Company’s issued capital amounting to ₩49,756 million. Details of the Company’s shareholders and their ownership interest are as follows:

Name of Shareholders	Number of shares	Ownership
Ho-Youn Kim	3,620,527	36.75%
Treasury stock	1,009,440	10.25%
Others	5,221,274	53.00%
	<u>9,851,241</u>	<u>100.00%</u>

1.2 Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2023 and 2022 are as follows:

Name of subsidiary	Location	Year end	2023		2022		Principal business actuary
			Equity ownership	Non-controlling interests	Equity ownership	Non-controlling interests	
Haitai Ice Cream. Co., Ltd.	Korea	December 31	100%	-	100%	-	Food manufacturing and sales
BC F&B Shanghai Co., Ltd.	China	December 31	100%	-	100%	-	Food import and distribution
BC F&B USA Corp.	USA	December 31	100%	-	100%	-	Food import and distribution
BC F&B Vietnam Co., Ltd.	Vietnam	December 31	100%	-	100%	-	Food import and distribution

Summarized financial information of subsidiaries as of and for the years ended December 31, 2023 and 2022 included in consolidation are as follows (In millions of Korean won):

Name of subsidiary	2023					
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss) for the year	Total comprehensive income (loss)
Haitai Ice Cream. Co., Ltd.	₩ 148,890	65,934	82,956	199,103	14,782	12,824
BC F&B Shanghai Co., Ltd.	7,180	853	6,327	38,018	2,138	2,092
BC F&B USA Corp.	14,325	2,450	11,875	59,773	7,100	7,236
BC F&B Vietnam Co., Ltd.	4,632	739	3,893	10,182	443	397

1. General information (Continued)

1.2 Consolidated subsidiaries (Continued)

Name of subsidiary	2022					
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss) for the year	Total comprehensive income (loss)
Haitai Ice Cream. Co., Ltd.	₩ 111,085	40,952	70,133	174,853	3,579	4,260
BC F&B Shanghai Co., Ltd.	6,039	771	5,268	23,916	546	525
BC F&B USA Corp.	8,105	1,081	7,023	57,853	2,259	2,768
BC F&B Vietnam Co., Ltd.	4,588	1,092	3,496	10,359	437	517

2 Basis of presentation and summary of significant accounting policies

2.1 Basis of Preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments, and other assets that have been measured at fair value. The consolidated financial statements are presented in Korean won (KRW).

2.2 Consolidation Principles

The consolidated financial statements consist of the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") as of December 31 of each accounting year. Control is acquired when the Group 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. Specifically, the Group controls the investee only if it has all of the following:

- Power over the investee (i.e., existing right to have the current ability to direct the investee's related activities)
- Exposure to or rights to variable profits resulting from involvement in the investee
- The ability to use its power over the investee to affect the amount of the investor's profits

When the Group holds less than half of the voting rights of the investee, the Group evaluates whether it has power over the investee by considering all relevant facts and circumstances, including:

- Contractual agreements between investors and other voting rights holders
- Rights arising from other contractual agreements
- Voting rights and potential voting rights of the Group

The Group reassesses whether it controls an investee if there are changes in one or more of the three elements of control. Consolidation to a subsidiary occurs from the time Group acquires control over the subsidiary until it loses control. Assets, liabilities, income, and expenses of subsidiaries acquired or disposed of during the period are included in the statement of comprehensive income from the date the Group acquires control until the date the Group no longer controls the subsidiaries.

2 Basis of presentation and summary of significant accounting policies (Continued)

2.2 Consolidation Principles (Continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if the non-controlling interest becomes a negative (-) balance. When necessary, the financial statements of subsidiaries are adjusted to align their accounting policies with those of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are fully eliminated.

Changes in the ownership interest of a subsidiary that do not result in loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, it derecognizes the assets (including goodwill), liabilities, non-controlling interests, and other items of equity of the subsidiary at the date when control is lost and recognizes the resulting gain or loss in profit or loss. The remaining investment in the former subsidiary is measured at fair value.

2.3 Summary of material Accounting Policies

(1) Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

	<u>Notes</u>
Disclosure for valuation methods, significant estimates and assumptions	3, 17, 32
Financial instruments (including those carried at amortized cost)	32
Quantitative disclosures of fair value measurement hierarchy	32

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(2) Foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

① Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

2 Basis of presentation and summary of significant accounting policies (Continued)

2.3 Summary of material Accounting Policies (Continued)

(2) Foreign currencies (Continued)

① Transactions and balances (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

② Foreign entities

On consolidation, the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

(3) Property, plant and equipment

The estimated useful lives are as follows:

	Estimated Useful lives
Buildings	30 - 50 years
Structures	12 or 25 years
Machinery	6 - 12 years
Vehicles	6 years
Tools, furniture and others	6 years

(4) Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

(5) Inventories

Inventories are valued at the lower of cost and net realizable value. Meanwhile, initial cost of inventories includes purchase cost, transfer cost and other costs incurred in bringing each product to its present location and conditions. The cost of inventories is based on the specific identification method for materials-in-transit and on the gross average method for all other inventories.

2 Basis of presentation and summary of significant accounting policies (Continued)

2.3 Summary of material Accounting Policies (Continued)

(6) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

• Financial assets

① Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under KIFRS 1115. Refer to the accounting policies in section 2.3.(9) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

② Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions
- Debt instruments at fair value through OCI
- Trade receivables, including contract assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2 Basis of presentation and summary of significant accounting policies (Continued)

2.3 Summary of material Accounting Policies (Continued)

(6) Financial instruments (Continued)

• Financial assets (Continued)

② Impairment of financial assets (Continued)

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 60 days past due.

• Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables and other payables.

(7) Intangible assets

Goodwill

The amount of non-controlling interest in the acquiree and the sum of fair value at the acquisition date of the acquiree's previous interest in the acquiree are measured as goodwill and goodwill is included in the intangible asset. The goodwill is tested annually for impairment and marked at the cost minus the cumulative amount of impairment losses.

The estimated useful lives are as follows:

	Estimated Useful lives
Industrial proprietary rights	5 - 10 years
Facility usage rights	Indefinite
Customer relationship	5 years
Goodwill	Indefinite
Other intangible assets	5 years

2 Basis of presentation and summary of significant accounting policies (Continued)

2.3 Summary of material Accounting Policies (Continued)

(8) Employee benefits

The Group operates a defined benefit plan and a defined contribution plan for its employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

The Group operates a defined contribution pension plan. The Group requires contributions to be made to separately administered funds. The amount of retirement benefits to be paid to employees in the future is determined by the contribution paid to the fund and the return on investment.

(9) Revenue from contracts with customers

The Group is in the business of manufacturing and selling dairy products, etc. and sells them through distributors, directly operated retail stores, new distribution vendors, special sales (direct sales), online vendors, and exports. Revenues resulting from the sale of products through contracts with customers are recognized at the time the products are delivered to the customer in the case of domestic sales, and in the case of exports, revenue is recognized according to Incoterms.

The transaction price is determined immediately when customers purchase and receives delivery of products from the store. The collection period for accounts receivables from product sales is between 30 to 60 days after delivery. When determining the transaction price, the Group considers variable consideration, significant financing factors, non-cash consideration, and consideration payable to customers.

According to the Group's sales policy, customers have the right to return products within a certain period after purchase. Therefore, the Group reviews at the end of each reporting period whether to recognize refund liabilities (other current liabilities) and rights to goods to be collected (inventory assets) should be recognized for products expected to be returned. The Group anticipates that there will not be significant returns recognized in the financial statements due to reasons such as short product shelf life.

(10) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group determines whether the contract itself is a lease or whether the contract includes a lease at the time of contract conclusion, considering whether the contract transfers the right to control the use of identified assets for a certain period of time in exchange for consideration.

- Accounting Policy as a Lessee

The Group applies a single recognition and measurement approach to all leases other than short-term leases and leases of low-value asset. The Group recognizes both lease liabilities representing the obligation to make lease payments and right-of-use assets representing the right to use the underlying asset.

2 Basis of presentation and summary of significant accounting policies (Continued)

2.3 Summary of material Accounting Policies (Continued)

(10) Leases (Continued)

① Right-of-Use Assets

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the asset as follows:

Buildings: 30 to 50 years

Vehicles: 6 years

Machinery and equipment: 6 to 12 years

Depreciation is calculated using the estimated useful life of the underlying asset if ownership of the underlying asset is transferred to the Group at the end of the lease period or if the cost of the right-of-use asset reflects that the Group will exercise its purchase option.

② Lease liabilities

When calculating the present value of lease payments, the Group discounts the lease payments at the interest rate implicit in the lease if it can be easily calculated. In cases where the implied interest rate cannot be easily calculated, the Group use the incremental borrowing interest rate of the lessee, the interest rate that would be paid if the lessee borrowed the funds necessary to acquire an asset of similar value to the right-of-use asset with similar collateral over a similar period of time in a similar economic environment.

③ Short-term leases and leases of low-value

The Group applies an exemption from recognition for short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) for leases of machinery and equipment. Lease payments for short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term.

(11) New and amended standards and interpretations

The Company applied the following standards and amendments for the first time for the annual reporting period commencing on January 1, 2023.

① Amendments to Korean IFRS 1001, Presentation of Financial Statements - Disclosure of Accounting Policies

The amendments replace the term 'significant' accounting policy information with 'material' accounting policy and clarify its meaning. These amendments do not result in a change in accounting policy but affects the accounting policy information disclosed in the consolidated financial statements. In addition, IFRS Practice Statement 2, Making Materiality Judgments has been amended to provide guidance on the application of the concept of materiality.

The Company's management reviewed its accounting policies and the Company has adopted the amendments to the standard and discloses the Company's material accounting policies in Note 2.

2 Basis of presentation and summary of significant accounting policies (Continued)

2.3 Summary of material Accounting Policies (Continued)

(11) New and amended standards and interpretations (Continued)

② Amendments to Korean IFRS 1008, Accounting Policies - Changes in Accounting Estimates and Errors

The amendments clarify how accounting estimates are defined and distinguished from changes in accounting policies. The adoption of the amendments does not have a significant impact on the financial statements.

③ Amendments to Korean IFRS 1012, Income Tax - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments add to a condition to the initial recognition exemption that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The adoption of the amendments does not have a significant impact on the financial statements.

(12) New and amended standards not yet adopted by the Company

The following new and amended accounting standards and interpretations have been published that are not mandatory for annual periods beginning on or after January 1, 2023 reporting periods and have not been early adopted by the Company.

① Amendments to Korean IFRS 1001, Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments are applied for annual periods beginning on or after January 1, 2024, with early application permitted. The Company anticipates that the amendments will not have a significant impact on the financial statements.

② Amendments to Korean IFRS 1007, Statement of Cash Flows, and Korean IFRS 1107, Financial Instruments: Presentation - Supplier Finance Arrangement

The amendments add to the disclosure objectives in Korean IFRS 1007, *Statement of Cash Flows*, that information about supplier financing arrangements should be disclosed to enable users of financial statements to assess the impact of those arrangements on the Company's liabilities and cash flows. The amendments also amend Korean IFRS 1107, *Financial Instruments: Presentation*, to add supplier financing arrangements as an example of a requirement to disclose information about an entity's exposure to concentrations of liquidity risk. The amendments are applied for annual periods beginning on or after January 1, 2024, with early application permitted. The Company anticipates that the amendments will not have a significant impact on the financial statements.

2 Basis of presentation and summary of significant accounting policies (Continued)

2.3 Summary of material Accounting Policies (Continued)

(12) New and amended standards not yet adopted by the Company (Continued)

③ Amendments to Korean IFRS 1116, Leases - Lease Liability in a sale-and-leaseback

When subsequently measuring lease liabilities arising from sale-and-leaseback transactions, the amendments require to calculate 'revised lease payments' in a manner that does not recognize gains or losses related to the usage rights held by the seller-lessee. The amendments are applied for annual periods beginning on or after January 1, 2024, with early application permitted. The Company anticipates that the amendments will not have a significant impact on the financial statements.

④ Amendments to Korean IFRS 1021, The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability

The amendments require the use of the exchange rate at which the transaction or balance's future cash flows, if settled at the measurement date, would have been paid if multiple exchange rates are available. In cases where there is a temporary inability to exchange currencies, the exchange rate at the first subsequent exchange is to be utilized. The amendments are applied for annual periods beginning on or after January 1, 2025, with early application permitted. The Company anticipates that the amendments will not have a significant impact on the financial statements.

3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

	<u>Notes</u>
Principal actuarial assumptions	17
Financial risk management objectives and policies	31

4. Operating segment information

Segments of revenue from contracts with customers for the years ended December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Category of refrigerated products (milk and milk beverages, etc.)	₩ 608,548	573,196
Category of frozen and other products (ice cream etc.)	785,768	694,490
	<u>₩ 1,394,316</u>	<u>1,267,686</u>
Timing of revenue recognition		
Goods transferred at a point in time	1,394,316	1,267,686
	<u>₩ 1,394,316</u>	<u>1,267,686</u>

5. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Cash on hand	₩ 7	8
Deposits	147,875	79,214
	<u>₩ 147,882</u>	<u>79,222</u>

6. Financial assets

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

<i>(in millions of Korean won)</i>	2023	2022
Financial assets at fair value through profit or loss	₩ 20,386	19,420
Financial assets at fair value through OCI	9,094	10,021
Financial assets at amortized cost	20,171	15,569
	<u>₩ 49,651</u>	<u>45,010</u>

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

<i>(in millions of Korean won)</i>	2023	2022
Short-term		
Financial investments	₩ 4,000	3,025
Win-win fund	5,000	-
	<u>9,000</u>	<u>3,025</u>
Long-term		
Hybrid securities	4,808	9,328
Funds and other investments	4,321	5,169
Venture Fund	2,257	1,897
	<u>11,386</u>	<u>16,395</u>
	<u>₩ 20,386</u>	<u>19,420</u>

6. Financial assets (Continued)

Financial assets at fair value through OCI as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Long-term		
Marketable securities	₩ 9,081	10,009
Non-marketable securities	13	13
	₩ 9,094	10,021

Financial assets at amortized cost as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Short-term		
Term deposits	₩ 16,323	5,420
Deposits for checking accounts	2	-
Other deposits	-	5,000
	16,325	10,420
Long-term		
Term deposits	-	1,814
Deposits for checking accounts	3	3
Long-term loans	3,843	3,331
	3,846	5,149
	₩ 20,171	15,569

Financial assets with restrictions for use as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	Financial institution	2023	2022	Description
Short-term deposits	Industrial Bank of Korea	₩ 5,000	5,000	Shared growth cooperative loans
	Shinhan Bank	2	-	Deposits for checking accounts
Long-term deposits	Shinhan Bank	3	3	Deposits for checking accounts

7. Accounts and notes receivable and prepaid expenses

Accounts and notes receivable and prepaid expenses are presented as net of allowances for impairment. Gross amount and related allowances as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Accounts and notes receivable	₩ 83,631	81,958
Prepaid expenses	7,428	9,085
	91,059	91,043
Allowance for doubtful accounts:		
Accounts and notes receivable	(376)	(854)
Prepaid expenses	(26)	(52)
	(402)	(906)
Book value:		
Accounts and notes receivable	83,255	81,104
Prepaid expenses	7,402	9,033
	₩ 90,657	90,137

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

<i>(in millions of Korean won)</i>	2023	2022
As at January 1,	₩ 906	1,098
Bad debt expense	-	(280)
Bad debt reversal	(66)	180
Write-off	(438)	(92)
As of December 31,	₩ 402	906

As of December 31, 2023 and 2022, the aging analysis of accounts and notes receivable is as follows:

<i>(in millions of Korean won)</i>	2023		2022	
	Accounts and notes receivable	Allowance for doubtful accounts	Accounts and notes receivable	Allowance for doubtful accounts
< 180 days	₩ 83,227	(138)	81,097	(332)
181~365 days	106	(52)	357	(209)
> 365 days	298	(186)	504	(313)
	₩ 83,631	(376)	81,958	(854)

8. Inventories

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

<i>(in millions of Korean won)</i>	2023	2022
Merchandise	₩ 20,810	18,467
Finished goods	42,676	27,462
Work-in-process	3,195	4,913
Raw materials	49,923	57,916
Materials in-transit	9,879	18,717
	₩ 126,483	127,475

9. Property, plant and equipment, net

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

(in millions of Korean won)

	2023					
	Land	Buildings and structures	Machinery and vehicles (*1)	Tools, furniture and other	Construction-in-progress	Total
Acquisition cost:						
As of January 1	₩ 70,952	106,790	365,168	121,336	9,623	673,869
Additions	355	570	3,676	10,544	77,790	92,935
Disposals	(19)	(839)	(10,995)	(2,034)	-	(13,887)
Other(*2)	-	13,818	5,064	2,085	(21,325)	(358)
As of December 31	71,288	120,339	362,913	131,931	66,088	752,559
Accumulated depreciation and impairment						
As of January 1	-	(54,687)	(232,605)	(87,851)	-	(375,143)
Additions	-	332	9,467	1,859	-	11,658
Disposals	-	(2,358)	(22,416)	(11,256)	-	(36,030)
Other(*2)	-	-	2	(4)	-	(2)
As of December 31	-	(56,713)	(245,552)	(97,252)	-	(399,517)
Net book value:						
As of January 1	₩ 70,952	52,103	132,563	33,485	9,623	298,726
As of December 31	71,288	63,626	117,361	34,679	66,088	353,042

(*1) Amounts are net of government grants.

(*2) The amounts of replacement from Construction-in-progress to assets and the effects of foreign exchange differences are included in Others.

	2022					
	Land	Buildings and structures	Machinery and vehicles (*1)	Tools, furniture and other	Construction-in-progress	Total
Acquisition cost:						
As of January 1	₩ 62,855	102,943	361,326	118,924	7,480	653,528
Additions	270	277	4,173	9,964	18,191	32,875
Disposals	(9)	(3,454)	(13,763)	(7,706)	-	(24,932)
Other(*2)	7,836	7,024	13,432	154	(16,048)	12,398
As of December 31	70,952	106,790	365,168	121,336	9,623	673,869
Accumulated depreciation and impairment						
As of January 1	-	(51,121)	(221,936)	(84,983)	-	(358,040)
Disposals	-	1,779	12,786	7,584	-	22,149
Depreciation	-	(2,335)	(23,280)	(10,497)	-	(36,112)
Others (*2)	-	(3,010)	(175)	45	-	(3,140)
As of December 31	-	(54,687)	(232,605)	(87,851)	-	(375,143)
Net book value:						
As of January 1	₩ 62,855	51,822	139,390	33,941	7,480	295,488
As of December 31	70,952	52,103	132,563	33,485	9,623	298,726

(*1) Amounts are net of government grants.

(*2) The amounts of replacement from Construction-in-progress to assets and the effects of foreign exchange differences are included in Others.

10. Investment Property

Changes in the book value of investment property for the year ended December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	
	Building	
Acquisition cost:		
Balance at beginning of year	₩	2,262
Balance at end of year		2,262
Accumulated depreciation:		
Balance at beginning of year		(49)
Depreciation		(45)
Balance at end of year		(94)
Net book value at Beginning of year		2,213
Net book value at end of year	₩	2,168

	2022		
	Land	Building	Total
Acquisition cost:			
Balance at beginning of year	₩ 7,762	9,246	17,008
Other increase(decrease)	(7,762)	(6,984)	(14,746)
Disposals	-	-	-
Balance at end of year	-	2,262	2,262
Accumulated depreciation:			
Balance at beginning of year	-	(2,950)	(2,950)
Disposals	-	-	-
Others	-	2,946	2,946
Depreciation	-	(45)	(45)
Balance at end of year	-	(49)	(49)
Book value			
Net book value at beginning of year	7,762	6,296	14,058
Net book value at end of year	₩ -	2,213	2,213

The following are the amounts recognized in rental income:

<i>(in millions of Korean won)</i>	2023	2022
Income-generating property	₩ -	514
Maintenance expense	45	514

The fair value of the investment property has not significant difference from the book value as of December 31, 2023 and 2022.

11. Government grants

The Group received government subsidies totaling ₩ 63 million during the current period and ₩ 300 million before the current period for the purchase of machinery related to Food and Rural Affairs' greenhouse gas reduction technology demonstration project sponsored by the Ministry of Agriculture. These government subsidies are presented as deductions from the machinery. The amortized value of the asset is ₩68 million and ₩61 million, respectively, in the current and prior terms, and the Government grants of ₩28 million and ₩25 million were offset from the same amount, respectively. As a result, the cumulative amount of the depreciation cost and offsetting amount of the asset increased from ₩141 million at the end of the previous term to ₩169 million at the end of the current term.

The Group reflects the government subsidies received in connection with the Korea Agricultural and Fisheries Food Distribution Corporation's project to support export logistics costs as an item to deduct export logistics costs.

12. Intangible assets

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

(in millions of Korean won)

	2023					
	Industrial property rights	Software and Other intangible assets	Facility usage rights	Customer Relationship	Goodwill	Total
Balance at Jan.1	₩ 19,296	3,898	1,477	5,830	26,726	57,227
Additions	543	307	-	-	-	850
Amortization	(6,974)	(1,041)	-	(2,120)	-	(10,135)
Others(*)	16	-	-	-	-	16
Balance at Dec.31	₩ 12,881	3,164	1,477	3,710	26,726	47,958

(*) The amounts of replacement from Construction-in-progress to assets are included in Others

	2022					
	Industrial property rights	Software and Other intangible assets	Facility usage rights	Customer Relationship	Goodwill	Total
Balance at Jan.1	₩ 25,718	2,469	1,807	7,950	26,726	64,670
Additions	513	376	-	-	-	889
Amortization	(6,935)	(1,528)	-	(2,120)	-	(10,583)
Others(*)	-	2,581	(330)	-	-	2,251
Balance at Dec.31	₩ 19,296	3,898	1,477	5,830	26,726	57,227

(*) The amounts of replacement from Construction-in-progress to assets are included in Others

Research and development costs incurred and recognized in profit or loss for the years ended December 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	2023	2022
Cost of sales	₩ 2,657	2,394
Selling and administrative expenses	6,341	5,387
	₩ 8,998	7,781

13. Guarantee deposits

Details of guarantee deposits that are measured at amortized cost using the effective interest method as of December 31, 2023 and 2022 are as follows:

(in millions of Korean won)	2023		2022	
	Effective interest rate	Book value	Effective interest rate	Book value
Guarantee deposits	1.66% ~ 5.45%	₩ 16,530	2.08% ~ 5.88%	₩ 27,928

14. Pledged assets

Details of assets pledged for the Group's borrowings as of December 31, 2023 are as follows:

(in millions of Korean won)	Pledged assets	Book value	Borrowing	Pledged amount
Korea Development Bank	Land, buildings	₩ 18,861	-	21,000
	Land, buildings	33,956	-	9,600
Shinhan Bank	Land, buildings, machinery	11,322	12,000	18,000
Woori Bank	Land, buildings	33,956	-	12,000

15. Other current liabilities

Other current liabilities as of December 31, 2023 and 2022 are as follows:

(in millions of Korean won)	2023		2022	
	Short-term	Long-term	Short-term	Long-term
Advances received	₩ 1,493	-	2,387	-
Withholdings	1,735	-	1,804	-
Deposits received for guarantees	3	-	3	-
Deposits for letter of guarantees and others	-	7,550	1,598	5,900
Provision for restoration cost	334	610	-	-
	₩ 3,565	8,160	5,792	5,900

Changes in the provision for restoration cost for the years ended December 31, 2023 is as follows:

(in millions of Korean won)	2023		
	Current	Non-current	Total
Balance at Jan.1	₩ -	-	-
Increase	334	610	944
Decrease	-	-	-
Balance at Dec.31	₩ 334	610	944

16. Borrowings

Short-term borrowings as of December 31, 2023 is as follows:

<i>(in millions of Korean won)</i>	2023				
	Borrower	Effective date	Expiration date	Interest (%)	Amount
Commercial paper	Shinhan Bank	2023.4.12	2024.4.9	4.16	₩ 5,000

Long-term borrowings as of December 31, 2023 is as follows (In millions of Korean won):

	2023				
	Borrower	Effective date	Expiration date	Interest (%)	Amount
Policy borrowings	Nonghyup Bank	2023.5.4	2025.5.4	2.00	₩ 4,370
Facility borrowings	Shinhan Bank	2023.11.15	2028.11.15	MOR 1Y + 0.69	7,000
					<u>₩ 11,370</u>

17. Employee benefits

The amounts recognized as expense for employee salaries for the years ended December 31, 2023, and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Salary	₩ 152,426	133,881
Employee benefits expense	33,062	27,711
Expenses for defined benefit obligations	8,700	9,725
Expenses for defined contribution plans	2,510	1,718
	<u>₩ 196,698</u>	<u>173,035</u>

Defined benefit liabilities as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Present value of the defined benefit obligations	₩ 84,534	74,757
Fair value of plan assets	(77,401)	(70,824)
Net defined benefit liabilities	<u>₩ 7,133</u>	<u>3,933</u>

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

<i>(in millions of Korean won)</i>	2023	2022
As of January 1	₩ 74,757	79,907
Current service cost	8,282	8,986
Interest expense	3,888	2,403
Remeasurement gains (losses):		
Actuarial changes arising from changes in demographic assumptions	15	123
Actuarial changes arising from changes in financial assumptions	4,235	(10,012)
Experience adjustments	3,544	1,705
New and transfer	295	324
Benefits paid	(10,482)	(8,679)
As of December 31	<u>₩ 84,534</u>	<u>74,757</u>

17. Employee benefits (Continued)

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

<i>(in millions of Korean won)</i>	2023	2022
As of January 1	₩ 70,824	64,342
Expected return on plan assets	3,765	1,988
Remeasurement losses in OCI:		
Remeasurement loss	(521)	(783)
Contributions by employer	10,000	13,500
Benefits paid	(6,667)	(8,223)
As of December 31	₩ 77,401	70,824

The components of defined benefit costs recognized in profit or loss for the years ended December 31, 2023 and 2022 relating to defined benefit plans are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Current service cost	₩ 8,282	8,986
Net interest cost	123	415
New and transfer	295	324
	₩ 8,700	9,725

The amount recognized as expense of defined contribution plans for the years ended December 31, 2023 and 2022 are ₩ 2,510 million and ₩4,676 million, respectively.

The fair values of the major categories of the plan assets as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Short-term trading financial assets	₩ 4,710	26,661
Other financial assets	72,691	44,163
	₩ 77,401	70,824

The principal actuarial assumptions as of December 31, 2023 and 2022 are as follows:

	2023	2022
Discount rate	4.38~4.76%	5.28 ~ 5.65%
Future salary growth rate	4.59~4.64%	4.54 ~ 4.58%

17. Employee benefits (Continued)

The sensitivity analysis of the defined benefit obligations as of December 31, 2023 and 2022 to changes in the weighted principal assumptions is as follows:

(in millions of Korean won)

	2023	
	1% increase	1% decrease
Effect of changes in the discount rate	₩ (4,563)	5,115
Effect of changes in future salary growth rate	5,162	(4,688)

	2022	
	1% increase	1% decrease
Effect of changes in the discount rate	₩ (3,901)	4,356
Effect of changes in future salary growth rate	4,444	(4,047)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit liabilities as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

18. Leases

The Group has lease contracts for various items of land, plant and vehicles used in its operations. Leases of land and plant generally have lease terms between 1 and 40 years, while vehicles generally have lease terms between 1 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group also has certain leases of machinery with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets and lease liabilities recognized and the movements for the years ended December 31, 2023 and 2022.

(in millions of Korean won)

	2023				Lease liabilities
	Right-of-use assets				
	Land and plant	Vehicles	Others	Total	
As of January 1, 2023	₩ 21,626	5,302	290	27,218	27,249
Additions	15,939	2,909	675	19,523	17,833
Depreciation expense	(12,315)	(2,605)	(715)	(15,635)	-
Interest expense	-	-	-	-	1,434
Payments	-	-	-	-	(14,840)
Decrease (*)	(273)	(91)	(23)	(387)	(414)
As of December 31, 2023	₩ 24,977	5,515	227	30,719	31,262
Short-term lease liabilities					(10,251)
Long-term lease liabilities					21,011

(*) The amount due to the termination of the lease contract is included.

18. Leases (Continued)

	2022				Lease liabilities
	Right-of-use assets				
	Land and plant	Vehicles	Others	Total	
As of January 1, 2022	₩ 6,756	5,506	534	12,796	12,366
Additions	23,686	2,383	562	26,631	26,257
Depreciation expense	(8,420)	(2,506)	(1,111)	(12,037)	-
Interest expense	-	-	-	-	518
Payments	-	-	-	-	(11,718)
Decrease (*)	(395)	(82)	304	(172)	(174)
As of December 31, 2022	₩ 21,626	5,302	290	27,218	27,249
Short-term lease liabilities					(8,527)
Long-term lease liabilities					18,722

(*) The amount due to the termination of the lease contract is included.

The amounts of right-of-use assets and lease liabilities recognized in profit or loss for the years ended December 31, 2023 and 2022 are as follows:

(in millions of Korean won)	2023	2022
Interest expense on lease liabilities	₩ 1,434	518
Variable lease payments not included in the measurement of lease liabilities	6,052	5,459
Expenses related to lease of low-value assets and short-term leases applying recognition exemptions regulations	1,386	1,665

The maturity analysis of lease liabilities as of December 31, 2023 and 2022 are as follows:

(in millions of Korean won)	2023	2022
Less than 1 year	₩ 10,392	8,695
~ 5 years	21,861	21,358
After 5 years	2,082	11
Total amount	34,335	30,064
Discounted amount	31,262	27,249
Non-current to current reclassification	(10,251)	(8,527)
Long-term lease liabilities	₩ 21,011	18,722

Cash outflows from leases for the years ended December 31, 2023 and 2022 are as follows:

(in millions of Korean won)	2023	2022
Total cash outflows from leases (including leases of low-value assets, variable leases, etc.)	₩ 22,278	18,842

19. Issued capital and capital surplus

The Company issued capital as of December 31, 2023 and 2022 are as follows:

<i>(Korean won, except number of shares)</i>	2023	2022
Number of shares authorized	24,000,000	24,000,000
Value per share	₩ 5,000	5,000
Number of shares issued	9,851,241	9,851,241
Common stock	₩ 49,756,205,000	49,756,205,000

Differences arising from the Company's issued capital and aggregate of the par value of ordinary shares issued amounting to ₩500 million represents 100,000 ordinary shares reacquired as treasury stock and subsequently retired.

Capital surplus as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Additional paid-in capital	₩ 27,910	27,910
Gain on disposal of treasury stock	2,386	2,386
Revaluation surplus	34,473	34,473
	₩ 64,769	64,769

20. Other components of equity

Other components of equity as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Treasury stock	₩ 22,482	22,482

21. Accumulated other comprehensive income

Accumulated other comprehensive income as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Changes in the fair value of financial assets at fair value through OCI	₩ (5,892)	(5,173)
Gain on foreign currency translations of foreign operations	1,499	1,458
	<u>₩ (4,393)</u>	<u>(3,714)</u>

Changes in the fair value of financial assets at fair value through OCI and fair value of available-for-sale financial assets as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Before tax	₩ (7,662)	(6,735)
Accumulated tax effect	1,770	1,563
	<u>₩ (5,892)</u>	<u>(5,173)</u>

22. Reserves

Reserves as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Legal reserve	₩ 24,015	22,615
Voluntary reserves	461,186	441,186
	<u>₩ 485,201</u>	<u>463,801</u>

Legal reserve

In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of issued capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to issued capital by the resolution of the shareholders' meeting.

Voluntary reserves as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Reserve for business rationalization	₩ 96,505	96,505
Reserve for improvement of capital structure	18,681	18,681
Reserve for overseas market development	147,000	137,000
Reserve for facility investment	199,000	189,000
	<u>₩ 461,186</u>	<u>441,186</u>

23. Retained earnings

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

<i>(in millions of Korean won)</i>	2023	2022
Balance at beginning of year	₩ 23,639	(17,062)
Appropriation to legal reserve	(1,400)	(1,300)
Appropriation to reserve for overseas market development	(10,000)	-
Appropriation to reserve for facility investment	(10,000)	23,000
Dividends	(13,263)	(12,379)
Net profit for the year	86,219	25,686
Re-measurement losses on defined benefit plans (after tax)	(6,448)	5,694
Balance at end of year	₩ 68,747	23,639

Dividends

The following dividends were declared and paid by the Company during 2023 and 2022.:

<i>(In millions of Korean won)</i>	2023	2022
₩ 1,500 won per qualifying ordinary share (2022: ₩1,400 won)	₩ 13,263	12,379

Statement of appropriation of retained earnings as of December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
I. Retained Earnings Before Appropriations	₩ 68,947	36,064
Carried Over From Prior Years	1,401	572
Net income	72,036	30,478
Re-measurements of the defined benefit liabilities	(4,490)	5,013
II. Appropriations of Retained Earnings	(65,289)	(34,663)
Legal reverse	2,300	1,400
Transfer from voluntary reverses	40,000	20,000
Dividends (per qualifying ordinary share(rate)		
Ordinary share : Current year ₩2,600 won(52%)	22,989	13,263
Prior year ₩ 1,500 won(30%))		
III. Unappropriated Retained Earnings To Be Carried Over Forward	₩ 3,658	1,401

24. Expenses classified by nature of expense

Expenses classified by nature of expense for the years ended December 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	2023		
	Selling and administrative expenses	Cost of sales	Total
Movement in inventories	₩ -	(124,809)	(124,809)
Purchase of inventories	-	839,386	839,386
Employee benefits expense	109,005	87,693	196,698
Depreciation and amortization	32,315	29,531	61,846
Other expenses	187,618	121,333	308,951
	₩ 328,938	953,134	1,282,072

	2022		
	Selling and administrative expenses	Cost of sales	Total
Movement in inventories	₩ -	(157,298)	(157,298)
Purchase of inventories	-	829,214	829,214
Employee benefits expense	74,206	69,334	143,540
Depreciation and amortization	29,286	29,615	58,901
Other expenses	192,812	161,109	353,921
	₩ 296,304	931,974	1,228,278

Details of selling and administrative expenses for the years ended December 31, 2023 and 2022 are summarized as follows:

(in millions of Korean won)

	2023	2022
Wages and salaries	₩ 85,613	68,087
Post-employment benefit	6,569	6,119
Employee welfare	16,822	12,833
Travel expenses	4,350	4,101
Taxes and dues	3,990	4,440
Service fee	13,729	14,382
Rental expenses	7,081	7,530
Depreciation	13,904	12,715
Amortization	10,135	10,583
Research and development	6,341	5,387
Advertisement	49,746	45,988
Sales commission	49,378	42,332
Bad debt expense(reversal)	(66)	(280)
Transportation	35,432	37,668
Depreciation on right-of-use assets	8,275	5,988
Other	17,639	18,431
	₩ 328,938	296,304

25. Finance income and finance costs

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

<i>(in millions of Korean won)</i>	2023	2022
Finance income:		
Interest income	₩ 4,579	2,820
Dividend income	247	265
Gain on foreign currency transactions	1,827	2,460
Gain on foreign currency translation	8	20
Gain on valuation of financial assets at fair value through profit or loss	236	-
Gain on disposition of financial assets at fair value through profit or loss	196	-
	₩ 7,093	5,566
Finance costs:		
Interest expense	(1,712)	(281)
Loss on foreign currency transactions	(2,055)	(2,310)
Loss on foreign currency translation	(139)	(354)
Loss on valuation of financial assets at fair value through profit or loss	(851)	(570)
Loss on disposition of financial assets at fair value through profit or loss	-	(358)
	₩ (4,757)	(3,873)
	₩ 2,336	1,693

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

<i>(in millions of Korean won)</i>	2023	2022
Deposits in financial institutions	₩ 2,534	1,077
Short-term financial instruments	1,262	875
Long-term financial instruments	209	522
Guarantee deposits	574	347
	₩ 4,579	2,820

26. Non-operating income and expenses

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

<i>(in millions of Korean won)</i>	2023	2022
Gain on disposal of property, plant and equipment	₩ 173	287
Rental income	197	270
Miscellaneous income	6,602	485
	<u>₩ 6,972</u>	<u>1,042</u>

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

<i>(in millions of Korean won)</i>	2023	2022
Donations	₩ 3,675	729
Loss on disposal of property, plant and equipment	1,857	2,833
Miscellaneous loss	5,065	1,856
	<u>₩ 10,597</u>	<u>5,418</u>

27. Income tax

The major components of income tax expense for the years ended December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Current income tax	₩ 28,240	10,422
Adjustment in respect to prior years	63	2,340
Origination and reversal of temporary differences	(5,638)	(477)
Income taxes recognized in other comprehensive income	2,073	(1,246)
Income tax expense	<u>₩ 24,738</u>	<u>11,039</u>

Income taxes recognized directly in other comprehensive income for the years ended December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Current income tax:		
Remeasurements losses on defined benefit plans	₩ 1,866	(1,707)
Deferred tax:		
Gains on valuation of financial assets at fair value through OCI	207	482
Gains on translation of foreign operations	-	(21)
Income taxes recognized directly in other comprehensive income	<u>₩ 2,073</u>	<u>(1,246)</u>

27. Income tax (Continued)

A reconciliation of provision for income taxes applicable to income before income taxes at the Korea statutory tax rate to provision for income taxes at the effective tax rate for the years ended December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Profit before income taxes	₩ 110,956	36,724
Taxes at the statutory income tax rate	25,959	8,132
Adjustments:		
Tax effects of permanent differences	189	377
Tax credits	(1,544)	(253)
Adjustments in respect to prior years	63	2,340
Other	71	441
Income tax expense	₩ 24,738	11,039
Effective income tax rate	22.3%	30.1%

As of December 31, 2023 and 2022, tax effects of temporary differences are calculated by expected tax rate of the fiscal year when the temporary differences are expected to be reversed.

Significant changes in cumulative temporary differences and deferred tax assets and liabilities for the years ended December 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	2023			
	January 1	Recognized in profit or loss	Recognized directly in equity	December 31
Financial assets at fair value through OCI	₩ (822)	11	207	(604)
Accrued expenses	46	3,075	-	3,121
Defined benefit obligations	2,862	(281)	517	3,098
Other employee benefits	2,743	(952)	1,349	3,140
Intangible assets	(5,449)	1,973	-	(3,476)
Accumulated depreciation	1,872	(470)	-	1,402
Allowance for temporary depreciation	(419)	61	-	(358)
Other	842	148	-	990
	₩ 1,675	3,565	2,073	7,313
	2022			
	January 1	Recognized in profit or loss	Recognized directly in equity	December 31
Financial assets at fair value through OCI	₩ (1,338)	34	482	(822)
Accrued expenses	117	(71)	-	46
Defined benefit obligations	2,998	(136)	-	2,862
Other employee benefits	2,997	(254)	-	2,743
Intangible assets	(6,885)	1,436	-	(5,449)
Accumulated depreciation	1,853	19	-	1,872
Allowance for temporary depreciation	(481)	62	-	(419)
Other	521	342	(21)	842
	₩ (218)	1,432	461	1,675

28. Earnings per share

The Group's basic earnings per share for the years ended December 31, 2023 and 2022 are computed as follows:

<i>(in Korean won, except number of shares)</i>	2023	2022
Net profit attributable to ordinary equity holders of the parent:		
Continuing operations	₩ 86,218,494,465	25,685,517,208
Weighted-average number of shares of ordinary stock outstanding (*)	8,841,801	8,841,801
Basic earnings per share:		
Net profit for the year attributable to ordinary equity holders	₩ 9,751	2,905

(*) Weighted-average number of shares of ordinary stock outstanding is calculated as follows:

<i>(number of shares)</i>	2023	2022
Beginning weighted-average number of shares of ordinary stock	9,851,241	9,851,241
Treasury stock	(1,009,440)	(1,009,440)
Weighted-average number of shares of ordinary stock outstanding	8,841,801	8,841,801

There is no difference between basic earnings per share and diluted earnings per share as there are no potential dilutive instruments as of the year ended December 31, 2023 and 2022.

29. Related party transactions

Related parties as of December 31, 2023 and 2022 are as follows:

Classification	Name of related parties
Other related party	Jette Co., Ltd.
Other related party	Self-Storage Co., Ltd.

Transactions with with the two companies for the years ended December 31, 2023 and 2022 are as follows:

(in millions of Korean won)

Classification	Company	2023	
		Rental revenue and other revenue	Transportation expense and other expense
Other related party	Jette Co., Ltd.	₩ 224	100,507
Other related party	Self-Storage Co., Ltd.	-	45
		₩ 224	100,552
Classification	Company	2022	
		Rental revenue and other revenue	Transportation expense and other expense
Other related party	Jette Co., Ltd.	₩ 4	92,182
Other related party	Self-Storage Co., Ltd.	-	49
		₩ 4	92,231

29. Related party transactions (Continued)

Balances of receivables and payables resulted from transactions among the Group and its related party as of December 31, 2023 and 2022 are as follows:

(in millions of Korean won)

Classification	Company	Accounts	2023	2022
Other related party	Jette Co., Ltd.	Receivables:		
		Other accounts receivable	₩ 169	-
		Accrued income	13	-
		Long-term loans	3,184	-
		Guarantee deposits	2,250	2,177
			₩ 5,616	2,177
		Payables:		
		Accounts payable	1,175	-
		Other accounts payable	8,711	8,031
			₩ 9,886	8,031

Related party financial transactions for the years ended December 31, 2023 is as follows:

(in millions of Korean won)

Classification	Company	2023	
Other related party	Jette Co., Ltd.	Loans	Repayment
		₩ 3,550	-

Key management personnel compensations in total and for each of the following categories for the years ended December 31, 2023 and 2022 are as follows:

(in millions of Korean won)

	2023	2022
Annual salaries	₩ 6,019	5,784
Provision for retirement and severance benefits	752	421
	₩ 6,771	6,205

30. Supplementary consolidated cash flow information

Cash flows from operating activities prepared using the indirect method for the years ended December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023	2022
Net income for the year	₩ 86,218	25,686
Non-cash adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Severance and retirement benefits	8,700	9,725
Depreciation	36,031	36,235
Depreciation on right-of-use assets	15,635	12,037
Amortization	10,135	10,583
Amortization Expenses on Investment in Properties	45	45
Bad debt expense	(66)	(280)
Interest income	(4,579)	(2,820)
Dividend income	(247)	(265)
Gain on foreign currency translation	(8)	(20)
Interest expense	1,712	638
Loss on foreign currency translation	139	354
Gain on disposal of property, plant and equipment	(173)	(287)
Loss on disposal of property, plant and equipment	1,857	2,833
Gain on disposal of financial assets at fair value through profit	(196)	-
Loss on valuation of financial assets at fair value through loss	851	570
Gain on valuation of financial assets at fair value through profit	(236)	-
Income tax expense	24,738	11,039
Miscellaneous revenues	(16)	(2)
Miscellaneous expense	2,209	-
	<u>96,531</u>	<u>80,385</u>
Working capital adjustments:		
Accounts and notes receivable	1,408	(17,422)
Other accounts receivable	945	(519)
Accrued revenues	-	(10)
Advance payments	(64)	16
Prepaid expenses	1,651	939
Inventories	(548)	(52,223)
Business guarantees	-	(900)
Long-term advance payments	(16)	140
Long-term prepaid expenses	135	129
Accounts and notes payable	(5,795)	15,557
Other accounts payable	(5,998)	(33,794)
Accrued expenses	13,087	(60)
Other current liabilities	(1,839)	(2,130)
Payments of Retirement Allowance	(3,815)	(1,965)
Contributions by employer	(10,000)	(13,500)
Long-term guarantee deposits received	52	(183)
Long-term accrued expenses	887	(1,503)
	<u>(9,910)</u>	<u>(107,428)</u>

30. Supplementary consolidated cash flow information (Continued)

	2023	2022
Income taxes paid	(16,117)	(9,888)
Net cash flows provided by operating activities	₩ 156,722	(11,245)

Cash and cash equivalents on the consolidated statements of cash flows consist entirely of cash and cash equivalents on the consolidated statements of financial position.

For the years ended December 31, 2023 and 2022, significant transactions not involving cash flows are as follows:

(in millions of Korean won)

	2023	2022
Transfers to machinery from construction-in-progress	₩ 20,986	16,048
Transfers to Investment property from Property, plant and equipment	-	14,746
Other accounts payable from acquisition of tangible and intangible assets	8,259	-
Other accounts receivables from disposal of property and equipment	17	-

31. Financial risk management objectives and policies

The Group's principal financial liabilities, consist of accounts and notes payable and other accounts payable. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. Also the Group has various financial assets including accounts and notes receivable, cash and short-term deposits that arise directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management reviews risk management process of each risk and whether it follows the Group's policies as follows. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

31.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuates because of changes in market prices. Market comprises three types of risk: interest rate risk, currency risk and other price risk.

The sensitivity analyses in the following sections relate to the position as of December 31, 2023 and 2022.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is no significant effect on cash flows or the fair value of financial liabilities from the interest rate fluctuation.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As the Group carries few monetary assets and liabilities denominated in foreign currency as of December 31, 2023, the effect of exchange rate fluctuation is not material.

31. Financial risk management objectives and policies (Continued)

31.1 Market risk (Continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market price other than interest rate risk or foreign currency risk.

The Group's listed equity securities are susceptible to market price risk arising from the fluctuation in the price of the securities. The following table demonstrates a sensitivity analysis of a reasonably possible change in the price of listed equity securities on the financial statements of the Group as of December 31, 2023 and 2022:

(in millions of Korean won)

	2023	
	5%p increase	5%p decrease
Other comprehensive income before tax	₩ 454	(454)
Income tax	(105)	105
Other comprehensive income after tax	₩ 349	(349)
	2022	
	5%p increase	5%p decrease
Other comprehensive income before tax	₩ 501	(501)
Income tax	(116)	116
Other comprehensive income after tax	₩ 385	(385)

31.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss of the Group. The Group is exposed to credit risk from its operating activities and from its financing activities.

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss of the Group. Credit risk is not only the credit risk of the counterparty but also credit risks associated with the Group's other assets which consist of cash, short-term deposits and long-term loans arise from default of counterparties. The Group deposits its surplus funds in Bank and other financial institutions whose credit ratings are high, therefore credit risk related to financial institutions is considered limited. For regular customers, evaluate their credit based on their financial condition, past experience, and other factors.

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

(in millions of Korean won)

	2023	2022
Cash equivalents	₩ 147,875	79,214
Short-term finance assets	25,325	13,445
Accounts and notes receivable, net	83,255	81,104
Other accounts receivable	1,187	1,925
Accrued income	896	285
Long-term finance assets	12,975	19,646
	₩ 271,513	195,619

Impairment losses on accounts receivable and prepaid expenses recognized in profit or loss were as follows:

(in millions of Korean won)

	2023	2022
Accounts receivable	₩ (47)	(285)
prepaid expenses	(19)	54

The Group evaluates impairment on accounts and notes receivable and other accounts receivable at every reporting date individually and collectively.

31. Financial risk management objectives and policies (Continued)

31.3 Liquidity risk

Liquidity risk refers to the risk that the Group may default on the contractual obligations that become due.

The Group manages its risk to a shortage of funds using a recurring liquidity planning tool. The Group matches the financial liabilities with the financial assets taking into account the maturity dates and cash flow from operating activities of those financial assets. The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

(in millions of Korean won)

	2023			
	Less than 1 year	1 to 5 years	More than 5 years	Total
Accounts and notes payable	₩ 73,626	-	-	73,626
Other accounts payable	42,752	-	-	42,752
Accrued expenses	27,070	-	-	27,070
Short-term borrowings	5,063	-	-	5,063
Dividends payable	3	-	-	3
Long-term borrowings	338	12,311	-	12,649
Long-term guarantee deposits received	-	7,550	-	7,550
Lease liabilities	10,392	21,861	2,082	34,335
	₩ 159,244	41,722	2,082	203,048

	2022			
	Less than 1 year	1 to 5 years	More than 5 years	Total
Accounts and notes payable	₩ 75,898	-	-	75,898
Other accounts payable	40,280	-	-	40,280
Accrued expenses	13,986	-	-	13,986
Dividends payable	3	-	-	3
Long-term guarantee deposits received	-	5,900	-	5,900
Lease liabilities	8,527	18,722	-	27,249
	₩ 138,694	24,622	-	163,316

Cash flow on the above financial liabilities by maturities represent nominal and undiscounted amounts.

31. Financial risk management objectives and policies (Continued)

31.4 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain the sound capital structure, the Group may acquire treasury shares or adjust the dividend payment to shareholders, etc. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2023 and 2022.

The Group monitors a gearing ratio, which is net debt divided by equity. Net debt refers to interest bearing loans and bonds, less cash and cash equivalents.

Gearing ratio as at the reporting date is computed as follows:

<i>(in millions of Korean won)</i>	2023	2022
Net debt:		
Borrowings	₩ 16,370	-
Less:		
Cash and cash equivalent	147,882	79,222
Net debt	(131,512)	(79,222)
Equity	₩ 641,598	575,769
Debt-to-equity ratio (*)	-	-

(*) The debt-to-equity ratio is not calculated because the net debt at the end of the reporting period is negative.

Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities is as follows :

(in millions of Korean won)

	Jan. 1, 2023	Cahs flows	Changes in non-cash flows				Dec. 31, 2023
			Lease acquisition	Lease termination	Interest expense	Dividend	
Lease liabilities (*)	₩ 27,249	(14,840)	17,833	(414)	1,434	-	31,262
Borrowings(*)	-	16,370	-	-	-	-	16,370
Dividends payable	3	(13,262)	-	-	-	13,262	3

(*) Included short-term lease liabilities and short-term borrowings.

	Jan. 1, 2022	Cahs flows	Changes in non-cash flows				Dec. 31, 2022
			Lease acquisition	Lease termination	Interest expense	Dividend	
Lease liabilities (*)	₩ 12,366	(11,718)	26,257	(174)	518	-	27,249
Dividends payable	3	(12,378)	-	-	-	12,378	3

(*) Included short-term lease liabilities.

32. Fair value

The difference between book values and fair values of financial instruments by categories are not significant as of December 31, 2023 and 2022 and the book values and fair values of other financial instruments are identical.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Methods and assumptions used for fair value estimates are as follows:

- As cash, short-term deposits, accounts and notes receivable, other current assets, accounts and notes payable and other current liabilities are short-term, their fair value approximate book value.
- Fair value of long-term financial assets (except equity securities and debt instruments), guarantee deposits, and other long-term liabilities are computed for disclosure. Cash flow of interest or principal payments are discounted to their present value using market rates to calculate their fair values.
- The fair value of long-term financial assets (equity securities and debt instruments) is based on quoted prices in an active market. The unlisted available-for-sale equity instruments that do not have a market price in an active market and whose fair value cannot be reliably measured are measured at cost. The fair value assessment requires management to make assumptions about input variables of the valuation model such as expected cash flows, discount rates, credit risk, and volatility. The probabilities for various estimates within a certain range can be reasonably evaluated and used in management's estimates of the fair value of unlisted equity securities.

Fair value measurement

Hierarchy and measurement method of fair value

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. Fair value measurement is estimating 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, considering current market's situation. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Level 1: Fair values of financial assets and liabilities measured at quoted (unadjusted) market prices in active markets are classified as level 1.

Level 2: When assets or liabilities are measured through valuation techniques, if significant all inputs to the valuation techniques are observable in market, the asset or liability is classified as level 2.

Level 3: When assets or liabilities are measured through valuation techniques, if one or more inputs to the valuation techniques are un-observable in market, the asset or liability is classified as level 3.

As of December 31, 2023 and 2022, the Group held the following assets and liabilities carried at fair value on the statement of financial position :

(in millions of Korean won)

	2023			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩ -	13,808	4,321	18,129
Financial assets at fair value through OCI	9,081	-	-	9,081
	<u>₩ 9,081</u>	<u>13,808</u>	<u>4,321</u>	<u>27,210</u>
	2022			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩ -	17,522	1,897	19,419
Financial assets at fair value through OCI	10,009	-	13	10,021
	<u>₩ 10,009</u>	<u>17,522</u>	<u>1,910</u>	<u>29,440</u>

32. Fair value (Continued)

The valuation techniques and inputs used to estimate the fair value of financial instruments classified as Level 2 and 3 as follows:

<i>(in millions of Korean won)</i>	Level	Fair value	Valuation techniques	Inputs
Financial assets at fair value through profit or loss				
Short-term financial instruments	2 ₩	9,000	Market to market	-
Funds and other investments	3	4,321	DCF	Discount rate
Hybrid securities	2	4,808	Issuer Quoted Price	-

Details of financial assets by categories for the years ended December 31, 2023 and 2022 are as follows:

<i>(in millions of Korean won)</i>	2023				
	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Financial assets at amortized cost	Financial liabilities at amortized cost	Total
Financial assets:					
Cash and cash equivalents	₩ -	-	147,882	-	147,882
Short-term financial assets	9,000	-	16,325	-	25,325
Accounts and notes receivable	-	-	83,255	-	83,255
Other accounts receivable	-	-	1,187	-	1,187
Accrued income	-	-	896	-	896
Long-term financial assets	11,386	9,094	3,846	-	24,326
Guarantee deposits	-	-	16,530	-	16,530
	₩ 20,386	9,094	269,921	-	299,401
Financial liabilities:					
Accounts and notes payable	-	-	-	73,626	73,626
Other accounts payable	-	-	-	42,752	42,752
Accrued expenses	-	-	-	27,070	27,070
Dividends payable	-	-	-	3	3
Short-term borrowings	-	-	-	5,000	5,000
Long-term borrowings	-	-	-	11,370	11,370
Long-term guarantee deposits received	-	-	-	7,550	7,550
Long-term accrued expenses	-	-	-	7,709	7,709
Lease liabilities	-	-	-	31,263	31,263
	₩ -	-	-	206,343	206,343

32. Fair value (Continued)

(in millions of Korean won)

	2022				
	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Financial assets at amortized cost	Financial liabilities at amortized cost	Total
Financial assets:					
Cash and cash equivalents	₩ -	-	79,222	-	79,222
Short-term financial assets	3,025	-	10,420	-	13,445
Accounts and notes receivable	-	-	81,104	-	81,104
Other accounts receivable	-	-	1,925	-	1,925
Accrued income	-	-	285	-	285
Long-term financial assets	16,395	10,021	5,149	-	31,565
Guarantee deposits	-	-	27,928	-	27,928
	<u>₩ 19,420</u>	<u>10,021</u>	<u>206,033</u>	<u>-</u>	<u>235,474</u>
Financial liabilities:					
Accounts and notes payable	-	-	-	75,898	75,898
Other accounts payable	-	-	-	40,280	40,280
Accrued expenses	-	-	-	13,986	13,986
Dividends payable	-	-	-	3	3
Long-term guarantee deposits received	-	-	-	5,900	5,900
Long-term accrued expenses	-	-	-	6,822	6,822
Lease liabilities	-	-	-	27,249	27,249
	<u>₩ -</u>	<u>-</u>	<u>-</u>	<u>170,138</u>	<u>170,138</u>

32. Fair value (Continued)

Details of gains and losses arising from financial instruments by categories for the years ended December 31, 2023 and 2022 are as follows :

<i>(in millions of Korean won)</i>	2023	2023
Financial assets at fair value through profit or loss:		
Interest income	₩ 422	528
Gain on valuation of financial assets at fair value through profit or loss	236	-
Loss on valuation of financial assets at fair value through profit or loss	(851)	(570)
Gain on disposition of financial assets at fair value through profit or loss	196	-
Financial assets at fair value through OCI:		
Other comprehensive income	(720)	(1,656)
Dividend income	247	265
Financial assets at amortized cost:		
Interest income on deposits in financial institutions	3,583	1,904
Interest income on guarantee deposits	574	387
Foreign exchange difference on foreign demand deposits	(102)	(334)
Foreign exchange difference in accounts receivable	77	1,256
Bad debt expenses of accounts and notes receivable	66	280
Financial liabilities at amortized cost:		
Interest expenses on lease liabilities	(1,434)	(358)
Interest expenses on other financial liabilities	(278)	(281)
Foreign exchange difference on foreign debt	(334)	(1,106)

33. Commitments and Contingencies

- (1) As of December 31, 2023, the Group provided a promissory note with a face value of ₩3,740 million to Korea Dairy Committee as a performance guarantee for the supply of raw materials to the Group.
- (2) Technology Transfer Agreement
The Group has entered into technology transfer agreements with Sodimasa S.A.S in France. Under these agreements, Sodimasa S.A.S provides all technical information to enable the Group to manufacture, use, and sell the products covered by the technology transfer agreement under the most favorable conditions for the Group. In return, the Group is obligated to pay Sodimasa S.A.S a certain percentage of the net sales amount of the products covered by the technology transfer agreement as technology transfer fees during the contract period starting from the year commercial production of the technology transfer products commences. The technology transfer fees incurred for the years ended December 31, 2023 and 2022, respectively, amounted to ₩ 3,664 million and ₩ 3,188 million, respectively, and were recognized as technology research expenses in selling and administrative expenses.

33. Commitments and Contingencies (Continued)

(3) Other Agreements

- ① The significant agreements with financial institutions as of December 31, 2023 are as follows:
(In millions of Korean won,
in thousands of U.S. dollars)

	Financial institution	Currency	2023	
			Limit	Execution
Trade notes receivable discounting facilities	Shinhan Bank	KRW	10,000	-
General loan	Shinhan Bank and others	KRW	15,700	7,000
Commercial Paper Guarantees	Shinhan Bank	KRW	5,000	5,000
Electronic method of loan facilities secured by accounts receivable	Shinhan Bank	KRW	1,000	-
Bank overdraft	Shinhan Bank	KRW	7,000	-
Agreement for an import L/C	Shinhan Bank and others	USD	29,500	1,595
Long-term borrowings	Nonghyup Bank	KRW	4,370	4,370
		KRW	43,070	16,370
		USD	29,500	1,595

- ② In relation to the payment of trade payables as of December 31, 2023, if subcontractors of the Group discount trade receivables at banks before the payment due date, the Group has entered into accounts receivables collateral loan agreements with Shinhan Bank, Hana Bank, Kookmin Bank, Industrial Bank of Korea, and Woori Bank, each with credit limits of ₩ 15,000 million, ₩ 3,000 million, ₩ 5,000 million, ₩ 5,000 million, and ₩ 1,000 million, respectively, to guarantee payment to banks.

(4) Guarantees Received

The Group has arrangements with Seoul Guarantee Insurance Company for contract performance guarantee totaling ₩ 1,155 million.

- (5) The investment agreement for the financial assets of the Group as of December 31, 2023, is as follows:

(in millions of Korean won)	Total	
	commitment amount	Invested amount
Binggrae Agrifood Venture Fund	₩ 2,257	2,257

- (6) As of December 31, 2023, the Group is involved in three pending lawsuits (litigation amounts: ₩ 700 million, ₩ 200 million, ₩ 100 million), and the outcome of the litigation and its impact cannot be predicted. The management of the Group believes that the outcomes of these lawsuits will not have a significant impact on the consolidated financial position of the Group.

34. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved by the Board of Directors on January 26, 2024, and may be modified and approved at the Annual General Shareholders' Meetings to be held on March 21, 2024.