AMOREPACIFIC Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2011 and 2010

AMOREPACIFIC Corporation and Subsidiaries
Index
December 31, 2011 and 2010

Page(s)

Report of Independent Auditors

To the Board of Directors and Shareholders of
AMOREPACIFIC Corporation

We have audited the accompanying consolidated statements of financial position of AMOREPACIFIC Corporation and its subsidiaries (collectively the Group) as of December 31, 2011 and 2010, and January 1, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of AMOREPACIFIC Corporation and its subsidiaries as of December 31, 2011 and 2010, and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (“Korean IFRS”).

The accompanying consolidated financial statements as of and for the years ended December 31, 2011 and 2010, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 4 to the consolidated financial statements.

Auditing standards and their application in practice vary among countries. 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 is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 15, 2012

This report is effective as of March 15, 2012, 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, 2011 and 2010, and January 1, 2010

	Notes	(in thousands of Korean won) December 31, 2011	December 31, 2010	January 1, 2010	(in thousands of U.S. dollars (Note 4)) December 31, 2011	December 31, 2010	January 1, 2010
Assets							
Current assets							
Cash and cash equivalents	6,7,8	₩ 187,708,073	₩ 159,142,016	₩ 224,636,342	US$ 162,757	US$ 137,988	US$ 194,777
Financial instutitions deposits	6,7,22	155,735,881	173,374,283	84,147,160	135,035	150,328	72,962
Trade accounts and notes receivable	6,7,9,35	152,434,947	138,402,297	143,119,562	132,173	120,005	124,096
Other receivables	6,7,9,35	13,839,231	12,221,723	6,835,387	12,000	10,597	5,927
Other current assets	6,16	18,163,316	17,099,071	11,109,504	15,749	14,826	9,633
Inventories	10	225,802,737	208,164,725	161,570,851	195,788	180,495	140,094
		753,684,185	708,404,115	631,418,806	653,502	614,239	547,489
Non-current assets held for sale	34	-	36,788,741	36,788,742	-	31,899	31,899
Non-current assets							
Financial instutitions deposits	6,7,33	3,656,200	3,456,000	3,427,200	3,170	2,996	2,972
Other receivables	6,7,9,35	59,298,268	45,504,131	45,760,835	51,416	39,456	39,678
Available-for-sale financial assets	6,11,37	9,208,589	11,549,204	7,647,459	7,985	10,014	6,631
Property, plant and equipment	5,13	1,655,475,331	1,603,379,942	1,394,163,467	1,435,425	1,390,254	1,208,847
Investment in real properties	15	185,545,760	-	-	160,882	-	-
Intangible assets	5,14	115,203,965	48,540,669	42,316,762	99,891	42,089	36,692
Investments in associates	12	4,665,396	4,157,739	3,664,618	4,045	3,605	3,177
Deferred income tax assets	25	28,683,501	19,859,562	22,447,650	24,870	17,220	19,464
Other non-current assets	16	6,373	188,622	915,729	6	164	794
		2,061,743,383	1,736,635,869	1,520,343,720	1,787,690	1,505,798	1,318,255
Total assets		₩ 2,815,427,568	₩ 2,481,828,725	₩ 2,188,551,268	US$ 2,441,192	US$ 2,151,936	US$ 1,897,643
Liabilities							
Current liabilities							
Trade and other payables	6,35,37	₩ 77,987,449	₩ 79,891,064	₩ 59,438,002	US$ 67,621	US$ 69,272	US$ 51,537
Short-term borrowings	6,17,37	15,581,188	16,544,187	26,701,249	13,510	14,345	23,152
Other current liabilities	6,35,37	181,272,063	142,015,287	130,057,210	157,177	123,138	112,771
Current income tax liabilities	25	39,201,483	34,478,309	26,667,441	33,991	29,895	23,123
Deferred revenue		53,615,002	59,846,706	59,657,684	46,488	51,892	51,728
Provisions for other liabilities	18	5,755,391	13,634,494	19,537,969	4,990	11,822	16,942
Other current liabilities	6,19,37	52,570,547	34,006,745	36,766,465	45,583	29,486	31,879
		425,983,123	380,416,792	358,826,020	369,360	329,850	311,132
Non-current liabilities							
Borrowings	6,17,37	45,903,627	-	-	39,802	-	-
Retirement benefit obligations	20	40,001,664	35,246,768	26,936,167	34,684	30,562	23,356
Deferred income tax liabilities	25	138,460,371	92,425,204	80,353,530	120,056	80,140	69,673
Other non-current liabilities	6,19,37	26,775,778	111,659,120	112,910,633	23,217	96,818	97,902
		251,141,440	239,331,092	220,200,330	217,759	207,520	190,931
Total liabilities		677,124,563	619,747,884	579,026,350	587,119	537,370	502,063
Equity attributable to owners of the Parent							
Capital stock	1	34,508,160	34,508,160	34,508,160	29,921	29,920	29,921
Additional paid-in capital		712,701,764	712,701,764	712,701,764	617,967	617,967	617,967
Capital surplus		7,690,214	7,690,214	24,740	6,668	6,668	21
Other components of equity	21	(1,810,164)	(1,810,164)	(1,810,164)	(1,570)	(1,570)	(1,570)
Accumulated other comprehensive income	22	(2,435,389)	(1,051,286)	1,406,210	(2,112)	(912)	1,219
Retained earnings	23	1,377,420,300	1,100,479,445	862,694,208	1,194,330	954,201	748,022
		2,128,074,885	1,852,518,133	1,609,524,918	1,845,204	1,606,274	1,395,580
Non-controlling interest		10,228,120	9,562,708	-	8,869	8,292	-
Total equity		2,138,303,005	1,862,080,841	1,609,524,918	1,854,073	1,614,566	1,395,580
Total liabilities and equity		₩ 2,815,427,568	₩ 2,481,828,725	₩ 2,188,551,268	US$ 2,441,192	US$ 2,151,936	US$ 1,897,643

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 4.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2011 and 2010

	Notes		*(in thousands of Korean won, except per share amounts)* 2011		2010		*(in thousands of U.S. dollars (Note 4), except per share amounts)* 2011		2010
Sales	5,26,35	₩	2,554,722,780	₩	2,272,312,360	US$	2,215,142	US$	1,970,269
Cost of sales	27,35		774,623,273		700,159,687		671,658		607,092
Gross profit			1,780,099,507		1,572,152,673		1,543,484		1,363,177
Selling and administrative expenses	27,28		1,407,248,665		1,207,687,562		1,220,193		1,047,158
Operating profit	5		372,850,842		364,465,111		323,291		316,019
Finance income	6,29		11,165,262		9,425,823		9,681		8,173
Finance costs	6,29		1,922,957		2,201,759		1,667		1,909
Other non-operating gains(losses) - net	30		46,511,607		(6,152,367)		40,329		(5,335)
Share of profit of associates	12		1,037,293		82,865		899		72
			56,791,205		1,154,562		49,242		1,001
Profit before income tax			429,642,047		365,619,673		372,533		317,020
Income tax expense	25		102,373,283		78,011,132		88,766		67,642
Profit for the year		₩	327,268,764	₩	287,608,541	US$	283,767	US$	249,378
Profit attributable to:									
Owners of the parent		₩	327,028,532	₩	287,751,615	US$	283,559	US$	249,503
Non-controlling interests		₩	240,233	₩	(143,074)	US$	208	US$	(123)
Other comprehensive income									
Actuarial loss on post employment benefit obligations	20,25		(8,648,471)		(11,975,735)		(7,499)		(10,384)
Change in value of available-for-sale financial assets	6,11,22,25		(376,232)		587,811		(326)		510
Share of other comprehensive income of associates	12,22,25		(361,157)		281,210		(313)		244
Loss on currency translation of foreign operations - net	22,25		(739,437)		(3,347,002)		(641)		(2,902)
Total comprehensive income for the year			317,143,468		273,154,825		274,988		236,848
Attributable to:									
Equity holders of the Parent Company			316,995,957		273,318,384		274,860		236,988
Non-controlling interest			147,511		(163,559)		128		(142)
Total comprehensive income for the year		₩	317,143,468	₩	273,154,825	US$	274,988	US$	236,846
Earnings per share	31								
Earnings per share for profit attributable to the ordinary equity holders		₩	47,403	₩	41,709	US$	41.10	US$	36.16
Earnings per share for profit attributable to the preferred equity holders		₩	47,454	₩	41,759	US$	41.15	US$	36.21

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 4.

AMOREPACIFIC Corporation and Subsidiaries

Consolidated Statements of Changes in Equity

Years Ended December 31, 2011 and 2010

(in thousands of Korean won)

	Attributable to equity holders of the Company								
	Capital Stock	**Additoinal paid-in capital**	**Capital Surplus**	**Other Components of Equity**	**Accumulated Other Comprehensive Income**	**Retained Earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance at January 1, 2010	₩ 34,508,160	₩ 712,701,764	₩ 24,740	₩ (1,810,164)	₩ 1,406,210	₩ 862,694,208	₩ 1,609,524,918	₩ -	₩ 1,609,524,918
Comprehensive income									
Profit for the year	-	-	-	-	-	287,751,615	287,751,615	(143,074)	287,608,541
Actuarial loss on post employment benefit obligations	-	-	-	-	-	(11,975,735)	(11,975,735)	-	(11,975,735)
Change in value of available-for-sale financial assets	-	-	-	-	587,812	-	587,812	-	587,812
Share of other comprehensive income of associates	-	-	-	-	281,210	-	281,210	-	281,210
Loss on currency translation of foreign operations - net	-	-	-	-	(3,326,518)	-	(3,326,518)	(20,484)	(3,347,002)
Total comprehensive income for the year	34,508,160	712,701,764	24,740	(1,810,164)	(1,051,286)	1,138,470,088	1,882,843,302	(163,558)	1,882,679,744
Transactions with equity holders of the Company :									
Dividends to equity holders of the Company	-	-	-	-	-	(37,990,643)	(37,990,643)	-	(37,990,643)
Tranfer of business under common control	-	-	703,379	-	-	-	703,379	-	703,379
Stock issuance of non-controlling interest	-	-	6,962,095	-	-	-	6,962,095	8,878,694	15,840,789
Dividends to equity holders of the Company	-	-	-	-	-	-	-	847,573	847,573
Total transactions with equity holders of the Company	-	-	7,665,474	-	-	(37,990,643)	(30,325,169)	9,726,267	(20,598,902)
Balance at December 31, 2010	₩ 34,508,160	₩ 712,701,764	₩ 7,690,214	₩ (1,810,164)	₩ (1,051,286)	₩ 1,100,479,445	₩ 1,852,518,133	₩ 9,562,709	₩ 1,862,080,842
Balance at January 1, 2011	₩ 34,508,160	₩ 712,701,764	₩ 7,690,214	₩ (1,810,164)	₩ (1,051,286)	₩ 1,100,479,445	₩ 1,852,518,133	₩ 9,562,709	₩ 1,862,080,842
Comprehensive income									
Profit for the year	-	-	-	-	-	327,028,531	327,028,531	240,233	327,268,764
Actuarial loss on post employment benefit obligations	-	-	-	-	-	(8,648,471)	(8,648,471)	-	(8,648,471)
Change in value of available-for-sale financial assets	-	-	-	-	(376,232)	-	(376,232)	-	(376,232)
Share of other comprehensive income of associates	-	-	-	-	(325,863)	-	(325,863)	(35,294)	(361,157)
Loss on currency translation of foreign operations - net	-	-	-	-	(682,008)	-	(682,008)	(57,429)	(739,437)
Total comprehensive income for the year	34,508,160	712,701,764	7,690,214	(1,810,164)	(2,435,389)	1,418,859,505	2,169,514,090	9,710,219	2,179,224,309
Transactions with equity holders of the Company :									
Dividends to equity holders of the Company	-	-	-	-	-	(41,439,205)	(41,439,205)	-	(41,439,205)
Stock issuance of non-controlling interest	-	-	-	-	-	-	-	517,901	517,901
Balance at December 31, 2011	₩ 34,508,160	₩ 712,701,764	₩ 7,690,214	₩ (1,810,164)	₩ (2,435,389)	₩ 1,377,420,300	₩ 2,128,074,885	₩ 10,228,120	₩ 2,138,303,005
in thousands of U.S. dollars (Note 4)	US$ 29,921	US$ 617,967	US$ 6,668	US$ (1,570)	US$ (2,112)	US$ 1,194,330	US$ 1,845,204	US$ 8,869	US$ 1,854,073

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 4.

AMOREPACIFIC Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	Notes		*(in thousands of Korean won)* 2011		2010		*(in thousands of U.S. dollars(Note 4))* 2011		2010
Cash flows from operating activities									
Cash generated from operations	32	₩	454,763,773	₩	407,148,021	US$	394,315	US$	353,029
Interest received			9,456,773		8,047,380		8,200		6,978
Interest paid			(1,847,609)		(2,121,859)		(1,602)		(1,840)
Income tax paid			(59,359,036)		(52,522,997)		(51,469)		(45,541)
Net cash generated from operating activities			403,013,901		360,550,545		349,444		312,626
Cash flows from investing activities									
Decrease in financial institutions deposits			16,833,051		-		14,596		-
Decrease in other receivables			11,958,943		11,948,869		10,369		10,360
Disposal of property, plant and equipment			10,019,507		14,085,514		8,688		12,213
Disposal of intangible assets			558,857		1,525,896		485		1,323
Dividends received from associates			312,812		147,412		271		127
Disposal of available-for-sale financial assets			2,037,183		252,085		1,766		219
Disposal of investments in associates			-		149,521		-		130
Disposal of assets under common control			-		6,207,881		-		5,382
Liquidation of subsidiaries			-		3,212,683		-		2,786
Increase in financial institutions deposits			-		(89,171,462)		-		(77,319)
Increase in trade and other receivables			(31,866,655)		(17,389,260)		(27,631)		(15,078)
Purchases of available-for-sale financial assets			(122,365)		(3,400,225)		(106)		(2,948)
Purchases of property, plant and equipment			(316,771,244)		(309,782,523)		(274,665)		(268,605)
Purchases of intangible assets			(33,701,788)		(5,522,103)		(29,222)		(4,788)
Purchases of investments in associates			-		(280,372)		-		(243)
Acquisition of subsidiaries			(33,562,863)		(4,042,377)		(29,102)		(3,505)
Net cash used in investing activities			(374,304,562)		(392,058,461)		(324,551)		(339,946)
Cash flows from financing activities									
Proceeds from borrowings			45,903,627		-		39,802		-
Stock issuance of Non-controlling Interest			517,901		15,840,789		449		13,735
Repayments of borrowings			(1,264,873)		(9,680,844)		(1,097)		(8,394)
Dividends paid to equity holders of the Company			(41,417,503)		(37,976,102)		(35,912)		(32,928)
Net cash provided by(used in) financing activities			3,739,152		(31,816,157)		3,242		(27,587)
Changes in cash and cash equivalents from currency translation			(3,882,434)		(2,170,253)		(3,366)		(1,882)
Net increase(decrease) in cash and cash equivalents			28,566,057		(65,494,326)		24,769		(56,789)
Cash and cash equivalents at the beginning of year			159,142,016		224,636,342		137,988		194,777
Cash and cash equivalents at the end of year		₩	187,708,073	₩	159,142,016	US$	162,757	US$	137,988

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 4.

1. General Information

General information about AMOREPACIFIC Corporation (the "Company") and its 12 subsidiaries (collectively referred to as the "Group") is as follows.

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, 2011, the Company has its plants in Osan, Daejeon and Jincheon and had five local operation divisions, excluding the head office.

As of December 31, 2011, 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, 2011, 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 applicable to stock dividends. Accordingly, in calculating earnings per share for preferred stocks, a different dividend rate is used.

The Company's common shareholders as of December 31, 2011, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group,Inc. (formerly PACIFIC Corporation)	2,069,586	35
Kyung-Bae Suh	626,445	11
Other[1]	3,149,818	54
	5,845,849	100

[1] Including 3,287 treasury stocks (Note 21).

The Company's consolidated subsidiaries as of December 31, 2011, are as follows:

Investor	Subsidiaries	Primary Business	Capital Stock	Percentage of Ownership(%)	Number of shares	Closing Date	Location
AMOREPACIFIC Corporation	Amorepacific Global Operations Limited.	Holding company	₩ 86,980	90	50,842,999	Dec.31	Hongkong
AMOREPACIFIC Corporation	AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	14,274	100	Unissued shares	Dec.31	China
Amorepacific Global Operations Limited.	AMOREPACIFIC Trading Co.,Ltd.	Marketing of cosmetics	9,456	100	Unissued shares	Dec.31	China
Amorepacific Global Operations Limited.	AMOREPACIFIC EUROPE S.A.S	Manufacturing and marketing of cosmetics	98,933	100	5,419,518	Dec.31	France
Amorepacific Global Operations Limited.	Annick Goutal S.A.S	Marketing of cosmetics	9,267	100	1,354,000	Dec.31	France
Amorepacific Global Operations Limited.	AMOREPACIFIC US, Inc.	Marketing of cosmetics	37,045	100	294	Dec.31	America
Amorepacific Global Operations Limited.	AMOREPACIFIC Japan CO.,LTD.	Marketing of cosmetics	25,544	100	43,400	Dec.31	Japan
Amorepacific Global Operations Limited.	AMOREPACIFIC Taiwan Co.,Ltd.	Marketing of cosmetics	11,202	100	29,050,000	Dec.31	Taiwan
Amorepacific Global Operations Limited.	AMOREPACIFIC SINGAPORE PTE. LTD.	Marketing of cosmetics	6,011	100	7,870,376	Dec.31	Singapore
Amorepacific Global Operations Limited.	LANEIGE MALAYSIA SDN BHD.	Marketing of cosmetics	2,586	100	8,006,000	Dec.31	Malaysia
AMOREPACIFIC Corporation	Amorepacific Global Operations Pte.Ltd.	Holding company	5,096	100	6,184,582	Dec.31	Singapore
Amorepacific Global Operations Pte.Ltd.	Amorepacific Vietnam JSC	Marketing of cosmetics	5,479	70	6,475,000	Dec.31	Vietnam

The summary of the consolidated subsidiaries' financial position as of December 31, 2011 and 2010, and January 1, 2010, and the results of their operations for the years then ended, which are included in the consolidated financial statements are as follows:

December 31, 2011 *(in millions of Korean won)*	Total assets	Total liabilities	Sales	Net income (loss)	Total comprehensive income(loss)
Amorepacific Global Operations Limited.	₩ 135,653	₩ 45,914	₩ -	₩ (1,983)	₩ (11,575)
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	35,391	7,846	29,708	3,251	1,211
AMOREPACIFIC Trading Co.,Ltd.	93,036	62,716	201,627	12,628	26,449
AMOREPACIFIC EUROPE S.A.S	84,902	40,775	92,039	699	3,367
Anninck Goutal S.A.S	16,666	9,669	20,130	302	271
AMOREPACIFIC US, Inc.	14,767	7,578	15,740	(2,409)	(2,101)
AMOREPACIFIC Japan CO.,LTD.	9,002	6,488	30,591	(4,367)	(10,834)
AMOREPACIFIC Taiwan Co.,Ltd.	3,829	796	5,976	(768)	749
AMOREPACIFIC SINGAPORE PTE. LTD	2,699	530	4,931	151	163
LANEIGE MALAYSIA SDN BHD.	2,040	345	3,281	332	302
Amorepacific Global Operations Pte.Ltd.	5,207	2	-	(6)	88
Amorepacific Vietnam JSC	3,133	1,055	2,495	(1,032)	(1,350)

December 31, 2010 *(in millions of Korean won)*	**Total assets**	**Total liabilities**	**Sales**	**Net income (loss)**	**Total comprehensive income(loss)**
Amorepacific Global Operations Limited.	₩ 93,430	₩ -	₩ -	₩ (23)	₩ (239)
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	25,498	2,753	21,370	3,857	8,386
AMOREPACIFIC Trading Co.,Ltd.	59,136	40,452	159,731	3,761	5,712
AMOREPACIFIC EUROPE S.A.S	94,982	50,964	97,524	879	(3,711)
AMOREPACIFIC US, Inc.	11,459	8,717	12,063	(4,431)	(4,547)
AMOREPACIFIC Japan CO.,LTD.	7,556	6,492	28,103	(3,461)	12,123
AMOREPACIFIC Taiwan Co.,Ltd.	2,827	681	5,910	(636)	543
AMOREPACIFIC SINGAPORE PTE. LTD	1,993	459	2,769	8	77
LANEIGE MALAYSIA SDN BHD.	1,650	256	1,518	112	185
Amorepacific Global Operations Pte.Ltd.	4,632	-	-	(259)	21
Amorepacific Vietnam JSC	5,354	460	1,208	(477)	(545)

January 1, 2010 *(in millions of Korean won)*	**Total assets**	**Total liabilities**
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	₩ 20,379	₩ 1,686
AMOREPACIFIC Trading Co.,Ltd.	53,921	45,393
AMOREPACIFIC EUROPE S.A.S	106,699	58,969
AMOREPACIFIC US, Inc.	8,178	3,228
AMOREPACIFIC Japan CO.,LTD.	3,219	1,275
Pacific Japan Co.,Ltd.[1]	3,502	7,489
AMOREPACIFIC Taiwan Co.,Ltd.	3,016	1,191
AMOREPACIFIC SINGAPORE PTE. LTD	1,411	477
LANEIGE MALAYSIA SDN BHD.	934	200
AMOREPACIFIC Cosmetics (Shenyang) Co.,Ltd.[2]	4,060	-

[1] Pacific Japan Co., Ltd. was merged with AMOREPACIFIC Japan CO., LTD. during the prior year.
[2] AMOREPACIFIC Cosmetics (Shenyang) Co., Ltd. was liquidated, and related loss on disposal amounting to ₩113 million was recognized as 'other non-operating expenses' in the consolidated statements of comprehensive income.

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

Changes in scope of consolidation in 2011

Subsidiary which is newly consolidated in 2011 is:

Subsidiary	**Reason**
Annick Goutal S.A.S	Acquired 100% of ownership during the current year (Note 36)

There are no subsidiaries which have been excluded from consolidation in 2011.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

The Group's financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The consolidated financial statements of the Group were prepared in accordance with Korean IFRS and are subject to Korean IFRS1101, 'First-time Adoption of Korean IFRS'. The transition date, according to Korean IFRS1101, from the previous accounting principles generally accepted in the Republic of Korea (the previous K-GAAP) to Korean IFRS is January 1, 2010. Reconciliations and descriptions of the effect of the transition from the previous K-GAAP to Korean IFRS on the Group's equity, comprehensive income and cash flows are described in Note 38.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011, and not early adopted by the Group are as follows:

- Amendments to Korean IFRS1101, *Hyperinflation and Removal of Fixed Dates for first-time adopters*

As an exception to retrospective application requirements, this amendment to Korean IFRS1101 allows a prospective application of derecognition of financial assets for transactions occurring on or after the date of transition to Korean IFRS, instead of fixed date (January 1, 2004). Accordingly, the Group is not required to restate and recognize those assets or liabilities that were derecognized as a result of a transaction that occurred before the dated of transition to Korean IFRS. This amendment will be effective for the Group as of July 1, 2011. The Group expects that the application of this amendment would not have material impact on its consolidated financial statements.

- Amendments to Korean IFRS1012, *Income Taxes*

According to the amendments to Korean IFRS1012, *Income Taxes*, for the investment property that is measured using the fair value model, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless evidences support otherwise. This amendment is effective for the Group as of January 1, 2012. The Group expects that the application of this amendment would not have material impact on its consolidated financial statements.

- Amendments to Korean IFRS1019, *Employee Benefits*

According to the amendments to Korean IFRS1019, Employee Benefits, use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense(income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities(assets). This amendment will be effective for the Group as of January 1, 2013, and the Group is assessing the impact of application of the amended Korean IFRS1019 on its consolidated financial statements as of the report date.

- Amendments to Korean IFRS1107, *Financial Instruments: Disclosures*

According to the amendment, an entity should provide the required disclosures of nature, carrying amount, risk and rewards associated with all transferred financial instruments that are not derecognized from an entity's financial statements. In addition, an entity is required to disclose additional information related to transferred and derecognized financial instruments for any continuing involvement in transferred assets. This amendment is effective for the Group as of July 1, 2011. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS1113, *Fair value measurement*

Korean IFRS1113, *Fair value measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS1101 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for the Group as of January 1, 2013, and the Group expects that it would not have a material impact on the Group.

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS1027, *Consolidated and Separate Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean IFRS1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the income statement.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the income statement.

2.3 Segment Reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5).

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

All foreign exchange gains and losses including those of borrowings and cash and cash equivalents are presented in the income statement within ‘other non-operating gains/(losses)’.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(c) Translation to presentation currency

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.6 Financial Instruments

2.6.1 Classification

The Group classifies its financial instruments in the following categories: financial asset at fair value through profit or loss, financial liability at fair value through profit or loss, loans and receivables, available-for-sale, held-to-maturity and debentures at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets are classified in this category if acquired principally for the purpose of selling in the short term. Financial liabilities are classified as financial liabilities at fair value through profit or loss when incurred principally for the purpose of repurchasing it in the near term. Derivatives or embedded derivatives are also categorized as held for trading unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'cash and cash equivalents', 'financial institution deposits' and 'trade and other receivables' in the statement of financial position.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group intends and is able to hold to maturity. If the Group were to sell other than an insignificant amounts of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

(e) Financial liabilities carried at amortized cost

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, as financial liabilities carried at amortized cost and as 'trade payables', 'other payables', 'borrowings', and 'other liabilities' in the statement of financial position. In case when a transfer of a financial asset does not qualify for derecognition, the transferred asset is continuously recognized as asset and the consideration received is recognized as financial liabilities. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

2.6.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the income statement within 'finance income (costs)' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement when the Group's right to receive dividend payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'other non-operating gains(losses)'.

Interest on available-for-sale and held-to-maturity securities calculated using the effective interest method is recognized in the income statement as part of 'finance income'. Dividends on available-for-sale equity instruments are recognized in the income statement as part of 'other non-operating gains/(losses)' when the Group's right to receive dividend payments is established.

2.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.7 Impairment of Financial Assets

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- Delinquency in interest or principal payments for more than three months;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data suggesting that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with respect to individual financial assets in the portfolio, such as:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the initial effective interest rate. The carrying amount of the asset is reduced by the impairment loss amount and the amount of the loss is recognized in the income statement. In practice, the Group may measure impairment loss based on the fair value of financial asset using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, an improvement in debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost, for example decrease in fair value of the investments by more than 30% from its cost for more than six months, is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

2.8 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for doubtful accounts.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of merchandise, raw materials, subsidiary materials and supplies are determined using the moving-weighted average method, while the cost of finished goods, semi-finished goods and work-in-progress are determined using gross average method. Also, the cost of materials in transit is assigned by using specific identification method. The cost of finished goods and work in progress consists of raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attribute to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	10 - 40 years
Structures	10 - 20 years
Machinery	5 - 20 years
Vehicles	6 years
Tools	3 years
Fixtures and furniture	2 - 4 years
Other	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.16). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating (losses)/gains' in the income statement.

2.11 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.12 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to assets are set up as deferred income which is recognized in profit or loss on a systematic and rational basis over the useful life of the asset.

Government grants relating to costs are deferred and recognized in the income statement as 'other non-operating gains' over the period that they are intended to compensate.

2.13 Intangible Assets

(a) Goodwill

Goodwill is measured as explained in Note 2.2(1) and goodwill arises on the acquisition of subsidiaries, associates and business are included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Industrial property rights

Acquired industrial property rights, software and other intangible assets are shown at historical cost. These have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost over their estimated useful lives, as follows:

Industrial property rights	5 - 20 years
Software	5 years
Others	3 - 5 years

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

2.14 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are include in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using straight-line method over their estimated useful lives.

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each financial year and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

The fair value of investment property disclosed in Note 15 reflects market conditions at the end of the reporting period, with adjustment that reflects specific asset's characteristics, condition and location. The book value for financial reporting purpose is determined based on the evaluation of the investment property by an independent valuer, who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

2.15 Research and Development costs

Costs associated with research are recognized as an expense as incurred. Costs that are identifiable, controllable and directly attributable to development projects are recognized as intangible assets when all the following criteria are met.

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs which are stated as intangible assets are amortised using the straight-line method when the assets are available for use and are tested for impairment.

2.16 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill and intangible assets with indefinite useful lives that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. The Group recognizes borrowings as current assets unless it has an unconditional right to delay the settlement for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

2.19 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Employee Benefits

The Group operates a pension scheme, and classifies this scheme as defined benefit pension plan. The Group's defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

2.22 Share Capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

2.23 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value added taxes, after elimination of intra-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The revenue can be reliably measured only when any contingency related to sales is resolved. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Group manufactures and sells cosmetics and personal care of goods. Sales of goods are recognized when products are delivered to the purchaser. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with volume discounts and customers have a right to return faulty products. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. The Group recognises provisions for sales returns based on reasonable expectation reflecting sales return rates incurred historically.

(b) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with such a transaction is recognised by reference to the stage of performance of the services. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(c) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(d) Interest income

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

(e) Dividend income

Dividend income is recognized when the right to receive payment is established.

(f) Rental income

Rental income from rental property is recognized on a straight-line basis over a rental period.

(g) Customer Loyalty Programmes

By customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale. The consideration allocated to the award credits are measured by reference to the fair value of goods providing for the receivable award credits, since the fair value of award credits cannot be measured. The fair value of goods providing for the receivable award credits are measured by taking into account redemption rates and timing of redemption. The consideration allocated to award credits are deferred and recognized as revenue when the award credits are redeemed and the Company performs the obligation to provide the goods.

2.24 Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.25 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.26 Non-current Assets (or disposal group) Held for Sale and Discontinued Operations

Non-current assets (or disposal group) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction. They are stated at the lower of carrying amount and fair value less costs to sell.

When a component of the Group representing a separate major line of business or geographical area of operation has been disposed of, or is subject to a sale plan involving loss of control of a subsidiary, the Group discloses in the income statement the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation. The net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented in the notes to the financial statements.

2.27 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2011 consolidated financial statements of the Group was approved by the Board of Directors on February 7, 2012.

3. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.16. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 14).

(b) Income taxes

The Company is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recorded, based on its best estimate, current taxes and deferred taxes that the Company will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Fair value of financial instruments

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

(d) Provisions

As described in Note 18, the Company recognizes provisions for estimated returns, profit-sharing and bonuses as of the reporting date. The amounts are estimated based on historical data.

(e) Customer loyalty programmes

By customer loyalty programmes, the Group allocates the consideration receivable to the award credits by reference to the fair value of goods providing, taking into account redemption rates and timing of redemption based on historical data.

(f) Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the pension benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 20.

4. 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: ₩1,153.30, the exchange rate in effect on December 31, 2011. 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, 2010, U.S. dollar amounts, which were previously expressed at US$1: ₩1,138.90, the rate in effect on December 31, 2010, have been restated to reflect the exchange rate in effect on December 31, 2011.

5. Segment Information

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker who formulates the strategic. Chief operating decision-maker considers the business from perspective of products of each segment.

The main products of each business division are as follows:

Divisions	Products
Cosmetics	Skin care, other beauty products
MC(Mass Cosmetic) & Sulloc	Personal care goods, green tea

The segment information for revenue and operating profit for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011			2010		
	Revenues	Operating profit	Depreciation and amortization	Revenues	Operating profit	Depreciation and amortization
Cosmetics	₩ 2,285,613	₩ 335,129	₩ 69,511	₩ 2,039,115	₩ 323,295	₩ 69,199
MC & Sulloc	402,492	40,223	12,080	349,343	32,746	11,773
Total	₩ 2,688,105	₩ 375,352	₩ 81,591	₩ 2,388,458	₩ 356,041	₩ 80,972

Adjustments from total segment revenue to the Group's revenue for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Total segment revenue	₩ 2,688,105	₩ 2,388,458
Eliminating intercompany transactions, others	(133,382)	(116,146)
Group revenue	₩ 2,554,723	₩ 2,272,312

Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		**2011**		**2010**
Total segment operating profit	₩	375,352	₩	356,041
Eliminating intercompany transactions, others		(2,501)		8,424
Group operating profit	₩	372,851	₩	364,465

Assets and liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011		**December 31, 2010**		**January 1, 2010**	
(in millions of Korean won)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Cosmetics	₩ 2,424,199	₩ 622,141	₩ 2,171,830	₩ 569,382	₩ 1,950,584	₩ 549,774
MC & Sulloc	500,485	88,972	463,784	89,171	376,837	74,191
Reportable Segment Asset and liability	2,924,684	711,113	2,635,614	658,553	2,327,421	623,965
Eliminating intercompany transactions, others	(109,256)	(33,988)	(153,785)	(38,805)	(138,870)	(44,939)
Group asset and liability	2,815,428	677,125	2,481,829	619,748	2,188,551	579,026

Additions to non-current assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		**2011**		**2010**
Cosmetics	₩	245,654	₩	212,359
MC & Sulloc		104,819		103,226
	₩	350,473	₩	315,585

External revenues by geographic areas for the years ended December 31, 2011 and 2010, and non-current assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	Revenues		**Non-current assets[1]**		
(in millions of Korean won)	**2011**	**2010**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Korea	₩ 2,248,321	₩ 2,020,426	₩ 1,654,606	₩ 1,600,225	₩ 1,384,268
North America	15,740	12,063	458	2,778	3,322
Europe	76,418	78,835	40,951	29,571	34,681
China	189,135	140,655	38,227	13,370	12,231
Other	25,109	20,333	36,437	5,977	1,978
	₩ 2,554,723	₩ 2,272,312	₩ 1,770,679	₩ 1,651,921	₩ 1,436,480

[1] Non-current assets consist of property, plant and equipment, and intangible assets.

There is no external customer attributing to more than 10% of total revenues for the years ended December 31, 2011 and 2010.

6. Financial Instruments by Category

Categorizations of financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		December 31, 2011	December 31, 2010	January 1, 2010
Loans and receivables	Cash and cash equivalents	₩ 187,708	₩ 159,142	₩ 224,636
	Current financial institution deposits	155,736	173,374	84,147
	Non-current financial institution deposits	3,656	3,456	3,427
	Trade receivables	152,435	138,402	143,120
	Current other receivables	13,839	12,222	6,835
	Non-current other receivables	59,298	45,504	45,761
	Other current assets[1]	1,175	877	489
Available-for-sale financial assets	Marketable securities	2,846	3,978	3,289
	Non-marketable securities	1,721	1,932	1,710
	Debt investments	4,642	5,639	2,648
		₩ 583,056	₩ 544,526	₩ 516,062

[1] Other current assets are comprised of accrued revenues (Note 16).

Categorizations of financial liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		December 31, 2011	December 31, 2010	January 1, 2010
Financial liabilities at amortized cost	Trade payables	₩ 77,987	₩ 79,891	₩ 59,438
	Short-term borrowings	15,581	16,544	26,701
	Long-term borrowings	45,904	-	-
	Other payables	181,272	142,015	130,057
	Other current liabilities[2]	7,853	3,712	2,470
	Other non-current liabilities[3]	26,265	27,688	28,742
		₩ 354,862	₩ 269,850	₩ 247,408

[2] Other current liabilities are comprised of dividends payables and accrued expenses (Note 19).

[3] Other non-current liabilities are comprised of deposits received, long-term accrued expenses and financial lease liabilities (Note 19).

Income and loss of financial instruments by category for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		2011		2010
Available-for-sale financial assets				
Gain(Loss) on valuation (Other comprehensive income(loss))	₩	(604)	₩	588
Gain(Loss) on disposal (Profit or loss)		224		-
Gain(Loss) on disposal (Reclassification)[1]		(228)		-
Interest income		166		44
Dividend income		58		162
Loans and receivables				
Interest income		10,999		9,382
Gain(Loss) on foreign currency translation		323		70
Impairment		(1,219)		(1,679)
Financial liabilities at amortized cost				
Interest expense		(1,923)		(2,202)
Gain(Loss) on foreign currency translation		(247)		(682)

[1] Reclassification to profit/loss represents amounts transferred from components of other comprehensive income.

7. Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates as of December 31, 2011 and 2010, and January 1, 2010:

Trade receivables

(in millions of Korean won)		December 31, 2011		December 31, 2010		January 1, 2010
Counterparties with external credit rating						
A	₩	102,745	₩	89,607	₩	84,377
BBB		837		365		1,536
	₩	103,582	₩	89,972	₩	85,913
Counterparties without external credit rating						
Group 1[1]	₩	1,371	₩	1,193	₩	241
Group 2[2]		47,482		47,238		56,966
Group 3[3]		-		-		-
	₩	48,853	₩	48,431	₩	57,207
	₩	152,435	₩	138,402	₩	143,120

[1] New customers/related parties (less than 6 months)
[2] Existing customers/related parties (more than 6 months) with no defaults in the past
[3] Existing customers/related parties (more than 6 months) with some defaults in the past. All defaults were fully recovered.

Other receivables

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Counterparties with external credit rating			
A	₩ 83	₩ 108	₩ 54
	₩ 83	₩ 108	₩ 54
Counterparties without external credit rating			
Group 1[1]	₩ 1,178	₩ 1,023	₩ 511
Group 2[2]	71,876	56,595	52,031
Group 3[3]	-	-	-
	₩ 73,054	₩ 57,618	₩ 52,542
	₩ 73,137	₩ 57,726	₩ 52,596

Cash equivalents and financial institution deposits

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
A A A	₩ 346,995	₩ 335,709	₩ 312,025

8. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Cash in hand	₩ 105	₩ 263	₩ 186
Ordinary deposits	21,534	27,472	14,672
Checking accounts	10,643	9,482	9,911
MMDA	155,426	121,925	199,867
	₩ 187,708	₩ 159,142	₩ 224,636

9. Trade and Other Receivables

Trade and other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Trade receivables	₩ 158,942	₩ 143,709	₩ 146,953
Less: provision for impairment of trade receivables	(6,507)	(5,307)	(3,833)
Trade receivables, net	₩ 152,435	₩ 138,402	₩ 143,120
Current other receivables	₩ 14,115	₩ 12,499	₩ 6,902
Less: provision for impairment of trade receivables	(276)	(277)	(67)
Current other receivables, net	₩ 13,839	₩ 12,222	₩ 6,835
Non-current other receivables	₩ 59,298	₩ 45,504	₩ 45,761
Less: provision for impairment of trade receivables	-	-	-
Non-current other receivables, net	₩ 59,298	₩ 45,504	₩ 45,761

Details of other receivables are as follows:

	December 31, 2011		**December 31, 2010**		**January 1, 2010**	
(in millions of Korean won)	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Non-trade receivable	₩ 13,839	₩ -	₩ 12,222	₩ -	₩ 6,835	₩ -
Loans	-	19,775	-	13,040	-	11,334
Deposits provided	-	39,523	-	32,464	-	34,427
	₩ 13,839	₩ 59,298	₩ 12,222	₩ 45,504	₩ 6,835	₩ 45,761

The aging analysis of trade and other receivables as of December 31, 2011 and 2010 and January 1, 2010, is as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010		January 1, 2010	
	Trade receivables	Other receivables	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	₩ 113,513	₩ 73,137	₩ 101,020	₩ 57,726	₩ 110,042	₩ 52,596
Past due but not impaired						
Up to 3 months	28,152	-	27,426	-	22,638	-
4 to 6 months	5,888	-	4,464	-	3,970	-
7 to 12 months	3,264	-	2,271	-	2,222	-
Over 12 months	1,618	-	3,221	-	4,248	-
Impaired	6,507	276	5,307	277	3,833	67
	₩ 158,942	₩ 73,413	₩ 143,709	₩ 58,003	₩ 146,953	₩ 52,663

Movements on the provision for impairment of trade receivables for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Beginning	₩ 5,307	₩ 3,833
Provision for receivables impairment	1,219	1,469
Receivables written off during the year as uncollectible	(19)	-
Unused amounts reversed	-	5
Ending	₩ 6,507	₩ 5,307

The creation and release of provision for impaired receivables have been included in ‘other expenses’ in the income statement (Note 28). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The Group’s trade and other receivables are spread to a great number of customers, so there is no important credit risk concentrated. The maximum exposure of trade and other receivables to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

10. Inventories

Inventories as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		**December 31, 2011**		**December 31, 2010**		**January 1, 2010**
Merchandise	₩	30,690	₩	20,363	₩	22,141
Finished goods		95,045		95,412		61,073
Semi-finished goods		24,586		17,424		14,168
Work-in-process		1,676		1,633		1,339
Raw materials		35,869		38,638		38,326
Subsidiary materials		19,230		19,915		15,447
Supplies		4,493		3,300		2,792
Materials in transit		14,214		11,480		6,285
	₩	225,803	₩	208,165	₩	161,571

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 708,500 million (2010: ₩ 626,249 million).

Movements on the provision for impairment of trade receivables for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		**2011**		**2010**
Loss on valuation of inventories	₩	4,091	₩	5,812
Loss on disposal of inventories		13,303		12,283
	₩	17,394	₩	18,095

11. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		December 31, 2011		December 31, 2010		January 1, 2010
Debt investments						
Government-issued securities	₩	4,642	₩	5,639	₩	2,648
Equity securities						
Non-marketable equities		1,721		1,932		1,710
GL Pharm Tech Co., Ltd.		191		191		191
Welskin Co., Ltd.		48		48		48
Solomon Investment Bank Co., Ltd.		398		609		387
The Korea Economic Daily		81		81		81
ELANDRETAL Ltd.		3		3		3
Biogenics Co., Ltd.		1,000		1,000		1,000
Marketable equities		2,846		3,978		3,289
Crystal Genomics Co., Ltd.		-		431		595
Medy-tox Inc.		2,846		3,547		2,694
	₩	9,209	₩	11,549	₩	7,647

Marketable equities are measured at fair value using quoted price in an active market. The equity of Solomon Investment Bank Co., Ltd., among the non-marketable equities, is measured at fair value using recent arm's length market transactions between knowledgeable, willing parties, since the market for this equity is not active.

Other non-marketable equities, except the equity of Solomon Investment Bank Co., Ltd., are measured at cost, since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, or the difference between the fair value and the acquisition cost is immaterial. Debt investments are measured at cost, since the difference between the fair value and the acquisition cost is immaterial.

The changes in available-for-sale financial assets as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		2011		2010
At January 1	₩	11,549	₩	7,647
Additions		122		3,400
Disposals		(2,041)		(252)
Gains/(losses) on valuation		(713)		754
Gains/(losses) transfer from equity[1]		292		-
At December 31	₩	9,209	₩	11,549

[1] The Company removed profits of ₩141 million (deferred tax: ₩31 million) and losses of ₩434 million (deferred tax: ₩96 million) from equity into the income statement.

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available-for-sale.

None of the available-for sale financial assets is either past due or impaired.

12. Associates

Associates as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

Associates	Number of Shares	Percentage of Ownership	December 31, 2011			December 31, 2010			January 1, 2010		
(in millions of Korean won)			Acquisition cost	Net asset value	Book value	Acquisition cost	Net asset value	Book value	Acquisition cost	Net asset value	Book value
Taiwan AMORE Co.,Ltd.	1,000	50.00	₩ 131	₩ 1,715	₩ 1,788	₩ 131	₩ 1,571	₩ 1,570	₩ 131	₩ 1,392	₩ 1,392
AMOREPACIFIC HongKong Co.,Limited	26,786	30.00	1,220	2,836	3,939	1,220	2,255	2,800	1,220	2,102	2,471
AMOREPACIFIC (Thailand) LIMITED	134,510	49.00	430	114	19	430	332	228	150	71	71
AMOREPACIFIC RUS CO.,LTD.	-	0.00	-	-	-	-	-	-	2,804	100	100
			₩ 1,781	₩ 4,665	₩ 5,746	₩ 1,781	₩ 4,158	₩ 4,598	₩ 4,305	₩ 3,665	₩ 4,034

Changes in investments in associates for the years ended December 31, 2011 and 2010, are as follows:

2011 *(in millions of Korean won)*	**Taiwan AMORE Co.,Ltd.**	**AMOREPACIFIC HongKong Co.,Limited.**	**AMOREPACIFIC (Thailand) LIMITED**	**Total**
Beginning	₩ 1,571	₩ 2,255	₩ 332	₩ 4,158
Acquisition	-	-	-	-
Share of profit(loss)	376	861	(200)	1,037
Changes in other comprehensive income	(111)	(88)	(18)	(217)
Dividends	(121)	(192)	-	(313)
Ending	₩ 1,715	₩ 2,836	₩ 114	₩ 4,665

2010 *(in millions of Korean won)*	**Taiwan AMORE Co.,Ltd.**	**AMOREPACIFIC HongKong Co.,Limited.**	**AMOREPACIFIC (Thailand) LIMITED**	**AMOREPACIFIC RUS Co.,Ltd.**	**Total**
Beginning	₩ 1,392	₩ 2,102	₩ 71	₩ 100	₩ 3,665
Acquisition	-	-	280	-	280
Share of profit(loss)	(47)	255	(25)	(100)	83
Changes in other comprehensive income	373	(102)	6	-	277
Dividends	(147)	-	-	-	(147)
Ending	₩ 1,571	₩ 2,255	₩ 332	₩ -	₩ 4,158

Summary of financial information of associates as of and for the years ended December 31, 2011 and 2010, and as of January 1, 2010, follows:

December 31, 2011 *(in millions of Korean won)*	**Total Assets**	**Total Liabilities**	**Revenue**	**Net Income (Loss)**	**Comprehensive Income (Loss)**
Taiwan AMORE Co.,Ltd.	₩ 4,607	₩ 1,032	₩ 7,687	₩ 753	₩ 683
AMOREPACIFIC HongKong Co.,Limited	25,504	12,373	52,006	4,180	4,465
AMOREPACIFIC (Thailand) LIMITED	320	281	1,558	(405)	(423)

December 31, 2010 *(in millions of Korean won)*	**Total Assets**	**Total Liabilities**	**Revenue**	**Net Income (Loss)**	**Comprehensive Income (Loss)**
Taiwan AMORE Co.,Ltd.	₩ 4,696	₩ 1,557	₩ 7,066	₩ 648	₩ 1,381
AMOREPACIFIC HongKong Co.,Limited	18,891	9,557	40,040	1,352	1,100
AMOREPACIFIC (Thailand) LIMITED	656	191	1,754	(67)	(50)

January 1, 2010 *(in millions of Korean won)*	**Total Assets**	**Total Liabilities**
Taiwan AMORE Co.,Ltd.	₩ 169	₩ 280
AMOREPACIFIC HongKong Co.,Limited	15,947	7,711
AMOREPACIFIC (Thailand) LIMITED	579	344
AMOREPACIFIC RUS CO.,LTD.[1]	155	55

[1] As of January 1, 2010, the date of transition to Korean IFRS, AMOREPACAFIC RUS CO.,LTD. was a subsidiary for consolidation, but was excluded from consolidation due to materiality. In 2010, it was liquidated and the Group recognized the gain on disposal of this investment amounting to ₩49 million in the statement of comprehensive income within 'other non-operating gains/(losses)'.

13. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**			**December 31, 2010**			**January 1, 2010**		
	Acquisition cost	**Accumulated depreciation**	**Book value**	**Acquisition cost**	**Accumulated depreciation**	**Book value**	**Acquisition cost**	**Accumulated depreciation**	**Book value**
Land	₩ 798,986	₩ -	₩ 798,986	₩ 984,783	₩ -	₩ 984,783	₩ 807,839	₩ -	₩ 807,839
Buildings	535,089	(97,928)	437,161	335,073	(88,313)	246,760	275,324	(78,354)	196,970
Structures	50,756	(14,064)	36,692	34,850	(12,936)	21,914	21,414	(11,180)	10,234
Machinery	239,933	(93,695)	146,238	146,134	(105,010)	41,124	131,506	(100,951)	30,555
Vehicles	2,792	(1,923)	869	2,595	(1,875)	720	2,415	(2,065)	350
Tools	114,595	(97,636)	16,959	117,373	(102,669)	14,704	110,992	(85,775)	25,217
Fixtures and furniture	427,928	(298,569)	129,359	368,219	(260,898)	107,321	341,784	(237,465)	104,319
Other	1,474	(842)	632	1,906	(878)	1,028	1,943	(636)	1,307
Construction in progress	88,579	-	88,579	185,026	-	185,026	217,372	-	217,372
	₩ 2,260,132	₩ (604,657)	₩ 1,655,475	₩ 2,175,959	₩ (572,579)	₩ 1,603,380	₩ 1,910,589	₩ (516,426)	₩ 1,394,163

Changes in property, plant and equipment for the years ended December 31, 2011 and 2010, are as follows:

2011 *(in millions of Korean won)*	Balance as of January 1, 2011	Acquisition	Reclassification[1]	Disposal	Depreciation	Acquisition in the business combination	Currency translation differences	Balance as of December 31, 2011
Land	₩ 984,783	₩ 280	₩ (179,812)	₩ (6,195)	₩ -	₩ -	₩ (70)	₩ 798,986
Buildings	246,760	838	203,723	(1,160)	(12,867)	-	(133)	437,161
Structures	21,914	97	16,739	(131)	(1,847)	-	(80)	36,692
Machinery	41,124	8,240	105,912	(917)	(8,165)	-	44	146,238
Vehicles	720	350	19	(19)	(203)	-	2	869
Tools	14,704	11,812	1,420	(31)	(10,976)	-	30	16,959
Fixtures and furniture	107,321	46,945	10,031	(1,423)	(36,464)	2,082	867	129,359
Other	1,028	210	(212)	(3)	(382)	-	(9)	632
Construction in progress	185,026	247,999	(344,561)	-	-	-	115	88,579
	₩ 1,603,380	₩ 316,771	₩ (186,741)	₩ (9,879)	₩ (70,904)	₩ 2,082	₩ 766	₩ 1,655,475

[1] The Group began productions in the Osan plant and transferred the production and logistics function of the existing Suwon and Kimcheon plants to the Osan plant during current year. Accordingly, as of the reporting date, the Group reclassified land in Suwon and Kimcheon amounting to ₩185,546 million to investment property.

2010 *(in millions of Korean won)*	Balance as of January 1, 2010	Acquisition	Reclassification	Disposal[1]	Depreciation	Acquisition in the business combination	Currency translation differences	Balance as of December 31, 2010
Land	₩ 807,839	₩ 11,008	₩ 179,237	₩ (12,973)	₩ -	₩ -	₩ (328)	₩ 984,783
Buildings	196,970	1,992	61,285	(507)	(10,658)	-	(2,322)	246,760
Structures	10,234	143	12,705	0	(1,803)	747	(112)	21,914
Machinery	30,555	6,741	10,491	(143)	(6,036)	-	(484)	41,124
Vehicles	350	567	-	(18)	(177)	-	(2)	720
Tools	25,217	9,008	(104)	(508)	(18,894)	49	(64)	14,704
Fixtures and furniture	104,319	36,768	6,614	(6,227)	(34,670)	452	65	107,321
Other	1,307	145	5	(42)	(398)	-	11	1,028
Construction in progress	217,372	243,411	(275,742)	-	-	-	(15)	185,026
	₩ 1,394,163	₩ 309,783	₩ (5,509)	₩ (20,418)	₩ (72,636)	₩ 1,248	₩ (3,251)	₩ 1,603,380

[2] Including the property, plant and equipment amounting to ₩6,296 million transferred to Innisfree Corporation.

One of the subsidiaries, AMOREPACIFIC EUROPE S.A.S leases land and buildings under non-cancellable finance lease agreements. The lease terms are between 13 and 15 years, and ownership of the assets will be transferred to AMOREPACIFIC EUROPE S.A.S after the lease terms are terminated.

Land and buildings include the following amounts where the Company is a lessee under a finance lease as of December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in millions of Korean won)	Land	Buildings	Land	Buildings	Land	Buildings
Cost- capitalized finance leases	₩ 2,757	₩ 27,483	₩ 2,793	₩ 27,842	₩ 3,089	₩ 30,797
Accumulated depreciation	-	(7,410)	-	(6,863)	-	(6,565)
Net book amount	₩ 2,757	₩ 20,073	₩ 2,793	₩ 20,979	₩ 3,089	₩ 24,232

Depreciation of property, plant and equipment is charged to the following accounts.

(in millions of Korean won)		2011		2010
Selling and administrative expenses[1]	₩	41,117	₩	41,102
Cost of sales		29,787		31,534
	₩	70,904	₩	72,636

[1] Depreciation expense is included as part of development expense.

14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2011 and 2010, are as follows:

2011 *(in millions of Korean won)*		Goodwill		Industrial property		Software		Others		Total
Balance as of January 1, 2011	₩	7,135	₩	6,624	₩	18,653	₩	16,129	₩	48,541
Acquisition		-		2,057		2,526		29,119		33,702
Reclassification		-		-		8,832		(7,637)		1,195
Disposal		-		-		(5)		(288)		(293)
Amortization		-		(786)		(6,743)		(3,158)		(10,687)
Acquisition in the business combination		24,838		2,670		134		8,772		36,414
Currency translation differences		2,693		(6)		47		3,598		6,332
Balance as of December 31, 2011	₩	34,666	₩	10,559	₩	23,444	₩	46,535	₩	115,204

2010 *(in millions of Korean won)*		Goodwill		Industrial property		Software		Others		Total
Balance as of January 1, 2010	₩	2,873	₩	3,460	₩	17,331	₩	18,653	₩	42,317
Acquisition		-		3,668		1,359		495		5,522
Reclassification[1]		-		-		5,938		(429)		5,509
Disposal		-		(26)		(1)		(1,998)		(2,025)
Amortization		-		(478)		(5,975)		(1,883)		(8,336)
Acquisition in the business combination		4,399		-		-		-		4,399
Currency translation differences		(137)		-		1		1,291		1,155
Balance as of December 31, 2010	₩	7,135	₩	6,624	₩	18,653	₩	16,129	₩	48,541

[1] Including the intangible assets amounting to ₩632 million transferred to Innisfree Corporation.

Amortization of intangible assets is charged to the following accounts:

(in millions of Korean won)		2011		2010
Selling and administrative expenses[1]	₩	10,289	₩	7,966
Cost of sales		398		370
	₩	10,687	₩	8,336

[1] Amortization expense is included as part of development expense.

Goodwill is monitored by the management at the cash-generating units. The following is a summary of goodwill allocation for each operating segment:

The Company used the same goodwill allocation method as of December 31, 2011 and 2010, and January 1, 2010:

(in millions of Korean won)		December 31, 2011		December 31, 2010		January 1, 2010
Annick Goutal CGU	₩	27,359	₩	-	₩	-
China CGU		3,293		2,873		2,873
Vietnam CGU		4,014		4,262		-
	₩	34,666	₩	7,135	₩	2,873

Goodwill impairment reviews are undertaken annually. Impairment test suggests that, all of the carrying value of cash generating units does not exceed the recoverable amount. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions used for value-in-use calculations in 2011 are as follows:

	Annick Goutal CGU	China CGU	Vietnam CGU
Gross margin	14.19%	6.39%	0.91%
Growth rate[1]	10.12%	14.97%	9.88%
Pre-tax discount rate[2]	9.71%	12.94%	21.26%

[1] Weighted average revenue growth rate used to extrapolate cash flows for five-year period is measured based on the historical growth rate.
[2] Pre-tax discount rate applied to the pre-tax cash flow projections

The Company determined budgeted gross margin rate based on past performance and its expectations of future. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

15. Investment Property

Changes in investment property for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011 Land		2010 Land	
Beginning	₩	-	₩	-
Reclassification		185,546		-
Disposal		-		-
Ending	₩	185,546	₩	-

Fair value of investment property as of December 31, 2011, is as follows:

(in millions of Korean won)		Book value		Fair value	
Land	Gyeonggi-do Yongin-si Kiheung-ku Yeongduk-dong	₩	160,493	₩	163,703
	Gyeongbuk Kimchun-si Daekwang-dong		25,053		25,053
		₩	185,546	₩	188,756

There was no gain related to investment property for the years ended December 31, 2011 and 2010.

16. Other Assets

Other assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011				December 31, 2010				January 1, 2010			
(in millions of Korean won)	Current		Non-current		Current		Non-current		Current		Non-current	
Accrued revenues	₩	1,175	₩	-	₩	877	₩	-	₩	489	₩	-
Advance payments		4,272		-		6,216		-		1,268		-
Prepaid expenses		12,208		6		9,651		136		9,271		626
Others		508		-		355		53		82		290
	₩	18,163	₩	6	₩	17,099	₩	189	₩	11,110	₩	916

17. Borrowings

Details of borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	Bank	Interest rate at December 31, 2011	December 31, 2011	December 31, 2010	January 1, 2010
Short-term Borrowings					
Bank overdrafts of EUR 7,744,633 (December 31, 2010: EUR 8,761,264) (January 1, 2010: EUR 12,176,666)	Credit Agricole and others	2.32 ~ 3.04	₩ 11,571	₩ 13,261	₩ 20,387
Loans for working capital of JPY 270,000,000	Shinhan Bank-Japan	1.44	4,010	-	-
Loans for working capital of JPY 235,000,000 (January 1, 2010: JPY 500,000,000)	Woori Bank	2.60	-	3,283	6,314
			15,581	16,544	26,701
Long-term Borrowings					
Loans for working capital of USD 40,000,000	Citibank and others	1.75 ~ 1.92	45,904	-	-
			45,904	-	-
			₩ 61,485	₩ 16,544	₩ 26,701

Annual redemption plan as of the reporting date is as follows:

(in millions of Korean won)

Year	Amount
2014	₩ 45,904

18. Provisions for Liabilities and Charges

Changes of provisions for liabilities and charges as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011			2010		
	Provision for sales return	Profit-sharing and bonuses	Total	Provision for sales return	Profit-sharing and bonuses	Total
Beginning	₩ 13,410	₩ 224	₩ 13,634	₩ 19,350	₩ 188	₩ 19,538
Increase	3,466	64,363	67,829	855	75,446	76,301
Decrease	(11,261)	(64,450)	(75,711)	(6,791)	(75,391)	(82,182)
Currency translation differences	2	1	3	(4)	(19)	(23)
Ending	₩ 5,617	₩ 138	₩ 5,755	₩ 13,410	₩ 224	₩ 13,634

19. Other Liabilities

Other liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in millions of Korean won)	Current	Non-current	Current	Non-current	Current	Non-current
Withholdings	₩ 9,204	₩ -	₩ 9,493	₩ -	₩ 8,420	₩ -
Value added tax withheld	22,390	-	15,256	-	18,461	-
Advances from customers	12,038	-	4,411	83,971	6,891	83,971
Deposits received	-	8,220	-	8,087	-	5,617
Accrued expenses	7,639	2,289	3,520	1,576	2,310	997
Financial liabilities	-	15,756	-	18,025	-	22,128
Dividends payable	214	-	192	-	160	-
Others	1,086	511	1,135	-	524	198
	₩ 52,571	₩ 26,776	₩ 34,007	₩ 111,659	₩ 36,766	₩ 112,911

Minimum lease payments to the lessor as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Total minimum lease payment			
No later than 1 year	₩ 2,744	₩ 2,780	₩ 3,075
Between 1 and 5 years	10,974	11,118	12,299
Later than 5 years	4,267	7,106	10,944
	17,285	21,004	26,318
Unearned finance cost	(2,229)	(2,979)	(4,190)
Net minimum lease payment			
No later than 1 year	2,123	2,059	2,180
Between 1 and 5 years	9,493	9,202	9,741
Later than 5 years	4,140	6,764	10,207
	₩ 15,756	₩ 18,025	₩ 22,128

20. Defined Benefit Liability

Defined benefit liability recognized on the statements of finance position as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Present value of funded defined benefit liability	₩ 122,125	₩ 102,182	₩ 99,854
Fair value of plan assets	(89,123)	(66,935)	(72,918)
	₩ 40,002	₩ 35,247	₩ 26,936

The amounts recognized on the statements of income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Current service cost	₩ 16,379	₩ 13,235
Interest expenses	6,356	7,079
Expected return on plan assets	(3,143)	(3,381)
	₩ 19,592	₩ 16,933

The accumulated amounts of actuarial gains and losses recognized within other comprehensive income for the years ended December 31, 2011 and 2010, are ₩ (20,624) million and ₩ (11,976) million, respectively.

Defined benefit liability is charged to the following accounts.

(in millions of Korean won)	2011	2010
Cost of sales	₩ 3,136	₩ 2,853
Selling and administrative expenses	16,456	14,080
	₩ 19,592	₩ 16,933

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Beginning balance	₩ 102,182	₩ 99,854
Current service cost	16,379	13,235
Transfer from(to) associates	(962)	(1,594)
Interest expense	6,356	7,079
Benefits paid	(14,299)	(31,793)
Acquisition from business combination	881	-
Actuarial gains and losses	11,588	15,401
Ending balance	₩ 122,125	₩ 102,182

The movements in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Beginning balance	₩ 66,935	₩ 72,918
Expected return on plan assets	3,143	3,381
Transfer to(from) associates	-	(1,073)
Employer contribution	20,283	23,182
Benefits paid	(8,416)	(31,520)
Actuarial gains and losses	178	48
Ending balance	₩ 82,123	₩ 66,936

The Group's managements assume that the expected amount of employer contribution during the annual period beginning on or after the reporting date is ₩7,640 million.

Actual return of plan assets was ₩3,321 million (2010: ₩3,429 million).

The principal actuarial assumptions as of December 31, 2011 and 2010, and January 1, 2010, were as follows:

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Discount rate	5.75%	6.50%	7.50%
Expected return on plan assets	4.50%	4.50%	4.50%
Future salary increases	6.74%	6.78%	6.53%

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

(in millions of Korean won)	**Changes in principal assumption**	**Impact on overall liability**		
		December 31, 2011	**December 31, 2010**	**January 1, 2010**
Discount rate	1% increase	₩ (8,700)	₩ (7,332)	₩ (7,150)
	1% decrease	9,998	8,427	8,217
Inflation rate	1% increase	9,800	8,260	8,054
	1% decrease	(8,701)	(7,333)	(7,150)

Adjustments for the differences between initial assumptions and actual figures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Present value of defined benefit liability	₩ 122,125	₩ 102,182	₩ 99,854
Fair value of plan assets	(82,123)	(66,935)	(72,918)
Deficit(Surplus) of the funded plans	40,002	35,247	26,936
Defined benefit liability adjustments	5,289	6,818	-
Defined benefit asset adjustments	(178)	(48)	-

Plan assets as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Insurance commodity with guaranteed interest contract	₩ 81,720	₩ 66,445	₩ 72,174
Deposits to the National Pension Service	403	490	744
	₩ 82,123	₩ 66,935	₩ 72,918

21. Other Components of Equity

Other components of equity as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010		January 1, 2010	
Treasury stock[1]	₩	(1,381)	₩	(1,381)	₩	(1,381)
Other capital adjustments		(429)		(429)		(429)
	₩	(1,810)	₩	(1,810)	₩	(1,810)

[1] The Group has its own 3,287 common shares and 608 preferred shares. The Company intends to dispose of the remaining treasury shares depending on the market condition.

22. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2011 and 2010, and January 1, 2010, consists of the following:

(in millions of Korean won)	December 31, 2011		December 31, 2010		January 1, 2010	
Change in value of available-for-sale financial assets	₩	1,618	₩	1,994	₩	1,406
Currency translation differences		(4,009)		(3,327)		-
Share of other comprehensive income of associates		(44)		282		-
	₩	(2,435)	₩	(1,051)	₩	1,406

Changes in accumulated other comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

2011 *(in millions of Korean won)*	Beginning		Increase (Decrease)		Reclassification to profit or loss		Ending	
Change in value of available-for-sale financial assets	₩	1,994	₩	(604)	₩	228	₩	1,618
Currency translation differences		(3,327)		(682)		-		(4,009)
Share of other comprehensive income of associates		282		(326)		-		(44)
	₩	(1,051)	₩	(1,384)	₩	-	₩	(2,435)

2010 *(in millions of Korean won)*	**Beginning**	**Increase (Decrease)**	**Reclassification to profit or loss**	**Ending**
Change in value of available-for-sale financial assets	₩ 1,406	₩ 588	₩ -	₩ 1,994
Currency translation differences	-	(3,327)	-	(3,327)
Share of other comprehensive income of associates	-	282	-	282
	₩ 1,406	₩ (2,457)	₩ -	₩ (1,051)

23. Retained Earnings

Retained earnings as of December 31, 2011 and 2010, and January 1, 2010, consist of:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Legal reserves[1]	₩ 18,109	₩ 13,909	₩ 10,109
Discretionary reserves	708,000	470,000	287,000
Unappropriated retained earnings	651,311	616,570	565,585
	₩ 1,377,420	₩ 1,100,479	₩ 862,694

[1] The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

24. Dividends per share

Details of dividends declared by the Company, dividend payout ratio and dividend yield ratio for the years ended December 31, 2001, and 2010, are as follows:

		2011	**2010**
Number of shares eligible for dividends	Common stock	5,842,562	5,842,563
	Preferred stock	1,055,175	1,055,178
Dividend rate	Common stock	130%	120%
	Preferred stock	131%	121%
Dividend amount	Common stock	₩ 37,977 million	₩ 35,055 million
	Preferred stock	6,911 million	6,384 million
Dividend payout ratio (Dividends/Net income)		14.10%	14.40%
Dividend yield ratio	Common stock	0.62%	0.53%
(Dividend per share/Market price)	Preferred stock	2.34%	1.94%

25. Income Tax and Deferred Income Tax

Income tax expense for the years ended December 31, 2011 and 2010, consists of:

(in millions of Korean won)		2011		2010
Current income taxes	₩	67,874	₩	62,391
Deferred income tax due to temporary differences		32,599		12,327
Deferred income tax charged to other comprehensive income		1,900		3,293
Income taxes	₩	102,373	₩	78,011

Deferred income taxes charged to other comprehensive income are as follows:

(in millions of Korean won)		2011		2010
Change in value of available-for-sale financial assets	₩	46	₩	(166)
Actuarial gains and losses		2,761		3,378
Deferred income tax charged to other comprehensive income		(8)		4
Currency translation differences		(899)		77
	₩	1,900	₩	3,293

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(in millions of Korean won)		2011		2010
Profit before tax	₩	429,642	₩	365,620
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩	103,478	₩	87,515
Add(deduct):				
Income not subject to tax		(11,853)		(3,835)
Expenses not deductible for tax purposes		1,292		7,236
Change in recognition of deferred income tax based on future realizability		2,826		(7,261)
Tax credits		(3,748)		(3,006)
Effect of the changes in tax rate		12,542		-
Income tax refunds		87		(2,006)
Others		(2,251)		(632)
Income taxes	₩	102,373	₩	78,011
Effective tax rate (Income tax over net income before tax)		23.83%		21.34%

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets			
Deferred tax asset to be recovered after more than 12 months	₩ 63,534	₩ 66,366	₩ 71,148
Deferred tax asset to be recovered within 12 months	9,494	6,456	1,290
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months	(181,311)	(2,091)	(126,548)
Deferred tax liability to be recovered within 12 months	(1,494)	(143,297)	(3,796)
Deferred tax assets(liabilities), net	₩ (109,777)	₩ (72,566)	₩ (57,906)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

2011 *(in millions of Korean won)*	January 1, 2011	Business combination[1]	Income statement	Other comprehensive income	Effect of the changes in tax rate	Currency translation differences	December 31, 2011
Deferred tax assets							
Allowance for doubtful accounts	₩ 532	₩ -	₩ (91)	₩ -	₩ -	₩ -	₩ 441
Inventory	1,392	-	(710)	-	-	-	682
Property, plant and equipment	11,160	-	(5,918)	-	414	15	5,671
Intangible assets	486	-	(149)	-	34	-	371
Government grant	395	-	251	-	65	-	711
Available-for-sale financial assets	508	-	-	-	51	-	559
Subsidiaries	825	-	2,332	(907)	(86)	-	2,164
Deferred revenue	16,449	-	(412)	-	1,011	174	17,222
Accrued expenses	-	-	2,284	-	-	32	2,316
Provision liability	2,872	171	(1,698)	-	117	-	1,462
Other current liabilities	836	-	727	-	-	-	1,563
Retirement benefit obligation	16,646	186	(1,350)	2,761	1,806	-	20,049
Selling and administrative expense	453	-	(296)	-	-	-	157
Loss on foreign currency translation	25	-	(25)	-	-	-	-
Tax loss	19,860	-	(349)	-	-	(245)	19,266
Others	384	-	(22)	-	31	-	393
	72,823	357	(5,426)	1,854	3,443	(24)	73,027
Deferred tax liabilities							
Accrued revenue	(212)	-	(72)	-	-	-	(284)
Other receivables	(16)	-	(110)	-	(13)	-	(139)
Property, plant and equipment	(97,447)	-	(2,646)	-	(10,009)	-	(110,102)
Intangible assests	(172)	(4,648)	(13)	-	(17)	(297)	(5,147)
Available-for-sale financial assets	(563)	-	-	46	-	-	(517)
Plan assets	(14,618)	-	(3,360)	-	(1,798)	-	(19,776)
Reserve for technology developments	(25,667)	-	(10,193)	-	(3,586)	-	(39,446)
Advanced depreciation provision	(5,622)	-	-	-	(562)	-	(6,184)
Selling and administrative expense	(1,072)	-	(137)	-	-	-	(1,209)
Others	-	-	-	-	-	-	-
	(145,389)	(4,648)	(16,531)	46	(15,985)	(297)	(182,804)
	₩ (72,566)	₩ (4,291)	₩ (21,957)	₩ 1,900	₩ (12,542)	₩ (321)	₩ (109,777)

[1] Deferred tax liabilities amounting to ₩1,632 million related to acquisition of shares of Annick Goutal S.A.S, and ₩2,569 million related to land usage right of AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd. increased during the current year.

2010 (in millions of Korean won)	January 1, 2010	Transfer of business[1]	Income statement	Other comprehensive income	Currency translation differences	December 31, 2010
Deferred tax assets						
Allowance for doubtful accounts	₩ 196	₩ -	₩ 336	₩ -	₩ -	₩ 532
Inventory	654	-	738	-	-	1,392
Property, plant and equipment	11,325	-	(165)	-	-	11,160
Intangible assets	297	-	189	-	-	486
Government grant	317	-	78	-	-	395
Available-for-sale financial assets	508	-	-	-	-	508
Subsidiaries	3,354	-	(2,610)	81	-	825
Deferred revenue	13,286	(206)	3,355	-	14	16,449
Provision liability	4,257	-	(1,385)	-	-	2,872
Other current liabilities	-	-	836	-	-	836
Retirement benefit obligation	15,046	12	(1,790)	3,378	-	16,646
Selling and administrative expense	299	-	154	-	-	453
Loss on foreign currency translation	68	-	(43)	-	-	25
Tax loss	22,448	-	(439)	-	(2,149)	19,860
Others	384	-	-	-	-	384
	72,439	(194)	(746)	3,459	(2,135)	72,823
Deferred tax liabilities						
Accrued revenue	(118)	-	(94)	-	-	(212)
Other receivables	(20)	(4)	8	-	-	(16)
Property, plant and equipment	(98,965)	-	1,518	-	-	(97,447)
Intangible assests	-	-	(172)	-	-	(172)
Available-for-sale financial assets	(397)	-	-	(166)	-	(563)
Plan assets	(15,507)	-	889	-	-	(14,618)
Reserve for technology developments	(14,322)	-	(11,345)	-	-	(25,667)
Advanced depreciation provision	-	-	(5,622)	-	-	(5,622)
Selling and administrative expense	(1,014)	-	(58)	-	-	(1,072)
Others	(2)	-	2	-	-	-
	(130,345)	(4)	(14,874)	(166)	-	(145,389)
	₩ (57,906)	₩ (198)	₩ (15,620)	₩ 3,293	₩ (2,135)	₩ (72,566)

[1] Deferred income tax related to assets and liabilities transferred to Innisfree Corporation during the prior year.

Deferred income tax assets are recognized for tax loss carry forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of ₩ 14,218 million in respect of losses amounting to ₩42,657 million that can be carried forward against future taxable income. There is no limit to expiration of tax losses.

The temporary differences from the subsidiaries whose disposal is not in the foreseeable future were not recognized because of the uncertainty in realizability of the deferred tax assets, and the amount as of December 31, 2011, and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Taxable temporary differences	₩ (31,330)	₩ (9,394)	₩ -
Deductible temporary differences	82,795	75,700	107,446
	₩ 51,465	₩ 66,306	₩ 107,446

During the year, as a result of the change in the Korean corporate tax rate (taxable profit under ₩200 million: 11%, taxable profit under ₩20,000 million: 22% and taxable profit over ₩20,000 million: 11%) that was substantively enacted on December 31, 2011, and that will be effective from January 1, 2012, the relevant deferred tax balances have been re-measured. Deferred tax liabilities increased ₩12,542 million due to the changes in tax rate.

26. Revenues

Revenues for the years ended December 31, 2011 and 2010, consist of the following:

(in millions of Korean won)			2011		2010
Sale of goods	Sales of finished goods	₩	2,106,409	₩	1,914,120
	Sales of merchandise		424,549		341,102
			2,530,958		2,255,222
Rendering of services			19,481		13,578
Others	Rental income		2,372		1,903
	Royalty income		1,024		224
	Others		888		1,385
		₩	4,284	₩	3,512
		₩	2,554,723	₩	2,272,312

27. Expenses by Nature

Expenses by nature for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		2011		2010
Changes in inventories	₩	(13,373)	₩	(46,509)
Purchase of raw materials and merchandise		721,873		672,758
Employee benefit expense		327,705		293,488
Depreciation and amortization		81,591		80,972
Advertising expense		241,512		205,303
Research and development		61,529		57,160
Commission expense		215,478		187,859
Distribution commission		295,607		241,273
Other expenses		249,950		215,543
Total[1]	₩	2,181,872	₩	1,907,847

[1] Sum of cost of sales, and selling and administrative expenses on statements of comprehensive income.

28. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		**2011**		**2010**
Employee benefits	₩	236,814	₩	212,229
Welfare and fringe benefits		41,375		35,228
Advertising expense		354,577		302,441
Depreciation and amortization		42,363		42,033
Commission expense		192,895		169,612
Distribution commission		295,607		241,956
Freight expense		55,337		42,425
Taxes and dues		24,064		18,807
Research and development		61,529		57,112
Other		102,688		85,845
	₩	1,407,249	₩	1,207,688

29. Financial Income and Costs

Financial income and costs for the years ended December 31, 2011 and 2010, are as follows:

(*in millions of Korean won*)		**2011**		**2010**
Finance income				
Interest income on loans and receivables	₩	10,999	₩	9,382
Interest income on available-for-sale financial assets		166		44
		11,165		9,426
Finance expense				
Interest expense on financial liabilities carried at amortized cost		(1,923)		(2,202)
	₩	(1,923)	₩	(2,202)

30. Other non-operating gains/(losses)

Other non-operating gains/(losses) for the years ended December 31, 2011 and 2010, consist of:

(in millions of Korean won)		2011		2010
Other non-operating gains				
Gain on foreign currency transactions	₩	2,876	₩	2,681
Gain on foreign currency translation		1,104		1,120
Gain on disposal of property, plant and equipment		2,545		1,171
Gain on disposal of non-current assets held for sale		47,183		-
Gain on disposal of intangible assets		271		133
Gain on disposal of available-for-sale financial assets		169		-
Gain on disposal of associates		-		49
Others		10,697		2,327
		64,845		7,481
Other non-operating losses				
Loss on foreign currency transactions		(3,378)		(3,577)
Loss on foreign currency translation		(526)		(836)
Loss on disposal of property, plant and equipment		(2,405)		(1,208)
Loss on disposal of available-for-sale financial assets		(172)		-
Donations		(5,588)		(4,899)
Others		(6,264)		(3,113)
		(18,333)		(13,633)
	₩	46,512	₩	(6,152)

31. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding treasury shares.

Basic earnings per ordinary share as of December 31, 2011 and 2010, is as follows:

		2011		2010
Profit attributable to equity holders of the Company	₩	327,029 million	₩	287,752 million
Net income attributable to common stock		276,957 million		243,688 million
Weighted average number of ordinary shares in issue (unit: shares)		5,842,562		5,842,589
Basic earnings per ordinary share (in won)	₩	47,403	₩	41,709

Basic earnings per preferred share as of December 31, 2011 and 2010, is as follows:

	2011	2010
Profit attributable to equity holders of the Company	₩ 327,029 million	₩ 287,752 million
Net income attributable to preferred stock	50,072 million	44,064 million
Weighted average number of preferred shares in issue (unit: shares)	1,055,176	1,055,194
Basic earnings per preferred share (in won)	₩ 47,454	₩ 41,759

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 bond with stock warrants.

32. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2011 and 2010, is as follows:

(*in millions of Korean won*)	2011	2010
Net income	₩ 327,269	₩ 287,609
Adjustments for:		
Interest income, net	(9,242)	(7,224)
Loss(gain) on foreign currency translation	(1,174)	109
Depreciation and amortization	81,591	80,972
Gain on disposal of property, plant and equipment and intangible assets	(406)	(98)
Gain on disposal of non-current assets held for sale	(47,183)	-
Income tax	102,373	78,011
Gain from associates	(1,037)	(83)
Provision for severance benefits	19,592	16,933
Others	1,166	2,622
Changes in working capital		
Increase in trade receivables	(9,887)	(1,606)
Decrease(increase) in other receivables	(1,614)	433
Increase in inventories	(13,327)	(49,429)
Decrease(increase) in other assets	1,295	(4,776)
Increase(decrease) in trade payables	(2,820)	20,406
Increase in other payables	34,577	13,482
Decrease in provisions	(7,665)	(4,820)
Increase(decrease) in other liabilities	8,372	(2,848)
Payment of severance benefits	(14,299)	(31,793)
Net transfer-out of severance benefits of associates	(962)	(100)
Decrease(increase) in plan assets, net	(11,866)	9,348
Cash generated from operations	₩ 454,764	₩ 407,148

Significant transactions not affecting cash flows for the years ended December 31, 2011 and 2010, are as follows:

(in thousands of Korean won)		**2011**		**2010**
Reclassification of construction in-progress to specific property, plant and equipment	₩	344,561	₩	275,242
Reclassification of land to investment property		185,546		-
Offsetting non-current assets held for sale and long-term advances from customers		83,971		-

33. Commitments and Contingencies

As of the reporting date, the Company has a bank overdraft agreement with a limit of ₩8,000 million and a loan agreement with a limit of ₩25,000 million with Woori Bank with trade receivables as collateral in which the Company guarantees payment to the bank if the factoring of trade receivables takes place before the payment is due. As of the reporting date, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩9,713 million (2010: ₩15,868 million). Additionally, as of the reporting date, the Company has a letter of credit agreement with a limit of USD 4,000 thousand with Woori Bank and the amount USD 1,162 thousand (2010: USD 1,381 thousand) has been drawn.

As of the reporting date, Seoul Guarantee Insurance has provided the Company with payment guarantees such as court bond guarantees, performance guarantees and others amounting to ₩1,911 million (2010: ₩5,796 million).

Important contracts subsidiaries entered into with financial institutions as of the reporting date are as follows:

Subsidiaries	**Contracts**
Amorepacific Global Operations Limited	Subsidiary has a syndicated loan agreement with Citibank and five other banks with a limit of USD 40,000 thousand and the outstanding balance is USD 40,000 thousand.
AMOREPACIFIC EUROPE S.A.S	Subsidiary has a finance lease agreement with Societe Generale Bank and one other bank amounting to EUR 14,101 thousand, and a loan agreement with Societe Generale Bank and other 2 banks with a limit of EUR 15,500 thousand and the outstanding balance is EUR 7,745 thousand.
AMOREPACIFIC Trading Co., Ltd.	Subsidiary has a bank overdraft agreement with a limit of USD 10,000 thousand with Citibank and there is no outstanding balance.
AMOREPACIFIC Japan Co., Ltd.	Subsidiary has a bank overdraft agreement with a limit of JPY 500,000 thousand with Shinhan Bank-Japan and the outstanding balance is JPY 270,000 thousand.

As of the reporting date, current financial institution deposits amounting to ₩8,000 million and non-current financial institution deposits amounting to ₩6 million are restricted in use for guarantees provided to subsidiaries' borrowings and as guarantee deposits for the maintenance of checking accounts.

As of the reporting date, some land and buildings are pledged as collaterals in relation to deposits received, and details are as following:

(in millions of Korean Won)

Financial institutions	Assets pledged as collateral	Provisional pledged amount	
Woori Bank	Land and buildings	₩	1,246
National Pension Service	Land and buildings		961
AJU CAPITAL CO., LTD.	Land and buildings		459
Others	Land and buildings		375
		₩	3,041

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 of up to 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 receive from Crystal up to 40% of all receipts from the sub-licensee and royalties from their sales of the related products.

The Group leases certain office, warehouse and computer equipment under non-cancellable operating lease arrangements with the lease term of one to five years. Lease payments recognized in the income statement under operating lease were ₩57,564 million (2010: ₩45,655 million).

The future minimum lease payments under operating lease agreements at of the reporting date are as follows:

(in thousands of Korean won)	Amount	
No later than 1 year	₩	53,016
1 year to 5 years		41,318
Later than 5 years		2,541
	₩	96,875

34. Non-current Assets Held for Sale

On July 25, 2006, the Group sold its land located in Osan for ₩83,972 million to Yangbaek Development Co., Ltd. The amount of ₩83,972 million had been recorded as long-term advances received in non-current liabilities because the Group has not obtained the official approval of the above land transaction from the municipal authorities. Consequently, the Group recorded ₩36,789 million as non-current assets held for sale at the lower of carrying amount and fair value less costs. The ownership of the above land was transferred during the current year and the Group recognized ₩47,183 million as gain on disposal for the difference between the payments received from disposal and the book value.

35. Related Parties

Details of the parents and subsidiaries as of the reporting date are as follows:

Classfication	Name
Ultimate parent	Kyung-Bae Suh
Immediate parent	AMOREPACIFIC Group, Inc. (formerly PACIFIC Corporation)
Ultimate parent presenting consolidated financial statements	AMOREPACIFIC Group, Inc. (formerly PACIFIC Corporation)
Subsidiaries	Amorepacific Global Operations Limited. AMOREPACIFIC EUROPE S.A.S Annick Goutal S.A.S AMOREPACIFIC Cosmetics (Shanghai) Co., Ltd. AMOREPACIFIC Trading Co., Ltd. AMOREPACIFIC US, INC. AMOREPACIFIC JAPAN CO., LTD AMOREPACIFIC Taiwan Co., Ltd. AMOREPACIFIC SINGAPORE PTE. LTD. LANEIGE MALAYSIA SDN BHD. Amorepacific Global Operations Pte. Ltd. Amorepacific Vietnam JSC

Significant transactions with related parties for the years ended December 31, 2011 and 2010, are as follows:

	2011		2010	
(in millions of Korean won)	Sales	Purchases	Sales	Purchases
Immediate parent				
AMOREPACIFIC Group,Inc. (formerly PACIFIC Corporation)	₩ 195	₩ 1,888	₩ 48	₩ 1,799
Associate				
Taiwan AMORE Co.,Ltd. and others	14,052	-	9,798	-
Others				
PACIFICPHARMA Corporation	973	41,274	2,371	32,433
AMOS Professional Corporation	12,297	144	10,546	197
Etude Corporation	3,319	1,576	4,577	1,617
PACIFICPACKAGE Corporation	58	36,404	-	25,069
Taeshin Inpack Corporation	-	15,857	-	25,113
BBDO Korea Inc.	-	6,693	-	6,274
PACIFICGLAS, Inc.	175	30,100	217	30,262
Jangwon Co.,Ltd	23	6,411	28	6,674
Innisfree Corporation[1]	4,508	3,594	3,338	2,256
COSVISION CO.,LTD.[2]	12,387	1,029	-	-
	₩ 33,740	₩ 143,082	₩ 21,077	₩ 129,895
	₩ 47,987	₩ 144,970	₩ 30,923	₩ 131,694

[1] The Group transferred one of its operations, the Innisfree cosmetics division to Innisfree Corporation, a related party, for a price of ₩13,259 million during the prior year.

[2] The controlling company, Amorepacific Group,Inc., acquired 100% of shares in COSVISION CO.,LTD. during current period, and the Company included COSVISION CO.,LTD. as a related party. Transactions with and year-end balances arising from above transactions are amounts after it became a related party.

Balances with related parties as of December 31, 2011 and 2010, are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in millions of Korean won)	**Receivables**	**Payables**	**Receivables**	**Payables**	**Receivables**	**Payables**
Immediate parent						
AMOREPACIFIC Group,Inc. (formerly PACIFIC Corporation)	₩ 76	₩ 418	61	408	₩ 66	₩ 397
Associate						
Taiwan AMORE Co.,Ltd. and others	1,750	-	3,942	-	2,301	-
Others						
PACIFICPHARMA Corporation	410	5,320	1,141	3,770	664	2,340
AMOS Professional Corporation	1,884	93	958	106	1,493	95
Etude Corporation	475	96	356	686	882	174
PACIFICPACKAGE Corporation	8	4,390	-	4,774	-	-
Taeshin Inpack Corporation	-	1,748	-	3,022	-	2,596
BBDO Korea Inc.	-	369	-	2,405	-	1,953
PACIFICGLAS, Inc.	11	2,710	11	3,534	8	3,161
Jangwon Co.,Ltd	100	-	2	-	2	5
Innisfree Corporation	987	985	995	1,254	-	6,030
COSVISION CO.,LTD.	10,337	411	-	-	-	-
	₩ 14,212	₩ 16,122	₩ 3,463	₩ 19,551	₩ 3,049	₩ 16,354
	₩ 16,038	₩ 16,540	₩ 7,466	₩ 19,959	₩ 5,416	₩ 16,751

Compensation for key management for the years ended December 31, 2011 and 2010 consists of:

(In millions of Korean won)	**2011**	**2010**
Short-term employee benefits	₩ 9,046	₩ 9,029
Post-employment benefits	1,355	1,507
	₩ 10,401	₩ 10,536

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

There is no guarantee provided for related parties other than Group as of the reporting date.

As of the reporting date, no bad debt provision was made with respect to the receivables from related parties.

36. Acquisition of subsidiary

On August 2, 2011, the Group's subsidiary, Amorepacific Global Operations Limited acquired 100% ownership in Annick Goutal S.A.S, a French corporation, to expand its overseas perfume market and strengthen competitiveness.

The amount of Annick Goutal S.A.S's identifiable assets and liabilities are as follows:

(In millions of Korean won)		Amount
Cash and cash equivalents	₩	529
Trade and other receivables[1]		3,124
Other assets		569
Inventories		4,311
Property, plant and equipment		2,082
Intangible assets		11,576
Trade payables		(4,678)
Retirement benefit obligations		(881)
Borrowings		(5,097)
Deferred tax liabilities		(1,632)
Other liabilities		(649)
Net assets	₩	9,254

[1] Fair value of trade and other receivables are ₩3,124 million, and trade receivables amounting to ₩2,811 million are included. Gross amount of trade and other receivables on arrangement at acquisition date is ₩3,124 million. There are no receivables expected to be uncollectible.

The amount of goodwill recognized is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	34,092
Fair value of net assets		(9,254)
Goodwill[1]	₩	24,838

[1] None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash flow following the acquisition of Annick Goutal S.A.S is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	34,092
Deducted: cash and cash equivalents of acquiree		(529)
Cash and cash equivalents	₩	33,563

All consideration are in the form of cash and cash equivalents.

The Group provided acquisition-related costs such as legal fees and due diligence fees amounting to ₩1,663 million, and recognized it as selling and administrative expenses in the consolidated statements of comprehensive income.

The amount of revenue and net income included in consolidated statements of comprehensive income contributed by Annick Goutal S.A.S after August 2, 2011, amount to ₩8,311 million and ₩360 million, respectively. If Annick Goutal S.A.S had been consolidated from January 1, 2011, the consolidated statement of comprehensive income would have included revenue of ₩20,130 million and net income of ₩302 million.

37. Risk Management

37.1 Financial Risk Management

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

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

(a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and the Japanese yen.

The purpose of foreign exchange risk management is to maximize the Group's value by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Company's financial instruments denominated in major foreign currencies as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in millions of Korean won)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
USD	₩ 16,271	₩ 3,546	₩ 19,453	₩ 2,403	₩ 11,849	₩ 1,622
EUR	483	2,320	583	842	1,516	571
JPY	-	4,356	-	4,752	-	1,557
	₩ 16,754	₩ 10,222	₩ 20,036	₩ 7,997	₩ 13,365	₩ 3,750

As of December 31, 2011 and 2010, and January 1, 2010, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

(in millions of Korean won)	**December 31, 2011**		**December 31, 2010**		**January 1, 2010**	
	Increase 10%	**Decrease 10%**	**Increase 10%**	**Decrease 10%**	**Increase 10%**	**Decrease 10%**
USD	₩ 1,272	₩ (1,272)	₩ 1,705	₩ (1,705)	₩ 1,023	₩ (1,023)
EUR	(184)	184	(26)	26	94	(94)
JPY	(436)	436	(475)	475	(156)	156

The above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not in the Parent Company's functional currency.

ii) Interest rate risk

The Group is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from borrowings and financial deposits with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

To mitigate interest rate risk, the Group manages interest rate risk proactively by: minimizing external borrowings by maximizing internal cash sharing, reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates and monitoring weekly and monthly interest rate trends in domestic and international markets.

The Company invests in fixed interest assets with maturities of one year or less, and if the market interest rate increases, there is risk of decrease in fair value. However, the risk of changes in fair value is minor as the investments are short-term deposits.

At the end of the reporting period, if interest rates on floating rate borrowings had been 1% higher/lower with all other variables held constant, profit before income tax for the year would have been ₩185 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit Risk

Credit risk is managed by the Group as a whole. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. For general customer, the Group evaluates and manages the collaterals (real estate, pledged deposit, payment guarantees, guarantee insurance, etc.) Also, to decrease credit risk, only 50~75% of market price of real states are acknowledged as collateral value. If the market price changes suddenly, the Group adjusts the collateral value, calculates credit limit and executes it strictly with authorized discretionary power and procedures.

(c) Liquidity Risk

The Group holds sufficient amount of cash and cash equivalents and maintains a flexible fund capacity within credit limit by brisk business. Financial liabilities involved in sales except borrowings are basically paid within maximum 3 months after purchasing (average within 2 months), so maturity of all financial liabilities (with or without payment condition) are within 3 months. The Company manages liquidity by holding more cash and cash equivalents than monthly payments.

The table above analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These contracts are managed on a net-fair value basis rather than by maturity date.

	December 31, 2011					
(in millions of Korean won)	**Up to 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Book value**
Trade payables	₩ 77,987	₩ -	₩ -	₩ -	₩ 77,987	₩ 77,987
Borrowings	16,384	87	45,947	-	62,418	61,485
Other payables	181,272	-	-	-	181,272	181,272
Other liabilities	10,597	13,285	8,230	4,267	36,379	34,118

	December 31, 2010					
(in millions of Korean won)	**Up to 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Book value**
Trade payables	₩ 79,891	₩ -	₩ -	₩ -	₩ 79,891	₩ 79,891
Borrowings	17,471	-	-	-	17,471	16,544
Other payables	142,015	-	-	-	142,015	142,015
Other liabilities	6,492	12,551	8,338	7,102	34,483	31,400

	January 1, 2010					
(in millions of Korean won)	**Up to 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Book value**
Trade payables	₩ 59,438	₩ -	₩ -	₩ -	₩ 59,438	₩ 59,438
Borrowings	28,041	-	-	-	28,041	26,701
Other payables	130,057	-	-	-	130,057	130,057
Other liabilities	5,545	9,831	9,224	10,930	35,530	31,212

37.2 Capital Management

The Group's capital risk management purpose is maximising shareholders' value through maintaining a sound capital structure. The Group monitors financial ratios, such as liability to equity ratio and net borrowing ratio each month and implements required action plan to improve the capital structure.

Debt/equity ratio and net borrowing ratio are as follows:

(in millions of Korean won, except for ratios)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Liability (A)	677,125	619,748	579,026
Equity (B)	2,139,303	1,862,081	1,609,525
Cash and cash equivalents and current financial deposits (C)	343,444	332,516	308,784
Borrowings (D)	61,485	16,544	26,701
Liability-to-equity ratio (A/B)	31.65%	33.28%	35.97%
Net Borrowings ratio (D-C)/B	(-)13.18%	(-)16.97%	(-)17.53%

37.3 Fair Value Estimation

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	December 31, 2011			
(In millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	₩ 2,846	₩ -	₩ 398	₩ 3,244

	December 31, 2010			
(In millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	₩ 3,978	₩ -	₩ 609	₩ 4,587

	January 1, 2010			
(In millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	₩ 3,289	₩ -	₩ 387	₩ 3,676

38. Transition to the Korean IFRS

38.1 First-time Adoption of the Korean IFRS

The Group's transition date to the Korean IFRS is January 1, 2010, and adoption date is January 1, 2011.

In preparing consolidated financial statements in accordance with the Korean IFRS 1101(First-time Adoption of Korean International Financial Reporting Standards), the Group has applied the mandatory exceptions and certain optional exemptions allowed by the Korean IFRS.

38.2 Exemption Options under Korean IFRS 1101

The Group elected to apply the following optional exemptions from full retrospective application.

(1) Business combinations

The Group elected to apply the exemption for business combinations allowed under Korean IFRS 1101 and has not retrospectively applied Korean IFRS 1103 to past business combinations that occurred before the transition date.

(2) Fair value as deemed cost

The Group elected to measure certain property, plant and equipment at fair value as of the transition date to the Korean IFRS and use that fair value as its deemed cost at that date.

(3) Cumulative translation differences

The Group elected to deem the cumulative translation differences for all foreign operations to be zero at January 1, 2010, in accordance with Korean IFRS 1101.

38.3 Mandatory Exceptions to Retroactive Application of Other Korean IFRS

Exceptions to other Korean IFRS applied by the Group are as follows:

(1) Exception for estimates

The Company’s Korean IFRS estimates at the transition date are consistent with the estimates as at the same date made in accordance with the previous K-GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

38.4 Reconciliations between the previous K-GAAP to the Korean IFRS

(1) Effects on the financial position and financial performance

Effects of the Korean IFRS adoption on the Group's total assets, liabilities and equity as of January 1, 2010, the date of Korean IFRS transition, are as follows:

(In millions of Korean won)	Total assets	Total liabilities	Equity
Reported amount under previous K-GAAP	₩ 1,754,116	₩ 454,402	₩ 1,299,714
Adjustments for:			
Application of deemed cost to property, plant and equipment and changes of depreciation method[1]	449,839	-	449,839
Fair value measurements of embedded derivatives[2]	(130)	-	(130)
Mileage deferred revenue[3]	-	49,628	(49,628)
Recognition of web site costs as an expense[4]	(1,330)	-	(1,330)
Measurement of present value of financial assets and liabilities[5]	88	(2)	90
Actuarial valuation of defined benefit liability[6]	-	(2,098)	2,098
Government grants[7]	608	608	-
Changes in scope of consolidation[8]	4,674	8,559	(3,885)
Adjustment in deferred tax of share of investment[9]	(2,028)	(4,020)	1,992
Changes in deferred tax and deferred tax effect[11]	(17,286)	71,949	(89,235)
Total adjustments	434,435	124,624	309,811
Adjusted amount under Korean IFRS	₩ 2,188,551	₩ 579,026	₩ 1,609,525

Effects of the Korean IFRS adoption on the Group's total assets, liabilities and equity as of December 31, 2010, are as follows:

(In millions of Korean won)	**Total assets**	**Total liabilities**	**Equity**
Reported amount under previous K-GAAP	₩ 2,024,438	₩ 466,475	₩ 1,557,963
Adjustments for:			
Application of deemed cost to property, plant and equipment and changes of depreciation method[1]	443,720	-	443,720
Fair value measurements of available-for-sale financial assets[2]	(66)	-	(66)
Mileage deferred revenue[3]	-	47,951	(47,951)
Recognition of web site costs as an expense[4]	(2,188)	-	(2,188)
Measurement of present value of financial assets and liabilities[5]	73	(2)	75
Actuarial valuation of defined benefit liability[6]	3,212	8,100	(4,888)
Government grants[7]	385	375	10
Changes in scope of consolidation[8]	5,692	4,106	1,586
Adjustment in deferred tax of share of investment[9]	(2,028)	(2,213)	185
Adjustment in liquidation gain(loss) of subsidiaries by applying the exemption option for cumulative translation differences	-	143	(143)
Reversal of goodwill amortisation[10]	1,921	-	1,921
Changes in deferred tax and deferred tax effect[11]	6,670	94,813	(88,143)
Total adjustments	457,391	153,273	304,118
Adjusted amount under Korean IFRS	₩ 2,481,829	₩ 619,748	₩ 1,862,081

Effects of the Korean IFRS adoption on the Group's profit and comprehensive income for the year ended December 31, 2010, are as follows:

(In millions of Korean won)		Profit		Comprehensive income
Reported amount under previous K-GAAP	₩	284,481	₩	280,399
Adjustments for:				
Application of deemed cost to property, plant and equipment and changes of depreciation method[1]		(6,119)		(6,119)
Fair value measurements of available-for-sale financial assets[2]		-		65
Mileage deferred revenue[3]		784		781
Recognition of web site costs as an expense[4]		(859)		(859)
Measurement of present value of financial assets and liabilities[5]		(34)		(34)
Actuarial valuation of defined benefit liability[6]		5,042		(6,934)
Government grants[7]		10		10
Changes in scope of consolidation[8]		4,044		4,604
Adjustment in deferred tax of share of investment[9]		(1,725)		(1,806)
Adjustment in liquidation gain(loss) of subsidiaries by applying the exemption option for cumulative translation differences		(1,241)		(143)
Reversal of goodwill amortisation[10]		1,921		1,921
Changes in deferred tax and deferred tax effect[11]		1,305		1,270
Total adjustments		3,128		(7,244)
Adjusted amount under Korean IFRS	₩	287,609	₩	273,155

[1] Certain property, plant and equipment like land are measured at fair value as of the transition date to the Korean IFRS and use that fair value as its deemed cost at that date applying the optional exemption, and depreciated by reflecting the expected pattern of consumption of the future economic benefits.

[2] Available-for-sale financial assets those are not traded in an active market were measured at cost under the previous K-GAAP, but they are measured at fair value under Korean IFRS.

[3] Under the previous accounting standard, the value of the assets to be paid for future reward points was recognized as provision liability, but under the Korean IFRS, future sales revenue from reward points was deferred and revenue was recognized when the reward points were actually used.

[4] Expenditure on developing web sites not directly related with business are recognized as an expense when incurred in accordance with Korean IFRS.

[5] Material long-term assets and liabilities are measured at amortized cost using the effective interest method.

[6] Retirement benefit obligations are calculated by using an actuarial method. Actuarial losses (gains) on retirement benefit obligations are recognized in other comprehensive income.

[7] Government grants were presented by deducting the grant in arriving at the carrying amount of the related assets or offset to specific expenses according to the purpose of the assistance under the previous K-GAAP, but they are presented as deferred income or income under Korean IFRS.

[8] Changes in scope in subsidiaries for consolidation by adopting Korean IFRS are as follows:

Entity	Reason
AMOREPACIFIC US, INC. AMOREPACIFIC JAPAN CO., LTD AMOREPACIFIC Taiwan Co., Ltd. AMOREPACIFIC SINGAPORE PTE. LTD. LANEIGE MALAYSIA SDN BHD. Amorepacific Global Operations Pte. Ltd. Amorepacific Vietnam JSC	Previously not included in the consolidated financial statements based on the exception under Article 1-3 (2).1. of the Enforcement Decree of the Act on External Audit of Stock Companies which was granted to subsidiaries with less that total assets of ₩10 billion as of the previous fiscal year-end. Included under Korean IFRS.

[9] Deferred tax recognition by reflecting the manner of reversals of each temporary difference from investments in subsidiaries.

[10] Goodwill acquired in the business combination were amortized using the straight-line method over the estimated useful life from initial acquisition date under the previous K-GAAP, but it is not subject to amortization and is tested annually for impairment under Korean IFRS.

[11] Deferred tax effects from the above adjustments

(2) Effects on the cash flows

On adoption of the Korean IFRS, cash flows from interest received, interest paid and income taxes paid, which had not been separately presented, are presented separately on the face of the statement of cash flows. In order to accommodate the change, cash flows related to relevant income/expenses, assets/liabilities have been adjusted. There is no other important difference between cash flows under the Korean IFRS and cash flows under the previous K-GAAP.

39. Events after the Reporting Period

On January 30, 2012, the Company's subsidiary, Amorepacific Global Operations Limited, increased its shareholding to 51% in AMOREPACIFIC (Thailand) Limited, from 49%, to expand in the cosmetics market in Thailand and to strengthen its competitiveness.