

# ***AMOREPACIFIC Corporation and Subsidiaries***

Consolidated Financial Statements  
December 31, 2019 and 2018

**AMOREPACIFIC Corporation and Subsidiaries**  
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**December 31, 2019 and 2018**

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## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of  
AMOREPACIFIC Corporation

### Opinion

We have audited the accompanying consolidated financial statements of AMOREPACIFIC Corporation and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

### Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

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

#### (1) Initial application of Korean IFRS 1116 Leases

##### Why this matter was determined to be a key audit matter

As the Group applied Korean IFRS 1116 *Leases* from January 1, 2019, we focused on the impacts of the application on the consolidated financial statements. Management of the Group identified a contract is, or contracts a lease, that are or contain leases and analysed the impacts of the application of Korean IFRS 1116 *Leases* and established the accounting policies. In accordance with the transitional provisions in Korean IFRS 1116, the cumulative effect of retrospective application of the amendments is reflected on the beginning balance as at January 1, 2019. See Note 36 for further details on the impact of the application of Korean IFRS 1116.

### **How our audit addressed the Key Audit Matter**

We performed the following audit procedures for the application of Korean IFRS 1116.

- Examined the impact and analysis of the application of Korean IFRS 1116 performed by management.
- Obtained a methodology that management chosen to reflect initial application effect and effect of initial application on the beginning balance, and tested the appropriateness of the methodology.
- Confirmed that the consolidated financial statements include footnote disclosure regarding the initial application.
- Obtained and understood the newly established lease accounting policy of the Group and test the design and operating effectiveness of control and procedures of the Group.
- Analysed and assessed relevant expenses in order to confirm the completeness of the lease liabilities provided by the Group.
- Tested selected samples of new lease contracts of the Group for appropriateness of accounting treatment.
- Assessed the reasonableness of incremental borrowing rates used by the Group to measure right-of-use assets and lease liabilities.
- Tested selected samples for the accuracy of subsequent measurement of lease liabilities recognized by the Group.
- Tested the accuracy of depreciation on right-of-use assets of the Group.

### **(2) Valuation of merchandise and finished goods**

#### **Why this matter was determined to be a key audit matter**

As described in Note 8 to the consolidated financial statements, the Company's inventories comprise of merchandise and finished goods amount to ₩ 334,925 million as at December 31, 2019. The inventories are initially measured at cost and write-down should be recognized if the inventories are damaged, become wholly or partially obsolete, or if expected net realisable value is below the cost. We considered the valuation of merchandise and finished goods as a significant matter in our audit because significant judgements of management are involved in determining obsolescence of the merchandise and finished goods.

#### **How our audit addressed the Key Audit Matter**

We performed the following audit procedures for inventory valuation.

- Obtained and understood the accounting policy on inventory valuation of the Group and test its appropriateness.
- Obtained an understanding of and assessed the management's process and controls on estimation of inventory valuation and test the design and operating effectiveness of control and procedures.
- Recalculated the valuation provision on merchandise and finished goods provided by the Group.
- Tested selected samples for the accuracy and completeness of merchandise and finished goods' aging reports.
- Confirmed the accuracy of historical experience rate calculation used by the Group to estimate the provision for valuation due to obsolescence of the merchandise and finished goods.
- Confirmed the accuracy of components of merchandise and finished goods' net realizable value estimated by the Group; such as selling prices, incidental expenses and other.

#### **Other Matter**

Auditing standards and their application in practice vary among countries. The procedures and practices

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

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

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Youngsoon Kim, Certified Public Accountant.

The image shows the signature of Samil PricewaterhouseCoopers in a cursive, handwritten style.

Seoul, Korea  
March 12, 2020

This report is effective as at March 12, 2020, 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, 2019 and 2018**

<i>(in thousands of Korean won)</i>	Notes	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,6,7,35	₩ 673,580,375	₩ 735,510,638
Financial deposits	5,32	70,600,000	15,100,000
Financial assets at fair value through profit or loss	5,7,35	137,522,926	-
Financial assets at amortized costs	5,35	-	30,000,000
Trade receivables	5,7,33	365,884,446	286,688,932
Other receivables	5,7,33	32,485,368	31,274,766
Current tax assets		4,014,570	4,286,808
Other current assets	5,14	66,386,914	61,069,999
Inventories	8	452,589,072	403,304,776
		<u>1,803,063,670</u>	<u>1,567,235,920</u>
<b>Non-current assets</b>			
Financial deposits	5,32	16,425,521	14,828,005
Other receivables	5,7,33	145,164,887	168,382,200
Financial assets at fair value through profit or loss	5,7,35	4,118,832	3,955,641
Financial assets at amortized costs	5,35	2,131,335	3,092,380
Financial assets at fair value through other comprehensive income	5,7,35	1,113,546	2,689,834
Property, plant and equipment	10	2,661,841,508	2,713,128,203
Investment properties	12,35	493,010,505	501,437,479
Right-of-use assets	13,36	432,396,245	-
Intangible assets	11,36	226,517,106	254,114,866
Investments in associates	9	2,160,253	2,345,922
Net defined benefit assets	19	106,098,704	58,528,789
Deferred tax assets	24	72,704,996	57,526,496
Other non-current assets	14,36	22,260,681	23,871,481
		<u>4,185,944,120</u>	<u>3,803,901,298</u>
<b>Total assets</b>		<u>₩ 5,989,007,791</u>	<u>₩ 5,371,137,218</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5,33,34	₩ 172,459,191	₩ 111,832,729
Borrowings	5,15,33,34	99,346,553	71,453,273
Other payables	5,33,34	264,808,701	249,628,796
Current tax liabilities		67,399,351	62,967,164
Contract liabilities	17	50,058,558	56,177,685
Provisions	16	12,871,686	11,085,175
Current lease liabilities	12,33,34,36	197,591,534	-
Other current liabilities	5,18,34	202,031,862	200,067,107
		<u>1,066,567,436</u>	<u>763,211,930</u>
<b>Non-current liabilities</b>			
Borrowings	5,15,34	-	44,687,010
Net defined benefit liabilities	19	3,424,822	3,210,941
Deferred tax liabilities	24	101,731,472	78,768,880
Provisions	16	19,135,594	13,781,215
Non-current lease liabilities	12,33,34,36	267,922,153	-
Other non-current liabilities	5,18,34,36	31,385,509	21,060,160
		<u>423,599,550</u>	<u>161,508,206</u>
<b>Total liabilities</b>		<u>1,490,166,986</u>	<u>924,720,136</u>
<b>Equity</b>			
Share capital	1	34,508,160	34,508,160
Share premium		712,701,764	712,701,764
Capital surplus		10,807,414	7,770,057
Other components of equity	20	(117,631,781)	(17,624,267)
Accumulated other comprehensive income	21	(24,678,606)	(41,311,912)
Retained earnings	22	3,873,789,579	3,726,002,772
<b>Equity attributable to owners of the Parent Company</b>		<u>4,489,496,530</u>	<u>4,422,046,574</u>
<b>Non-controlling interest</b>		<u>9,344,274</u>	<u>24,370,508</u>
<b>Total equity</b>		<u>4,498,840,803</u>	<u>4,446,417,082</u>
<b>Total liabilities and equity</b>		<u>₩ 5,989,007,791</u>	<u>₩ 5,371,137,218</u>

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

**AMOREPACIFIC Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2019 and 2018**

<i>(in thousands of Korean won, except per share amounts)</i>	<b>Notes</b>	<b>2019</b>		<b>2018</b>	
<b>Revenue</b>	4,25,33	₩	5,580,142,193	₩	5,277,844,562
<b>Cost of sales</b>	26,33		<u>1,500,515,578</u>		<u>1,434,875,631</u>
<b>Gross profit</b>			4,079,626,615		3,842,968,931
<b>Selling and administrative expenses</b>	26,27		<u>3,651,792,018</u>		<u>3,360,988,103</u>
<b>Operating profit</b>			427,834,597		481,980,828
Finance income	5,28		14,739,081		12,690,124
Finance costs	5,28		19,976,729		2,686,932
Other non-operating losses, net	29		(51,693,122)		(39,028,128)
Share of net profit of associates	9		<u>(301,604)</u>		<u>30,814</u>
			<u>(57,232,374)</u>		<u>(28,994,122)</u>
Profit before income tax			370,602,223		452,986,706
Inc Proceeds from disposal of non-current assets held-for-sale	24		<u>146,841,193</u>		<u>118,142,143</u>
<b>Profit for the period</b>		₩	<u>223,761,030</u>	₩	<u>334,844,563</u>
<b>Profit is attributable to:</b>					
Owners of the Parent Company		₩	238,804,192	₩	332,195,459
Non-controlling interests		₩	(15,043,164)	₩	2,649,105
<b>Other comprehensive income</b>					
Items that will not be reclassified to profit or loss:					
Remeasurements of net defined benefit liabilities	19,24		(8,917,300)		21,500,150
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	21,24		(425,735)		1,646,094
Items that may be subsequently reclassified to profit or loss:					
Share of other comprehensive income of associates	9,21,24		18,984		(55,194)
Exchange differences on transaction of foreign operations	21,24		16,610,664		466,655
<b>Other comprehensive income for the period, net of tax</b>			<u>7,286,613</u>		<u>23,557,705</u>
<b>Total comprehensive income for the period</b>		₩	<u>231,047,643</u>	₩	<u>358,402,268</u>
<b>Total comprehensive income for the period is attributable to:</b>					
Owners of the Parent Company			246,323,874		355,628,394
Non-controlling interests			<u>(15,276,234)</u>		<u>2,773,876</u>
		₩	<u>231,047,640</u>	₩	<u>358,402,270</u>
<b>Earnings per share attributable to owners of the Parent Company</b>	30				
<b>Basic earnings per ordinary share</b>		₩	3,477	₩	4,815
<b>Basic earnings per preferred share</b>		₩	3,490	₩	4,820

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.



**AMOREPACIFIC Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2019 and 2018**

(In thousands of Korean won)

	Attributable to owners of the Parent Company									
	₩	₩	₩	₩	₩	₩	₩	₩	₩	₩
<b>Balance at January 1, 2018</b>	34,508,160	712,701,764	7,770,057	(17,624,267)	(40,076,476)	3,456,502,862	4,153,782,101	21,592,054	4,175,374,155	
<b>Changes in accounting policy</b>						979,482	979,482	4,578	984,060	
<b>Balance at January 1, 2018 (Adjusted)</b>	34,508,160	712,701,764	7,770,057	(17,624,266)	(40,076,476)	3,457,482,344	4,154,761,583	21,596,632	4,176,358,215	
<b>Comprehensive income</b>										
Profit for the period	-	-	-	-	-	332,195,459	332,195,459	2,649,105	334,844,564	
Remeasurements of net defined benefit liabilities	-	-	-	-	-	21,500,150	21,500,150	-	21,500,150	
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	1,633,445	-	1,633,445	12,649	1,646,094	
Gain (loss) on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	(3,168,222)	3,168,222	-	-	-	
Share of other comprehensive income of associates	-	-	-	-	(49,674)	-	(49,674)	(5,520)	(55,194)	
Exchange differences on transaction of foreign operations	-	-	-	-	349,014	-	349,014	117,841	466,655	
<b>Total comprehensive income for the period</b>	-	-	-	-	(1,235,437)	356,863,831	355,628,394	2,773,875	358,402,269	
<b>Transactions with owners</b>										
Dividends paid	-	-	-	-	-	(88,343,402)	(88,343,402)	-	(88,343,402)	
<b>Total transactions with owners</b>	-	-	-	-	-	(88,343,402)	(88,343,402)	-	(88,343,402)	
<b>Balance at December 31, 2018</b>	34,508,160	712,701,764	7,770,057	(17,624,266)	(41,311,913)	3,726,002,773	4,422,046,575	24,370,507	4,446,417,082	
<b>Balance at January 1, 2019</b>	34,508,160	712,701,764	7,770,057	(17,624,266)	(41,311,913)	3,726,002,772	4,422,046,574	24,370,508	4,446,417,082	
<b>Comprehensive income</b>										
Profit for the period	-	-	-	-	-	238,804,192	238,804,192	(15,043,164)	223,761,028	
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(8,917,300)	(8,917,300)	-	(8,917,300)	
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	(425,735)	-	(425,735)	-	(425,735)	
Share of other comprehensive income of associates	-	-	-	-	196,325	(196,325)	-	-	-	
Exchange differences on transaction of foreign operations	-	-	-	-	17,085	-	17,085	1,897	18,983	
<b>Total comprehensive income for the period</b>	-	-	-	-	16,845,633	-	16,845,633	(234,969)	16,610,664	
<b>Transactions with owners</b>										
Dividends paid	-	-	-	-	-	229,690,567	246,323,875	(15,276,236)	231,047,640	
Acquisition of treasury shares	-	-	-	-	-	(81,445,695)	(81,445,695)	-	(81,445,695)	
Changes in the scope of consolidation	-	-	-	(100,007,516)	-	-	(100,007,516)	-	(100,007,516)	
Capital increase by non-controlling shareholders	-	-	3,037,357	-	-	-	3,037,357	-	3,037,357	
Others	-	-	-	-	-	(458,065)	(458,065)	250,000	250,000	
<b>Total transactions with owners</b>	-	-	3,037,357	(100,007,516)	-	(81,903,760)	(178,873,919)	250,000	(458,065)	
<b>Balance at December 31, 2019</b>	34,508,160	712,701,764	10,807,414	(117,631,782)	(24,678,605)	3,873,788,579	4,489,496,530	9,344,272	4,498,840,803	

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

**AMOREPACIFIC Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

<i>(in thousands of Korean won)</i>	Notes	2019	2018
<b>Cash flows from operating activities</b>			
Cash generated from operations	31	₩ 857,524,383	₩ 791,112,222
Interest received		10,135,539	11,766,290
Interest paid		(18,049,090)	(1,903,403)
Income tax paid		(131,310,050)	(154,297,801)
<b>Net cash inflow from operating activities</b>		<u>718,300,781</u>	<u>646,677,307</u>
<b>Cash flows from investing activities</b>			
Net decrease in current financial deposits		-	17,569,000
Proceeds from disposal of current financial assets at amortized costs		30,511,000	-
Proceeds from disposal of financial assets at fair value through profit or loss		-	20,101,370
Decrease in other receivables		7,616,143	5,977,551
Decrease in non-current financial deposits		-	579,033
Proceeds from disposal of financial assets at amortized costs		973,000	1,435,365
Proceeds from disposal of financial assets at fair value through other comprehensive income	7	1,070,752	3,198,768
Proceeds from disposal of property, plant and equipment	10	27,798,931	1,698,472
Proceeds from disposal of intangible assets	11	2,517,073	1,056,370
Proceeds from disposal of investment properties	12	-	2,016,000
Proceeds from disposal of non-current assets held-for-sale		-	504,000
Dividens income from associates		-	107,494
Other cash inflow		5,110,503	15,256,414
Net increase in current financial deposits		(55,439,000)	(20,000,000)
Increase in financial assets at fair value through profit or loss		(136,299,644)	(4,877,583)
Increase in other receivables		(4,137,113)	(1,500,003)
Increase in non-current financial deposits		(1,500,003)	(337,180)
Payments in financial assets at amortized costs		(11,955)	(405,477,300)
Payments for property, plant and equipment	10	(246,549,724)	(51,225,490)
Payments for intangible assets	11	(34,863,960)	-
Increase in right-of-use assets	13	(29,400)	-
<b>Net cash outflow from investing activities</b>		<u>(403,233,397)</u>	<u>(413,917,719)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings	31	12,048,075	24,495,222
Capital increase by non-controlling shareholders		250,000	-
Repayments of short-term borrowings	31	(32,682,147)	(39,628,289)
Acquisition of treasury shares	1	(100,007,516)	-
Payments for lease liabilities	13,31	(185,628,640)	-
Dividends paid	23	(81,417,037)	(88,311,921)
<b>Net cash outflow from financing activities</b>		<u>(387,437,265)</u>	<u>(103,444,987)</u>
Effects of exchange rate changes on cash and cash equivalents		10,439,616	2,008,515
<b>Net increase(decrease) in cash and cash equivalents</b>		<u>(61,930,265)</u>	<u>131,323,116</u>
<b>Cash and cash equivalents at the beginning of the year</b>		<u>735,510,638</u>	<u>604,187,523</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>₩ 673,580,375</u>	<u>₩ 735,510,638</u>

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

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#### 1. General Information

General information of AMOREPACIFIC Corporation (referred to as “the Company”), which is the Parent Company in accordance with Korean IFRS 1110 Consolidated Financial Statements and its 27 subsidiaries (collectively referred to as “the Group”), is as follows.

##### 1.1 General Information

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

As at December 31, 2019, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office, twenty-five overseas local subsidiaries including AMOREPACIFIC Global Operations Limited., located in Hong Kong, and two domestic subsidiaries.

As at December 31, 2019, the Company’s share capital is ₩ 34,508 million, including ₩ 5,279 million of capital from preferred share. The Company is authorized to issue 275,000,000 shares of stock.

Preferred shareholders have no voting rights and are entitled to non-cumulative and non-participating preferred dividend at a rate of 1% over those provided to ordinary shareholders. This preferred dividend rate is not applicable to share dividend; accordingly, in calculating earnings per share for preferred shares, a different dividend rate is used.

The Parent Company’s ordinary shareholders as at December 31, 2019, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group, Inc.	20,831,004	36
Kyung-Bae Suh	6,264,450	11
Others <sup>1</sup>	31,363,036	53
	<u>58,458,490</u>	<u>100</u>

<sup>1</sup> Including 509,087(2018: 33,041) treasury shares (The Company acquired ₩ 100,008 million treasury shares for the purpose of improving shareholder value through stable stock prices during the current period)

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

#### 1.2 Consolidated Subsidiaries

The Group's consolidated subsidiaries as at December 31, 2019, are as follows:

Shareholder	Subsidiaries	Primary business	Share capital (in millions of Korean won)	Percentage of ownership(%)	Year end	Location
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited.	Holding company and marketing of cosmetics	₩ 201,910	90.00	Dec.31	Hong Kong
AMOREPACIFIC Corporation	AMORE Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	64,299	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Manufacturing and R&D of cosmetics	41,690	100.00	Dec.31	Malaysia
AMOREPACIFIC Corporation	We-Dream Co., Ltd.	Packaging of products and managing of facilities	406	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	Core Technology Corporation.	Manufacturing of industrial machinery	1,250	80.00	Dec.31	Korea
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Trading Co.,Ltd.	Sales of cosmetics	9,456	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Hong Kong Co., Limited	Sales of cosmetics	12	100.00	Dec.31	Hong Kong
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Taiwan Co.,Ltd.	Sales of cosmetics	13,414	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC SINGAPORE PTE Co Ltd.	Sales of cosmetics	25,861	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC MALAYSIA SDN. BHD.	Sales of cosmetics	9,415	100.00	Dec.31	Malaysia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC (Thailand) LIMITED	Sales of cosmetics	23,021	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Sales of cosmetics	8,584	2.29	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Vietnam LTD.	Sales of cosmetics	10,367	97.71	Dec.31	Vietnam
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC PHILIPPINES, INC.	Sales of cosmetics	3,633	100.00	Dec.31	Philippines
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC US, INC.	Sales of cosmetics	61,262	100.00	Dec.31	United States
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC CANADA INC.	Sales of cosmetics	2,497	100.00	Dec.31	Canada
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC EUROPE S.A.S	Manufacturing and sales of cosmetics	105,509	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	Annick Goutal S.A.S	Sales of cosmetics	28,617	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Japan Co.,Ltd.	Sales of cosmetics	33,105	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited.	Innisfree Cosmetics India Private Limited	Sales of cosmetics	9,351	100.00	Mar.31	India
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC ME FZ-LLC	Sales of cosmetics	2,767	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC AUSTRALIA PTY LTD	Sales of cosmetics	7,542	100.00	Dec.31	Australia
AMOREPACIFIC Global Operations Limited.	Amorepacific Russia LLC	Sales of cosmetics	202	100.00	Dec.31	Russia
AMOREPACIFIC Trading Co.,Ltd.	AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	Sales of cosmetics	170	100.00	Dec.31	China

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

#### 1.3 Summarized Financial Information of Subsidiaries

Summarized financial information for consolidated subsidiaries as at and for the years ended December 31, 2019 and 2018 is as follows:

2019 <i>(in millions of Korean won)</i>	Total assets	Total liabilities	Revenue	Profit (loss) for the period	Total comprehensive income(loss)
AMOREPACIFIC Global Operations Limited.	₩ 211,335	₩ 92,233	₩ 48,817	₩ (29,704)	₩ (23,791)
AMORE Cosmetics (Shanghai) Co.,Ltd.	298,533	40,856	176,982	40,129	43,374
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	4,743	423	5,785	433	496
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	33,260	24	-	(9,206)	(7,318)
We-Dream Co., Ltd.	1,038	213	2,528	262	140
Core Technology Corporation.	1,505	814	1,061	(559)	(559)
AMOREPACIFIC Trading Co.,Ltd.	670,199	573,933	1,322,681	(61,746)	(57,729)
AMOREPACIFIC Hong Kong Co.,Limited	116,133	86,899	142,582	937	2,666
AMOREPACIFIC Taiwan Co.,Ltd.	51,414	35,603	64,542	854	1,609
AMOREPACIFIC SINGAPORE PTE Co Ltd.	60,118	38,231	72,579	(2,117)	(1,002)
AMOREPACIFIC MALAYSIA SDN. BHD.	41,688	29,246	57,750	(243)	327
AMOREPACIFIC (Thailand) LIMITED	35,889	9,492	50,870	669	3,341
PT. LANEIGE INDONESIA PACIFIC	19,623	13,601	32,027	685	1,095
AMOREPACIFIC Vietnam LTD.	22,119	14,521	27,213	1,770	2,469
AMOREPACIFIC PHILIPPINES, INC.	7,221	1,975	5,221	1,225	1,387
AMOREPACIFIC US, INC.	95,496	123,738	80,074	(41,524)	(40,805)
AMOREPACIFIC CANADA INC.	15,957	13,388	12,883	(114)	86
AMOREPACIFIC EUROPE S.A.S	12,126	17,706	8,910	(3,552)	(3,827)
Annick Goutal S.A.S	12,263	20,319	13,027	(11,288)	(11,392)
AMOREPACIFIC Japan Co.,Ltd.	73,202	59,304	78,893	5,122	5,295
Innisfree Cosmetics India Private Limited	16,492	9,275	7,760	(19)	(97)
AMOREPACIFIC ME FZ-LLC	2,047	1,681	2,151	(796)	(766)
AMOREPACIFIC AUSTRALIA PTY LTD	29,052	25,928	11,237	(3,161)	(3,149)
Amorepacific Russia LLC	940	128	274	(244)	(236)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	2,867	2,677	5,371	38	40

  

2018 <i>(in millions of Korean won)</i>	Total assets	Total liabilities	Revenue	Profit (loss) for the period	Total comprehensive income(loss)
AMOREPACIFIC Global Operations Limited.	₩ 212,197	₩ 69,304	₩ 65,749	₩ (13,701)	₩ (7,673)
AMORE Cosmetics (Shanghai) Co.,Ltd.	288,379	74,076	182,452	38,442	36,617
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	4,003	179	5,131	392	364
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	40,630	76	-	121	989
We-Dream Co., Ltd.	853	168	1,560	118	137
Green Partners Corporation	785	5	-	(20)	(20)
AMOREPACIFIC Trading Co.,Ltd.	529,399	355,155	1,280,564	34,274	32,555
AMOREPACIFIC Hong Kong Co.,Limited	81,702	44,987	163,602	9,028	11,043
AMOREPACIFIC Taiwan Co.,Ltd.	32,570	18,368	57,454	992	1,232
AMOREPACIFIC SINGAPORE PTE Co Ltd.	45,233	22,344	70,814	(279)	220
AMOREPACIFIC MALAYSIA SDN. BHD.	29,534	17,419	49,232	(52)	210
AMOREPACIFIC (Thailand) LIMITED	27,870	8,452	47,215	1,508	2,360
PT. LANEIGE INDONESIA PACIFIC	15,217	10,291	22,813	225	88
AMOREPACIFIC Vietnam LTD.	10,207	5,079	17,075	1,534	1,620
AMOREPACIFIC PHILIPPINES, INC.	2,285	961	750	211	226
AMOREPACIFIC US, INC.	45,486	32,923	58,582	(6,819)	(7,027)
AMOREPACIFIC CANADA INC.	5,238	2,755	8,951	(153)	(251)
AMOREPACIFIC EUROPE S.A.S	27,560	35,890	14,406	(6,744)	(6,984)
Annick Goutal S.A.S	19,371	23,979	14,559	(2,692)	(2,529)
AMOREPACIFIC Japan Co.,Ltd.	34,050	25,447	49,488	4,428	4,689
Innisfree Cosmetics India Private Limited	6,250	3,479	6,541	686	594
AMOREPACIFIC ME FZ-LLC	1,146	827	4,457	(917)	(898)
AMOREPACIFIC AUSTRALIA PTY LTD	3,780	2,051	2,793	(1,103)	(1,268)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	277	127	145	(13)	(20)

The amounts presented above are before the elimination of intercompany transactions. In addition, the amounts presented above reflect accounting adjustments that were different from the Parent Company.

**AMOREPACIFIC Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**1.4 Changes in Scope for consolidation**

Subsidiaries newly included in the consolidation for the year ended December 31, 2019, are as follows:

<b>Subsidiary</b>	<b>Reason</b>
Core Technology Corporation	Newly established by the the Group with the contribution of 80%.
Amorepacific Russia LLC	Newly established by AMOREPACIFIC Group, Inc. the Parent company, with the contribution of 100%.

Subsidiary excluded from the consolidation for the year ended December 31, 2019, is as follows:

<b>Subsidiary</b>	<b>Reason</b>
Green Partners Corporation	Excluded from the consolidation due to disposal of the contribution of 100%

**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 years 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 International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate 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 separate financial statements.

The separate financial statements of the Group 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 financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value
- Assets held for sale – measured at fair value less costs to sell, and

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2019 and 2018

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- Defined benefit pension plans – plan assets measured at fair value.

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in 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 separate financial statements are disclosed in Note 3.

#### 2.2 Changes in Accounting Policies and Disclosures

##### *(a) New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019.

- Enactment of Korean IFRS 1116 *Leases*

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

With implementation of Korean IFRS 1116 *Lease*, the Group has changed accounting policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard, and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The Group has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 36

- Amendment to Korean IFRS 1109 *Financial Instruments – Prepayment Features with Negative Compensation*

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. The amendment does not have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1019 *Employee Benefits – Amendment, Curtailment or Settlement of the Plan*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendment does not have a significant impact on the consolidated financial statements.

## **AMOREPACIFIC Corporation and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

#### **December 31, 2019 and 2018**

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- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. The amendments also clarify that Korean IFRS 1109 requirements are applied to long-term interests that form part of the entity's net investment in an associate or joint venture before applying the impairment requirements of Korean IFRS 1028. The amendment does not have a significant impact on the consolidated financial statements.

- Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. The enactment does not have a significant impact on the consolidated financial statements.

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

- Amendments to Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. The amendment does not have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. The amendment does not have a significant impact on the consolidated financial statements.

- Amendments to Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendment does not have a significant impact on the consolidated financial statements.

- Korean IFRS 1023 *Borrowing Costs*



# AMOREPACIFIC Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

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The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. The amendment does not have a significant impact on the consolidated financial statements.

#### *(b) New standards and interpretations not yet adopted by the Group*

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2019 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1001 *Presentation of Financial Statements* and Korean IFRS 1008 *Accounting policies, changes in accounting estimates and errors – Definition of Material*

The amendments clarify the explanation of the definition of material and amended Korean IFRS 1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1103 *Business Combination – Definition of a Business*

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

### **2.3 Consolidation**

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 *Consolidated Financial Statements*.

#### *(a) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

# **AMOREPACIFIC Corporation and Subsidiaries**

## **Notes to the Consolidated Financial Statements**

### **December 31, 2019 and 2018**

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The consideration transferred is measured at the fair values of the assets transferred, and 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 in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Any difference between the amount of the adjustment of non-controlling interest and fair value of consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the changed in carrying amount recognized in profit or loss.

#### *(b) Associates*

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

## **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 each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

### *(b) Transactions and balances*

# **AMOREPACIFIC Corporation and Subsidiaries**

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

Translation differences on non-monetary assets and liabilities carried at fair value are reported as part of the fair value gain or loss; thus translation differences from financial instruments at fair value through profit and loss are recognized in profit or loss, while translation differences from financial instruments at fair value through other comprehensive income are recognized 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 statement of profit or loss are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

When the Group ceases to control the subsidiary, exchange differences that were recorded in equity are reclassified in the statement of profit or loss 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 Financial Assets**

### *(a) Classification*

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

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

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

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

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

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

#### *(b) Measurement*

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

#### *A. Debt instruments*

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or costs' in the year in which it arises.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Changes in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

#### *B. Equity instruments*

## **AMOREPACIFIC Corporation and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

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The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'other income' when the right to receive dividend payments is established.

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

#### *(c) Impairment*

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

#### *(d) Recognition and Derecognition*

Regular purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as "borrowings" in the statement of financial position.

#### *(e) Offsetting of financial instruments*

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

### **2.6 Trade Receivables**

Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

### **2.7 Inventories**

# AMOREPACIFIC Corporation and Subsidiaries

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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. The cost of materials in transit is determined using specific identification method.

#### 2.8 Non-current Assets (or Disposal Group) Held-for-sale

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

#### 2.9 Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	<b>Useful life</b>
Buildings	10 - 60 years
Structures	10 - 20 years
Machinery	5 - 20 years
Vehicles	6 years
Tools	3 years
Fixtures and furniture	2 - 5 years
Others	10 years

The assets' depreciation method, residual values and useful lives are reviewed at the end of each reporting period, and are adjusted if appropriate.

#### 2.10 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

#### 2.11 Government Grants

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

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Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

#### 2.12 Intangible Assets

Goodwill is measured as explained in Note 2.3.(a) and carried at its cost less accumulated impairment losses.

Intangible assets, except for goodwill, are initially recognized at its historical cost and carried at cost less accumulated amortization and accumulated impairment losses.

Software development costs that are internally generated by the Group are sum of expenses that incurred once after the asset recognition are met. Such criteria includes technical feasibility, probable future economic benefits and other. Membership rights have an indefinite useful life, therefore are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	<b>Useful life</b>
Industrial property	5 - 20 years
Software	5 - 10 years
Others	2 - 45 years

#### 2.13 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is initially measured at its cost, and after the initial measurement, it is measured at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment property, except for land, using the straight-line method over their estimated useful lives of 10-60 years.

#### 2.14 Impairment of Non-financial Assets

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

#### 2.15 Trade and Other Payables

These amounts represent unpaid liabilities for goods and services provided to the Group prior to the end of reporting period. The amounts are unsecured and are usually paid within 30 days of

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recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

#### **2.16 Financial Liabilities**

##### *(a) Classification and measurement*

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

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

Preferred shares that require mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares using the effective interest method are recognized in the statement of profit or loss as 'finance costs', together with interest expenses recognized from other financial liabilities.

##### *(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished; when the obligation specified in the contract is discharged, cancelled or expired, or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

#### **2.17 Provisions**

Provisions for service warranties, make good obligation, and legal claims 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 can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

#### **2.18 Current and Deferred Tax**

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, 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, respectively.



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The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, 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 income tax is not accounted for if it arises 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 profit nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

#### **2.19 Employee Benefits**

##### *(a) Post-employment benefits*

The Group operates both defined contribution and defined benefit pension plans. For defined contribution plans, the Group pays fixed amount of contribution to publicly or privately administered pension insurance plans, and the contribution is recognized employee benefit expense as employees provide services. A defined benefit plan is a pension plan that is not a defined contribution plan.

Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. 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. 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

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by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

*(b) Other long-term employee benefits*

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

**2.20 Revenue Recognition**

*(a) Identifying performance obligations*

The Group manufactures and sells cosmetics and personal care goods. As the Group separates contracts to recognize revenue from service rendered, apart from sales of goods or products, identifying performance obligation does not have a material impact on the consolidated financial statements.

*(b) Variable consideration*

The Group provides promotional incentives to enhance customer's revenue and allows sales returns, which may cause variability in consideration received or receivable from the customers.

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

*(c) Allocating consideration received*

The Group operates a customer loyalty program granting loyalty points and where members can redeem the points on future purchases. The customers' option is identified as a separate performance obligation.

The Group allocates the fair value of the consideration received or receivable in respect of revenues between the award credits and the sales of goods, based on the relative stand-alone

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selling prices of each distinct goods.

#### **2.21 Lease**

The Group leases various retail stores, offices and cars. Lease contracts are typically made for fixed periods of 1 to 40 years, but may have extension options as described in (b) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Group (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group (the lessee) exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

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- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases of equipment and vehicles and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

#### *(a) Variable lease payments*

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100 per cent of lease payments are on the basis of variable payment terms and, when determining lease payments, percentages ranges applied to sale is widespread. Variable payment terms are used for a variety of reasons, including minimizing the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

#### *(b) Extension and termination options*

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Group reassess it will be (or not) to exercise extended options when there are significant events of significant changes in the circumstances that are within the control of the lessee and affects the calculation of the lease term.

#### *(c) Residual value guarantees*

To optimize lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases.

The Group recognizes the amount expected to be paid as a part of lease liabilities according to residual value guarantee at initial recognition. The amounts are reviewed at the end of each reporting period and adjusted if appropriate.

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#### **2.22 Segment Reporting**

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the representative director that makes strategic decisions.

#### **2.23 Approval of Issuance of the Financial Statements**

The consolidated financial statements 2019 were approved for issue by the Board of Directors on February, 5 2020 and are subject to change with the approval of shareholders at their Annual General Meeting.

### **3. Critical Accounting Estimates and Assumptions**

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will be, by definition, seldom equal to the related actual results. 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 discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

#### *(a) Estimated goodwill impairment*

The recoverable amount of a cash generating unit (CGU), which is used to test impairment of goodwill, is determined based on value-in-use calculations (Note 11).

#### *(b) Income taxes*

The Group's taxable income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions; hence, there is uncertainty in calculating the final tax effect (Note 24).

If certain portion of the taxable income is not used for investments or increase in wages or dividends, the Group is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by these tax effects. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

#### *(c) Provisions*

As described in Note 16, the Group recognizes provisions for estimated returns, profit-sharing and bonuses, estimated short-term payroll expenses related with accumulated paid leave and estimated

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other long-term payroll expenses as at the reporting date. The amounts are estimated based on past experience.

#### *(d) Customer loyalty programs*

Regarding the estimation of consideration receivable to allocate to award credits from customer loyalty programs, the Group uses fair value of goods to be provided, and takes account of rates and timing of redemption based on historical data.

#### *(e) Fair value of financial instruments*

The fair value of financial instruments that are not traded in active market is determined principally by using valuation techniques. The Group uses its judgment in selecting a variety of methods and making assumptions based on important market conditions existing at the end of each reporting period (Note 35).

#### *(f) Impairment of financial assets*

The provision for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

#### *(g) Net defined benefit liability (asset)*

The present value of net defined benefit liability (asset) depends on a number of factors that are determined on an actuarial basis using a number of assumptions, especially the change in discount rate (Note 19).

#### *(h) Lease*

In determining the lease term, management considers all facts and circumstances that cause an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability,

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because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

**4. Segment Information**

Management determines the operating segments based on the information reviewed by the chief operating decision-maker who formulates the management strategy. Chief operating decision-maker reviews the business from perspective of products of each segment.

The main products of each business division as at December 31, 2019 are as follows:

<b>Divisions</b>	<b>Products</b>
Cosmetics	Skin care, other beauty products, and others
DB(Daily Beauty) & Sulloc	Personal care goods, green tea, and others

The segment information for revenue and operating profit for the years ended December 31, 2019 and 2018 is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
	<b>Revenue</b>	<b>Operating profit(loss)</b>	<b>Revenue</b>	<b>Operating profit(loss)</b>
Cosmetics	₩ 4,996,276	₩ 412,086	₩ 4,735,051	₩ 484,558
DB(Daily Beauty) & Sulloc <sup>1</sup>	583,866	15,749	542,794	(2,577)
	<u>₩ 5,580,142</u>	<u>₩ 427,835</u>	<u>₩ 5,277,845</u>	<u>₩ 481,981</u>

<sup>1</sup> Sales and operating profit and loss before sale to Osulloc are included.

External revenues by geographic areas for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Korea	₩	3,360,392	₩	3,167,269
Asia		2,092,008		2,003,722
North America		93,570		71,930
Others		34,172		34,924
	<u>₩</u>	<u>5,580,142</u>	<u>₩</u>	<u>5,277,845</u>

There is no external customer attributing to more than 10% of total revenues for the years ended December 31, 2019 and 2018.

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**5. Financial Instruments by Category**

Categorizations of financial instruments as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Financial assets at amortized cost	Cash and cash equivalents	₩ 603,223	₩ 656,946
	Current financial deposits	32,500	15,100
	Non-current financial deposits	4,426	14,828
	Current financial assets at amortized costs <sup>1</sup>	-	30,000
	Non-current financial assets at amortized costs <sup>2</sup>	2,131	3,092
	Trade receivables	365,884	286,689
	Current other receivables	32,485	31,275
	Non-current other receivables	145,165	168,382
	Other current assets <sup>3</sup>	411	563
	Financial assets at fair value through other comprehensive income	Non-current financial assets at fair value through other comprehensive income <sup>4</sup>	1,114
Financial assets at fair value through profit or loss	Cash and cash equivalents <sup>5</sup>	70,357	78,564
	Current financial deposits <sup>5</sup>	38,100	-
	Current financial assets at fair value through profit or loss <sup>5</sup>	137,523	-
	Non-current financial deposits <sup>6</sup>	12,000	-
	Non-current financial assets at fair value through profit or loss <sup>5</sup>	4,119	3,956
		<u>₩ 1,449,438</u>	<u>₩ 1,292,085</u>
Financial liabilities at amortized cost	Trade payables	₩ 172,459	₩ 111,833
	Short-term borrowings including current long-term borrowings	99,347	71,453
	Long-term borrowings	-	44,687
	Other payables	264,809	249,629
	Other current liabilities <sup>7</sup>	144,700	139,990
	Other non-current liabilities <sup>8</sup>	31,290	20,807
		<u>₩ 712,605</u>	<u>₩ 638,399</u>

<sup>1</sup> Asset backed securities (Note 7).

<sup>2</sup> Government bonds (Note 7).

<sup>3</sup> Other current assets represent accrued income (Note 14).

<sup>4</sup> Equity instruments such as listed shares (Note 7).

<sup>5</sup> Beneficiary certificates (Note 7).

<sup>6</sup> Variable annuities insurance (Note 7).

<sup>7</sup> Other current liabilities are comprised of dividend payables, accrued expenses and refund liabilities (Note 18).

<sup>8</sup> Other non-current liabilities are comprised of deposits received, finance guarantee liabilities and accrued expenses (Note 18).



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Net gains or losses on each category of financial instruments for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Financial assets at fair value through profit or loss				
Gain on valuation (Profit or loss)	₩	1,825	₩	(352)
Gain on disposal (Profit or loss)		-		101
Interest income <sup>1</sup>		718		7,571
Financial assets at fair value through other comprehensive income				
Gain on valuation (Other comprehensive income)		(580)		490
Reclassified gain on valuation to equity (Other comprehensive income)		154		1,143
Dividend income		39		39
Financial assets at amortized cost				
Interest income <sup>1</sup>		12,018		5,018
Gain on foreign currency translation		4,877		6,672
Bad debt expenses		172		(6,648)
Financial liabilities at amortized cost				
Interest expense <sup>1</sup>		(2,739)		(2,335)
Gain(loss) on foreign currency translation		(2,092)		(4,002)

<sup>1</sup> Interest income and expenses applied by IFRS 16 leases are excluded.

**6. Cash and Cash Equivalents**

Cash and cash equivalents as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Cash on hand	₩	295	₩	289
Ordinary deposits		213,554		192,456
Checking accounts		65,828		58,613
Other accounts		393,903		484,153
	₩	673,580	₩	735,511

Cash and cash equivalents include bank deposits with maturity of three months or less since the date of acquisition.

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**7. Financial assets**

7.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

	2019		2018	
	Current	Non-current	Current	Non-current
Cash and cash equivalents:				
Beneficiary certificates	₩ 70,357	₩ -	₩ 78,565	₩ -
Financial deposits:				
Beneficiary certificates	38,100	-	-	-
Variable annuities insurance	-	12,000	-	-
Financial assets at fair value through profit or loss:				
Beneficiary certificates	137,523	4,119	-	3,956
	₩ 245,980	₩ 16,119	₩ 78,565	₩ 3,956

7.2 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income as at December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

	2019	2018
Equity instruments:		
Listed equity securities		
Meritz Securities Co., Ltd.	₩ -	₩ 832
GL Pharm Tech Corporation	387	1,275
Unlisted equity securities		
Welskin Co., Ltd.	48	48
The Korea Economic Daily	81	81
ELANDRETAIL Ltd.	-	3
Biogenics Inc.	598	451
	₩ 1,114	₩ 2,690

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

Changes in financial assets at fair value through other comprehensive income for the year ended December 31, 2019 and 2018, are as follows:

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<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
<b>Beginning balance</b>	₩	2,689	₩	4,948
Disposals <sup>1</sup>		(1,069)		(3,198)
Gain on valuation		(506)		940
<b>Ending balance</b>	₩	1,114	₩	2,690

<sup>1</sup> The cumulative gain (loss) on valuation amounting to ₩ (197) million (2018: ₩ 3,169 million) was reclassified from other comprehensive income to equity on disposal of instruments.

The maximum exposure to credit risk of debt instruments categorized as financial assets at fair value through other comprehensive income at the reporting date is the carrying value.

There are no financial assets at fair value through other comprehensive income that are past due or impaired.

### 7.3 Trade and other receivables

Trade receivables and its provisions for impairment as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Trade receivables	₩	368,160	₩	289,404
Less: provision for impairment of trade receivables		(2,276)		(2,715)
Trade receivables, net	₩	365,884	₩	286,689

Other receivables and its provisions for impairment as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Non-trade receivables	₩ 22,037	₩ -	₩ 31,748	₩ -
Financial lease receivables	2,546	3,747	-	-
Loans	3	22,459	4	27,529
Deposits provided	-	95,561	-	140,853
Deposits provided - lease	8,376	23,398	-	-
Less: provision for impairment of other receivables	(477)	-	(477)	-
	₩ 32,485	₩ 145,165	₩ 31,275	₩ 168,382

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Other financial assets at amortized cost and its provisions for impairment as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Current	Non-current	Current	Non-current
Current financial deposits	₩ 32,500	₩ -	₩ 15,100	₩ -
Non-current financial deposits	-	4,426	-	14,828
Asset backed securities	-	-	30,000	-
Government bonds	-	2,131	-	3,092
Accrued income	411	-	563	-
Less: provision for impairment of other financial assets at amortized cost	-	-	-	-
	<u>₩ 32,911</u>	<u>₩ 6,557</u>	<u>₩ 45,663</u>	<u>₩ 17,920</u>

Movements on the provision for impairment of trade receivables for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Beginning balance	₩ 2,715	₩ 3,648
Impairment loss(reversal)	(172)	2,848
Receivables written off	(317)	(3,639)
Exchange differences	50	(142)
Ending balance	<u>₩ 2,276</u>	<u>₩ 2,715</u>

Provision for impaired receivables and unused amounts reversed are included in 'selling and administrative expenses (Note 27)' in the statement of profit or loss. When there is no possibility of recovering additional cash, impairment provision is generally written off.

The Group's trade and other receivables are spread to a great number of customers, so there is no concentration of important credit risk. The maximum exposure of trade and other receivables to credit risk at the end of reporting period is the carrying amount of each class of receivables mentioned above.

**8. Inventories**

Inventories as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Merchandise and Finished goods	₩ 334,925	₩ 276,277
Raw materials	41,313	32,270
Subsidiary materials	25,220	23,788
Others	51,131	70,970
	<u>₩ 452,589</u>	<u>₩ 403,305</u>

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The amount of inventories recognized as an expense during the year ended December 31, 2019 amounts to ₩ 1,217,795 million (2018: ₩ 1,187,036 million).

Loss on valuation of inventories and loss on disposal of inventories for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Loss on valuation/disposal of inventories	₩ 44,647	₩ 48,049

**9. Associates**

Detail of associate as at December 31, 2019 and 2018 is as follows:

<i>(in millions of Korean won)</i>	Percentage of ownership (%)	<u>2019</u>			<u>2018</u>		
		Acquisition cost	Carrying amount	Net asset amount	Acquisition cost	Carrying amount	Net asset amount
Taiwan AMORE Co.,Ltd.	50.0	₩ 131	₩ 2,160	₩ 2,160	₩ 131	₩ 2,346	₩ 2,346

Changes in investments in associate for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>Taiwan AMORE Co.,Ltd.</u>			
	<u>2019</u>		<u>2018</u>	
Beginning balance	₩	2,346	₩	2,381
Share of profit or loss of associates		(301)		31
Share of other comprehensive income of associates		19		(55)
Dividends received		-		(107)
Exchange differences		96		96
Ending balance	₩	2,160	₩	2,346

Summary of financial information of associate as at and for the years ended December 31, 2019 and 2018 is as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>				
	Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co.,Ltd.	₩ 4,940	₩ 620	₩ 4,663	₩ (603)	₩ (372)

  

<i>(in millions of Korean won)</i>	<u>2018</u>				
	Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co.,Ltd.	₩ 5,592	₩ 900	₩ 5,149	₩ 62	₩ (48)

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**10. Property, Plant and Equipment**

Details of property, plant and equipment as at December 31, 2019 and 2018 are as follows:

(in millions of Korean won)	2019			2018		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Land	₩ 853,556	₩ -	₩ 853,556	₩ 835,361	₩ -	₩ 835,361
Buildings	1,357,773	(222,103)	1,135,670	1,288,677	(184,845)	1,103,832
Structures	71,139	(27,158)	43,981	57,202	(23,266)	33,936
Machinery	522,959	(243,539)	279,420	530,617	(210,802)	319,815
Vehicles	2,114	(1,633)	481	2,063	(1,569)	493
Tools	145,473	(119,260)	26,213	164,075	(136,714)	27,361
Fixtures and furniture	860,701	(571,921)	288,780	859,230	(564,627)	294,603
Others	917	(500)	417	1,516	(1,106)	410
Construction in progress	33,324	-	33,324	97,317	-	97,317
	₩ 3,847,956	₩ (1,186,114)	₩ 2,661,842	₩ 3,836,058	₩ (1,122,930)	₩ 2,713,128

Changes in property, plant and equipment for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)	2019								
	Beginning balance	Acquisition	Reclassification	Disposal	Impairment loss	Depreciation	Others <sup>1</sup>	Exchange differences	Ending balance
Land	₩ 835,361	₩ 1,851	₩ 18,159	₩ (2,778)	₩ -	₩ -	₩ -	₩ 1,183	₩ 853,556
Buildings	1,103,832	4,484	73,882	(8,109)	-	(37,814)	(2,980)	2,375	1,135,670
Structures	33,936	7,127	8,323	(520)	-	(5,084)	-	179	43,981
Machinery	319,815	11,853	(10,297)	(983)	-	(41,524)	-	556	279,420
Vehicles	493	178	-	-	-	(190)	-	-	481
Tools	27,361	14,584	339	(132)	-	(18,014)	-	95	26,213
Fixtures and furniture	294,603	129,020	24,875	(8,572)	(17,857)	(137,005)	-	3,716	288,780
Other	410	24	-	(42)	-	(299)	-	324	417
Construction in progress	97,317	61,118	(120,554)	(4,723)	-	-	-	166	33,324
	₩ 2,713,128	₩ 230,019	₩ (5,273)	₩ (25,859)	₩ (17,857)	₩ (237,910)	₩ (2,980)	₩ 8,574	₩ 2,661,842

<sup>1</sup>Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 2,980 million on building.

(in millions of Korean won)	2018							
	Beginning balance	Acquisition	Reclassification	Disposal	Depreciation	Others <sup>1</sup>	Exchange differences	Ending balance
Land	₩ 775,135	₩ -	₩ 87,805	₩ (1,584)	₩ -	₩ (8,578)	₩ 583	₩ 835,361
Buildings	1,070,523	9,849	72,864	(11,317)	(34,424)	(2,317)	(1,146)	1,103,832
Structures	31,802	2,098	3,961	(131)	(3,889)	-	95	33,936
Machinery	255,016	30,087	73,082	(2,189)	(35,859)	-	(322)	319,815
Vehicles	747	-	-	(44)	(209)	-	-	493
Tools	27,530	14,547	2,193	-	(18,865)	-	(40)	27,361
Fixtures and furniture	298,843	116,121	15,652	(3,119)	(134,270)	-	1,376	294,603
Other	133	643	-	-	(383)	-	(3)	410
Construction in progress	153,843	140,428	(195,255)	(1,597)	-	-	99	97,317
	₩ 2,613,172	₩ 313,571	₩ 40,302	₩ (19,981)	₩ (225,883)	₩ (8,895)	₩ 642	₩ 2,713,128

<sup>1</sup>Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 6,578 million on land and to ₩ 2,317 million on building.

Allocation details of depreciation of property, plant and equipment are as following:

(in millions of Korean won)	2019	2018
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Selling and administrative expenses <sup>1</sup>	₩	163,180	₩	161,939
Cost of sales		74,730		63,744
	₩	237,910	₩	225,683

<sup>1</sup> The amount includes depreciation expense allocated to research and development expense.

In the segments of North America, Hong Kong and others among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 17,857 million on Property, Plant and Equipment, ₩ 6,442 million on Intangible assets, and ₩ 25,525 million on in-right-of use assets. The amount of loss is allocated to Property, Plant and Equipment and Intangible assets recognized in statement as there is no Goodwill allocated to Group's Cash Generating Units (CGUs). The recoverable amount is calculated based on its value in use and impairment loss is recognized as other non-operating losses. The discount rate used in calculating an asset's value in use is 9.7% and 11.4%, respectively. (Note 11, 13)

Details of property, plant and equipment provided as collaterals as at December 31, 2019 and 2018 are as follows:

2019					
<i>(in millions of Korean won)</i>	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land and buildings		₩ 1,249	Leasehold deposits received	₩ 961	National Pension Service
Land and buildings	₩ 19,731	303	Leasehold deposits received	253	Lotte Card Co., Ltd.
Land and buildings		151	Leasehold deposits received	116	National Human Rights Commission of Korea
Buildings	16,262	3,594	Leasehold deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings		718	Leasehold deposits received	718	Korea Workers' Compensation & Welfare Service
2018					
<i>(in millions of Korean won)</i>	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land and buildings		₩ 1,249	Leasehold deposits received	₩ 961	National Pension Service
Land and buildings		303	Leasehold deposits received	253	Lotte Card Co., Ltd.
Land and buildings	₩ 20,233	74	Leasehold deposits received	57	Samsung Life Insurance Co., Ltd.
Land and buildings		151	Leasehold deposits received	116	National Human Rights Commission of Korea
Buildings	16,814	3,594	Leasehold deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings		718	Leasehold deposits received	718	Korea Workers' Compensation & Welfare Service

## 11. Intangible Assets

Changes in intangible assets for the years ended December 31, 2019 and 2018 are as follows:

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<i>(in millions of Korean won)</i>	2019				
	Goodwill	Industrial property	Software	Others	Total
Beginning balance	₩ 22,310	₩ 25,636	₩ 121,165	₩ 85,004	₩ 254,115
Acquisition	401	3	15,004	19,455	34,863
Reclassification	-	6,611	39,737	(56,535)	(10,187)
Disposal	-	(360)	(316)	(3,208)	(3,884)
Amortization	(6,271)	-	(6,442)	(774)	(13,487)
Impairment loss	-	(3,216)	(31,484)	(1,488)	(36,188)
Exchange differences	826	38	282	139	1,285
Ending balance	₩ 17,266	₩ 28,712	₩ 137,946	₩ 42,593	₩ 226,517

  

<i>(in millions of Korean won)</i>	2018				
	Goodwill	Industrial property	Software	Others	Total
Beginning balance	₩ 24,921	₩ 21,173	₩ 121,346	₩ 72,295	₩ 239,735
Acquisition	-	-	11,091	40,134	51,225
Reclassification	-	7,265	16,233	(24,356)	(858)
Disposal	-	(57)	(4)	(1,120)	(1,181)
Amortization	-	(2,739)	(27,537)	(688)	(30,964)
Impairment loss	(3,113)	-	-	(1,202)	(4,315)
Exchange differences	502	(6)	36	(59)	473
Ending balance	₩ 22,310	₩ 25,636	₩ 121,165	₩ 85,004	₩ 254,115

Allocation details of amortization of intangible assets are as following:

	2019		2018	
Selling and administrative expenses <sup>1</sup>	₩	33,924	₩	29,507
Cost of sales		2,264		1,457
	₩	36,188	₩	30,964

<sup>1</sup> The amount includes amortization expense allocated to research and development expense.

The management of the Group allocates goodwill into cash-generating units (CGUs). Following is a summary of goodwill allocation for each operating segment:

<i>(in millions of Korean won)</i>	2019		2018	
Annick Goutal CGU	₩	-	₩	2,723
AMOREPACIFIC Hong Kong CGU		8,263		7,935
China CGU		4,030		3,957
Others' CGU		4,973		7,695
	₩	17,266	₩	22,310

The recoverable amounts of all CGUs have been determined based on value-in-use calculations, and the key assumptions used for value-in-use calculations in 2019 are as follows:



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	AMOREPACIFIC Hong Kong CGU	China CGU
Gross margin rate	85.7%	58.8%
Growth rate <sup>1</sup>	6.6%	7.5%
Pre-tax discount rate	10.0%	13.7%

<sup>1</sup> Weighted average revenue growth rate used to extrapolate cash flows for a five-year period is measured based on the past performance and the expectation for market development.

During 2019, as a result of impairment test for goodwill, impairment loss of ₩ 6,271 million was recognized because the carrying amount of Annick Goutal exceeded the recoverable amount.

**12. Investment Properties**

Details of investment property as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019			2018		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Land	₩ 238,715	₩ -	₩ 238,715	₩ 231,862	₩ -	₩ 231,862
Buildings	271,734	(20,087)	251,647	281,914	(12,338)	269,576
Structures	3,708	(1,059)	2,649	-	-	-
	<u>₩ 514,157</u>	<u>₩ (21,146)</u>	<u>₩ 493,011</u>	<u>₩ 513,775</u>	<u>₩ (12,338)</u>	<u>₩ 501,437</u>

Changes in investment property for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019			
	Land	Building	Structures	Total
Beginning balance	₩ 231,862	₩ 269,575	₩ -	₩ 501,437
Reclassification	12,371	(8,328)	3,363	7,406
Depreciation	-	(7,469)	(714)	(8,183)
Impairment loss	(5,572)	-	-	(5,572)
Disposal	-	-	-	-
Others <sup>1</sup>	-	(2,131)	-	(2,131)
Exchange differences	54	-	-	54
Ending balance	<u>₩ 238,715</u>	<u>₩ 251,647</u>	<u>₩ 2,649</u>	<u>₩ 493,011</u>

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	2018			
	Land	Building	Structures	Total
Beginning balance	₩ 239,183	₩ 320,827	₩ 35	₩ 560,045
Reclassification	-	(39,445)	-	(39,445)
Depreciation	-	(9,460)	(2)	(9,462)
Impairment loss	-	-	-	-
Disposal	(2,617)	(689)	(33)	(3,339)
Others <sup>1</sup>	(4,704)	(1,657)	-	(6,361)
Exchange differences	-	-	-	-
Ending balance	<u>₩ 231,862</u>	<u>₩ 269,576</u>	<u>₩ -</u>	<u>₩ 501,437</u>

<sup>1</sup> Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 2,131 million on building. (2018: ₩ 4,704 million on land and to ₩ 1,657 million on building)

The Group has contracts to provide operating leases for some of right-of-use assets and the carrying amount of the operating leases for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Cost	₩ 3,708	₩ -
Accumulated depreciation	(1,059)	-
Carrying amount	<u>₩ 2,649</u>	<u>₩ -</u>

The fair value of investment property as at December 31, 2019, is ₩ 527,180 million (2018: ₩ 536,892 million).

The amount recognized as income and expenses in relation to investment property are ₩ 30,917 million, (2018: ₩ 25,092 million) and ₩ 7,297 million (2018: ₩ 7,328 million) million respectively, for the year ended December 31, 2019.

### 13. Leases

The Group has irrevocable lease contracts for some property, plant and equipment and the lease term is 1 to 40 years. Changes in right-of-use assets for the year ended December 31, 2019 are as follows:

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<i>(in millions of Korean won)</i>	2019				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance <sup>1</sup>	₩ 15,266	₩ 395,959	₩ 2,506	₩ 1,552	₩ 415,283
Acquisition	-	275,784	-	1,140	276,924
Disposal	(69)	(38,621)	-	-	(38,690)
Reclassification	-	(3,363)	-	-	(3,363)
Impairment loss	-	(25,252)	-	-	(25,252)
Depreciation	(501)	(201,186)	(698)	(824)	(203,209)
Exchange differences	202	10,483	16	2	10,703
Ending balance	₩ 14,898	₩ 413,804	₩ 1,824	₩ 1,870	₩ 432,396

<sup>1</sup> The beginning balance is the amount recognized by applying Korean IFRS 1116 Leases (Note 36).

Allocation details of depreciation of right-of-use assets are as following:

<i>(in millions of Korean won)</i>	2019
Selling and administrative expenses	₩ 202,679
Cost of sales	530
	₩ 203,209

The total of future minimum lease payments to the lessor at the end of the reporting period are as follows:

<i>(in millions of Korean won)</i>	2019
Total minimum lease payments	
Within one year	₩ 205,050
Later than one year but not later than five years	254,306
Later than five years	42,987
	502,343
Unearned finance income	(36,829)
Net minimum lease payments	
Within one year	197,592
Later than one year but not later than five years	237,482
Later than five years	30,440
	₩ 465,514

As of December 31, 2019, the sum of the total minimum lease payments that is expected to be received by sub-lease is ₩ 6,899 million. The lease contracts has no options of lease renewal and buyout. There are no other restrictions on lease contracts related to dividends, additional debts and additional leases.

The consolidated statement of financial position shows the following amounts relating to leases:

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<i>(in millions of Korean won)</i>	<b>2019</b>	
Depreciation of right-of-use assets	₩	203,209
Interest expense relating to lease liabilities		17,238
Expense relating to short-term leases		62,269
Expense relating to leases of low-value assets that are not short-term leases		4,825
Expense relating to variable lease payments not included in lease liabilities		952,550

The total cash outflow of leases in 2019 is ₩ 1,222,511 million.

Details of financial lease receivables as at December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	
Financial lease receivables:		
Principal of the receivables:	₩	6,736
Deferred loan costs(gain)		(443)
Less: provision for impairment		-
Carrying amount		6,293
Terminated		-
		6,293

The total lease investment and the present value of minimum lease payments of the finance leases provided at the end of the reporting period are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>			
	Total lease investment		Present value of minimum lease payments	
Within one year	₩	2,592	₩	2,546
Later than one year but not later than five years		4,028		3,597
Later than five year		116		92
	₩	6,736	₩	6,235

The unearned interest income of the finance leases provided at the end of the reporting period is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	
Total lease investment	₩	6,736
Net lease investment		
Present value of minimum lease payments		6,235
Present value of unguaranteed residual value		58
		6,293
Unearned interest income		443

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**14. Other Assets**

Details of other assets as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 411	₩ -	₩ 563	₩ -
Advance payments	15,397	-	17,912	-
Prepaid expenses	42,011	22,261	35,203	23,871
Prepaid value added tax	6,459	-	6,783	-
Others	2,109	-	609	-
	₩ 66,387	₩ 22,261	₩ 61,070	₩ 23,871

**15. Borrowings**

Details of borrowings as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won, EUR, USD, JPY and HKD)</i>	Creditor	Interest rate (%) December 31, 2019	2019	2018
<b>Short-term borrowings</b>				
Bank overdrafts of EUR 477,277 (2018: EUR 485,629)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.50	₩ 619	₩ 621
Bank overdrafts EUR 5,857,564 (2018: EUR 5,742,476)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.50	7,600	7,346
Bank overdrafts of JPY 1,000,000,000 (2018: JPY 1,000,000,000)	Bank of Tokyo- Mitsubishi UFJ, Ltd. Azabu Branch	Tibor + 0.2	11,698	10,131
Bank overdrafts	Woori Bank	3.09	266	-
Loans for working capital of EUR 7,000,000 (2018: EUR 7,000,000)	Citibank N.A France	EURIBOR 1M + 1.05	9,082	8,954
Loans for working capital of HKD 70,000,000 (2018: HKD 110,000,000)	DBS HONG KONG	HIBOR 3M + 0.45	10,406	15,705
Loans for working capital of (2018: EUR 12,500,000)	KEB Hana Bank Paris Branch	0.95+ MAX (EURIBOR 3M, 0)	-	15,990
Loans for working capital of EUR 6,000,000 (2018: EUR 6,000,000)	Citibank N.A France	0.65%+ MAX (EURIBOR, 0)	7,785	7,675
Loans for working capital of HKD 313,000,000	CITI N.A HONG KONG	1.65	46,531	-
Other loans	Nara Technology Corporation	4.60	150	-
Loans from related parties USD 4,500,000 (2018: USD 4,500,000)	Innisfree Corporation	3.00	5,210	5,031
			99,347	71,453
<b>Long-term borrowings</b>				
Loans for working capital (2018: HKD 313,000,000)	CITI N.A HONG KONG	1.65	-	44,687
			-	44,687
			₩ 99,347	₩ 116,140

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**16. Provisions**

Changes of provisions for liabilities and charges for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)	2019								
	Current					Non-current			
	Refund liabilities	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total	
Beginning	₩ 3,771	₩ 5,784	-	₩ 1,530	₩ 11,085	₩ 7,822	₩ 6,159	₩ 13,781	
Increase	490	408	1,973	441	3,312	72	5,281	5,353	
Decrease	(1,640)	-	-	-	(1,640)	-	-	-	
Exchange differences	165	13	-	(83)	115	-	2	2	
Ending	₩ 2,786	₩ 6,205	₩ 1,973	₩ 1,908	₩ 12,872	₩ 7,894	₩ 11,442	₩ 19,138	

(in millions of Korean won)	2018								
	Current					Non-current			
	Refund liabilities	Profit-sharing and bonuses	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total
Beginning	₩ 3,778	₩ 2,879	₩ 4,377	₩ 2,632	₩ 1,665	₩ 15,331	₩ 4,105	₩ 901	₩ 5,006
Increase	-	803	1,409	-	-	2,212	3,517	5,242	8,759
Decrease	-	(17)	-	(2,632)	(125)	(2,774)	-	-	-
Transfer <sup>1</sup>	(3,778)	-	-	-	-	(3,778)	-	-	-
Exchange differences	-	106	(2)	-	(10)	94	-	16	16
Ending	₩ -	₩ 3,771	₩ 5,784	₩ -	₩ 1,530	₩ 11,085	₩ 7,822	₩ 6,159	₩ 13,781

<sup>1</sup> Refund liabilities was classified to other liabilities.

**17. Contract liabilities**

Changes in contract liabilities for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)	2019		
	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 39,160	₩ 17,018	₩ 56,178
Increase/decrease	(6,419)	300	(6,119)
Ending balance	₩ 32,741	₩ 17,318	₩ 50,059

(in millions of Korean won)	2018		
	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 51,839	₩ 12,122	₩ 63,961
Increase/decrease	(12,679)	4,896	(7,783)
Ending balance	₩ 39,160	₩ 17,018	₩ 56,178

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**18. Other Liabilities**

Details of other liabilities as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Current	Non-current	Current	Non-current
Withholdings	₩ 22,161	₩ -	₩ 11,078	₩ -
Value added tax withheld	24,581	-	41,002	-
Advances from customers	3,433	-	2,584	-
Deposits received	-	31,085	-	20,247
Accrued expenses	137,992	205	134,474	560
Finance lease liabilities	415	-	387	-
Dividends payable	6,293	-	5,129	-
Others	7,157	96	5,413	253
	<u>₩ 202,032</u>	<u>₩ 31,386</u>	<u>₩ 200,067</u>	<u>₩ 21,060</u>

**19. Retirement Benefits**

**19.1 Defined Benefit Plan**

Details of net defined benefit liabilities (assets) recognized in the statements of financial position as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Present value of funded defined benefit obligations	₩ 319,534	₩ 294,165
Present value of unfunded defined benefit obligations	3,424	3,211
	<u>322,958</u>	<u>297,376</u>
Fair value of plan assets <sup>1</sup>	<u>(425,632)</u>	<u>(352,694)</u>
Net defined benefit liabilities (assets)	<u>₩ (102,674)</u>	<u>₩ (55,318)</u>

<sup>1</sup> The contributions to the National Pension Fund of ₩ 102 million (2018: ₩ 127 million) are included in the fair value of plan assets as at December 31, 2019.

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Changes in the defined benefit obligations for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>		<u>2018</u>	
Beginning balance	₩	297,376	₩	288,263
Past service cost <sup>1</sup>		-		21,055
Current service cost		32,648		31,759
Interest expense		9,071		10,490
Remeasurements:				
Actuarial gain(loss) from changes in demographic assumptions		(2)		(2,511)
Actuarial gain(loss) from changes in financial assumptions		264		(49,759)
Actuarial gain(loss) from experience adjustments		7,175		16,139
Exchange differences		61		1
Payments from plans:				
Benefit payments		(21,956)		(18,898)
Transfer to associates		(1,679)		837
Ending balance	₩	<u>322,958</u>	₩	<u>297,376</u>

<sup>1</sup>The Group changed benefit plan for the year ended December 31, 2018 and recognized ₩ 21,055 million of past service cost as in profit of loss.

Changes in the fair value of plan assets for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>		<u>2018</u>	
Beginning balance	₩	352,694	₩	310,527
Interest income		10,614		12,331
Remeasurements:				
Return on plan assets		(4,443)		(7,079)
Contributions:				
Employers		90,300		55,070
Payments from plans:				
Benefit payments		(21,974)		(18,908)
Transfer to associates		(1,559)		753
Ending balance	₩	<u>425,632</u>	₩	<u>352,694</u>

The significant actuarial assumptions as at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.18~3.19%	3.2%
Salary growth rate	3.0%	3.0%



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The sensitivity analyses of the defined benefit obligations to changes in the principal assumptions are as follows:

	Impact on defined benefit obligation		
	Changes in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%P	7.31% decrease	8.35% increase
Salary growth rate	1.00%P	8.30% increase	7.40% decrease

The defined benefit liabilities are exposed to a significant risk on changes in corporate bond yields rate.

The above sensitivity analyses are performed under ceteris paribus assumption; however, in practice, changes in some of the assumptions may be interrelated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is measured using the projected unit credit method, the same method used to measure the defined benefit obligations recognized on the statement of financial position.

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

Plan assets as at December 31, 2019 and 2018 consist of:

<i>(in millions of Korean won)</i>	2019		2018	
	Unquoted price	Composition	Unquoted price	Composition
Deposits	₩ 425,530	99.98 %	₩ 352,566	99.96 %
National Pension Fund	102	0.02 %	128	0.04 %
	<u>425,632</u>	<u>100.00 %</u>	<u>₩ 352,694</u>	<u>100.00 %</u>

The weighted average maturity of the defined benefit obligation is 8.7 years and the expected maturity analysis of the undiscounted pension benefits for the next 10 years as at December 31, 2019, is as follows:

<i>(in millions of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
Pension benefits	₩ 23,550	₩ 53,784	₩ 85,017	₩ 185,425	₩ 347,776

The Group reviews the funding level on an annual basis and has a policy of covering loss if there is deficit in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2020, are ₩ 44,668 million.

**19.2 Defined Contribution Plan**

The expense recognized in the current period in relation to defined contribution plan was ₩ 454 million (2018: ₩ 428 million).

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**20. Other Components of Equity**

Other components of equity as at December 31, 2019 and 2018 consist of:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Treasury stock <sup>1</sup>	₩	(101,389)	₩	(1,381)
Other capital adjustments		(16,243)		(16,243)
	₩	<u>(117,632)</u>	₩	<u>(17,624)</u>

<sup>1</sup> The Group holds 509,087 ordinary shares and 6,216 preferred shares as treasury shares, and the Group intends to dispose of the remaining treasury shares depending on the market conditions within the range of not incurring or minimizing loss on disposal of treasury shares as possible (Note 1).

**21. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income as at December 31, 2019 and 2018 consists of the following:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Changes in financial assets at fair value through other comprehensive income	₩	32	₩	262
Exchange differences on transaction of foreign operations		(24,856)		(41,702)
Share of other comprehensive income of associates		145		128
	₩	<u>(24,679)</u>	₩	<u>(41,312)</u>

Changes in accumulated other comprehensive income for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>				
	Beginning balance	Increase (Decrease)	Reclassification to profit or loss	Reclassification to non-controlling interest	Ending Balance
Changes in financial assets at fair value through other comprehensive income	₩ 262	₩ (426)	₩ 196	₩ -	₩ 32
Exchange differences on transaction of foreign operations	(41,702)	16,811	-	235	(24,856)
Share of other comprehensive income of associates	128	19	-	(2)	145
	<u>₩ (41,312)</u>	<u>₩ 16,204</u>	<u>₩ 196</u>	<u>₩ 233</u>	<u>₩ (24,679)</u>

<i>(in millions of Korean won)</i>	<b>2018</b>				
	Beginning balance	Increase (Decrease)	Reclassification to profit or loss	Reclassification to non-controlling interest	Ending Balance
Changes in financial assets at fair value through other comprehensive income	₩ 1,797	₩ 1,646	₩ (3,168)	₩ (13)	₩ 262
Exchange differences on transaction of foreign operations	(42,051)	467	-	(118)	(41,702)
Share of other comprehensive income of associates	178	(55)	-	5	128
	<u>₩ (40,076)</u>	<u>₩ 2,058</u>	<u>₩ (3,168)</u>	<u>₩ (126)</u>	<u>₩ (41,312)</u>

Changes in financial assets at fair value through other comprehensive income are the amount deducted after tax effect.

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**22. Retained Earnings**

Retained earnings as at December 31, 2019 and 2018 consist of:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Legal reserves <sup>1</sup>	₩	18,306	₩	18,109
Discretionary reserves		2,109,000		2,109,000
Retained earnings before appropriation		1,746,484		1,598,894
	₩	3,873,790	₩	3,726,003

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

**23. Dividends**

The dividends paid in 2019 and 2018 are as follows:

	<b>2019</b>				<b>2018</b>			
	Ordinary shares		Preferred shares		Ordinary shares		Preferred shares	
Dividends paid	₩	68,942 million	₩	12,504 million	₩	74,785 million	₩	13,559 million
Dividends per share (in Korean won)		1,180		1,185		1,280		1,285

Dividends in respect of the year ended December 31, 2019, of ₩ 1,000 per ordinary share and ₩ 1,005 per preferred share, amounting to a total dividend of ₩ 57,949 million on ordinary shares and ₩ 10,604 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 20, 2020. The financial statements for the year ended December 31, 2019 do not reflect the dividend payable.

**24. Tax Expense and Deferred Tax**

Income tax expense for the years ended December 31, 2019 and 2018 consists of:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Current tax	₩	135,463	₩	145,214
Deferred tax		11,378		(27,072)
Income tax expense	₩	146,841	₩	118,142

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:

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<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Profit before income tax expense	₩	370,602	₩	452,987
Tax at domestic tax rates applicable to profits in the respective countries		91,913		113,263
Tax effects of:				
Income not subject to tax		(8,035)		(174)
Expenses not deductible for tax purposes		25,319		9,405
Changes in previously unrecognized deferred tax		32,096		1,152
Tax credits		(378)		(1,819)
Others		5,926		(3,685)
Income tax expense	₩	146,841	₩	118,142

The weighted average applicable tax rate of the Group was 39.62% (2018: 26.08%).

The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2019 and 2018 is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>			<b>2018</b>		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain(loss) on valuation of financial assets at fair value through other comprehensive income	₩ (506)	₩ 80	₩ (426)	₩ 940	₩ 706	₩ 1,646
Remeasurements	(11,880)	2,963	(8,917)	29,052	(7,552)	21,500
Share of other comprehensive income of associates	19	-	19	(55)	-	(55)
Exchange differences on transaction of foreign operations	16,611	-	16,611	467	-	467
	₩ 4,244	₩ 3,043	₩ 7,287	₩ 30,404	₩ (6,846)	₩ 23,558

The period analysis of deferred tax assets and liabilities as at December 31, 2019 and 2018 is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Deferred tax assets				
Deferred tax asset to be recovered after more than 12 months	₩	187,989	₩	123,077
Deferred tax asset to be recovered within 12 months		59,194		69,501
Deferred tax liabilities				
Deferred tax liability to be settled after more than 12 months		(274,487)		(210,865)
Deferred tax liability to be settled within 12 months		(1,722)		(2,954)
Deferred tax liabilities, net	₩	(29,026)	₩	(21,241)

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

<i>(in millions of Korean won)</i>	<b>2019</b>				
	Beginning balance	Statement of profit or loss	Other comprehensive income or loss	Exchange differences	Ending balance
Deferred tax assets(liabilities)					
Trade receivables	₩ 16,659	₩ (14,780)	₩ -	₩ 22	₩ 1,901
Inventories	11,879	1,985	-	-	13,864
Lease liabilities	-	51,832	-	(644)	51,188
Property, plant and equipment	(76,441)	4,522	-	116	(71,803)
Intangible assets	(4,446)	(83)	-	59	(4,470)
Financial assets at fair value through other comprehensive income	558	(32)	80	-	606
Investments in subsidiaries	1,974	(1,458)	-	-	516
Contracts liabilities	9,809	(2,225)	-	(7)	7,577
Retirement benefit obligations	66,373	1,849	1,862	(118)	69,966
Accrued expenses	33,525	(1,169)	-	637	32,993
Tax loss carryforwards	832	12,219	-	(141)	12,910
Plan assets	(91,629)	(17,039)	1,101	-	(107,567)
Right-of-use assets	-	(50,687)	-	622	(50,065)
Others	9,665	3,688	-	5	13,358
	<b>₩ (21,242)</b>	<b>₩ (11,378)</b>	<b>₩ 3,043</b>	<b>₩ 551</b>	<b>₩ (29,026)</b>

  

<i>(in millions of Korean won)</i>	<b>2018</b>				
	Beginning balance	Statement of profit or loss	Other comprehensive income or loss	Exchange differences	Ending balance
Deferred tax assets(liabilities)					
Trade receivables	12,283	4,377	-	(1)	16,659
Inventories	6,834	5,035	-	10	11,879
Property, plant and equipment	(81,305)	4,891	-	(27)	(76,441)
Intangible assets	(4,796)	335	-	15	(4,446)
Financial assets at fair value through other	(148)	-	706	-	558
Investments in subsidiaries	902	1,072	-	-	1,974
Contracts liabilities	13,252	(3,443)	-	-	9,809
Retirement benefit obligations	65,015	10,745	(9,387)	-	66,373
Accrued expenses	23,975	9,896	-	(346)	33,525
Tax loss carryforwards	(2)	820	-	14	832
Plan assets	(80,673)	(12,791)	1,835	-	(91,629)
Others	3,633	6,135	-	(103)	9,665
	<b>₩ (41,030)</b>	<b>₩ 27,072</b>	<b>₩ (6,846)</b>	<b>₩ (438)</b>	<b>₩ (21,242)</b>

Deferred tax assets are recognized for tax loss carryforwards 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 ₩ 265,926 million in respect of losses that can be carried forward against future taxable income.

The maturity of unused tax losses is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>
2020 ~ 2021	₩ 91
2022 ~ 2038	130,956
No limit	134,879
	<b>₩ 265,926</b>

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The temporary differences from the subsidiaries whose disposal is not in the foreseeable future unrecognized because of the uncertainty in realizability of the deferred tax assets (liabilities). The amount as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Taxable temporary differences	₩ (69,329)	₩ (151,233)
	₩ (69,329)	₩ (151,233)

**25. Revenue**

Revenue of the Group for the years ended December 31, 2019 and 2018 consists of the following:

<i>(in millions of Korean won)</i>	2019	2018
Sales of goods	₩ 5,493,134	₩ 5,206,285
Rendering of services	46,419	40,534
Others		
Rental income	37,583	27,772
Royalty income	154	277
Others	2,852	2,977
	40,589	31,026
	₩ 5,580,142	₩ 5,277,845

**26. Classification based on the nature of expenses**

Classification based on the nature of expenses for the years ended December 31, 2019 and 2018 is as follows:

<i>(in millions of Korean won)</i>	2019	2018
Changes in inventories	₩ (49,284)	₩ (28,546)
Purchase of raw materials and merchandise	1,267,079	1,215,582
Employee benefits expenses	779,003	744,279
Depreciation and amortization <sup>1</sup>	485,320	265,878
Advertising expense	652,241	592,663
Commission expense	511,969	548,373
Distribution commission	1,018,217	847,342
Other expenses	487,763	610,293
Total <sup>2</sup>	₩ 5,152,308	₩ 4,795,864

<sup>1</sup> Depreciation of investment properties and right-of-use assets is included.

<sup>2</sup> The amount represents sum of cost of sales and selling and administrative expenses in the statements of comprehensive income.

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**27. Selling and Administrative Expenses**

Details of selling and administrative expenses for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Salaries and retirement benefits	₩ 527,668	₩ 492,695
Employee benefits	107,184	96,731
Advertising expense	652,241	592,663
Depreciation and amortization <sup>1</sup>	407,793	192,242
Commission expense	446,045	486,774
Distribution commission	1,018,217	847,342
Freight expense	102,327	103,363
Taxes and dues	34,319	36,788
Research and development	96,391	95,559
Other	259,607	416,831
	<u>₩ 3,651,792</u>	<u>₩ 3,360,988</u>

<sup>1</sup> Depreciation of investment properties and right-of-use assets is included.

**28. Finance Income and Costs**

Details of financial income and costs for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
<b>Finance income</b>		
Interest income	₩ 12,914	₩ 12,589
Gain on disposal of financial assets at fair value through profit or loss	-	101
Gain of valuation of financial assets at fair value through profit or loss	1,825	
	<u>₩ 14,739</u>	<u>₩ 12,690</u>
<b>Finance costs</b>		
Interest expense of financial assets at amortized costs	₩ (2,739)	₩ (2,335)
Interest expense of others	(17,238)	-
Loss on valuation of financial assets at fair value through profit or loss	-	(352)
	<u>₩ (19,977)</u>	<u>₩ (2,687)</u>

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**29. Other Non-operating Gain (Loss)**

Details of other non-operating gain (loss) for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Other non-operating income		
Gain on foreign currency transactions	₩ 23,281	₩ 17,988
Gain on foreign currency translation	3,783	3,083
Gain on disposal of property, plant and equipment	414	1,199
Gain on disposal of intangible assets	1,432	524
Gain on disposal of right-of-use assets	340	-
Gain on disposal of Investment properties	-	58
Gain on disposal of Non-current assets held-for-sale	-	4,912
Dividend income	39	39
Others	49,399	9,964
	<u>78,688</u>	<u>37,767</u>
Other non-operating expenses		
Loss on foreign currency transactions	(17,536)	(14,994)
Loss on foreign currency translation	(6,743)	(3,407)
Loss on disposal of property, plant and equipment	(10,355)	(6,989)
Loss on disposal of intangible assets	(2,799)	(649)
Loss on disposal of right-of-use assets	(5,348)	-
Loss on disposal of investment properties	-	(877)
Impairment losses of property, plant and equipment	(17,857)	-
Impairment losses of intangible assets	(13,487)	(4,315)
Impairment losses of investment properties	(5,572)	-
Impairment losses of right-of-use assets	(25,252)	-
Donations	(13,542)	(11,278)
Others	(11,890)	(34,287)
	<u>(130,381)</u>	<u>(76,796)</u>
	<u>₩ (51,693)</u>	<u>₩ (39,028)</u>



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**30. Earnings per Share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares (Note 20).

Basic earnings per ordinary share for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Profit attributable to owners of the Parent Company	₩ 238,804	₩ 332,195
Profit attributable to ordinary shares	201,975	281,333
Weighted average number of ordinary shares outstanding (unit: shares)	58,082,955	58,425,449
Basic earnings per ordinary share (in Korean won)	₩ 3,477	₩ 4,815

Basic earnings per preferred share<sup>1</sup> for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Profit attributable to owners of the Parent Company	₩ 238,804	₩ 332,195
Profit attributable to preferred shares	36,829	50,862
Weighted average number of preferred shares outstanding (unit: shares)	10,551,614	10,551,616
Basic earnings per preferred share (in Korean won)	₩ 3,490	₩ 4,820

<sup>1</sup>Although there is no preferred right on the preferred share, it is considered as an ordinary share with a different dividend rate (annually 1% additional dividends) from other types of ordinary share; therefore, it is included in calculation of basic earnings per share.

The Group did not issue any potential ordinary shares; thus, basic earnings per share is identical to diluted earnings per share.

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**31. Cash flows Generated from Operations**

Details of cash flows generated from operations for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Profit for the period	₩	223,761	₩	334,845
Adjustments for:		795,172		484,333
Finance costs (income), net		7,063		(10,254)
Loss on foreign currency translation, net		2,960		324
Gain on foreign currency transactions, net		(913)		(669)
Depreciation and amortization <sup>1</sup>		485,492		266,106
Loss on disposal of property, plant and equipment and intangible assets		11,308		5,915
Loss on disposal of right-of-use assets		5,008		-
Loss on disposal of Investment properties		-		819
Gain on disposal of Non-current assets held-for-sale		-		(4,912)
Impairment loss of property, plant and equipment and intangible assets		31,344		4,315
Impairment loss of Investment properties		5,572		-
Impairment loss of right-of-use assets		25,252		-
Gain on disposal of financial assets at fair value through profit or loss		-		(101)
Gain on valuation of financial assets at fair value through profit or loss		(1,825)		-
Loss on valuation of financial assets at fair value through profit or loss		-		352
Income tax expense		146,841		118,142
Share of profit of associates		301		(31)
Retirement benefits		31,105		50,973
Loss on disposal and valuation of inventories		44,647		48,049
Others		1,017		5,305
Changes in assets and liabilities from operating activities		(161,409)		(28,066)
Decrease (increase) in trade receivables		(83,039)		36,773
Decrease in other receivables		14,895		27,953
Increase in inventories		(93,931)		(76,595)
Increase in other assets		(19,216)		(4,857)
Increase (decrease) in trade payables		62,148		(19,967)
Increase in other payables		35,364		35,796
Decrease in Contract liabilities		(6,119)		(7,783)
Increase in provisions		7,140		3,493
Increase in other liabilities		11,751		32,097
Retirement benefits payment		(21,956)		(18,898)
Net transfer-in (transfer-out) of post-employment benefits of associates		(1,679)		837
Increase in plan assets, net		(66,767)		(36,915)
Cash generated from operations	₩	<u>857,524</u>	₩	<u>791,112</u>

<sup>1</sup> Depreciation of investment properties and right-of-use assets is included.

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Significant non-cash transactions for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Reclassification of construction in-progress to property, plant and equipment	₩	119,928	₩	195,254
Reclassification of construction in-progress to Intangible assets		46,349		24,356
Reclassification of intangible assets to right-of-use assets		10,812		-
Reclassification of investment property to property, plant and equipment		24,839		39,445
Reclassification of property, plant and equipment to investment property		28,882		-
Reclassification of right-of-use assets to investment property		3,363		-
Increase in right-of-use as recognition of lease liabilities		276,895		-
Non-trade payables related to the acquisition of property, plant and equipment and intangible assets		30,298		46,829
Non-trade receivables related to the acquisition of property, plant and equipment and intangible assets		-		11,880

Changes in liabilities arising from financing activities for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	Short-term borrowings		Current portion of long-term borrowings <sup>1</sup>		Long-term borrowings		Lease liabilities		Total	
At January 1, 2018	₩	85,052	₩	-	₩	42,903	₩	-	₩	127,955
Cash flows		(15,133)		-		-		-		(15,133)
Exchange differences		1,534		-		1,784		-		3,318
At December 31, 2018	₩	71,453	₩	-	₩	44,687	-	₩	116,140	
At January 1, 2019	₩	71,453	₩	-	₩	44,687	-	₩	116,140	
Changes in accounting policy		-		-		-		396,561		396,561
Lease agreements		-		-		-		261,525		261,525
Current portion transfer		-		46,559		(46,559)		-		-
Cash flows (interest expenses)		-		-		-		(17,240)		(17,240)
Cash flows		(20,634)		-		-		(185,628)		(206,262)
Exchange differences		1,997		(28)		1,872		10,296		14,137
At December 31, 2019	₩	52,816	₩	46,531	₩	-	₩	465,514	₩	564,861

<sup>1</sup>Current portion of long-term borrowings is included in short-term borrowings in the consolidated financial statements.

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**32. Commitments and Contingencies**

Details of financial commitment with financial institution as at December 31, 2019 and 2018 are as follows:

*(in millions of Korean won and thousands of U.S. dollars)*

Financial institution	Commitment	2019		2018	
		Limit	Outstanding balance	Limit	Outstanding balance
WOORI BANK	Electronic loan agreement	₩ 5,400	₩ 222	₩ 15,000	₩ 160
	Letter of credit	USD 4,000	-	USD 4,000	USD 131

At the end of reporting period, Seoul Guarantee Insurance has provided the Group with payment guarantees such as performance guarantees and others amounting to ₩ 83,146 million (2018: ₩ 131,889 million).

At the end of reporting period, the detail of payment guarantee provided is as follows:

*(thousands of AUD)*

Provided	Providing	Amount of payment guarantee	Institution for payment guarantee
Amorepacific Australia Pty Ltd	Amorepacific Group Inc.	AUD 5,194	Melbourne Central Custodian Pty Ltd

Important contracts subsidiaries entered into with financial institutions as at December 31, 2019 and 2018 are as follows:

*(in millions of Korean won and thousands of USD, EUR, HKD and JPY)*

Financial institution	Commitment	2019		2018	
		Limit	Outstanding balance	Limit	Outstanding balance
CITI N.A HONG KONG	Long-term borrowings	HKD 313,000	HKD 313,000	HKD 313,000	HKD 313,000
	Short-term borrowings	HKD 220,000	HKD 70,000	-	-
Amorepacific Global Operations Limited.	Short-term borrowings	-	-	HKD 220,000	HKD 110,000
	Overdraft	USD 10,000	-	USD 10,000	-
AMOREPACIFIC Hong Kong Co., Limited	Overdraft and others	HKD 15,000	-	HKD 15,000	-
	Overdraft and others	HKD 10,000	-	HKD 10,000	-
AMOREPACIFIC Japan CO., LTD	Overdraft	JPY 2,000,000	JPY 1,100,000	JPY 1,000,000	JPY 1,000,000
AMOREPACIFIC EUROPE S.A.S	Short-term borrowings	EUR 7,000	EUR 7,000	EUR 7,000	EUR 7,000
	Overdraft	EUR 500	EUR 477	EUR 500	EUR 485

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	Paris Branch					
	KEB Hana Bank Paris Branch	Short-term borrowings	-	-	EUR 12,500	EUR 12,500
Annick Goutal S.A.S	KEB Hana Bank Paris Branch	Overdraft	EUR 6,000	EUR 5,858	EUR 6,000	EUR 5,742
	Citibank N.A. France	Short-term borrowings	EUR 6,000	EUR 6,000	EUR 6,000	EUR 6,000

Restricted financial instruments in use as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won, thousands of RMB, HKD and USD)</i>		Remark	2019	2018
Current financial deposits	Agreement of shared growth and cooperation		₩ 18,100	₩ 15,100
Non-current financial deposits	Deposit for checking account		5	5
Non-current financial deposits	Permission of door-to-door sales in China		RMB 20,000	RMB 20,000
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores		HKD 5,000	HKD 5,000
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores		USD 194	USD 194

Details of pending cases of the Group as at December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>	Number of cases	Litigation value	Remark
The Group as defendant	9	₩ 692	Compensation for damages, injunction against patent infringement and others
The Group as plaintiff	21	₩ 100	Annulment of assessment, injunction against patent infringement and others

The outcome of the above cases cannot be reasonably estimated; and any outflows of resources and the timing are uncertain. Therefore, the potential effects for the outcome of the cases are not reflected in the consolidated financial statements as at December 31, 2019. The Group expects that these cases would not have any material impact on its financial statements.

As at December 31, 2019, the Group has entered into a long-term rental contract for the new building located in Yongsan with associates, including Innisfree Corporation by November 30, 2022, and external customers by March 31, 2028.

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**33. Related Party Transactions**

Details of the related parties as at December 31, 2019, are as follows:

Classification	Name
Ultimate Parent	Kyung-Bae Suh
Parent Company	AMOREPACIFIC Group, Inc.
Ultimate Parent Company presenting consolidated financial statements	AMOREPACIFIC Group, Inc.
Associate	Taiwan AMORE Co.,Ltd.
Subsidiaries of the Parent Company	Innisfree Corporation Etude Corporation AMOS Professional Corporation Espoir Corporation Osulloc Corporation. <sup>1</sup> AESTURA Corporation PACIFICGLAS, Inc. PACIFICPACKAGE Corporation Osulloc Farm Co., Ltd. COSVISION CO., LTD. Green Partners Corporation <sup>2</sup>
Associate of the Parent Company	BBDO Korea Inc.
Other related party	Taeshin Inpack Corporation

<sup>1</sup> In 2019, newly established by AMOREPACIFIC Group, Inc. the Parent Company, with the contribution of 100%.

<sup>2</sup> In 2019, the Group disposed of the contribution of 100% to Osulloc Corporation, the subsidiary of the Parent Company.

Sales and purchases with related parties for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)	2019								
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment <sup>1</sup>	Other revenue	Other cost	Lease interest income	Lease interest expenses	Dividends paid
<b>Parent Company</b>									
AMOREPACIFIC Group, Inc.	₩ 1,889	₩ -	₩ -	₩ -	₩ 287	₩ 19,801	₩ -	₩ 170	₩ 28,212
<b>Subsidiaries of the Parent Company</b>									
Innisfree Corporation	20,503	146,287	22	-	10,919	2,250	8	-	-
Etude Corporation	7,902	32,501	95	-	1,538	59	-	-	-
AMOS Professional Corporation	21,487	893	-	-	31	-	-	-	-
Espoir Corporation	1,898	6,819	-	-	29	4	-	-	-
Osulloc Corporation	3,270	6	-	31,538	20	41	-	-	-
AESTURA Corporation	2,773	81,714	-	-	12	-	-	-	-
PACIFICGLAS, Inc.	436	52,816	334	-	-	36	-	-	-
PACIFICPACKAGE Corporation	205	43,243	-	-	-	1	-	-	-
Osulloc Farm Co., Ltd.	152	2,431	-	-	-	385	-	-	-
COSVISION CO., LTD.	2,091	28,942	49	80	287	8	-	-	-
Green Partners Corporation	25	-	-	-	2	4,690	-	-	-
<b>Associate of the Parent Company</b>									
BBDO Korea Inc.	888	-	-	-	-	31,758	-	-	-
<b>Other related party</b>									
Taeshin Inpack Corporation	-	15,012	-	-	-	-	-	-	-
	₩ 83,499	₩ 408,464	₩ 500	₩ 31,618	₩ 13,085	₩ 59,013	₩ 8	₩ 175	₩ 28,212

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<sup>1</sup> The amount of disposal of property, plant and equipment and Intangible assets transferred to Osulloc Corporation is included.

(in millions of Korean won)	2018							
	Sales	Purchase	Acquisition of property, plant and equipment	Other revenue	Other cost	Dividends received	Dividends paid	
<b>Parent Company</b>								
AMOREPACIFIC Group, Inc.	₩ 2,545	₩ -	₩ -	₩ 241	₩ 17,852	₩ -	₩ 28,432	
<b>Subsidiaries of the Parent Company</b>								
Innisfree Corporation	19,269	103,439	-	7,334	1,925	-	-	
Etude Corporation	9,013	28,944	379	6,883	143	-	-	
AMOS Professional Corporation	27,726	2,566	-	36	-	-	-	
Espoir Corporation	2,019	5,646	-	30	-	-	-	
AESTURA Corporation	2,034	76,697	-	24	204	-	-	
PACIFICGLAS, Inc.	424	45,321	-	51	-	-	-	
PACIFICPACKAGE Corporation	334	45,173	-	-	-	-	-	
Osulloc Farm Co., Ltd.	135	1,842	-	-	317	-	-	
COSVISION CO.,LTD.	1,120	28,278	295	420	1	-	-	
<b>Associate of the Parent Company</b>								
BBDO Korea Inc.	749	-	-	-	27,093	-	-	
<b>Associate</b>								
Taiwan AMORE Co.,Ltd.	-	-	-	-	-	107	-	
<b>Other related party</b>								
Taeshin Inpack Corporation	-	15,703	-	-	-	-	-	
	₩ 65,368	₩ 353,609	₩ 674	₩ 15,019	₩ 47,535	₩ 107	₩ 28,432	

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2019 and 2018 are as follows:

(in millions of Korean won)	2019						
	Receivables			Payables			
	Trade receivables	Other receivables	Lease receivables	Trade payables	Borrowings	Other payables	Lease liabilities
<b>Parent Company</b>							
AMOREPACIFIC Group, Inc.	₩ 90	₩ 2,183	₩ -	₩ -	₩ -	₩ 1,554	₩ 5,078
<b>Subsidiaries of the Parent Company</b>							
Innisfree Corporation	1,993	5,989	41	71,558	5,210	3,298	-
Etude Corporation	552	1,755	-	16,766	-	2,476	-
AMOS Professional Corporation	1,738	12	-	168	-	4,076	-
Espoir Corporation	99	1,441	-	751	-	791	-
Osulloc Corporation	1,780	1,857	-	19	-	1,312	-
AESTURA Corporation	801	20	-	6,897	-	778	-
PACIFICGLAS, Inc.	33	2	-	6,255	-	503	-
PACIFICPACKAGE Corporation	20	1	-	5,275	-	-	-
Osulloc Farm Co., Ltd.	13	1	-	29	-	430	-
COSVISION CO.,LTD.	224	687	-	2,394	-	93	4,182
Green Partners Corporation	-	-	-	-	-	92	-
<b>Associate of the Parent Company</b>							
BBDO Korea Inc.	-	-	-	-	-	7,559	-
<b>Other related party</b>							
Taeshin Inpack Corporation	-	-	-	723	-	-	-
	₩ 7,343	₩ 14,148	₩ 41	₩ 110,835	₩ 5,210	₩ 22,962	₩ 9,260

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(in millions of Korean won)	2018				
	Receivables		Payables		
	Trade	Other	Trade payables	Borrowings	Other payables
<b>Parent Company</b>					
AMOREPACIFIC Group, Inc.	₩ 99	₩ 2,356	₩ -	₩ -	₩ 2,238
<b>Subsidiaries of the Parent Company</b>					
Innisfree Corporation	3,341	3,973	46,620	5,031	4,349
Etude Corporation	1,412	3,013	10,160	-	3,037
AMOS Professional Corporation	2,871	-	221	-	4,385
Espoir Corporation	621	1	621	-	1,301
AESTURA Corporation	508	38	3,648	-	777
PACIFICGLAS, Inc.	40	1	4,485	-	467
PACIFICPACKAGE Corporation	51	-	3,992	-	24
Osulloc Farm Co., Ltd.	11	2	19	-	9
COSVISION CO.,LTD.	150	789	3,153	-	79
<b>Associate of the Parent Company</b>					
BBDO Korea Inc.	-	48	-	-	7,880
<b>Other related party</b>					
Taeshin Inpack Corporation	-	-	1,107	-	-
	₩ 9,104	₩ 10,221	₩ 74,026	₩ 5,031	₩ 24,546

The trade receivables from related parties are due three months after the date of transaction. The receivables from related parties are unsecured in nature and bear no interest.

Fund transactions with related parties for the year ended December 31, 2019, are as follows:

Lease fund transactions provided by related parties:

(In millions of Korean won)	Beginning Balance	Changes in accounting policy	Acquisition of lease liabilities	Disposal of lease liabilities	Payments	Lease interest expenses	Ending Balance
The Parent Company							
AMOREPACIFIC Group, Inc.	₩ -	₩ 7,362	₩ 6,648	₩ (7,362)	₩ (1,740)	₩ 170	₩ 5,078
Subsidiaries of the Parent Company							
Osulloc Farm Co., Ltd.	-	84	-	(86)	-	2	-
COSVISION CO.,LTD.	-	4,370	-	-	(192)	4	4,182
	₩ -	₩ 11,816	₩ 6,648	₩ (7,448)	₩ (1,932)	₩ 176	₩ 9,260

Lease fund transactions providing to related parties:

(In millions of Korean won)	Beginning Balance	Acquisition of lease liabilities	Cash inflow	Lease interest income	Ending Balance
Subsidiaries of the Parent Company					
Innisfree Corporation	₩ -	₩ 484	₩ (451)	₩ 8	₩ 41

Fund transactions arising from acquisition and disposal of subsidiaries:

(In millions of Korean won)	Liquidation Dividend
Subsidiaries of the Parent Company	
Osulloc Corporation <sup>1</sup>	1,304

<sup>1</sup> In 2019, the Group sold the shares of Green Partners Corporation to Osulloc Corporation.



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Fund transactions with related parties for the year ended December 31, 2018, are as follows:

<i>(In millions of Korean won)</i>	<b>Beginning Balance</b>	<b>Borrowing</b>	Exchange differences	<b>Ending Balance</b>
Subsidiaries of the Parent Company				
Innisfree Corporation	₩ -	₩ 4,951	₩ 80	₩ 5,031

At the end of reporting period, the detail of payment guarantee provided is as follows:

<i>(thousands of AUD)</i>	<b>Provided</b>	<b>Providing</b>	<b>Amount of payment guarantee</b>	<b>Institution for payment guarantee</b>
Amorepacific Australia Pty Ltd	Amorepacific Group Inc.	AUD 5,194	Melbourne Central Custodian Pty Ltd	

As at December 31, 2019, the Group has entered into a long-term rental contract for the new building located in Yongsan with the related parties including Innisfree Corporation, and the contract is valid for five years. In addition, the Group has entered into a business agency contract with the domestic related parties and the Group recognizes consideration from the contract as revenue.

Key management includes directors (executive and non-executive), members of the Executive Committee, the Group Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services for the years ended December 31, 2019 and 2018 consists of:

<i>(In millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Short-term employee benefits	₩ 8,374	₩ 6,893
Post-employment benefits	1,380	1,019
	₩ 9,754	₩ 7,912

### 34. Risk Management

#### 34.1 Financial Risk Management

The Group's various operations lead to exposure to a variety of financial risks such as market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The overall risk management program of the Group focuses on the unpredictability of financial markets and seeks to minimize any potentially adverse effects on the financial performance of the Group.

Risk management is carried out under policies approved by the Board of Directors. The board reviews and approves written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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(a) Market risk

i) Foreign exchange risk

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

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

The Group's financial instruments denominated in major foreign currencies as at December 31, 2019 and 2018 are as follows:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 245,894	₩ 250,264	₩ 179,439	₩ 119,171
EUR	244	411	1,423	324
JPY	135	2,080	-	3,417

As at December 31, 2019 and 2018, if the foreign exchange rate of the Korean won fluctuates by 10% with other variables fixed, the effects on profit before income tax will be as follows:

	2019		2018	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ (437)	₩ 437	₩ 6,027	₩ (6,027)
EUR	(17)	17	110	(110)
JPY	(195)	195	(342)	342
	₩ (649)	₩ 649	₩ 5,795	₩ (5,795)

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

ii) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expense arising from deposits and borrowings fluctuates due to the changes in future market interest rate. The interest rate risk mainly arises from floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing enterprise value by minimizing uncertainty from fluctuations in interest rate and amount of net interest expense.

At the end of the reporting period, the amount of floating rate deposits exceeds the amount of floating rate borrowings, which leads to decrease in net interest expenses decrease when interest rates increase. On the other hand, the Group minimizes risks from fluctuations in interest rate through various policies: minimizing external borrowings from internal cash sharing; reduction in high rate borrowings; reforming short and long-term capital structure; managing an appropriate

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ratio of fixed rate borrowings to floating rate borrowings; monitoring domestic and foreign interest rates trend on daily, weekly and monthly basis and establishing measures; and balancing floating rate short-term borrowings with floating rate deposits.

The Group 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 insignificant as the investments are short-term deposits.

At the end of the reporting period, if interest rates on floating rate borrowings increases/decreases changes by 1% with all other variables held constant, profit before income tax for the year will decrease/increase by ₩ 474 million, mainly due to the increased/decreased interest expense on floating rate borrowings.

#### *(b) Credit Risk*

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

For banks and financial institutions, the Group only accepts institutions that earned minimum rating of 'A' from independent credit rating agencies.

If wholesale customers are independently rated, these ratings are used. Otherwise, if independent rating inaccessible, the Group assesses the credit risk by taking account for the financial position of the customers, past experience, and other factors. If it is deemed that the customers' credit risk needs to be reduced due to such factors as independent rating unavailable, the Group enhances their credit is through pledging property and deposit, or taking out guarantee insurance. For customers without insurance and collateral, the Group strictly manages credit risk in accordance with the internal credit-rating standard. Sales to retail customers are settled in cash or using credit cards.

The Group reviews whether the above trade receivables are individually or collectively impaired at the end of the every reporting period.

#### *(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 Group manages liquidity by holding excess cash and cash equivalents than monthly payments.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groups 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. For the liabilities with maturity less than a year, the effect of the discount is insignificant, so the amount is equal to the carrying amount.

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<i>(in millions of Korean won)</i>	2019					Carrying amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 172,459	₩ -	₩ -	₩ 172,459	₩	172,459
Borrowings	100,100	-	-	100,100		99,347
Other payables	264,809	-	-	264,809		264,809
Other liabilities	144,700	22,644	11,933	179,277		175,990
Lease liabilities	205,050	254,306	42,987	502,343		465,514

<i>(in millions of Korean won)</i>	2018					Carrying amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 111,833	₩ -	₩ -	₩ 111,833	₩	111,833
Borrowings	73,020	45,095	-	118,115		116,140
Other payables	249,629	-	-	249,629		249,629
Other liabilities	139,990	22,250	-	162,240		160,797

### 34.2 Capital Risk Management

The purpose of the Group's capital risk management is maximizing 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-to-equity ratio and net borrowing ratio as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won, except for ratios)</i>	2019		2018	
Liabilities (A)	₩	1,490,167	₩	924,720
Equity (B)		4,498,841		4,446,417
Cash and cash equivalents and current financial deposits (C)		760,606		765,439
Borrowings (D)		99,347		116,140
Debt-to-equity ratio (A/B)		33.1%		20.8%
Net Borrowings ratio (D-C)/B		(-)14.7%		(-)14.6%

### 35. Fair Value

#### 35.1 Fair Value Hierarchy

During the current year, there has been no business or economic circumstances that may significantly influence the fair value of the Group's financial assets and liabilities.

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

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

<i>(in millions of Korean won)</i>	2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 4,119	₩ 257,980	₩ -	₩ 262,099
Financial assets at fair value through other comprehensive income	387	-	727	1,114
Disclosed fair value				
Investment property	-	-	527,180	527,180

  

<i>(in millions of Korean won)</i>	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 3,956	₩ 78,565	₩ -	₩ 82,521
Financial assets at fair value through other comprehensive income	2,107	-	582	2,689
Disclosed fair value				
Investment property	-	-	536,892	536,892

**35.2 Valuation Technique and the Inputs**

Valuation techniques and inputs used in the recurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy are as follows:

*(a) Investment Property*

The Group measures the fair value of investment property either by an independent appraiser who holds a recognized and relevant professional qualification, or by evaluating fair value reflecting available information such as officially assessed land price announced by the Korean government and similar recent transaction price.

**35.3 Financial Instruments Measured at Cost**

Details of financial instruments measured at cost as at December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Debt securities		
Asset backed securities	₩ -	₩ 30,000
Government-issued securities	2,131	3,092
	₩ 2,131	₩ 33,092

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Regarding debt investments measured at amortised cost, the fair value is measured at historical cost because the difference is immaterial.

Other financial assets and liabilities whose carrying amount is a reasonable approximation of fair value are excluded from the separate fair value disclosures.

**36. Changes in Accounting Policies**

As explained in Note 2.2.1, the Group has adopted Korean IFRS 1116, retrospectively, from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognized in the consolidated statement of financial position on January 1, 2019.

(a) Details of adjustments recognized on adoption of Korean IFRS 1116 *Lease* are as follows:

On adoption of Korean IFRS 1116, the Group recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of Korean IFRS 1017. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as at January 1, 2019. The lessee’s weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.78%.

For leases previously classified as ‘finance leases’, the Group recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of Korean IFRS 1116 are only applied after that date. The remeasurements to the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

The difference between the operating lease agreements as at December 31, 2018 discounted by the Group’s weighted average incremental borrowing rate and the lease liabilities recognized at January 1, 2019 consists of short-term lease, low-value assets lease and adjustment amount of extension options.

*Measurement of lease liabilities*

*(in thousands of Korean won)*

	<b>2019.1.1</b>	
Operating lease commitments disclosed as at December 31, 2018	₩	415,190
Discounted using the lessee’s incremental borrowing rate of at the date of initial application		(29,023)
Less: low-value leases not recognized as a liability		(1,568)
Add: adjustments as a result of a different treatment of extension and termination options		11,963
<b>Lease liability recognized as at January 1, 2019</b>		<b>396,561</b>
Of which are:		
Current lease liabilities		150,187
Non-current lease liabilities		246,374
	₩	<b>396,561</b>

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The right-of-use assets for lease contracts are measured the at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

① *Adjustments recognized in the statement of financial position as at December 31, 2019 and January 1, 2019*

<i>(in millions of Korean won)</i>	<b>2019.12.31</b>	<b>2019.01.01</b>
<b>Right-of-use assets</b>		
Land	₩ 14,898	₩ 15,266
Buildings	413,804	395,959
Fixtures and furniture	1,824	2,506
Others	1,870	1,552
	<u>₩ 432,396</u>	<u>₩ 415,283</u>

<i>(in millions of Korean won)</i>	<b>2019.12.31</b>	<b>2019.01.01</b>
<b>Right-of-use assets</b>		
Current	197,592	150,187
Non-current	267,922	246,374
	<u>₩ 465,514</u>	<u>₩ 396,561</u>

The increase of right-of-use assets is ₩ 276,924 million in 2019.

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

<i>(in thousands of Korean won)</i>	<b>2019</b>
Increase of right-of-use assets	₩ 415,283
Increase of lease liabilities	396,561
Decrease of other non-current assets	(11,174)
Decrease of other non-current liabilities	(3,264)
Decrease of intangible assets	(10,812)

② *Practical expedients applied*

In applying Korean IFRS 1116 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

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- reliance on previous assessments on whether leases are onerous – there were no onerous contracts as at January 1, 2019
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019, as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying Korean IFRS 1017 and Interpretation 2104 *Determining whether an Arrangement contains a Lease*.