

AMOREPACIFIC Corporation and Subsidiaries

**Consolidated Financial Statements
December 31, 2010 and 2009**

AMOREPACIFIC Corporation and subsidiaries
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December 31, 2010 and 2009

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Report of Independent Auditors

To the Shareholders and Board of Directors of
AMOREPACIFIC Corporation

We have audited the accompanying consolidated statements of financial position of AMOREPACIFIC Corporation (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of AMOREPACIFIC EUROPE S.A.S and certain other consolidated subsidiaries, whose financial statements represent 8.3% and 9.8% of the Company's consolidated total assets (before eliminating intercompany transactions) as of December 31, 2010 and 2009, respectively, and 11.9% and 11.4% of the Company's consolidated total sales (before eliminating intercompany transactions) for the respective years then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for AMOREPACIFIC EUROPE S.A.S and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in conformity with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMOREPACIFIC Corporation as of December 31, 2010 and 2009, and the results of its operations, the changes in its shareholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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The accompanying consolidated financial statements as of and for the years ended December 31, 2010 and 2009, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 3 to the consolidated financial statements.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
April 18, 2011

This report is effective as of April 18, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2010 and 2009

	Notes	<i>in thousands of Korean won</i>		<i>in thousands of U.S. dollars (Note 3)</i>	
		2010	2009	2010	2009
Assets					
Current assets					
Quick assets					
Cash and cash equivalents	17	₩ 155,294,757	₩ 219,782,204	US\$ 136,355	US\$ 192,978
Short-term investments	4	170,390,535	82,700,000	149,610	72,614
Trade accounts and notes receivable	17,19,23	146,262,353	154,156,680	128,424	135,356
Allowance for doubtful accounts		(5,284,376)	(3,833,360)	(4,640)	(3,366)
Non-trade receivable	17	12,497,332	6,809,981	10,973	5,979
Allowance for doubtful accounts		(277,228)	(66,636)	(243)	(59)
Accrued revenues		877,071	488,011	770	428
Advance payments		13,530,659	10,204,646	11,880	8,960
Prepaid expenses		6,207,862	6,019,263	5,451	5,285
Deferred income tax assets	16	6,343,807	-	5,570	-
Others		224,746	82,032	197	72
Inventories					
Merchandise	9	18,022,040	17,472,218	15,824	15,341
Finished goods		95,175,003	62,063,689	83,567	54,494
Semi-finished goods		17,439,874	14,178,801	15,313	12,450
Work-in-process		1,632,922	1,338,806	1,434	1,176
Raw materials		38,705,442	38,350,431	33,985	33,673
Subsidiary materials		19,989,273	15,516,305	17,551	13,624
Supplies		2,480,928	2,291,058	2,178	2,012
Materials in transit		11,001,804	8,883,384	9,660	7,800
Total current assets		<u>710,514,803</u>	<u>636,437,512</u>	<u>623,861</u>	<u>558,818</u>
Non-current assets					
Investments					
Long-term investments	4	3,456,000	3,427,200	3,035	3,009
Long-term loans		13,911,106	12,018,637	12,215	10,553
Investment in properties	12	36,788,742	36,788,742	32,302	32,302
Equity-method investments	5	16,524,740	17,546,944	14,509	15,407
Available-for-sale securities	6	11,615,044	7,777,804	10,198	6,829
Property, plant and equipment					
Land	7,9	544,905,865	357,347,264	478,449	313,765
Buildings		333,375,245	273,584,023	292,717	240,218
Accumulated depreciation		(87,295,482)	(77,374,987)	(76,649)	(67,938)
Structures		34,136,999	21,411,632	29,974	18,800
Accumulated depreciation		(12,572,726)	(11,179,743)	(11,039)	(9,816)
Machinery		146,133,705	131,506,476	128,311	115,468
Accumulated depreciation		(112,699,080)	(101,438,621)	(98,954)	(89,067)
Vehicles		2,507,327	2,327,012	2,202	2,043
Accumulated depreciation		(1,977,023)	(1,989,970)	(1,736)	(1,747)
Tools		117,288,203	110,873,803	102,984	97,352
Accumulated depreciation		(95,975,881)	(86,293,392)	(84,271)	(75,769)
Fixtures and furniture		365,145,443	339,096,080	320,612	297,740
Accumulated depreciation		(261,915,508)	(235,590,828)	(229,972)	(206,858)
Construction in progress		183,977,220	216,544,801	161,539	190,135
Machinery in transit		912,733	826,861	801	726
Intangible assets					
Industrial property rights	8	5,843,027	3,459,473	5,130	3,038
Software		20,840,992	18,656,354	18,299	16,381
Goodwill		957,741	2,873,222	841	2,523
Others		2,041,794	2,323,315	1,793	2,040
Other non-current assets					
Deposits provided		40,551,969	42,620,179	35,606	37,422
Long-term prepaid expenses		135,740	625,775	119	549
Deferred income tax assets	16	5,309,490	29,910,540	4,662	26,263
Total other non-current assets		<u>1,313,923,424</u>	<u>1,117,678,597</u>	<u>1,153,678</u>	<u>981,367</u>
Total assets		<u>₩ 2,024,438,227</u>	<u>₩ 1,754,116,108</u>	<u>US\$ 1,777,538</u>	<u>US\$ 1,540,184</u>

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2010 and 2009

	Notes	<i>in thousands of Korean won</i>		<i>in thousands of U.S. dollars (Note 3)</i>	
		2010	2009	2010	2009
Liabilities and Shareholders' Equity					
Current liabilities					
Trade accounts and notes payable	17,19,23	₩ 81,257,640	₩ 71,483,529	US\$ 71,347	US\$ 62,765
Short-term borrowings	10	13,261,049	20,387,149	11,644	17,901
Non-trade payable	17	141,074,363	128,751,820	123,869	113,049
Value added tax withheld		15,522,436	18,784,584	13,629	16,494
Withholdings		9,300,505	8,357,762	8,166	7,338
Advances from customers		3,897,104	6,113,138	3,422	5,368
Accrued expenses		2,839,065	1,400,985	2,493	1,230
Income taxes payable	16	34,383,654	26,605,965	30,190	23,361
Dividends payable		192,135	159,501	169	140
Deferred income tax liabilities	16	-	2,187,858	-	1,921
Others		1,353,190	712,126	1,188	625
Total current liabilities		<u>303,081,141</u>	<u>284,944,417</u>	<u>266,117</u>	<u>250,193</u>
Non-current liabilities					
Accrued severance benefits	11	95,338,368	101,679,630	83,711	89,279
Deposits to the National Pension Service		(490,345)	(743,443)	(431)	(653)
Severance benefit insurance deposits		(66,445,268)	(72,174,376)	(58,342)	(63,372)
Provision for sales returns		13,330,305	19,350,365	11,705	16,990
Provision for mileage	3	9,946,089	8,355,057	8,733	7,336
Long-term deposits received		8,148,404	5,710,180	7,155	5,014
Long-term advances from customers	12	83,971,267	83,971,267	73,730	73,730
Long-term non-trade payable		18,021,088	22,114,555	15,823	19,417
Others		1,574,200	1,194,161	1,382	1,049
Total non-current liabilities		<u>163,394,108</u>	<u>169,457,396</u>	<u>143,467</u>	<u>148,790</u>
Total liabilities		<u>466,475,249</u>	<u>454,401,813</u>	<u>409,584</u>	<u>398,983</u>
Commitments and contingencies	12				
Equity attributable to owners of the Company					
Capital stock					
Common stock	1	29,229,245	29,229,245	25,664	25,664
Preferred stock		5,278,915	5,278,915	4,635	4,635
Capital surplus					
Paid-in capital in excess of par value		712,701,764	712,701,764	625,781	625,781
Other capital surplus		6,652,796	-	5,841	-
Capital adjustments					
Treasury stock	13	(1,380,864)	(1,380,864)	(1,212)	(1,212)
Others		(429,300)	(429,300)	(377)	(377)
Accumulated other comprehensive income and expense					
Gain on valuation of equity-method investments	5	4,555,787	4,846,493	4,000	4,255
Loss on valuation of equity-method investments	5	-	(211,110)	-	(185)
Unrealized gain on available-for-sale securities	6	2,550,672	1,885,083	2,240	1,655
Unrealized loss on available-for-sale securities	6	(505,296)	(377,204)	(444)	(331)
Translation of foreign currency financial statements		13,734,111	18,274,707	12,059	16,046
Retained earnings	14	776,387,156	529,896,567	681,699	465,270
Minority interests		9,187,993	-	8,067	-
Total shareholders' equity		<u>1,557,962,978</u>	<u>1,299,714,295</u>	<u>1,367,954</u>	<u>1,141,201</u>
Total liabilities and shareholders' equity		<u>₩ 2,024,438,227</u>	<u>₩ 1,754,116,108</u>	<u>US\$ 1,777,538</u>	<u>US\$ 1,540,184</u>

The accompanying notes are an integral part of these consolidated financial statements.
The US dollar figures are provided for information purposes only and do not form part of the audited financial statements. Refer to Note 3.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Income
Years ended December 31, 2010 and 2009

	Notes	<i>in thousands of Korean won, except per share amounts</i>		<i>in thousands of U.S. dollars (Note 3), except per share amounts</i>	
		2010	2009	2010	2009
Sales	15,19,23	₩ 2,252,183,766	₩ 1,940,423,104	US\$ 1,977,508	US\$ 1,703,770
Cost of sales	15,19,23	578,435,887	539,270,714	507,890	473,501
Gross income		1,673,747,880	1,401,152,390	1,469,618	1,230,268
Selling and administrative expenses	26	1,317,844,639	1,091,950,739	1,157,121	958,777
Operating income		355,903,241	309,201,651	312,497	271,491
Non-operating income					
Interest income		11,540,390	9,200,071	10,133	8,078
Dividend income		14,741	9,651	13	8
Rental income		1,479,192	1,215,246	1,299	1,067
Gain on foreign currency transactions		2,481,886	3,224,391	2,179	2,831
Gain on foreign currency translation	17	1,006,702	96,564	884	85
Gain on valuation of equity-method investment	5	388,066	507,603	341	446
Gain on disposal of investments		1,677,320	-	1,473	-
Gain on disposal of property, plant and equipment		11,779,522	4,593,891	10,343	4,034
Income from technology fee	12	183,607	2,572,890	161	2,259
Others		3,810,072	3,599,501	3,345	3,161
		34,361,498	25,019,807	30,171	21,968
Non-operating expenses					
Interest expenses		1,682,261	2,490,048	1,477	2,186
Loss on foreign currency transactions		3,257,386	3,563,450	2,860	3,129
Loss on foreign currency translation	17	773,667	435,260	679	382
Donations	21	4,899,446	9,940,976	4,302	8,729
Loss on valuation of equity-method investment	5	13,850,307	11,032,106	12,161	9,687
Loss on disposal of investments		121,132	127,273	106	112
Loss on disposal of property, plant and equipment		1,002,212	1,773,836	880	1,557
Others		3,744,453	5,079,670	3,288	4,460
		29,330,865	34,442,619	25,754	30,242
Income before income tax		360,933,874	299,778,839	316,914	263,218
Income taxes	16	76,452,642	73,901,153	67,128	64,888
Net income		₩ 284,481,232	₩ 225,877,686	US\$ 249,786	US\$ 198,330
Net income attributable to the Company		₩ 284,481,232	₩ 225,877,686	US\$ 249,786	US\$ 198,330
Net income attributable to minority interests		₩ -	₩ -	US\$ -	US\$ -
Basic and diluted earnings per share	18	₩ 47,598	₩ 37,658	US\$ 42	US\$ 33

The accompanying notes are an integral part of these consolidated financial statements.
The US dollar figures are provided for information purposes only and do not form part of the audited financial statements. Refer to Note 3.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2010 and 2009

(in thousands of Korean won)

	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Capital adjustment</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Minority interests</u>	<u>Total</u>
Balances as of January 1, 2009	₩ 34,508,160	₩ 712,726,504	₩ (1,810,164)	₩ 31,319,248	₩ 338,560,626	₩ -	₩ 1,115,304,373
Dividends	-	-	-	-	(34,541,745)	-	(34,541,745)
Retained earnings after appropriation	-	-	-	-	304,018,881	-	1,080,762,628
Net income	-	-	-	-	225,877,686	-	225,877,686
Changes in consolidated capital surplus	-	(24,740)	-	-	-	-	(24,740)
Changes in consolidated accumulated other comprehensive income	-	-	-	(6,901,279)	-	-	(6,901,279)
Balances as of December 31, 2009	<u>₩ 34,508,160</u>	<u>₩ 712,701,764</u>	<u>₩ (1,810,164)</u>	<u>₩ 24,417,968</u>	<u>₩ 529,896,567</u>	<u>₩ -</u>	<u>₩ 1,299,714,295</u>
Balances as of January 1, 2010	₩ 34,508,160	₩ 712,701,764	₩ (1,810,164)	₩ 24,417,968	₩ 529,896,567	₩ -	₩ 1,299,714,295
Dividends	-	-	-	-	(37,990,643)	-	(37,990,643)
Retained earnings after appropriation	-	-	-	-	491,905,923	-	1,261,723,652
Net income	-	-	-	-	284,481,232	-	284,481,232
Changes in consolidated capital surplus	-	6,652,796	-	-	-	-	6,652,796
Changes in consolidated accumulated other comprehensive income	-	-	-	(4,082,695)	-	-	(4,082,695)
Changes in minority interests	-	-	-	-	-	9,187,992,783	9,187,993
Balances as of December 31, 2010	<u>₩ 34,508,160</u>	<u>₩ 719,354,560</u>	<u>₩ (1,810,164)</u>	<u>₩ 20,335,274</u>	<u>₩ 776,387,156</u>	<u>₩ 9,187,992,783</u>	<u>₩ 1,557,962,978</u>
<i>in thousands of U.S. dollars (Note 3)</i>	<u>US\$ 30,300</u>	<u>US\$ 631,622</u>	<u>US\$ (1,589)</u>	<u>US\$ 17,855</u>	<u>US\$ 681,699</u>	<u>US\$ 8,067,427</u>	<u>US\$ 1,367,954</u>

The accompanying notes are an integral part of these consolidated financial statements.
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AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

	<i>in thousands of Korean won</i>		<i>in thousands of U.S. dollars (Note 3)</i>	
	2010	2009	2010	2009
Cash flows from operating activities				
Net income	₩ 284,481,232	₩ 225,877,686	US\$ 249,786	US\$ 198,330
Adjustments to reconcile net income				
to net cash provided by operating activities				
Provision for severance benefits	26,826,425	23,959,688	23,555	21,038
Other selling and administrative expenses	1,503,219	1,179,510	1,320	1,036
Depreciation	74,662,285	75,926,537	65,556	66,667
Amortization of intangible assets	10,244,704	9,771,518	8,995	8,580
Loss on foreign currency translation	773,667	433,165	679	380
Loss on valuation of equity-method investments	13,850,307	11,032,106	12,161	9,687
Loss on disposal of property, plant and equipment	1,002,212	1,773,836	880	1,557
Loss on disposal of investments	121,132	127,273	106	112
Other non-operating expenses	210,592	17,646	185	15
Gain on foreign currency translation	(1,006,702)	(96,385)	(884)	(85)
Gain on valuation of equity method investments	(388,066)	(507,603)	(341)	(446)
Gain on disposal of property, plant and equipment	(11,779,522)	(4,593,891)	(10,343)	(4,034)
Gain on disposal of investments	(1,677,320)	-	(1,473)	-
Other non-operating income	(134,125)	(84,030)	(118)	(74)
	<u>114,208,808</u>	<u>118,939,371</u>	<u>100,280</u>	<u>104,434</u>
Changes in operating assets and liabilities				
Decrease (Increase) in trade accounts and notes receivable	8,142,101	(24,354,285)	7,149	(21,384)
Increase in non-trade receivable	(5,687,351)	(1,146,903)	(4,994)	(1,007)
Decrease (Increase) in accrued revenues	(389,061)	116,687	(342)	102
Increase in advance payments	(3,326,013)	(3,324,001)	(2,920)	(2,919)
Decrease (Increase) in prepaid expenses	(188,600)	87,818	(166)	77
Increase in current deferred income tax assets	(6,343,807)	-	(5,570)	-
Decrease (Increase) in other current assets	(124,622)	3,585,428	(109)	3,148
Decrease (Increase) in inventories	(44,352,594)	12,058,779	(38,943)	10,588
Decrease in long-term prepaid expenses	490,035	743,078	430	652
Decrease in non-current deferred income tax assets	24,871,530	9,538,441	21,838	8,375
Increase in trade accounts and notes payable	9,687,181	18,890,680	8,506	16,587
Increase in non-trade payable	12,342,529	29,171,037	10,837	25,613
Increase (Decrease) in accrued expenses	1,438,080	(1,098,676)	1,263	(965)
Increase (Decrease) in value added tax withheld	(3,262,148)	617,620	(2,864)	542
Increase in withholdings	942,743	1,389,353	828	1,220
Increase (Decrease) in advances from customers	(2,216,034)	5,973,811	(1,946)	5,245
Increase (Decrease) in income taxes payable	7,777,689	(17,423,586)	6,829	(15,299)
Decrease in current deferred income tax liabilities	(2,187,858)	(1,015,040)	(1,921)	(891)
Increase (Decrease) in other current liabilities	641,064	(418,509)	563	(367)
Payment of severance benefits	(33,533,685)	(18,061,739)	(29,444)	(15,859)
Succession to provision for severance benefits	365,997	228,832	321	201
Increase (Decrease) in severance benefit deposits	253,098	(4,053,650)	222	(3,559)
Decrease in deposits to the National Pension Service	5,729,108	197,090	5,030	173
Increase (Decrease) in provision for sales returns	(6,020,061)	2,586,560	(5,286)	2,271
Increase in provision for mileage	1,591,032	1,403,678	1,397	1,232
Increase (Decrease) in deposits received	2,438,224	(2,509)	2,141	(2)
Decrease in long-term non-trade payable	(4,093,467)	(3,561,167)	(3,594)	(3,127)
Increase in other non-current liabilities	380,039	636,947	334	559
	<u>(34,634,847)</u>	<u>12,765,772</u>	<u>(30,411)</u>	<u>11,209</u>
Net cash provided by operating activities	<u>364,055,194</u>	<u>357,582,829</u>	<u>319,655</u>	<u>313,972</u>

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

	<i>in thousands of Korean won</i>		<i>in thousands of U.S. dollars (Note 3)</i>	
	2010	2009	2010	2009
Cash flows from investing activities				
Dividends received from investee company	₩ 147,412	₩ 142,339	US\$ 129	US\$ 125
Proceeds from disposal of equity-method investments	4,096,624	-	3,597	-
Proceeds from disposal of available-for-sale securities	252,085	92,075	221	81
Collection of disposal of long-term loans	2,614,685	7,455,709	2,296	6,546
Proceeds from disposal of deposits provided	14,368,514	12,348,414	12,616	10,842
Proceeds from disposal of land	13,271,565	2,232,910	11,653	1,961
Proceeds from disposal of buildings	-	3,510,401	-	3,082
Proceeds from disposal of machinery	413,055	85,720	363	75
Proceeds from disposal of vehicles	75,059	113,132	66	99
Proceeds from disposal of tools	423,881	300	372	0
Proceeds from disposal of fixtures and furniture	6,064,073	1,427,616	5,324	1,254
Proceeds from disposal of industrial property rights	144,417	-	127	-
Proceeds from disposal of other intangible assets	627,292	-	551	-
Acquisition of short-term investments	(87,656,742)	(41,100,000)	(76,966)	(36,087)
Acquisition of equity-method investments	(15,689,539)	(9,850,006)	(13,776)	(8,649)
Acquisition of available-for-sale securities	(3,400,225)	(220,635)	(2,986)	(194)
Acquisition of long-term investments	-	(3,421,200)	-	(3,004)
Long-term loans granted	(5,077,849)	(1,932,429)	(4,459)	(1,697)
Acquisition of deposits provided	(12,310,181)	(14,767,293)	(10,809)	(12,966)
Acquisition of land	(11,008,103)	(1,025,071)	(9,666)	(900)
Acquisition of buildings	(1,991,975)	(727,875)	(1,749)	(639)
Acquisition of structures	(143,236)	(203,800)	(126)	(179)
Acquisition of machinery	(6,688,150)	(4,126,041)	(5,872)	(3,623)
Acquisition of vehicles	(565,922)	(209,220)	(497)	(184)
Acquisition of tools	(9,004,968)	(9,574,200)	(7,907)	(8,407)
Acquisition of fixtures and furniture	(36,434,418)	(49,403,690)	(31,991)	(43,378)
Acquisition of construction in progress	(242,190,927)	(135,145,395)	(212,653)	(118,663)
Acquisition of machinery in transit	(2,385,598)	(1,369,270)	(2,095)	(1,202)
Acquisition of industrial property rights	(3,667,691)	(1,562,378)	(3,220)	(1,372)
Acquisition of software	(2,499,313)	(2,369,785)	(2,194)	(2,081)
Acquisition of other intangible assets	(294,994)	(259,000)	(259)	(227)
Net cash used in investing activities	<u>(398,511,169)</u>	<u>(249,858,671)</u>	<u>(349,909)</u>	<u>(219,386)</u>
Cash flows from financing activities				
Stock issuance	15,840,789	-	13,909	-
Issuance of short-term borrowings	-	3,548,700	-	3,116
Payment of short-term borrowings	(5,235,607)	(9,627,935)	(4,597)	(8,454)
Payment of dividends	(37,976,102)	(34,560,644)	(33,345)	(30,346)
Net cash used in financing activities	<u>(27,370,920)</u>	<u>(40,639,879)</u>	<u>(24,033)</u>	<u>(35,683)</u>
Net decrease in cash and cash equivalents				
from changes in consolidated subsidiaries	-	(508,722)	-	(447)
Effect of changes in exchange rate on cash and cash equivalents	<u>(2,660,551)</u>	<u>(1,180,811)</u>	<u>(2,336)</u>	<u>(1,037)</u>
Net increase (decrease) in cash and cash equivalents	<u>(64,487,447)</u>	<u>65,394,745</u>	<u>(56,623)</u>	<u>57,419</u>
Cash and cash equivalents				
Beginning of the year	219,782,204	154,387,459	192,978	135,558
End of the year	<u>₩ 155,294,757</u>	<u>₩ 219,782,204</u>	<u>US\$ 136,355</u>	<u>US\$ 192,978</u>

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

The US dollar figures are provided for information purposes only and do not form part of the audited financial statements. Refer to Note 3.

AMOREPACIFIC Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Organization

General information about AMOREPACIFIC Corporation (the "Company") and its consolidated subsidiaries (collectively the "Group") is as follows.

The Company

The Company was split-off from AMOREPACIFIC Group, Inc. (formerly PACIFIC Corporation) on June 1, 2006, to engage in manufacturing, marketing and trading of cosmetics, personal care goods, food and other related products.

As of December 31, 2010, the Company's paid-in capital is ₩34,508 million, including ₩5,279 million of capital from preferred stock.

The Company is authorized to issue 27,500,000 shares of stock at a par value per share of ₩5,000. As of December 31, 2010, 5,845,849 shares of common stock and 1,055,783 shares of preferred stock are issued.

Preferred shareholders have no voting rights and are entitled to non-cumulative and non-participating preferred dividends at a rate of 1% over those provided to common shareholders. This preferred dividend rate is not application to stock dividends.

Consolidated subsidiaries

The Company's consolidated subsidiaries as of December 31, 2010, are as follows:

Subsidiaries	Primary Business	Capital Stock	Percentage of Ownership(%)	Number of shares			Percentage of Ownership of Subsidiaries(%)	Closing Date	Location
				Company	Subsidiaries	Total			
Amorepacific Global Operations Limited.	Holding company	₩ 84,734	90	47,576,629	-	47,576,629	-	Dec.31	Hongkong
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	14,274	100	-	Unissued shares	Unissued shares	-	Dec.31	China
AMOREPACIFIC Trading Co.,Ltd.	Marketing of cosmetics	9,456	100	-	Unissued shares	Unissued shares	100	Dec.31	China
AMOREPACIFIC EUROPE S.A.S	Manufacturing and marketing of cosmetics	98,933	100	-	5,419,518	5,419,518	100	Dec.31	France

The Company established a holding company, Amorepacific Global Operations Limited in Hong Kong for efficient management and control of foreign corporations. It transferred its shares in subsidiaries, AMOREPACIFIC Trading Co.,Ltd. and one other, and equity method investments in AMOREPACIFIC US, Inc. and seven others as investments in kind.

AMOREPACIFIC Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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The summary of the consolidated subsidiaries' financial position as of December 31, 2010, and the result of their operations for the year then ended, which are included in the consolidated financial statements are as follows:

<i>(in millions of Korean won)</i>		Total assets		Total liabilities		Sales		Net income (loss)
Amorepacific Global Operations Limited. ¹	₩	91,880	₩	-	₩	2,474	₩	(1,578)
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.		25,498		2,753		21,370		3,857
AMOREPACIFIC Trading Co.,Ltd.		48,182		29,723		135,751		5,220
AMOREPACIFIC EUROPE S.A.S		102,409		58,392		97,524		879
	₩	<u>267,969</u>	₩	<u>90,868</u>	₩	<u>257,119</u>	₩	<u>8,378</u>

¹The amounts presented include the equity method valuation on the subsidiaries' equity method investments.

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

Investments in associated companies accounted for under the equity method of accounting

Investments in associated companies accounted for under the equity method of accounting as of December 31, 2010, are as follows:

Subsidiaries	Primary Business	Capital Stock	Percentage of Ownership(%)		Number of shares		Percentage of Ownership of Subsidiaries(%)	Closing Date	Location
			Company	Subsidiaries	Company	Subsidiaries			
AMOREPACIFIC US, Inc. ¹	Marketing of cosmetics	₩ 30,473	100	-	294	294	100	Dec.31	America
AMOREPACIFIC Japan CO.,LTD. ¹	Marketing of cosmetics	22,418	100	-	43,400	43,400	100	Dec.31	Japan
AMOREPACIFIC Taiwan Co.,Ltd. ¹	Marketing of cosmetics	9,514	100	-	29,050,000	29,050,000	100	Dec.31	Taiwan
Laneige Singapore Pte.,Ltd. ¹	Marketing of cosmetics	5,539	100	-	7,870,376	7,870,376	100	Dec.31	Singapore
LANEIGE MALAYSIA SDN BHD. ¹	Marketing of cosmetics	2,586	100	-	8,006,000	8,006,000	100	Dec.31	Malaysia
Taiwan AMORE Co.,Ltd.	Marketing of cosmetics	263	50	-	1,000	1,000	100	Dec.31	Taiwan
AMOREPACIFIC HongKong Co.,Limited	Marketing of cosmetics	14	30	-	26,786	26,786	100	Dec.31	Hongkong
Amorepacific Global Operations Pte.Ltd. ¹	Marketing of cosmetics	4,611	100	5,638,401	-	5,638,401	-	Dec.31	Singapore
De Laneige SA ¹	Marketing of cosmetics	5,513	70	-	6,475,000	6,475,000	100	Dec.31	Vietnam
PT. Laneige Indonesia Pacific	Marketing of cosmetics	630	30	210,000	-	210,000	-	Dec.31	Indonesia
AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics	781	49	-	134,510	134,510	100	Dec.31	Thailand

¹These companies were excluded from consolidated subsidiaries as their total assets are less than ₩10,000 million when established or as of December 31, 2009.

AMOREPACIFIC Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Changes in scope of consolidation in 2010

Subsidiary which is newly consolidated in the consolidated financial statements of 2010 is:

Subsidiary	Reason
Amorepacific Global Operations Limited	New investment

There are no subsidiaries which have been newly excluded from consolidation in 2010.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Group maintains its accounting records in Korean won and prepares statutory consolidated financial statements in Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Group that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The following is a summary of significant accounting policies followed by the Group in the preparation of its financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of consolidation

Elimination of the investments of investing company and the shareholders' equity of the investees

The elimination of the investments of the investing company and the stockholders' equity of the investees are recorded as of the date of acquisition of controlling interest.

Accounting for the excess of the cost of the investment

The excess of the cost of the investment over the Company's share of the net fair value of the subsidiaries' identifiable assets and liabilities is accounted for as goodwill which is amortized over reasonable periods using the straight-line method. Conversely, negative goodwill represents the excess of the Company's share in the net fair value of the subsidiaries' identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

AMOREPACIFIC Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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The post-acquisition retained earnings and changes in equity of a subsidiary are included in the consolidated financial statements from the date of acquisition or the date when the Company obtains control of a subsidiary. Changes in the Company's ownership interest in a subsidiary such as those arising from issuance of additional shares by the subsidiary or additional shares acquired by the Company through stock dividend declared by the subsidiary, the difference between the additional cost of investment and the additional share of the fair value of assets and liabilities acquired is accounted for as a capital surplus within equity.

Elimination of unrealized inter-company gains and losses

Unrealized gains or losses to be eliminated with respect to Company's inventory are computed based upon average gross profit ratio of the concerned transaction. Unrealized profit included in inventories as a result of intercompany transactions, is eliminated. Unrealized profit, arising from sales by the controlling company to consolidated subsidiaries, or equity-method investees, is fully eliminated and charged to the equity of the controlling company. Unrealized profit, arising from sales by the consolidated subsidiaries, or equity-method investees, to the controlling company, or sales between consolidated subsidiaries, or equity-method investees, is fully eliminated, and charged to the equity of the controlling company and minority interests, based on the percentage of ownership.

Minority interests

The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the controlling company, as a minority interests in consolidated subsidiaries. In addition, if losses of the consolidated subsidiaries, included in minority interests, are in excess of minority interests, the deficit in excess of minority interests is charged to the equity of the controlling company. Until losses charged to the equity of the controlling company are recovered, all gains on related consolidated subsidiaries are recognized in equity of the controlling company.

Translation of foreign subsidiaries' financial statements

In translation of subsidiary's financial statements denominated in foreign currencies, the statement of financial position items are translated at the exchange rates in effect at the end of the reporting period (but, historical exchange rates should be used for the equity items) and the profit and loss items are translated at the current year's average exchange rates. Differences arising in translation should be treated as translation gain or loss from foreign operation and it is proportionately attributed to the company's equity interest, recorded in accumulated other comprehensive income (loss), and non-controlling interest by equity interest owned.

Revenue Recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

AMOREPACIFIC Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Revenues from the sale of goods are recognized when the significant risks and rewards of ownership of goods are transferred to the buyer. Revenue from the rendering of services is recognized under the percentage-of-completion method, under which revenue is generally recognized based on the costs incurred to date as a percentage of the total estimated costs to be incurred.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined. Royalty income is recognized on an accrual basis in accordance with the substance of relevant contracts.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the moving-weighted average method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed, but not exceeding the original carrying amount before valuation. The said reversal is deducted from cost of sales.

The Group has set up an inventory valuation by computing the lower of cost and net realizable value of raw materials, and added ₩5,812 million to cost of goods sold.

Investments in Securities

Costs of securities are determined using the moving-weighted average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

AMOREPACIFIC Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses on available-for-sale securities are recognized in the income statement.

Equity-Method Investments

Company reflects any changes in the book value of its equity-method investments after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

In case the investee is also a subsidiary of the parent company, the net income and net assets of the investee in its non-consolidated financial statements should be equal to the corresponding share of the Parent Company presented in the consolidated financial statements, unless the equity method of accounting has been discontinued on the said investee.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

Property, plant and equipment are stated net of accumulated depreciation calculated based on the following depreciation method and estimated useful lives:

	Estimated Useful Lives	Depreciation Method
Building	9 - 60 years	Straight-line method
Structures	10 - 40 years	Straight-line method
Machinery	2 - 8 years	Declining balance method
Vehicles	4 - 8 years	Declining balance method
Tools	4 - 8 years	Declining balance method
Fixtures and furniture	4 - 20 years	Declining balance method

Expenditures incurred after the acquisition or completion of assets are capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

AMOREPACIFIC Corporation and Subsidiaries
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Government Grants

Government grants received, which are to be repaid, are recorded as liability, while grants without obligation to be repaid are offset against cost of assets purchased with such grants. Grants received for a specific purpose are offset against the specific expense for which it was granted, and other grants are recorded as a gain for the period.

Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on using the following depreciation method and estimated useful lives:

	Estimated Useful Lives	Depreciation Methods
Industrial property rights	5 - 10 years	Straight-line method
Softwares	5 years	Straight-line method
Goodwill	5 years	Straight-line method
Others	50 years	Straight-line method

Impairment of Assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the date of statement of financial position.

The Company has partially funded the accrued severance benefits through severance insurance deposits with an insurance company. Deposits made by the Company are recorded as deductions from accrued severance benefits. The excess portion of deposits over accrued severance benefits is recorded as other investments.

The Company deposits a certain portion of severance benefits to National Pension Service according to National Pension Law. The deposit amount is recorded as a deduction from accrued severance benefits.

AMOREPACIFIC Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Currency Translation for Foreign Operations

Assets and liabilities of a foreign branch or company subject to the equity method of accounting for investments are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position, while their equity is translated at the exchange rate at the time of transaction, and income statement accounts at the average rate over the period. Resulting translation gains and losses are recorded as accumulated other comprehensive income and expense. Corresponding gains and losses are recognized as gain or loss when the foreign branch or company is liquidated or sold.

Provision for sales returns

The Group estimates the expected returns of goods sold based on the Group's historical experience and the provision for sales returns is measured based on certain percentage of the gross margin of sales returns.

Provision for mileage

The Group provides the mileage to customers system as a part of marketing policy to increase customer relationship and compensate customer royalty. The Group provides the provision for mileage in connection with the estimated costs and charges it to current operation.

Changes in provision for mileage for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010		2009	
Balance at 1/1/2010	₩	8,355	₩	6,951
Increase		11,752		13,176
Decrease		(10,161)		(11,772)
Balance at 12/31/2010	₩	9,946	₩	8,355

Income Tax and Deferred Income Tax

Income taxes include the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

AMOREPACIFIC Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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Translation of Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position, and the resulting translation gains and losses are recognized in current operations.

Discontinued Operations

The Group reports its operating and non-operating income or loss as income or loss from discontinued operations, net of income tax effect. The income or loss from discontinued operations includes direct costs from discontinued operations and impairment loss on assets due to discontinued operations.

3. US Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US\$1: ₩1,138.90, the exchange rate in effect on December 31, 2010. Such presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

The December 31, 2009 U.S. dollar amounts, which were previously expressed at US\$1: ₩1,167.60, the rate in effect on December 31, 2009, have been restated to reflect the exchange rate in effect on December 31, 2010.

4. Restricted deposits

The short-term investments amounting to ₩8,000 million and ₩9,000 million and long-term financial instruments amounting to ₩6 million in total as of December 31, 2010 and 2009, respectively, are restricted for use for guarantees provided to affiliated companies and as guarantee deposits for the maintenance of checking accounts (Note 12).

AMOREPACIFIC Corporation and Subsidiaries
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5. Equity-Method Investments

Equity-method investments as of December 31, 2010 and 2009, consist of the following:

Investee	Number of Shares	Percentage of Ownership	2010			2009		
			Acquisition cost	Net asset value	Book value	Acquisition cost	Net asset value	Book value
<i>(in millions of Korean won)</i>								
AMOREPACIFIC Cosmetics (Shenyang) Co., Ltd. ¹	-	0.00%	₩ -	₩ -	₩ -	₩ 2,218	₩ 4,060	₩ 4,060
AMOREPACIFIC US, INC.	294	100.00%	30,497	2,748	2,447	28,159	5,068	4,747
AMOREPACIFIC JAPAN CO., LTD. ¹	43,400	100.00%	22,722	1,064	770	16,050	-	-
Pacific Japan Co., Ltd. ¹	-	0.00%	-	-	-	354	1,956	1,838
AMOREPACIFIC Taiwan Co., Ltd.	29,050,000	100.00%	9,514	2,145	2,021	8,424	1,825	1,715
Laneige Singapore Pte., Ltd.	7,870,376	100.00%	5,539	1,534	1,447	5,018	934	821
AMOREPACIFIC RUS CO., LTD. ¹	-	0.00%	-	-	-	2,804	100	100
LANEIGE MALAYSIA SDN BHD.	8,006,000	100.00%	2,586	1,386	1,333	2,106	735	701
Amorepacific Global Operations Pte. Ltd. ²	5,638,401	100.00%	4,611	4,354	4,354	-	-	-
Taiwan AMORE Co., Ltd.	1,000	50.00%	131	1,570	1,571	131	1,392	1,392
AMOREPACIFIC HongKong Co., Limited	26,786	30.00%	1,220	2,800	2,255	1,220	2,471	2,102
PT. Laneige Indonesia Pacific ³	210,000	30.00%	228	-	-	228	-	-
AMOREPACIFIC (Thailand) LIMITED	134,510	49.00%	430	228	327	150	71	71
			<u>₩ 77,478</u>	<u>₩ 17,829</u>	<u>₩ 16,525</u>	<u>₩ 66,862</u>	<u>₩ 18,612</u>	<u>₩ 17,547</u>

¹Pacific Japan Co., Ltd. was merged into AMOREPACIFIC JAPAN CO., LTD. and AMOREPACIFIC Cosmetics (Shenyang) Co., Ltd. and AMOREPACIFIC RUS CO., LTD. was liquidated.

²Amorepacific Global Operations Pte. Ltd. was newly established this year, and it acquired 70% of shares of De Laniege SA, a Vietnamese subsidiary.

³The Company suspended the application of the equity method of accounting when the net book value of investment in PT. Laneige Indonesia Pacific was below zero. Accordingly, changes in ownership amounting to ₩188 million was not recognized for the said investment.

AMOREPACIFIC Corporation and Subsidiaries
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Changes in investments in equity-method investments are as follows:

2010 (in millions of Korean won)	Beginning	Acquisition (Disposal)	Dividends	Valuation Gain/Loss	Changes in capital adjustment	Ending
AMOREPACIFIC Cosmetics (Shenyang) Co.,Ltd.	₩ 4,060	₩ (4,060)	-	₩ -	-	₩ -
AMOREPACIFIC US, Inc.	4,747	2,339	-	(4,508)	(131)	2,447
AMOREPACIFIC JAPAN CO.,LTD.	-	8,207	-	(7,613)	176	770
Pacific Japan Co.,Ltd.	1,838	(1,838)	-	-	-	-
AMOREPACIFIC Taiwan Co.,Ltd.	1,715	1,091	-	(947)	162	2,021
Laneige Singapore Pte.,Ltd.	821	521	-	45	60	1,447
AMOREPACIFIC RUS Co.,Ltd.	100	-	-	(100)	-	-
LANEIGE MALAYSIA SDN.,BHD.	701	480	-	88	64	1,333
Amorepacific Global Operations Pte.Ltd.	-	4,612	-	(606)	348	4,354
Taiwan AMORE Co.,Ltd.	1,392	-	(147)	(47)	373	1,571
AMOREPACIFIC HongKong Co.,Limited	2,102	-	-	255	(102)	2,255
AMOREPACIFIC (Thailand) LIMITED	71	280	-	(30)	6	327
	<u>₩ 17,547</u>	<u>₩ 11,632</u>	<u>₩ (147)</u>	<u>₩ (13,463)</u>	<u>₩ 956</u>	<u>₩ 16,525</u>

2009 (in millions of Korean won)	Beginning	Changes in consolidated subsidiaries	Acquisition (Disposal)	Dividends	Valuation Gain/Loss	Changes in capital adjustment	Ending
AMOREPACIFIC Cosmetics (Shenyang) Co.,Ltd.	₩ -	₩ 4,363	₩ -	₩ -	₩ 7	₩ (310)	₩ 4,060
AMOREPACIFIC US, Inc.	-	6,830	2,784	-	(4,332)	(535)	4,747
AMOREPACIFIC JAPAN CO.,LTD.	-	-	4,503	-	(3,697)	(806)	-
Pacific Japan Co.,Ltd.	2,041	-	-	-	-	(203)	1,838
AMOREPACIFIC Taiwan Co.,Ltd.	1,880	-	846	-	(860)	(151)	1,715
Laneige Singapore Pte.,Ltd.	702	-	869	-	(697)	(53)	821
AMOREPACIFIC RUS Co.,Ltd.	1,208	-	-	-	(1,026)	(82)	100
LANEIGE MALAYSIA SDN.,BHD.	347	-	848	-	(416)	(78)	701
Taiwan AMORE Co.,Ltd.	1,371	-	-	(142)	493	(330)	1,392
AMOREPACIFIC HongKong Co.,Limited	2,283	-	-	-	(4)	(177)	2,102
AMOREPACIFIC (Thailand) LIMITED	65	-	-	-	8	(2)	71
	<u>₩ 9,897</u>	<u>₩ 11,193</u>	<u>₩ 9,850</u>	<u>₩ (142)</u>	<u>₩ (10,524)</u>	<u>₩ (2,727)</u>	<u>₩ 17,547</u>

Details of changes in the differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investees are as follows:

2010 (in millions of Korean won)	Beginning	Increase (Decrease)	Amortization	Ending
AMOREPACIFIC (Thailand) LIMITED	₩ -	₩ 104	₩ (5)	₩ 99

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Details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting are as follows:

<i>(in millions of Korean won)</i>	2010		2009	
Inventory	₩	1,405	₩	1,293

Summary of financial information of major equity method investees follows:

2010 <i>(in millions of Korean won)</i>	Total Assets		Total Liabilities		Revenue		Net Income (Loss)	
AMOREPACIFIC US, Inc.	₩	11,806	₩	9,058	₩	11,720	₩	(4,424)
AMOREPACIFIC JAPAN CO.,LTD.		7,556		6,492		28,103		(3,461)
AMOREPACIFIC Taiwan Co.,Ltd.		2,869		724		4,459		(636)
Laneige Singapore Pte.,Ltd.		1,993		459		4,163		8
LANEIGE MALAYSIA SDN BHD.		1,647		261		2,177		143
Amorepacific Global Operations Pte.Ltd. ¹		4,354		-		-		(605)
Taiwan AMORE Co.,Ltd.		4,696		1,557		7,066		648
AMOREPACIFIC HongKong Co.,Limited		18,891		9,557		40,040		1,352
PT. Laneige Indonesia Pacific		150		659		-		(111)
AMOREPACIFIC (Thailand) LIMITED		656		191		1,754		(67)
De Laneige SA		5,403		482		1,312		(518)
	₩	<u>60,021</u>	₩	<u>29,440</u>	₩	<u>100,794</u>	₩	<u>(7,671)</u>

¹This financial information is recorded after applying the equity method on De Laniege SA.

6. Available-for-sale Securities

Available-for-sale securities as of December 31, 2010 and 2009, consist of the following:

<i>(in millions of Korean won)</i>	2010		2009	
Equity securities				
Marketable equities	₩	3,978	₩	3,289
Non-marketable equities		1,997		1,840
Government-issued securities		5,639		2,648
Investments in partnership		1		1
	₩	<u>11,615</u>	₩	<u>7,778</u>

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Equity securities of available-for-sale securities above as of December 31, 2010 and 2009, consist of the following:

(in millions of Korean won)

		2010		2009	
	Percentage of Ownership	Acquisition Cost	Book Value	Book Value	Book Value
Marketable equities					
Crystal Genomics Co., Ltd.	0.57%	₩ 901	₩ 431	₩ 595	
Medy-tox Inc.	2.19%	300	3,547	2,694	
Non-marketable equities¹					
GL Pharm Tech Co., Ltd.	12.27%	176	191	191	
Welskin Co., Ltd.	8.33%	100	48	48	
Solomon Investment Bank Co., Ltd.	0.29%	800	674	517	
The Korea Economic Daily	0.03%	75	81	81	
ELANDRETAL Ltd.	0.00%	1	3	3	
Biogenics Co., Ltd.	10.98%	1,000	1,000	1,000	
EntoPharm Co., Ltd.	2.69%	540	-	-	
Biovigen Co., Ltd.	7.51%	1,201	-	-	
Virtual MD Co., Ltd.	5.52%	500	-	-	
The Institution for Social development and Policy Research	1.67%	10	-	-	
T.ON Telecom Co., Ltd.	0.05%	70	-	-	
		₩ 5,674	₩ 5,975	₩ 5,129	

¹Those securities are carried at cost due to lack of reliable information necessary for determining the fair market value of the securities.

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Changes in gain(loss) on valuation of available-for-sales securities for the years ended December 31, 2010 and 2009, are as follows:

2010	Beginning	Increase (Decrease)	Realized	Tax effect	Ending
<i>(in millions of Korean won)</i>					
Marketable equities					
Crystal Genomics Co., Ltd.	₩ (238)	₩ (164)	₩ -	₩ 35	₩ (367)
Medy-tox Inc.	1,867	853	-	(187)	2,533
Non-marketable equities					
GL Pharm Tech Co., Ltd.	12	-	-	-	12
Welskin Co., Ltd.	(40)	-	-	-	(40)
Solomon Investment Bank Co., Ltd.	(99)	-	-	-	(99)
The Korea Economic Daily	5	-	-	-	5
ELANDRETAL Ltd.	1	-	-	-	1
	<u>₩ 1,508</u>	<u>₩ 689</u>	<u>₩ -</u>	<u>₩ (152)</u>	<u>₩ 2,045</u>

2009	Beginning	Increase	Realized	Tax effect	Ending
<i>(in millions of Korean won)</i>					
Marketable equities					
Crystal Genomics Co., Ltd.	₩ (245)	₩ 9	₩ -	₩ (2)	₩ (238)
Medy-tox Inc.	-	2,394	-	(527)	1,867
Non-marketable equities					
GL Pharm Tech Co., Ltd.	12	-	-	-	12
Welskin Co., Ltd.	(40)	-	-	-	(40)
Solomon Investment Bank Co., Ltd.	(99)	-	-	-	(99)
The Korea Economic Daily	5	-	-	-	5
ELANDRETAL Ltd.	1	-	-	-	1
	<u>₩ (366)</u>	<u>₩ 2,403</u>	<u>₩ -</u>	<u>₩ (529)</u>	<u>₩ 1,508</u>

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7. Property, Plant and Equipment

As of December 31, 2010, the value of the Group's land, as determined by the local government in Korea for property tax assessment purposes, was ₩540,635 million (2009: ₩492,126 million).

Changes in property, plant and equipment for the years ended December 31, 2010 and 2009, are as follows:

2010 <i>(in millions of Korean won)</i>	Balance as of January 1, 2010	Acquisition	Disposal	Depreciation	Reclassification	Others¹	Balance as of December 31, 2010
Land	₩ 357,347	₩ 11,008	₩ (2,390)	₩ -	₩ 179,237	₩ (296)	₩ 544,906
Buildings	196,209	1,992	(507)	(10,596)	61,285	(2,304)	246,079
Structures	10,232	143	-	(1,460)	12,705	(56)	21,564
Machinery	30,068	6,688	(50)	(13,272)	10,485	(484)	33,435
Vehicles	337	566	(26)	(345)	-	(1)	531
Tools	24,580	9,005	(508)	(11,691)	(10)	(65)	21,311
Fixtures and furniture	103,505	36,434	(5,989)	(37,298)	6,530	49	103,231
Construction in progress	216,545	242,191	-	-	(274,736)	(23)	183,977
Machinery in transit	827	2,386	-	-	(2,300)	-	913
	<u>₩ 939,650</u>	<u>₩ 310,413</u>	<u>₩ (9,470)</u>	<u>₩ (74,662)</u>	<u>₩ (6,804)</u>	<u>₩ (3,180)</u>	<u>₩ 1,155,947</u>

2009 <i>(in millions of Korean won)</i>	Balance as of January 1, 2009	Acquisition	Disposal	Depreciation	Reclassification	Others¹	Balance as of December 31, 2009
Land	₩ 325,036	₩ 1,025	₩ (250)	₩ -	₩ 33,110	₩ (1,574)	₩ 357,347
Buildings	183,813	728	(2,439)	(8,849)	25,833	(2,877)	196,209
Structures	10,946	204	-	(1,230)	348	(36)	10,232
Machinery	30,771	4,126	(35)	(11,866)	7,884	(812)	30,068
Vehicles	453	209	(50)	(245)	-	(30)	337
Tools	27,424	9,574	(9)	(13,061)	716	(64)	24,580
Fixtures and furniture	93,718	49,404	(1,646)	(40,676)	3,582	(877)	103,505
Construction in progress	161,140	135,145	-	-	(79,714)	(26)	216,545
Machinery in transit	385	1,369	-	-	(927)	-	827
Other	1,249	-	-	-	-	(1,249)	-
	<u>₩ 834,935</u>	<u>₩ 201,784</u>	<u>₩ (4,429)</u>	<u>₩ (75,927)</u>	<u>₩ (9,168)</u>	<u>₩ (7,545)</u>	<u>₩ 939,650</u>

¹Others include increases or decreases from changes in consolidation entities and gains or losses from translations.

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8. Intangible assets

Changes in intangible assets for the years ended December 31, 2010 and 2009, are as follows:

2010 <i>(in millions of Korean won)</i>	Industrial property					Total
	Industrial property	Software	Goodwill	Others		
Balance as of January 1, 2010	₩ 3,459	₩ 18,656	₩ 2,873	₩ 2,324	₩	27,312
Acquisition	3,668	2,499	-	295		6,462
Disposal	(26)	-	-	(612)		(638)
Reclassification	-	6,144	-	661		6,805
Others ¹	-	2	-	(14)		(12)
Amortization	(1,258)	(6,460)	(1,915)	(612)		(10,245)
Balance as of December 31, 2010	₩ 5,843	₩ 20,841	₩ 958	₩ 2,042	₩	29,684
Acquisition cost	₩ (3,614)	₩ (30,932)	₩ (7,662)	₩ (2,637)	₩	(44,845)
Accumulated amortization	(9,457)	(51,773)	(8,620)	(4,679)		(74,529)

2009 <i>(in millions of Korean won)</i>	Industrial property	Development costs	Software	Goodwill	Others	Total
Balance as of January 1, 2009	₩ 2,913	₩ 229	₩ 12,938	₩ 4,789	₩ 2,637	₩ 23,506
Acquisition	1,562	-	2,370	-	259	4,191
Disposal	-	-	-	-	-	-
Reclassification	-	(229)	9,254	-	574	9,599
Others ¹	-	-	(57)	-	(155)	(212)
Amortization	(1,016)	-	(5,849)	(1,916)	(991)	(9,772)
Balance as of December 31, 2009	₩ 3,459	₩ -	₩ 18,656	₩ 2,873	₩ 2,324	₩ 27,312
Acquisition cost	₩ (4,811)	₩ -	₩ (26,749)	₩ (3,831)	₩ 822	₩ (34,569)
Accumulated amortization	(8,270)	-	(45,405)	(6,704)	(1,502)	(61,881)

¹Others include increases or decreases from changes in consolidation entities and gains or losses from translations.

Amortization of intangible assets is charged to the following accounts:

<i>(in millions of Korean won)</i>	2010	2009
Selling and administrative expenses ¹	₩ 9,921	₩ 9,607
Production costs	324	165
	<u>₩ 10,245</u>	<u>₩ 9,772</u>

¹Amortization expense is included as part of general development expense.

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9. Insured Assets

As of December 31, 2010, inventories and property, plant and equipment are insured against fire and other casualty losses for up to ₩958,753 million.

In addition, the Group maintains fidelity insurance for directors and employees, and casualty insurance for vehicles and industrial accidents.

10. Short-term borrowings

Short-term borrowings as of December 31, 2010 and 2009, consist of the following:

<i>(in millions of Korean won)</i>		Interest rate		2010		2009
	Bank	at 12/31/2010				
Foreign currency of EUR 8,761,264 (2009: EUR 12,176,666)	Societe Generale Banque and others ¹	1.33%~2.55%	₩	13,261	₩	20,387

¹As of December 31, 2010 and 2009, the Company has provided AMOREPACIFIC EUROPE S.A.S, a consolidated subsidiary, with payment guarantees for above borrowings of EURO 28,601 thousand (equivalent to ₩43,290 million) and EURO 34,601 thousand (equivalent to ₩57,931 million) respectively (Notes 12 and 19).

11. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>		2010		2009
Beginning balance	₩	101,680	₩	95,553
Payment		(33,534)		(18,062)
Increase		26,826		23,960
Transfer from associate		366		229
		<u>95,338</u>		<u>101,680</u>
Less: Severance benefit insurance		(66,445)		(72,174)
Deposits to the National Pension Service		(490)		(743)
	₩	<u>28,403</u>	₩	<u>28,763</u>

As of December 31, 2010, the Company estimates severance payable to all employees to be ₩95,338 million (2009: ₩101,680 million) and records the corresponding amount as accrued severance benefits. Also, the Company funded 70% (2009: 71%) of severance payable through severance insurance deposits with Samsung Life Insurance Company.

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12. Commitments and contingencies

As of December 31, 2010, the payment guarantee provided to AMOREPACIFIC EUROPE S.A.S, a consolidated subsidiary, amounts to ₩ 43,290 million (2009: ₩57,931 million), and the Company has a bank guarantee agreement of up to EUR 4,000 thousand with Woori Bank for a local credit guarantee. As of December 31, 2010, short-term investment of Company was provided as collateral for the repayment of loans of AMOREPACIFIC Japan Co., Ltd. amounting to ₩ 8,000 million (2009: ₩9,000 million)(Notes 4 and 10).

As of December 31, 2010, the Company has a bank overdraft agreement of up to ₩ 8,000 million and a loan agreement secured by credit sales of up to ₩ 25,000 million with Woori Bank. As of December 31, 2010, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩ 15,868 million (2009: ₩6,412 million). Additionally, as of December 31, 2010, the Company has a letter of credit agreement of up to USD 4,000 thousand with Woori Bank and the amount USD 1,381 thousand (2009: USD 1,262 thousand) has been drawn.

As of December 31, 2010, Seoul Guarantee Insurance has provided the Company with payment guarantees such as court bond guarantees, performance guarantees and others amounting to ₩ 5,796 million (2009: ₩3,643 million).

On July 25, 2006, the Company sold its land located in Osan for ₩83,971 million to Yangbaek Development Co., Ltd. The amount of ₩83,971 million has been recorded as long-term advances received in non-current liabilities because the Company has not obtained the official approval of the above land transaction from the municipal authorities as of December 31, 2010. Consequently, the Company recorded the book value of the property amounting to ₩36,789 million in total as investments in land as non-current asset. The land located in Osan City was provided as collateral and assigned to Saengbo Real Estate Trust Co., Ltd. for the borrowings of Yangbaek Development Co., Ltd. as of December 31, 2010.

As of December 31, 2010 the Company transferred one of its operations, the Innisfree cosmetics industry to Innisfree Corporation, a consolidated subsidiary, for a price of ₩13,259 million.

The Company entered into a "COX-2 Inhibitor Development and License Agreement" with Crystal Genomics Co., Ltd. ("Crystal"). In accordance with the agreement, the Company received US\$2 million from Crystal in return for a technology transfer. Further, Crystal shall pay a fee to the Company to the extent of US\$29,750 thousand and royalties from sales of the related products subject to the success of the product development. Crystal also holds the option to sub-license the license to a third party and if Crystal chooses to exercise the option, the Company will be entitled to be paid by Crystal for up to 40% of all receipts from the sub-licensee and royalties from their sales of the related products.

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13. Treasury Stock

The Company acquired of its own shares 3,891, consisting of 3,286 common shares and 605 preferred shares. The total book value of its own shares is ₩1,381 million and the Company intends to dispose of the remaining treasury shares depending on the market conditions.

14. Retained Earnings

The Group's retained earnings as of December 31, 2010 and 2009, consist of:

<i>(in millions of Korean won)</i>	2010		2009
Appropriation			
Legal reserve ¹	₩ 13,909	₩	10,109
Reserve for research and human resource development	223,000		150,000
Others	247,000		137,000
	<u>483,909</u>		<u>297,109</u>
Unappropriated retained earnings to be carried forward to subsequent year	292,478		232,787
	<u>₩ 776,387</u>	₩	<u>529,896</u>

¹The legal reserve may not be utilized for cash dividends.

15. Sales and Cost of Sales

Sales and cost of sales for the years ended December 31, 2010 and 2009, consist of the following:

<i>(in millions of Korean won)</i>	2010		2009
Sales - sale of manufactured goods	₩ 2,265,665	₩	1,932,708
Sales - trading	353,574		353,167
Sales - other	12,578		8,046
Total sales	<u>2,631,817</u>		<u>2,293,921</u>
Sales Incentives	(379,633)		(353,498)
Net sales	<u>₩ 2,252,184</u>	₩	<u>1,940,423</u>
Cost of manufacture	₩ 482,983	₩	425,682
Cost of goods sold	90,131		107,576
Cost of other	5,322		6,013
Cost of sales	<u>₩ 578,436</u>	₩	<u>539,271</u>

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16. Income Taxes

Income taxes for the years ended December 31, 2010 and 2009, consists of:

<i>(in millions of Korean won)</i>	2010		2009	
Current income taxes	₩	60,128	₩	65,387
Deferred income tax due to temporary differences		16,069		10,071
Deferred income tax charged to equity		256		(1,557)
Income taxes	₩	<u>76,453</u>	₩	<u>73,901</u>

Deferred income taxes charged directly to the shareholders' equity are as follows:

<i>(in millions of Korean won)</i>	2010		2009	
Gain(loss) on valuation of available-for-sale securities	₩	(152)	₩	(529)
Gain(loss) on valuation of equity-method investments		408		(1,028)

Reconciliation between net income before tax and income taxes

<i>(in millions of Korean won)</i>	2010		2009	
Net income before tax	₩	360,934	₩	299,779
Income tax based on statutory rate	₩	87,546	₩	74,578
Add (deduct):				
Non-taxable income		(3,609)		(1,887)
Non-deductible expense		5,254		1,352
Change in recognition of deferred income tax based on future realizability		(8,203)		3,258
Tax credits		(4,677)		(2,384)
Income tax refunds		(2,006)		486
Others		2,148		(1,502)
Income taxes	₩	<u>76,453</u>	₩	<u>73,901</u>
Effective tax rate (Income tax over net income before tax)		21.18%		24.65%

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Changes in the temporary differences and related deferred tax assets and liabilities are as follows:

2010 <i>(in millions of Korean won)</i>	Temporary differences				Deferred tax	Deferred tax
	Beginning	Increase	Decrease	Ending	assets(liabilities) Current	assets(liabilities) Non-current
Uncollectible accounts	₩ 178	₩ (78)	₩ 40	₩ 60	₩ 15	₩ -
Allowance for doubtful accounts	630	2,117	609	2,138	517	-
Accrued revenues	(488)	(877)	(488)	(877)	(212)	-
Reserve for technology developments	(11,000)	-	(7,667)	(3,333)	(807)	-
Commission	(4,190)	(4,773)	(4,533)	(4,430)	(1,072)	-
Guarantee fee	1,235	638	-	1,873	453	-
Loss on foreign currency translation	280	109	288	101	24	-
Membership fee	-	3,454	-	3,454	836	-
Profit and loss diffences						
attributable to different periods	-	12,992	-	12,992	3,145	-
Others(current)	4,084	13,930	2,702	15,312	3,445	-
Investments in securities	378	(689)	-	(311)	-	(68)
Equity-method investments ¹	96,240	50,890	111,887	35,243	-	(7,072)
Accrued severance benefits	70,488	19,485	21,158	68,815	-	15,139
Deposits for severance benefits	(70,488)	(17,115)	(21,158)	(66,445)	-	(14,618)
Depreciation	2,280	220	972	1,528	-	336
Interest incurred during construction	722	-	-	722	-	159
Membership and donations	19	-	-	19	-	4
Land	48,474	-	-	48,474	-	10,664
Reserve for technology developments	(53,000)	(60,000)	-	(113,000)	-	(24,860)
Miscellaneous losses	1,109	-	-	1,109	-	244
Royalty	300	-	-	300	-	66
Government subsidy(laboratory)	1,443	1,851	1,497	1,797	-	395
Provision for mileage	8,355	9,946	8,355	9,946	-	2,188
Provision for sales returns	19,350	13,057	19,350	13,057	-	2,873
Others(non-current)	6,256	-	6,256	-	-	-
	122,655	45,157	139,268	28,544	6,344	(14,550)
Tax loss carryforwards	67,351	-	7,768	59,583	-	19,859
	₩ 190,006	₩ 45,157	₩ 147,036	₩ 88,127	₩ 6,344	₩ 5,309

2009 <i>(in millions of Korean won)</i>	Temporary differences				Deferred tax	Deferred tax
	Beginning	Increase	Decrease	Ending	assets(liabilities) Current	assets(liabilities) Non-current
Uncollectible accounts	₩ 124	₩ 139	₩ 85	₩ 178	₩ 43	₩ -
Allowance for doubtful accounts	772	629	771	630	152	-
Accrued revenues	(605)	(488)	(605)	(488)	(118)	-
Reserve for technology developments	(12,667)	(11,000)	(12,667)	(11,000)	(2,662)	-
Commission	(3,000)	(3,921)	(2,731)	(4,190)	(1,014)	-
Guarantee fee	906	329	-	1,235	299	-
Gain on foreign currency translation	(551)	551	-	-	-	-
Loss on foreign currency translation	1,479	(205)	994	280	68	-
Others(current)	307	2,530	(1,247)	4,084	1,044	-
Investments in securities	1,080	(702)	-	378	-	83
Equity-method investments ¹	83,342	12,756	(142)	96,240	-	(1,076)
Accrued severance benefits	68,142	12,353	10,007	70,488	-	15,507
Deposits for severance benefits	(68,121)	(12,374)	(10,007)	(70,488)	-	(15,507)
Depreciation	1,584	1,667	971	2,280	-	502
Interest incurred during construction	722	-	-	722	-	159
Membership and donations	28	-	9	19	-	4
Land	47,763	711	-	48,474	-	10,664
Reserve for technology developments	(11,000)	(42,000)	-	(53,000)	-	(11,660)
Miscellaneous losses	-	1,109	-	1,109	-	245
Royalty	300	-	-	300	-	66
Government subsidy(laboratory)	55	2,247	859	1,443	-	317
Provision for mileage	6,951	8,355	6,951	8,355	-	1,838
Provision for sales returns	16,764	19,350	16,764	19,350	-	4,257
Others(non-current)	9,096	-	2,840	6,256	-	2,064
	143,471	(7,964)	12,852	122,655	(2,188)	7,463
Tax loss carryforwards	66,219	1,132	-	67,351	-	22,448
	₩ 209,690	₩ (6,832)	₩ 12,852	₩ 190,006	₩ (2,188)	₩ 29,911

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¹The temporary differences from the entity of which the disposal of investment is not probable in the foreseeable future were not recognized because of the uncertainty in realizability of the deferred tax assets.

The gross balances of deferred tax assets and liabilities are as follows:

<i>(in millions of Korean won)</i>	2010		2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current	₩ 8,435	₩ (2,091)	₩ 1,606	₩ (3,794)
Non - current	51,927	(46,618)	58,154	(28,243)

Effective Tax Rate

The tax effect of cumulative temporary difference was calculated based on future tax rate of the fiscal year when temporary differences are expected to reverse. The 24.2% tax rate was used for temporary difference expected to reverse in year 2010 and 2011, while 22% was used for temporary differences expected to reverse in 2012 and thereafter.

Partial Recognition

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion. As of December 31, 2010, the Company has recognized the deferred income tax assets related to temporary differences, excluding valuation of equity-method investments that are deemed to be not realizable.

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17. Monetary Assets and Liabilities Denominated in Foreign Currencies

As of December 31, 2010 and 2009, monetary assets and liabilities denominated in foreign currencies are summarized as follows:

<i>(in millions of Korean won, other currencies in thousands)</i>		2010		2009	
	<i>Foreign currency</i>	<i>Won equivalent</i>		<i>Foreign currency</i>	<i>Won equivalent</i>
Assets					
Cash and cash equivalents	USD	-	₩	-	USD 30 ₩ 36
Trade accounts and notes receivable	USD	17,124		19,503	USD 10,099 ₩ 11,792
	EUR	385		583	EUR 873 ₩ 1,462
Other accounts and notes receivable	EUR	-		-	EUR 32 ₩ 54
		<u>₩</u>	<u>20,086</u>		<u>₩</u> <u>13,344</u>
Liabilities					
	USD	816	₩	930	USD 561 ₩ 655
	EUR	493		747	EUR 1,050 ₩ 1,757
Trade accounts and notes payable	JPY	329,472		4,603	JPY 117,170 ₩ 1,480
	GBP	-		-	GBP 20 ₩ 38
	CHF	102		124	CHF 88 ₩ 99
	IDR	-		-	IDR 2,234,518 ₩ 277
Other accounts and notes payable	USD	206		234	USD 203 ₩ 237
	EUR	63		96	EUR 17 ₩ 29
	JPY	6,195		87	JPY 2,040 ₩ 26
	GBP	39		68	GBP 56 ₩ 105
		<u>₩</u>	<u>6,889</u>		<u>₩</u> <u>4,703</u>

For the year ended December 31, 2010, translation gain and loss amounts to ₩109 million and ₩218 million, respectively (2009: gain of ₩84 million and loss of ₩430 million).

18. Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year.

Basic earnings per share for the years ended December 31, 2010 and 2009, is calculated as follows:

	2010	2009
Net income attributable to common stock ¹	₩ 278,097 million	₩ 220,022 million
Weighted average number of common stock outstanding ²	5,842,589	5,842,598
Basic earnings per share	47,598	37,658

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¹Net income attributable to common stock follows:

<i>(in millions of Korean won)</i>	2010		2009	
Net income	₩	284,481	₩	225,878
Adjustment		(6,384)		(5,856)
Net income attributable to common stock	₩	<u>278,097</u>	₩	<u>220,022</u>

²Weighted average number of common stock is as follows:

	2010		2009	
January 1 balance		5,842,598		5,842,598
Acquisition of treasury shares		(35)		-
Weighted average number of common stock outstanding		<u>5,842,563</u>		<u>5,842,598</u>

Diluted earnings per share is equal to basic earnings per share, since the Company did not issue dilutive securities such as convertible preferred shares, convertible bonds and bonds with stock warrants.

19. Intercompany Transactions

Details on the elimination of unrealized gain or loss and receivables and borrowings from intercompany transactions for the years ended December 31, 2010 and 2009, are as follows:

2010	Sales		Purchases		Receivables		Payables	
<i>(in millions of Korean won)</i>								
AMOREPACIFIC Cosmetics(Shanghai)Co.,Ltd.	₩	6,852	₩	-	₩	1,058	₩	-
AMOREPACIFIC Trading Co.,Ltd.		20,538		-		6,125		-
AMOREPACIFIC EUROPE S.A.S		1,445		16,080		605		5,114

2009	Sales		Purchases		Receivables		Payables	
<i>(in millions of Korean won)</i>								
AMOREPACIFIC Cosmetics(Shanghai)Co.,Ltd.	₩	3,987	₩	6	₩	974	₩	-
AMOREPACIFIC Trading Co.,Ltd.		20,125		-		2,854		3
AMOREPACIFIC EUROPE S.A.S		1,311		15,520		1,515		1,531

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Significant intercompany transactions and intercompany balances which have been eliminated during consolidation for the years ended December 31, 2010 and 2009, are as follows:

2010				Sales and Purchases		Receivables and Payables
<i>(in millions of Korean won)</i>						
Selling company	Purchasing company					
AMOREPACIFIC Cosmetics(Shanghai) Co.,Ltd.	AMOREPACIFIC Trading Co.,Ltd.	₩	21,161	₩	10,613	

2009				Sales and Purchases		Receivables and Payables
<i>(in millions of Korean won)</i>						
Selling company	Purchasing company					
AMOREPACIFIC Cosmetics(Shanghai) Co.,Ltd.	AMOREPACIFIC Trading Co.,Ltd.	₩	13,585	₩	10,834	

The Company has provided a guarantee for the short-term borrowings of AMOREPACIFIC EUROPE S.A.S. amounting to ₩43,290 million and ₩57,931 million as of December 31, 2010 and 2009, respectively.

20. Dividends

The details of dividends declared by the Company, dividend payout ratio and dividend yield ratio for the years ended December 31, 2010 and 2009, are as follows:

		2010	2009
Number of shares eligible for dividends	Common stock	5,842,563	5,842,598
	Preferred stock	1,055,178	1,055,199
Dividend rate	Common stock	120%	110%
	Preferred stock	121%	111%
Dividend amount	Common stock	₩ 35,055 million	₩ 32,134 million
	Preferred stock	6,384 million	5,856 million
Dividend payout ratio (Dividends/Net income)		14.57%	16.82%
Dividend yield ratio (Dividend per share/Market price)	Common stock	0.53%	0.59%
	Preferred stock	1.94%	1.86%

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21. Contributions to Society

Contributions to society made by the Company for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010		2009	
Donation to nursing home, facilities	₩	794	₩	1,035
Others		4,105		8,906
	<u>₩</u>	<u>4,899</u>	<u>₩</u>	<u>9,941</u>

As part of its employee welfare program, the Company provided housing loans to its qualified employees as well as financial support for educational expenses for the employees' children.

22. Comprehensive Income

For the years ended December 31, 2010 and 2009, comprehensive income consists of:

<i>(in millions of Korean won)</i>	2010		2009	
Net income	₩	284,481	₩	225,878
Other comprehensive income and expense				
Gain on valuation of equity-method investments net of tax of ₩ 527 million (2009: ₩ (588)million)		(291)		1,201
Loss on valuation of equity-method investments net of tax of ₩ (60) million (2009: ₩ 60million)		211		(22)
Gain on valuation of available-for-sale securities, net of tax of ₩ (152) million (2009: ₩ (529)million)		538		1,874
Foreign currency translation adjustments net of tax of ₩ (60) million (2009: ₩ (500)million)		(4,541)		(9,954)
Comprehensive income	<u>₩</u>	<u>280,398</u>	<u>₩</u>	<u>218,977</u>
Comprehensive income attributable to the Company	₩	280,399	₩	218,977
Minority interests		-		-

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23. Related Party Transactions

Significant transactions, which occurred in the normal course of business with related companies, and their related balances are as follows:

2010	Sales	Purchases	Receivables	Payables
<i>(in millions of Korean won)</i>				
The controlling company				
AMOREPACIFIC Group, Inc. (formerly PACIFIC Corporation)	₩ 48	₩ 1,799	₩ 61	₩ 408
Equity-method investees				
AMOREPACIFIC US, Inc. and others	21,939	21,227	13,422	4,168
Others				
PACIFICPHARMA Corporation	2,371	32,433	1,141	3,770
AMOS Professional Corporation	10,546	197	958	106
Etude Corporation	4,577	1,617	356	686
Taeshin Inpack Corporation	-	25,113	-	3,022
BBDO Korea Inc.	-	6,274	-	2,405
PACIFICPACKAGE CO.,LTD.	-	25,069	-	4,774
PACIFICGLAS, Inc.	217	30,262	11	3,534
Jangwon Co., Ltd.	28	6,674	2	-
Innisfree Corporation	3,338	2,256	995	1,254
	<u>₩ 43,064</u>	<u>₩ 152,921</u>	<u>₩ 16,946</u>	<u>₩ 24,127</u>
2009	Sales	Purchases	Receivables	Payables
<i>(in millions of Korean won)</i>				
The controlling company				
AMOREPACIFIC Group, Inc. (formerly PACIFIC Corporation)	₩ 57	₩ 1,581	₩ 66	₩ 397
Equity-method investees				
AMOREPACIFIC US, Inc. and others	17,602	15,951	6,908	1,229
Others				
PACIFICPHARMA Corporation	1,358	26,197	664	2,340
AMOS Professional Corporation	7,498	100	1,493	97
Etude Corporation	7,052	1,076	882	174
Taeshin Inpack Corporation	-	37,497	-	2,596
BBDO Korea Inc.	-	10,628	-	1,291
PACIFICPACKAGE CO.,LTD.	-	-	-	-
PACIFICGLAS, Inc.	180	27,126	8	3,161
Jangwon Co., Ltd.	22	7,609	2	5
Innisfree Corporation	-	-	-	6,030
	<u>₩ 33,769</u>	<u>₩ 127,765</u>	<u>₩ 10,023</u>	<u>₩ 17,320</u>

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Compensation for key management consists of:

<i>(in millions of Korean won)</i>	2010		2009	
Short-term salaries	₩	4,894	₩	6,777
Severance pay		1,099		906
	<u>₩</u>	<u>5,993</u>	<u>₩</u>	<u>7,683</u>

Key management refers to the directors who have significant control and responsibilities on the Company's operations and business.

24. Environmental Policy

In relation to the manufacturing of skin care and other beauty products, the Company has always placed a high priority on environment protection by having an environment management system in place to evaluate, manage and improve environmental conditions. As a result, the Company received its ISO 14001 certificate.

Expenditures incurred related to environmental improvement of the Company amounted to ₩2,977 million and ₩2,603 million for the years ended December 31, 2010 and 2009, respectively.

25. Training and recruiting expenses

The Company's employee training and recruiting expenses amounted to ₩ 8,309 million and ₩6,401 million for the years ended December 31, 2010 and 2009, respectively.

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26. Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010		2009	
Salaries and wages	₩	188,187	₩	173,670
Severance benefits		20,286		17,805
Advertising		261,774		220,664
Sales promotional expenses		108,229		112,605
Overseas market development expenses		22,805		-
Official businesses		3,535		3,195
Entertainment		604		503
Travel and transportation expenses		2,182		1,983
Employee fringe benefits		10,619		9,000
Conference expenses		33,544		28,571
Training expenses		1,056		889
Packing expenses		8,024		6,886
Transportation		3,082		2,176
Vehicle expenses		41,598		35,564
Export expenses		1,110		1,160
Research expenses		1,906		1,286
Communication expenses		5,501		6,495
Utilities		2,952		2,895
Taxes and dues		3,433		3,274
Rent		18,650		13,266
Depreciation		13,772		18,522
Amortization		42,017		46,214
Repairs and maintenance expenses		9,804		9,463
Supplies		2,119		1,739
Publication expenses		2,565		2,391
Commission		11,942		11,559
General development expenses		434,529		307,547
Environmental protection costs		56,087		47,437
Bad debt expenses		209		250
Insurance		1,429		1,784
Other expenses		4,295		3,158
	₩	<u>1,317,845</u>	₩	<u>1,091,951</u>

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27. Segment Information

Overview of the segment information follows:

Line	Products
Cosmetics	Skin care, other beauty products
MC(Mass Cosmetic) & Sulloc	Hair and oral care products

Financial information by segments follows:

2010 <i>(in millions of Korean won)</i>	Cosmetics	MC & Sulloc	Consolidation adjustment	Consolidated
Revenues	₩ 1,988,121	₩ 349,412	₩ (85,349)	₩ 2,252,184
Operating income	255,686	99,602	615	355,903

2009 <i>(in millions of Korean won)</i>	Cosmetics	MC & Sulloc	Consolidation adjustment	Consolidated
Revenues	₩ 1,700,800	₩ 294,611	₩ (54,988)	₩ 1,940,423
Operating income	237,796	74,551	(3,145)	309,202

28. Geographical Segment Information

Financial information by geographical segments follows:

2010 <i>(in millions of Korean won)</i>	Korea			Consolidation adjustment	Consolidated
	Domestic	Export	Overseas		
Revenues	₩ 2,004,181	₩ 54,333	₩ 279,019	₩ (85,349)	₩ 2,252,184
Operating income	331,238	8,980	15,070	615	355,903

2009 <i>(in millions of Korean won)</i>	Korea			Consolidation adjustment	Consolidated
	Domestic	Export	Overseas		
Revenues	₩ 1,720,190	₩ 48,820	₩ 226,401	₩ (54,988)	₩ 1,940,423
Operating income	292,285	8,295	11,767	(3,145)	309,202

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29. Impact of adoption of Korean International Financial Reporting Standards

The Group plans to prepare its financial statements under the Korean International Financial Reporting Standards (K-IFRS) from 2011.

The plan and status of the adoption

The Group has to prepare its financial statements under K-IFRS from 2011 in accordance with the roadmap on the adoption of K-IFRS published on March 2007. To manage the matters associated with the adoption of the K-IFRS, the Group organized a separate task force.

The Group has completed the analysis of the impact of the adoption of the K-IFRS on August 2008 and set up an overall plan for the adoption of K-IFRS. The Group had employee training programs about this impact on December 2008 and February 2009.

As of December 31, 2010, the Group established alternatives for the key differences and determined their accounting policies. The Group is currently in the process of preparing its financial statements under K-IFRS beginning from the date of conversion.

Key differences in accounting policies

Significant differences between the Group's current policy and the K-IFRS which impact the Group's financial statements as of December 31, 2010, are as follows. The table below does not include all differences and may change after further analysis.

	Current accounting policy	Accounting policy under K-IFRS
	Business combinations	K-IFRS 3(R) Business Combination would not be retroactively applied regarding business combinations before the date of transition.
First-time Adoption of K-IFRS	Cumulative effect of translation	The cumulative effect of translation from foreign operations is deemed to be zero on the date of transition.
	Deemed cost as fair value	Property, plant and equipment such as land may be revalued to fair value on the date of transition
Change in the scope in subsidiaries for consolidation	Subsidiaries to be consolidated are determined as per the Act on External Audit of Corporation, but corporations with total assets less than ₩10,000 million as of the end of the prior year cannot be consolidated as per Section 1, Paragraph 3, Number 2 of the Act.	As per K-IFRS, all subsidiaries over which the Company exercises control are consolidated.
Allowance for doubtful accounts	Under rational and objective standards	On incurred losses at the end of the reporting period

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	Current accounting policy	Accounting policy under K-IFRS
Financial assets and liabilities	Long-term transactions will be discounted to present values if the difference between the nominal and present values are significant.	Loans and receivables classified as financial assets are measured at fair values and the difference with nominal values are amortized using the effective interest method. Other financial liabilities are valued at cost after being amortized using the effective interest method.
Goodwill	The goodwill from business combinations and the gain on bargain purchase are amortized using the straight-line method.	Goodwill is not amortized, but tested for impairment at the end of every reporting period. Any gain on bargain purchase is recognised in the profit and loss on the date of the business combination.
Allowance for severance benefits	Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment at the end of reporting period.	Defined benefit obligations represent the present value of projected benefit obligation using the Projected Unit Credit Method and actuarial assumption.
Customer loyalty program	When sale occurs, the expenses to be incurred in the future are accrued as selling, general and administrative expenses and as provisions.	When sale occurs, the sale to be incurred in the future is deferred as points and recognised as sale when the points are actually used.
Membership	Classified as other long-term assets.	Classified as an intangible asset with an indefinite useful life and should not be amortized.
Property, plant and equipment	Declining balance method is used.	Depreciated to reflect the allocation of future economic benefits of assets.
Government grant	Depending on the purpose of the grant, the grant is deducted in arriving at the related asset's carrying amount or in reporting the related expenses	Depending on the purpose of the grant, the grant is recognised as deferred income or income.
Deferred income tax	Deferred tax assets and liabilities are recognized without classifying the underlying sources of taxable temporary differences between parent company and subsidiaries. Deferred tax assets and liabilities are either classified as current or non-current based on the classification of their underlying assets and liabilities, and if they are unrelated to accounts in the statement of financial position, based on their expected reversal periods.	Deferred tax assets and liabilities are recognized by classifying the underlying sources of taxable temporary differences between parent company and subsidiaries. Deferred tax assets and liabilities are classified as non-current in the statement of financial position.

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Significant Changes in Scope of Consolidation

Subsidiaries	Reason
AMOREPACIFIC US, INC.	
AMOREPACIFIC JAPAN CO., LTD	
AMOREPACIFIC Taiwan Co.,Ltd.	
Laneige Singapore Pte.,Ltd.	
LANEIGE MALAYSIA SDN BHD.	
Amorepacific Global Operations Pte.Ltd.	
De Laneige SA	
	Pursuant to the previous Law on External Audit of Corporations

Impact on the Company's financial position and its operating results

The information on the financial position as of January 1, 2010 (date of conversion) and December 31, 2010, and the operating results for the year 2010 under K-IFRS are in the process of being determined and are not disclosed.

30. Reclassification of Prior Year Consolidated Financial Statements

Certain accounts in the December 31, 2009 consolidated financial statements were reclassified to conform with the December 31, 2010 consolidated financial statement presentation. These reclassifications have no impact on the previously reported net income or shareholders' equity.