

AMOREPACIFIC Corporation and Subsidiaries

**Consolidated Financial Statements
December 31, 2020 and 2019**

AMOREPACIFIC Corporation and Subsidiaries

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December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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) Valuation of merchandise and finished goods inventories

Why this matter was determined to be a key audit matter

As described in Note 8 to the consolidated financial statements, the Group's inventories comprise of merchandise and finished goods amount to ₩ 304,705 million as at December 31, 2020. 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 inventories as a significant matter in our audit because significant judgements of management are involved in determining obsolescence of the merchandise and finished goods inventories.

How our audit addressed the Key Audit Matter

We performed the following audit procedures for the Group's inventory valuation.

- Obtained and understood the accounting policy on inventory valuation of the Group and tested its appropriateness.
- Obtained an understanding of the management's process and controls on estimation of inventory valuation and confirmed whether it is in compliance with the accounting policies.
- 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 inventories.
- Confirmed the accuracy of components of merchandise and finished goods inventories' net realizable value estimated by the Group; such as selling prices, incidental expenses and other.

(2) Impairment Test on Cash Generating Units including AMOREPACIFIC Hong Kong Co., Limited.

Why this matter was determined to be a key audit matter

As at December 31, 2020, the Group has determined that there are indications of impairment due to continuous decline in performance of the four cash-generating units such as AMOREPACIFIC Hong Kong Co., Limited., AMOREPACIFIC Global Operations Limited., AMOREPACIFIC Trading Co., Ltd., AMOREPACIFIC AUSTRALIA PTY LTD. The Group performed impairment tests on the cash-generating units including AMOREPACIFIC Hong Kong Co., Limited. using value-in-use calculations based on discounted cash flow. We determined accounting for the above impairments of cash generating units as a key audit because the value-in-use involves management's significant judgements and estimates about discount rate, growth rate and future cash flow forecasts. Details are described in Note 1.3 to the consolidated financial statements of the Group.

How our audit addressed the Key Audit Matter

We performed the following audit procedures for the valuation model, key assumptions, and judgments related to the recoverable amount assessment for AMOREPACIFIC Hong Kong Co., Limited, and others. We included expert in value assessment when performing audit procedure.

- Evaluated the competency and independence of external experts engaged by management.
- Understands the future cash flows of the cash-generating units and reviewed whether the future cash flow estimate is based on the business plan approved by management.
- Assessed the reasonableness of the key assumptions used in estimating recoverable amount.
- Compared the discount rates that are independently calculated using an observable information with the discount rates applied by management
- Evaluated the results of a sensitivity analysis on the discount rates performed by management to assess the impact of changes in key assumptions on the impairment tests
- Reviewed the accuracy of the recoverable amount calculation and the appropriateness of the allocation of the impairment loss.
- Assessed the completeness of disclosures related to asset impairment of the Group, including the criteria for determining recoverable amount and the key assumptions used by the Group.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements of the Group. Note 3 to the consolidated financial statements describes management's plans and action taken to resolve uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Group's productivity and ability to satisfy customer's orders, and to solve these events or circumstances.

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.

Seoul, Korea
March 11, 2021

This report is effective as at March 11, 2021, 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, 2020 and 2019

(in thousands of Korean won)

	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	5,6,7,35	₩ 793,728,286	₩ 673,580,375
Financial deposits	5,32	57,882,300	70,600,000
Financial assets at fair value through profit or loss	5,7,35	166,463,243	137,522,926
Trade receivables	5,7,33	283,770,117	365,884,446
Other receivables	5,7,33	24,723,687	32,485,368
Current tax assets		19,235,956	4,014,570
Other current assets	5,14	65,445,878	66,386,914
Inventories	8	414,482,961	452,589,072
		<u>1,825,732,428</u>	<u>1,803,063,670</u>
Non-current assets			
Financial deposits	5,32	17,556,865	16,425,521
Other receivables	5,7,33	100,546,922	145,164,887
Financial assets at fair value through profit or loss	5,7,35	1,128,984	4,118,832
Financial assets at amortized costs	5,7,35	2,125,075	2,131,335
Financial assets at fair value through other comprehensive income	5,7,35	705,503	1,113,546
Property, plant and equipment	10	2,566,328,198	2,661,841,508
Investment properties	12,35	488,815,300	493,010,505
Right-of-use assets	13	227,453,264	432,396,245
Intangible assets	11	208,773,970	226,517,106
Investments in associates	9	52,514,140	2,160,253
Net defined benefit assets	19	110,633,428	106,098,704
Deferred tax assets	24	82,890,359	72,704,996
Other non-current assets	14	16,713,739	22,260,681
		<u>3,876,185,747</u>	<u>4,185,944,120</u>
Total assets		<u>₩ 5,701,918,176</u>	<u>₩ 5,989,007,791</u>
Liabilities			
Current liabilities			
Trade payables	5,33,34	₩ 117,617,731	₩ 172,459,191
Borrowings	5,15,33,34	154,160,189	99,346,553
Other payables	5,33,34	275,762,505	264,808,701
Current tax liabilities		6,097,005	67,399,351
Contract liabilities	17	42,275,346	50,058,558
Provisions	16	8,652,202	12,871,686
Current lease liabilities	13,33,34	132,867,106	197,591,534
Other current liabilities	5,18,34	228,514,629	202,031,862
		<u>965,946,713</u>	<u>1,066,567,436</u>
Non-current liabilities			
Net defined benefit liabilities	19	3,831,674	3,424,822
Deferred tax liabilities	24	90,075,514	101,731,472
Provisions	16	18,617,523	19,135,594
Non-current lease liabilities	13,33,34	133,748,489	267,922,153
Other non-current liabilities	5,18,34	25,300,518	31,385,509
		<u>271,573,718</u>	<u>423,599,550</u>
Total liabilities		<u>1,237,520,431</u>	<u>1,490,166,986</u>
Equity			
Share capital	1	34,508,160	34,508,160
Share premium		712,701,764	712,701,764
Capital surplus		10,807,414	10,807,414
Other components of equity	20	(117,631,782)	(117,631,781)
Accumulated other comprehensive income	21	(20,278,648)	(24,678,606)
Retained earnings	22	3,847,747,137	3,873,789,579
Equity attributable to owners of the Parent Company		<u>4,467,854,045</u>	<u>4,489,496,530</u>
Non-controlling interest		<u>(3,456,301)</u>	<u>9,344,274</u>
Total equity		<u>4,464,397,744</u>	<u>4,498,840,803</u>
Total liabilities and equity		<u>₩ 5,701,918,176</u>	<u>₩ 5,989,007,791</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, 2020 and 2019

<i>(in thousands of Korean won, except per share amounts)</i>		Notes	2020	2019
Revenue	4,25,33		₩ 4,432,179,039	₩ 5,580,142,193
Cost of sales	26,33		1,265,398,065	1,500,515,578
Gross profit			3,166,780,974	4,079,626,615
Selling and administrative expenses	26,27		3,023,771,855	3,651,792,018
Operating profit			143,009,119	427,834,597
Finance income	5,28		11,882,548	14,739,081
Finance costs	5,28		17,026,833	19,976,729
Other non-operating losses, net	5,29		(113,231,972)	(51,693,122)
Share of net profit of associates	9		660,160	(301,604)
			(117,716,097)	(57,232,374)
Profit before income tax			25,293,022	370,602,223
Inc Proceeds from disposal of non-current assets held-for-sale	24		3,424,010	146,841,193
Profit for the period			₩ 21,869,012	₩ 223,761,030
Profit is attributable to:				
Owners of the Parent Company			₩ 35,132,160	₩ 238,804,192
Non-controlling interests			₩ (13,263,148)	₩ (15,043,164)
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit liabilities	19,24		7,379,174	(8,917,300)
Loss on valuation of financial assets at fair value through other comprehensive income	21,24		(306,780)	(425,735)
Items that may be subsequently reclassified to profit or loss:				
Share of other comprehensive income of associates	9,21,24		141,746	18,984
Exchange differences on transaction of foreign operations	21,24		5,027,564	16,610,664
Other comprehensive income for the period, net of tax			12,241,704	7,286,613
Total comprehensive income for the period			₩ 34,110,716	₩ 231,047,643
Total comprehensive income for the period is attributable to:				
Owners of the Parent Company			46,911,291	246,323,874
Non-controlling interests			(12,800,575)	(15,276,234)
			₩ 34,110,716	₩ 231,047,640
Earnings per share attributable to owners of the Parent Company				
Basic earnings per ordinary share			₩ 512	₩ 3,477
Basic earnings per preferred share			₩ 517	₩ 3,490

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, 2020 and 2019

(in thousands of Korean won)

	Attributable to owners of the Parent Company																	
Balance at January 1, 2019	₩	34,508,160	₩	712,701,764	₩	7,770,057	₩	(17,624,267)	₩	(41,311,913)	₩	3,726,002,772	₩	4,422,046,574	₩	24,370,508	₩	4,446,417,082
Comprehensive income																		
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)
Gain (loss) on disposal of financial assets at fair value through other comprehensive income		-		-		-		-		196,325		(196,325)		-		-		-
Share of other comprehensive income of associates		-		-		-		-		17,085		-		17,085		1,897		18,983
Exchange differences on transaction of foreign operations		-		-		-		-		16,845,633		-		16,845,633		(234,969)		16,610,664
Total comprehensive income for the period		-		-		-		-		16,633,308		229,690,567		246,323,875		(15,276,236)		231,047,640
Transactions with owners																		
Dividends paid		-		-		-		-		-		(81,445,695)		(81,445,695)		-		(81,445,695)
Acquisition of treasury shares		-		-		-		(100,007,516)		-		-		(100,007,516)		-		(100,007,516)
Changes in the scope of consolidation		-		-		3,037,357		-		-		-		3,037,357		-		3,037,357
Capital increase by non-controlling shareholders		-		-		-		-		-		-		-		250,000		250,000
Others		-		-		-		-		-		(458,065)		(458,065)		-		(458,065)
Total transactions with owners		-		-		3,037,357		(100,007,516)		-		(81,903,760)		(178,873,919)		250,000		(178,623,919)
Balance at December 31, 2019	₩	34,508,160	₩	712,701,764	₩	10,807,414	₩	(117,631,783)	₩	(24,678,605)	₩	3,873,789,579	₩	4,489,496,530	₩	9,344,272	₩	4,498,840,803
Balance at January 1, 2020		34,508,160		712,701,764		10,807,414		(117,631,782)		(24,678,606)		3,873,789,579		4,489,496,529		9,344,274		4,498,840,803
Comprehensive income																		
Profit for the period		-		-		-		-		-		35,132,160		35,132,160		(13,263,148)		21,869,012
Remeasurements of net defined benefit liabilities		-		-		-		-		-		7,379,174		7,379,174		-		7,379,174
Gain on valuation of financial assets at fair value through other comprehensive income		-		-		-		-		(306,780)		-		(306,780)		-		(306,780)
Share of other comprehensive income of associates		-		-		-		-		127,571		-		127,571		14,175		141,746
Exchange differences on transaction of foreign operations		-		-		-		-		4,579,166		-		4,579,166		448,398		5,027,564
Total comprehensive income for the period		-		-		-		-		4,399,957		42,511,334		46,911,291		(12,800,575)		34,110,716
Transactions with owners																		
Dividends paid		-		-		-		-		-		(68,553,775)		(68,553,775)		-		(68,553,775)
Total transactions with owners		-		-		-		-		-		(68,553,775)		(68,553,775)		-		(68,553,775)
Balance at December 31, 2020	₩	34,508,160	₩	712,701,764	₩	10,807,414	₩	(117,631,782)	₩	(20,278,649)	₩	3,847,747,138	₩	4,467,854,045	₩	(3,456,301)	₩	4,464,397,744

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, 2020 and 2019

<i>(in thousands of Korean won)</i>	Notes	2020	2019
Cash flows from operating activities			
Cash generated from operations	31	₩ 670,456,655	₩ 857,524,383
Interest received		4,028,242	10,135,539
Interest paid		(16,008,008)	(18,049,090)
Income tax paid		(104,118,164)	(131,310,050)
Net cash inflow from operating activities		554,358,724	718,300,781
Cash flows from investing activities			
Net decrease in current financial deposits		12,162,100	-
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		2,991,230	-
Decrease in other receivables		45,815,639	7,616,143
Decrease in non-current financial deposits		353,988	-
Proceeds from disposal of financial assets at amortized costs		6,260	973,000
Proceeds from disposal of financial assets at fair value through other comprehensive income	7	-	1,070,752
Proceeds from disposal of property, plant and equipment	10	24,769,904	27,798,931
Proceeds from disposal of intangible assets	11	349,270	2,517,073
Dividends income from associates	9	3,750	-
Other cash inflow		-	5,110,503
Net increase in current financial deposits		-	(55,439,000)
Increase in financial assets at fair value through profit or loss		(23,523,395)	(136,299,644)
Increase in other receivables		(3,826,463)	(4,137,113)
Increase in non-current financial deposits		(1,500,003)	(1,500,003)
Payments in financial assets at amortized costs		-	(11,955)
Payments for property, plant and equipment	10	(183,021,788)	(246,549,724)
Payments for intangible assets	11	(31,983,792)	(34,863,960)
Increase in right-of-use assets	13	(2,270)	(29,400)
Increase in investments in associates	9	(49,003,272)	-
Net cash outflow from investing activities		(206,408,842)	(403,233,397)
Cash flows from financing activities			
Proceeds from short-term borrowings	31	110,605,478	12,048,075
Receipt of leasehold deposits		578,240	-
Capital increase by non-controlling shareholders		-	250,000
Repayments of short-term borrowings	31	(49,138,368)	(32,682,147)
Acquisition of treasury shares	1	-	(100,007,516)
Payments for lease liabilities	13,31	(206,758,281)	(185,628,640)
Dividends paid	23	(68,530,024)	(81,417,037)
Redemption of leasehold deposits		(2,744,349)	-
Net cash outflow from financing activities		(215,987,304)	(387,437,265)
Effects of exchange rate changes on cash and cash equivalents		(11,814,669)	10,439,616
Net increase (decrease) in cash and cash equivalents		120,147,909	(61,930,265)
Cash and cash equivalents at the beginning of the year		673,580,375	735,510,638
Cash and cash equivalents at the end of the year		₩ 793,728,286	₩ 673,580,375

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, 2020 and 2019

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, 2020, 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, 2020, 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, 2020, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group, Inc.	21,707,512	37
Kyung-Bae Suh	6,264,450	11
Others ¹	30,486,528	52
	<u>58,458,490</u>	<u>100</u>

¹ Including 509,088(2019: 509,087) treasury shares

AMOREPACIFIC Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

1.2 Consolidated Subsidiaries

The Company's consolidated subsidiaries as at December 31, 2020, 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 ¹	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	25,881	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 97.71	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Vietnam LTD.	Sales of cosmetics	10,387	100.00	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

¹Includes the financial information of Billion-Wide Enterprise Limited, Info-Billion Enterprise Limited.

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1.3 Summarized Financial Information of Subsidiaries

Summarized financial information for consolidated subsidiaries as at and for the year ended December 31, 2020 is as follows:

2020 (in millions of Korean won)	Total assets	Total liabilities	Revenue	Profit (loss) for the period	Total comprehensive income(loss)
AMOREPACIFIC Global Operations Limited.	₩ 161,476	₩ 82,018	₩ 27,731	₩ (35,755)	₩ (39,644)
AMORE Cosmetics (Shanghai) Co.,Ltd.	318,704	33,733	146,307	25,990	27,292
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	5,315	533	5,726	440	462
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD	28,748	23	-	(3,172)	(4,510)
We-Dream Co., Ltd.	1,435	279	3,510	360	331
Core Technology Corporation.	1,486	1,367	3,660	(572)	(572)
AMOREPACIFIC Trading Co.,Ltd.	574,341	532,623	1,142,572	(56,547)	(54,548)
AMOREPACIFIC Hong Kong Co.,Limited	62,453	45,535	76,296	(11,579)	(12,318)
AMOREPACIFIC Taiwan Co.,Ltd.	38,159	21,864	66,196	420	484
AMOREPACIFIC SINGAPORE PTE Co Ltd.	46,361	30,113	50,823	(5,055)	(5,638)
AMOREPACIFIC MALAYSIA SDN. BHD.	27,176	18,827	43,736	(3,693)	(4,094)
AMOREPACIFIC (Thailand) LIMITED	32,659	6,397	45,429	1,504	(135)
PT. LANEIGE INDONESIA PACIFIC	17,563	11,396	25,201	587	145
AMOREPACIFIC Vietnam LTD.	23,470	13,904	34,090	2,598	1,968
AMOREPACIFIC PHILIPPINES, INC.	4,991	2,318	2,834	(2,667)	(2,572)
AMOREPACIFIC US, INC.	65,038	118,565	63,989	(29,267)	(25,284)
AMOREPACIFIC CANADA INC.	12,273	10,903	12,629	(1,137)	(1,199)
AMOREPACIFIC EUROPE S.A.S	14,979	19,637	8,186	1,104	922
Annick Goutal S.A.S	12,281	23,421	10,811	(2,847)	(3,084)
AMOREPACIFIC Japan Co.,Ltd.	72,558	55,212	80,281	3,740	3,449
Innisfree Cosmetics India Private Limited	18,892	12,409	9,183	(135)	(735)
AMOREPACIFIC ME FZ-LLC	743	1,138	2,322	(802)	(762)
AMOREPACIFIC AUSTRALIA PTY LTD	29,945	31,312	11,482	(4,465)	(4,490)
Amorepacific Russia LLC	752	463	663	(390)	(524)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	2,474	2,139	5,055	146	144

During 2020, in AMOREPACIFIC Hong Kong Co.,Limited and AMOREPACIFIC Global Operations Limited. among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test. The recoverable amount is calculated based on its value in use and impairment loss is recognized as other non-operating losses. The recoverable amounts have been determined based on value-in-use calculations reflecting future business plans approved by management, and the key assumptions used for value-in-use calculations in 2020 are as follows:

(in millions of Korean won)	AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Hong Kong Co.,Limited
Gross margin rate	79.82%	76.60%
Growth rate ¹	0.71%	4.69%
Weight average cost of capital	10.63%	10.63%
Perpetual growth rate	-	-
Value-in-use	₩ 2,328	₩ 26,234
Impairment loss recognized ²	11,319	9,874

¹ 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.

² See Notes 10, 11 and 13 for details.

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During 2020, AMOREPACIFIC Trading Co., Ltd. and AMOREPACIFIC AUSTRALIA PTY LTD among the Group's cash-generating units, were tested for impairment, but impairments were not recognized because the recoverable amounts exceeded the book amounts. The recoverable amounts have been determined based on value-in-use calculations reflecting future business plans approved by management, and the key assumptions used for value-in-use calculations in 2020 are as follows:

	AMOREPACIFIC Trading Co.,Ltd.	AMOREPACIFIC AUSTRALIA PTY LTD
Gross margin rate	55.01%	77.59%
Growth rate ¹	11.63%	27.59%
Weight average cost of capital	15.11%	9.55%
Perpetual growth rate	-	-

¹ 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.

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

2019 (in millions of Korean won)	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

During 2019, in AMOREPACIFIC US, INC, AMOREPACIFIC Global Operations Limited 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 ₩ 25,252 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. (Notes 10, 11, 13)

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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.

1.4 Changes in Scope for consolidation

There are no subsidiaries newly included or excluded from the consolidation for the year ended December 31, 2020.

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
- 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.

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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, 2020.

- *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. The amendments do not 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. The amendments do not have a significant impact on the consolidated financial statements.

- *Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement and Korean IFRS 1107 Financial Instruments: Disclosure – Interest Rate Benchmark Reform*

The amendments allow to apply the exceptions when forward-looking analysis is performed in relation the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions assume that the interest rate benchmark on which the hedged items and the hedging instruments are based is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. The amendments do not have a significant impact on the consolidated financial statements.

- *Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Exemption, Concessions, Suspension*

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. With implementation of Korean IFRS 1116 Lease, the Group has changed accounting

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policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard. There was no cumulative impact on the beginning balance of retained earnings as at January 1, 2020 by retrospectively applying this standard, and the Group did not restate comparatives for the 2019 reporting period. The impact of the adoption of the leasing standard are disclosed in Note 13.

(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, 2020 and have not been early adopted by the Group are set out below.

- *Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform*

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is 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 – Reference to the Conceptual Framework*

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

- *Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use*

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group is in review for the impact of these amendments on the consolidated financial statements.

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- *Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts : Cost of Fulfilling a Contract*

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

- *Annual improvements to Korean IFRS 2018-2020*

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 *Leases* – Lease incentives
- Korean IFRS 1041 *Agriculture* – Measuring fair value
- *Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments 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

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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. 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.

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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

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

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- 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.

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.

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- 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

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.

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(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

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:

	Useful life
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

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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. Government grants relating to assets are recognized as deferred income and they are credited to profit or loss over the useful life of the related assets on the basis of systematic and rational way, and government grants related to income are deferred and later deducted from the related expense in 'other non-operating income'.

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:

	Useful life
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

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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 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.

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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.

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.

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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 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 this 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 of 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.

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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 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.

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

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- 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:

- 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.

(c) Residual value guarantees

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

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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 2020 were approved for issue by the Board of Directors on February, 3 2021 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. Management also needs to exercise judgement in applying the Group's accounting policies. 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. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

During 2020, the spread of Coronavirus disease 2019 ("COVID-19") has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Group, and the impact is expected to be continued for a while.

Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Group's business, financial position and financial performance cannot presently be determined.

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).

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(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) Refund liabilities

A refund liability is recognized for the products expected to be returned once they are sold. The return rate is estimated by the expected value method based on the accumulated experience by sales channel at the time of sale, and the Group's revenue is affected by changes in expected return rate.

(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 (Note 17).

(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 (Note 7).

(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

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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, 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 (Note 13).

(i) Measurement of the net realizable value of inventory

Inventories are stated at the lower of cost or net realizable value. The measurement of the net realizable value requires estimation of the estimated selling price and estimated selling cost. In these estimation processes, the management's judgments take an important role (Note 8).

(j) Impairment of Non-financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for assets arising from employee benefits, deferred income tax assets and assets classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash generating unit that are discounted by an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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If, and only if, the recoverable amount of an asset or cash-generating unit is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss.

Goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

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, 2020 are as follows:

Divisions	Products
Cosmetics	Skin care, other beauty products, and others
DB(Daily Beauty)	Personal care goods and others

The segment information for revenue and operating profit for the years ended December 31, 2020 and 2019 is as follows:

(in millions of Korean won)	2020		2019 ¹	
	Revenue	Operating profit	Revenue	Operating profit
Cosmetics	₩ 3,904,191	₩ 139,493	₩ 4,996,276	₩ 412,086
DB(Daily Beauty)	527,988	3,516	583,866	15,749
	<u>₩ 4,432,179</u>	<u>₩ 143,009</u>	<u>₩ 5,580,142</u>	<u>₩ 427,835</u>

¹ Sales and operating profit of Sullor division sold in 2019 are included.

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External revenues by geographic areas for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020		2019
Korea	₩	2,494,168	₩	3,360,392
Asia		1,831,765		2,092,008
North America		76,038		93,570
Others		30,208		34,172
	₩	<u>4,432,179</u>	₩	<u>5,580,142</u>

There is no external customer attributing to more than 10% of total revenues for the years ended December 31, 2020 and 2019.

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5. Financial Instruments by Category

Categorizations of financial instruments as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020		2019	
Financial assets at amortized cost	Cash and cash equivalents	₩	545,156	₩	603,223
	Current financial deposits		43,382		32,500
	Non-current financial deposits		4,057		4,426
	Non-current financial assets at amortized costs ¹		2,125		2,131
	Trade receivables		283,770		365,884
	Current other receivables		24,724		32,485
	Non-current other receivables		100,547		145,165
	Other current assets ²		123		411
Financial assets at fair value through other comprehensive income	Non-current financial assets at fair value through other comprehensive income ³		706		1,114
Financial assets at fair value through profit or loss	Cash and cash equivalents ⁴		248,572		70,357
	Current financial deposits ⁴		14,500		38,100
	Current financial assets at fair value through profit or loss ⁴		166,463		137,523
	Non-current financial deposits ⁵		13,500		12,000
	Non-current financial assets at fair value through profit or loss ⁴		1,129		4,119
		₩	1,448,754	₩	1,449,438
Financial liabilities at amortized cost	Trade payables	₩	117,618	₩	172,459
	Short-term borrowings including current long-term borrowings		154,160		99,347
	Other payables		275,763		264,809
	Other current liabilities ⁶		180,950		144,700
	Other non-current liabilities ⁷		25,247		31,290
		₩	753,738	₩	712,605

¹ Government bonds (Note 7).

² Other current assets represent accrued income (Note 14).

³ Equity instruments such as listed shares (Note 7).

⁴ Beneficiary certificates (Note 7).

⁵ Variable annuities insurance (Note 7).

⁶ Other current liabilities are comprised of deposits received, dividend payables, accrued expenses and refund liabilities (Note 18).

⁷ Other non-current liabilities are comprised of deposits received 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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Financial assets at fair value through profit or loss		
Gain on valuation	₩ 5,417	₩ 1,825
Interest income ¹	195	718
Financial assets at fair value through other comprehensive income		
Loss on valuation (Other comprehensive income)	(307)	(580)
Reclassified gain on valuation to equity (Other comprehensive income)	-	154
Dividend income	-	39
Financial assets at amortized cost		
Interest income ¹	5,659	12,018
Gain (loss) on foreign currency translation	(22,336)	4,877
Reversal of allowance for bad debt (Bad debt expenses)	(1,658)	172
Financial liabilities at amortized cost		
Interest expense ¹	(2,048)	(2,739)
Gain(loss) on foreign currency translation	10,164	(2,092)

¹ Interest income and expenses applied by IFRS 16 leases are excluded.

6. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Cash on hand	₩ 200	₩ 295
Ordinary deposits	194,730	213,554
Checking accounts	71,927	65,828
Other accounts	526,871	393,903
	<u>₩ 793,728</u>	<u>₩ 673,580</u>

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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Current	Non-current	Current	Non-current
Cash and cash equivalents:				
Beneficiary certificates	₩ 248,572	₩ -	₩ 70,357	₩ -
Financial deposits:				
Beneficiary certificates	14,500	-	38,100	-
Variable annuities insurance	-	13,500	-	12,000
Financial assets at fair value through profit or loss:				
Beneficiary certificates	166,463	1,129	137,523	4,119
	₩ 429,535	₩ 14,629	₩ 245,980	₩ 16,119

7.2 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Equity instruments:		
Listed equity securities		
GL Pharm Tech Corporation	₩ 510	₩ 387
Unlisted equity securities		
Welskin Co., Ltd.	48	48
The Korea Economic Daily	81	81
Biogenics Inc.	66	598
	₩ 705	₩ 1,114

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.

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Changes in financial assets at fair value through other comprehensive income for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	1,114	₩	2,689
Disposals		-		(1,069)
Loss on valuation		(409)		(506)
Ending balance	₩	705	₩	1,114

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, Other financial assets at amortized cost

Trade receivables and its provisions for impairment as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Trade receivables	₩	286,727	₩	368,160
Less: provision for impairment of trade receivables		(2,957)		(2,276)
Trade receivables, net	₩	283,770	₩	365,884

Other receivables and its provisions for impairment as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020				2019			
	Current		Non-current		Current		Non-current	
Non-trade receivables	₩	12,352	₩	-	₩	22,037	₩	-
Financial lease receivables		1,248		3,164		2,546		3,747
Loans		1,059		18,867		3		22,459
Deposits provided		10,266		78,516		8,376		118,959
Less: provision for impairment of other receivables		(201)		-		(477)		-
	₩	24,724	₩	100,547	₩	32,485	₩	145,165

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Other financial assets at amortized cost and its provisions for impairment as at December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

	2020		2019	
	Current	Non-current	Current	Non-current
Current financial deposits	₩ 43,382	₩ -	₩ 32,500	₩ -
Non-current financial deposits	-	4,057	-	4,426
Government bonds	-	2,125	-	2,131
Accrued income	123	-	411	-
	₩ 43,505	₩ 6,182	₩ 32,911	₩ 6,557

Movements on the provision for impairment of trade receivables for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
(in millions of Korean won)		
Beginning balance	₩ 2,276	₩ 2,715
Impairment loss(reversal)	1,383	(172)
Receivables written off	(291)	(317)
Exchange differences	(411)	50
Ending balance	₩ 2,957	₩ 2,276

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, 2020 and 2019 are as follows:

	2020	2019
(in millions of Korean won)		
Merchandise and Finished goods	₩ 304,705	₩ 334,925
Raw materials	36,420	41,313
Subsidiary materials	24,536	25,220
Others	48,822	51,131
	₩ 414,483	₩ 452,589

The amount of inventories recognized as an expense during the year ended December 31, 2020 amounts to ₩ 1,039,646 million (2019: ₩ 1,217,795 million).

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Loss on valuation of inventories and loss on disposal of inventories for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)	2020		2019	
	₩		₩	
Loss on valuation/disposal of inventories		38,418		44,647

9. Associates

Detail of associate as at December 31, 2020 and 2019 is as follows:

(in millions of Korean won)	Location	Primary business	2020		2019	
			Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
Taiwan AMORE Co.,Ltd.	Taiwan	Marketing of cosmetics	50	2,152	50	2,160
Rationale Group Pty Ltd	Australia	Manufacturing and marketing of cosmetics	49	50,362	-	-
				₩ 52,514		₩ 2,160

Changes in investments in associate for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)	2020		
	Taiwan AMORE Co.,Ltd.	Rationale Group Pty Ltd	Total
Beginning balance	₩ 2,160	₩ -	₩ 2,160
Acquisition ¹	-	49,003	49,003
Share of profit or loss of associates	(15)	675	660
Share of other comprehensive income of associates	142	-	142
Dividends received	(4)	-	(4)
Exchange differences	(131)	684	553
Ending balance	₩ 2,152	₩ 50,362	₩ 52,514

¹ In 2020, the Group acquired an 49.0% of shares of Rationale Group Pty Ltd.

(in millions of Korean won)	2019	
	Taiwan AMORE Co.,Ltd.	Total
Beginning balance	₩ 2,346	₩ 2,346
Acquisition	-	-
Share of profit or loss of associates	(301)	(301)
Share of other comprehensive income of associates	19	19
Exchange differences	96	96
Ending balance	₩ 2,160	₩ 2,160

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Summary of financial information of associate as at and for the years ended December 31, 2020 and 2019 is as follows:

(in millions of Korean won)

	2020			
	Taiwan AMORE Co.,Ltd.		Rationale Group Pty Ltd	
Current assets	₩	4,460	₩	21,199
Non-current assets		519		10,328
Current liabilities		567		4,544
Non-current liabilities		107		6,143
Revenue	₩	4,568	₩	12,577
Operating profit (loss)		(74)		4,613
Profit (loss) for the period		(31)		2,213

(in millions of Korean won)

	2019	
	Taiwan AMORE Co.,Ltd.	
Current assets	₩	4,448
Non-current assets		492
Current liabilities		389
Non-current liabilities		231
Revenue	₩	4,663
Operating profit		20
Loss for the period		(603)

The tables below provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the associates.

(in millions of Korean won)

	2020					
	Net assets at the end of the year (a)		Group's share in % (b)	Group's share in KRW(a*b)	Goodwill and others	Book amount
Taiwan AMORE Co.,Ltd.	₩	4,305	50	₩ 2,152	₩ -	₩ 2,152
Rationale Group Pty Ltd		20,840	49	10,212	40,150	50,362

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Korean won)

	2019				
	Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Goodwill and others	Book amount
Taiwan AMORE Co.,Ltd.	₩ 4,320	50	₩ 2,160	₩ -	₩ 2,160

10. Property, Plant and Equipment

Details of property, plant and equipment as at December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

	2020			2019		
	Cost	Accumulated depreciation ¹	Carrying amount	Cost	Accumulated depreciation ¹	Carrying amount
Land	₩ 831,524	₩ -	₩ 831,524	₩ 853,556	₩ -	₩ 853,556
Buildings	1,418,038	(261,300)	1,156,738	1,357,773	(222,103)	1,135,670
Structures	69,178	(30,986)	38,192	71,139	(27,158)	43,981
Machinery	546,867	(279,142)	267,725	522,959	(243,539)	279,420
Vehicles	2,121	(1,737)	384	2,114	(1,633)	481
Tools	153,457	(128,803)	24,654	145,473	(119,260)	26,213
Fixtures and furniture	818,202	(587,163)	231,039	860,701	(571,921)	288,780
Others	4,190	(2,779)	1,411	917	(500)	417
Construction in progress	14,661	-	14,661	33,324	-	33,324
	₩ 3,858,238	₩ (1,291,910)	₩ 2,566,328	₩ 3,847,956	₩ (1,186,114)	₩ 2,661,842

¹ Accumulated impairment losses are included.

Changes in property, plant and equipment for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

	2020							
	Beginning balance	Acquisition	Reclassification	Disposal	Impairment loss ¹	Depreciation	Exchange differences	Ending balance
Land	₩ 853,556	₩ 5,826	₩ (9,328)	₩ (18,530)	₩ -	₩ -	₩ -	₩ 831,524
Buildings	1,135,670	44,481	14,800	(9)	-	(39,219)	1,015	1,156,738
Structures	43,981	2,590	(2,659)	(250)	(562)	(4,435)	(473)	38,192
Machinery	279,420	21,104	8,318	(257)	-	(41,164)	303	267,725
Vehicles	481	72	-	-	-	(170)	-	384
Tools	26,213	14,463	(507)	(108)	-	(15,478)	70	24,654
Fixtures and furniture	288,780	68,633	13,731	(16,083)	(3,480)	(120,384)	(158)	231,040
Other	417	175	2,623	(588)	-	(1,178)	(38)	1411
Construction in progress	33,324	16,205	(33,215)	(78)	(1,707)	-	131	14,661
	₩ 2,661,842	₩ 173,551	₩ (6,236)	₩ (35,903)	₩ (5,749)	₩ (222,027)	₩ 850	₩ 2,566,328

¹ During 2020, in AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited, 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 ₩ 1,727 million on Property, Plant and Equipment (Note 1.3). and ₩ 4,022 million is recognized as impairment on individual assets.

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2019

	Beginning balance	Acquisition	Reclassification	Disposal	Impairment loss ¹	Depreciation	Others	Exchange differences	Ending balance
Land	₩ 835,361	₩ 1,651	₩ 18,159	₩ (2,778)	₩ -	₩ -	₩ -	₩ 1,163	₩ 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)	-	(5,064)	-	179	43,981
Machinery	319,815	11,853	(10,297)	(983)	-	(41,524)	-	556	279,420
Vehicles	493	178	-	-	-	(190)	-	-	481
Tools	27,361	14,564	339	(132)	-	(16,014)	-	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

¹ During 2019, in AMOREPACIFIC US, INC, AMOREPACIFIC Global Operations Limited 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 (Note 1.3).

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

(in millions of Korean won)	2020	2019
Selling and administrative expenses ¹	₩ 159,584	₩ 172,400
Cost of sales	62,443	65,510
	₩ 222,027	₩ 237,910

¹ The amount includes depreciation expense allocated to research and development expense.

Details of property, plant and equipment provided as collaterals as at December 31, 2020 and 2019 are as follows:

2020					
(in millions of Korean won)	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	₩ 19,299	151	Leasehold deposits received	116	National Human Rights Commission of Korea
Buildings		50	Leasehold deposits received	50	Korea Fire Facility Association
Buildings	15,710	3,594	Leasehold deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings		719	Leasehold deposits received	719	Korea Workers' Compensation & Welfare Service
Buildings	3,040	102	Leasehold deposits received	102	Hanwha General Insurance Co., Ltd.
2019					
(in millions of Korean won)	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

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11. Intangible Assets

Changes in intangible assets for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)	2020				
	Goodwill	Industrial property	Software	Others	Total
Beginning balance	₩ 17,266	₩ 28,712	₩ 137,945	₩ 42,594	₩ 226,517
Acquisition	-	-	17,121	14,862	31,984
Reclassification	-	4,726	10,735	(15,347)	115
Disposal	-	(52)	(381)	(1,993)	(2,425)
Impairment loss ¹	(8,456)	-	(51)	(1,251)	(9,758)
Amortization	-	(3,290)	(33,898)	(513)	(37,702)
Exchange differences	(47)	84	(216)	223	44
Ending balance	₩ 8,763	₩ 30,180	₩ 131,255	₩ 38,576	₩ 208,774

¹ During 2020, in AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited, 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 ₩ 8,501 million on Intangible assets (Note 1.3) and ₩ 1,257 million is recognized as impairment on individual assets.

(in millions of Korean won)	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)
Impairment loss ¹	(6,271)	-	(6,442)	(774)	(13,487)
Amortization	-	(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

¹ During 2019, in AMOREPACIFIC US, INC, AMOREPACIFIC Global Operations Limited 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 ₩ 6,442 million on Intangible assets (Note 1.3) and ₩ 6,271 million and ₩ 774 million are recognized as goodwill and impairment on individual assets, respectively.

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Allocation details of amortization of intangible assets are as following:

	2020		2019	
Selling and administrative expenses ¹	₩	35,157	₩	34,123
Cost of sales		2,545		2,065
	₩	37,702	₩	36,188

¹ 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>	2020		2019	
AMOREPACIFIC Hong Kong Co., Limited ¹	₩	-	₩	8,263
AMOREPACIFIC Trading Co., Ltd.		4,059		4,030
Others' CGU		4,704		4,973
	₩	8,763	₩	17,266

¹ During 2020, as a result of impairment test for goodwill, impairment loss of ₩ 8,456 million was recognized because the carrying amount of AMOREPACIFIC Hong Kong exceeded the recoverable amount.

The recoverable amounts of all CGUs have been determined based on value-in-use calculations reflecting future business plans approved by management, and the key assumptions used for value-in-use calculations in 2020 are as follows:

	AMOREPACIFIC Trading Co., Ltd.	AMOREPACIFIC Hong Kong Co., Limited
Gross margin rate	55.01%	76.60%
Growth rate ¹	11.63%	4.69%
Weight average cost of capital	15.11%	10.63%
Perpetual growth rate	-	-

¹ 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.

12. Investment Properties

Details of investment property as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020			2019		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Land	₩ 243,445	₩ -	₩ 243,445	₩ 238,715	₩ -	₩ 238,715
Buildings	271,734	(27,632)	244,102	271,734	(20,087)	251,647
Right-of-use assets	1,992	(724)	1,268	3,708	(1,059)	2,649
	₩ 517,171	₩ (28,356)	₩ 488,815	₩ 514,157	₩ (21,146)	₩ 493,011

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Changes in investment property for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020			
	Land	Building	Right-of-use assets	Total
Beginning balance	₩ 238,715	₩ 251,647	₩ 2,649	₩ 493,011
Reclassification	9,328	-	(694)	8,634
Depreciation	-	(7,545)	(687)	(8,232)
Impairment loss ¹	(3,716)	-	-	(3,716)
Others	-	-	-	-
Exchange differences	(882)	-	-	(882)
Ending balance	₩ 243,445	₩ 244,102	₩ 1,268	₩ 488,815

<i>(in millions of Korean won)</i>	2019			
	Land	Building	Right-of-use assets	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 ¹	(5,572)	-	-	(5,572)
Others	-	(2,131)	-	(2,131)
Exchange differences	54	-	-	54
Ending balance	₩ 238,715	₩ 251,647	₩ 2,649	₩ 493,011

¹During 2020, ₩ 3,716 million is recognized as impairment on individual assets (2019: ₩ 5,572 million).

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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Cost	₩ 1,992	₩ 3,708
Accumulated depreciation	(725)	(1,059)
Carrying amount	₩ 1,268	₩ 2,649

The fair value of investment property as at December 31, 2020, is ₩ 575,977 million (2019: ₩ 527,180 million).

The amount recognized as income and expenses in relation to investment property are ₩ 30,043 million, (2019: ₩ 30,917 million) and ₩ 7,372 million (2019: ₩ 7,297 million) million respectively, for the year ended December 31, 2020.

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The contractual future cash inflows expected to be received in relation to the providing operating leases for investment property as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Within one year	₩	33,834	₩	34,364
Between 1 and 5 years		81,097		95,033
Later than five years		36,226		53,221
	₩	151,157	₩	182,618

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 years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance	₩ 14,898	₩ 413,804	₩ 1,824	₩ 1,869	₩ 432,396
Acquisition	-	100,545	48	360	100,953
Remeasurement	532	10	(47)	711	1,206
Disposal	-	(75,183)	(22)	(20)	(75,224)
Reclassification	-	(2,503)	-	-	(2,503)
Impairment loss ¹	-	(40,295)	(45)	-	(40,341)
Depreciation	(420)	(188,498)	(706)	(941)	(190,565)
Exchange differences	86	1,441	(8)	12	1,531
Ending balance	₩ 15,096	₩ 209,321	₩ 1,045	₩ 1,991	₩ 227,453

¹ During 2020, in AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited, 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 ₩ 10,965 million on in-right-of-use assets (Note 1.3) and ₩ 29,376 million is recognized as impairment on individual assets.

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(in millions of Korean won)	2019				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance ¹	₩ 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 ²	-	(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

¹ The beginning balance is the amount recognized by applying Korean IFRS 1116 Leases.

² During 2019, in AMOREPACIFIC US, INC, AMOREPACIFIC Global Operations Limited 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 ₩ 25,252 million on in-right-of-use assets (Note 1.3).

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

(in millions of Korean won)	2020	2019
Selling and administrative expenses	₩ 189,893	₩ 202,679
Cost of sales	672	530
	₩ 190,565	₩ 203,209

The total of future minimum lease payments to the lessor as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	2020	2019
Total minimum lease payments		
Within one year	₩ 136,775	₩ 205,050
Later than one year but not later than five years	127,452	254,306
Later than five years	21,846	42,987
	286,073	502,343
Unearned finance income	(19,457)	(36,829)
Net minimum lease payments		
Within one year	132,867	197,592
Later than one year but not later than five years	118,914	237,482
Later than five years	14,834	30,440
	₩ 266,616	₩ 465,514

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As of December 31, 2020, the sum of the total minimum lease payments that is expected to be received by sub-lease is ₩ 4,843 million (2019: ₩ 6,899 million). The lease contracts have 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 profit or loss shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>		2020		2019
Interest expense relating to lease liabilities	₩	14,970	₩	17,238
Expense relating to short-term leases		5,219		62,269
Expense relating to leases of low-value assets that are not short-term leases		5,077		4,825
Expense relating to variable lease payments not included in lease liabilities		609,292		952,550

The total cash outflow of leases in 2020 is ₩ 841,316 million (2019: ₩ 1,222,511 million).

As described in Note 2.1, the Group uses the following practical expedient permitted in the standard, with initially applying the amendment of Korean IFRS 1116:

- Do not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification.

The Group uses a practical expedient that does not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Accordingly, the Group recognized ₩ 20,302 million in profit or loss during the year ended December 31, 2020, to reflect changes in lease payments that arise from a rent concession to which the lessee has applied the practical expedient.

Details of financial lease receivables as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Financial lease receivables:			
Principal of the receivables:	₩	4,806	6,736
Deferred loan costs(gain)		(394)	(443)
Less: provision for impairment		-	-
Carrying amount		4,412	6,293
Terminated		-	-
		4,412	6,293

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The total lease investment and the present value of minimum lease payments of the finance leases provided as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Total lease investment	Present value of minimum lease payments	Total lease investment	Present value of minimum lease payments
Within one year	₩ 1,272	₩ 1,248	₩ 2,592	₩ 2,546
Later than one year but not later than five years	3,533	3,164	4,028	3,597
Later than five year	-	-	116	92
	<u>₩ 4,805</u>	<u>₩ 4,412</u>	<u>₩ 6,736</u>	<u>₩ 6,235</u>

The unearned interest income of the finance leases provided as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Total lease investment	₩ 4,805	6,736
Net lease investment		
Present value of minimum lease payments	4,412	6,235
Present value of unguaranteed residual value	-	58
	<u>4,412</u>	<u>6,293</u>
Unearned interest income	<u>393</u>	<u>443</u>

14. Other Assets

Details of other assets as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 123	₩ -	₩ 411	₩ -
Advance payments	20,732	-	15,397	-
Prepaid expenses	35,448	16,714	42,011	22,261
Prepaid value added tax	3,643	-	6,459	-
Others	5,500	-	2,109	-
	<u>₩ 65,446</u>	<u>₩ 16,714</u>	<u>₩ 66,387</u>	<u>₩ 22,261</u>

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15. Borrowings

Details of borrowings as at December 31, 2020 and 2019 are as follows:

(in millions of Korean won, EUR, USD, JPY, HKD, AED, INR and AUD)		Interest rate (%) December 31, 2020	2020	2019
	Creditor			
Short-term borrowings				
Bank overdrafts of EUR 1,900,594 (2019: EUR 477,277)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.7	₩ 2,543	₩ 619
Bank overdrafts of EUR 3,919,826 (2019: EUR 5,857,564)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.5	5,246	7,600
Loans for working capital of USD 33,500,000	Citibank N.A	LIBOR 3M + 1.8	36,449	-
Loans for working capital of JPY 1,700,000,000 (2019: JPY 1,100,000,000)	Bank of Tokyo- Mitsubishi UFJ, Ltd. Azabu Branch	Tibor1M + 0.2	17,922	11,698
Loans for working capital of EUR 7,000,000 (2019: EUR 7,000,000)	Citibank N.A France	MAX(EURIBOR 3M, 0) + 1.05	9,368	9,082
Loans for working capital of HKD 130,000,000 (2019: HKD 70,000,000)	DBS BANK LTD., HONG KONG BRANCH	HIBOR 3M + 0.45	18,245	10,406
Loans for working capital of EUR 3,000,000 (2019: EUR 6,000,000)	Citibank N.A France	(EURIBOR 3M, 0) + 1.05	4,015	7,785
Loans for working capital of HKD 313,000,000	CITI N.A HONG KONG	1.50	43,929	-
Loans for working capital of EUR 3,000,000	KEB Hana Bank Paris Branch	(EURIBOR 3M, 0) + 0.88	4,015	-
Loans for working capital of AUD 7,000,000	Citibank N.A. Sydney Branch	BBSY 3M + 0.80	5,856	-
Loans for working capital of AED 1,500,000	Citibank N.A. United Arab Emirates	EIBOR 3M + 1.90	444	-
Loans for working capital of INR 70,000,000	Citibank India	1M T Bill + 2.81	1,040	-
Loans for working capital of USD 4,000,000	Citibank N.A. Indonesia	LIBOR 3M +1.25	4,379	-
Loans from related parties (2019: USD 4,500,000)	Innisfree Corporation	-	-	5,210
Bank overdrafts	Woori Bank	4.62	209	266
Other loans	Nara Technology Corporation	4.60	500	150
			<u>154,160</u>	<u>52,816</u>
Long-term borrowings				
Loans for working capital (2019: HKD 313,000,000)	CITI N.A HONG KONG	-	-	46,531
			-	46,531
			<u>₩ 154,160</u>	<u>₩ 99,347</u>

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16. Provisions

Changes of provisions for liabilities and charges for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)	2020									
	Current					Non-current				
	Refund liabilities	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total		
Beginning	₩ 2,786	₩ 6,205	1,973	₩ 1,908	₩ 12,872	₩ 7,694	₩ 11,442	₩ 19,136		
Increase	-	-	-	1,534	1,534	269	-	269		
Decrease	(2,866)	(480)	(1,220)	(1,225)	(5,791)	-	(1,986)	(1,986)		
Exchange differences	80	12	-	(55)	37	-	1,199	1,199		
Ending	₩ -	₩ 5,737	₩ 753	₩ 2,162	₩ 8,652	₩ 7,963	₩ 10,655	₩ 18,618		

(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	₩ 7,622	₩ 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	-	(63)	115	-	2	2		
Ending	₩ 2,786	₩ 6,205	₩ 1,973	₩ 1,908	₩ 12,872	₩ 7,694	₩ 11,442	₩ 19,136		

17. Contract liabilities

Changes in contract liabilities for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)	2020		
	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 32,741	₩ 17,318	₩ 50,059
Increase/decrease	(4,842)	(2,942)	(7,784)
Ending balance	₩ 27,899	₩ 14,376	₩ 42,275

(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

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18. Other Liabilities

Details of other liabilities as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Current	Non-current	Current	Non-current
Withholdings	₩ 23,528	₩ -	₩ 22,161	₩ -
Value added tax withheld	15,753	-	24,581	-
Advances from customers	3,081	-	3,433	-
Deposits received	4,524	24,994	-	31,085
Accrued expenses	170,130	253	137,992	205
Finance lease liabilities	439	-	415	-
Dividends payable	5,857	-	6,293	-
Others	5,203	54	7,157	96
	<u>₩ 228,515</u>	<u>₩ 25,301</u>	<u>₩ 202,032</u>	<u>₩ 31,386</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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Present value of funded defined benefit obligations	₩ 337,419	₩ 319,534
Present value of unfunded defined benefit obligations	3,832	3,424
	<u>341,251</u>	<u>322,958</u>
Fair value of plan assets ¹	<u>(448,053)</u>	<u>(425,632)</u>
Net defined benefit liabilities (assets)	<u>₩ (106,802)</u>	<u>₩ (102,674)</u>

¹ The contributions to the National Pension Fund of ₩ 46 million (2019: ₩ 102 million) are included in the fair value of plan assets as at December 31, 2020.

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Changes in the defined benefit obligations for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	322,958	₩	297,376
Current service cost		34,053		32,648
Interest expense		9,804		9,071
Remeasurements:				
Actuarial gain(loss) from changes in demographic assumptions		-		(2)
Actuarial gain(loss) from changes in financial assumptions		(19,735)		264
Actuarial gain(loss) from experience adjustments		5,096		7,175
Exchange differences		71		61
Payments from plans:				
Benefit payments		(11,572)		(21,956)
Transfer to associates		576		(1,679)
Ending balance	₩	341,251	₩	322,958

Changes in the fair value of plan assets for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	425,632	₩	352,694
Interest income		13,197		10,614
Remeasurements:				
Return on plan assets		(4,829)		(4,443)
Contributions:				
Employers		25,110		90,300
Payments from plans:				
Benefit payments		(11,625)		(21,974)
Transfer to associates		568		(1,559)
Ending balance	₩	448,053	₩	425,632

The significant actuarial assumptions as at December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	3.15~3.18%	3.18~3.19%
Salary growth rate	2.10%	3.00%

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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	6.91% decrease	7.90% increase
Salary growth rate	1.00%P	7.90% increase	7.11% 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, 2020 and 2019 consist of:

(in millions of Korean won)	2020		2019	
	Unquoted price	Composition	Unquoted price	Composition
Deposits	₩ 448,006	99.99 %	₩ 425,530	99.98 %
National Pension Fund	46	0.01 %	102	0.02 %
	<u>448,052</u>	<u>100.00 %</u>	<u>₩ 425,632</u>	<u>100.00 %</u>

The weighted average maturity of the defined benefit obligation is 7.72 years and the expected maturity analysis of the undiscounted pension benefits for the next 10 years as at December 31, 2020, is as follows:

(in millions of Korean won)	Less than 1 year ¹	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
Pension benefits	₩ 32,367	₩ 30,895	₩ 94,044	₩ 177,436	₩ 334,741

¹ Pension benefits for less than 1 year do not include payable amount for retirees as of the end of December.

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, 2021, are ₩ 37,167 million (2020: ₩ 44,668 million).

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19.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 528 million (2019: ₩ 454 million).

20. Other Components of Equity

Other components of equity as at December 31, 2020 and 2019 consist of:

<i>(in millions of Korean won)</i>	<u>2020</u>	<u>2019</u>
Treasury stock ¹	₩ (101,389)	₩ (101,389)
Other capital adjustments	(16,243)	(16,243)
	<u>₩ (117,632)</u>	<u>₩ (117,632)</u>

¹ The Group holds 509,088 ordinary shares and 6,217 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, 2020 and 2019 consists of the following:

<i>(in millions of Korean won)</i>	<u>2020</u>	<u>2019</u>
Changes in financial assets at fair value through other comprehensive income	₩ (274)	₩ 32
Exchange differences on transaction of foreign operations	(20,278)	(24,856)
Share of other comprehensive income of associates	273	145
	<u>₩ (20,279)</u>	<u>₩ (24,679)</u>

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Changes in accumulated other comprehensive income for the years ended December 31, 2020 and 2019 are as follows:

		2020				
<i>(in millions of Korean won)</i>		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	₩	33	₩ (307)	₩ -	₩ -	₩ (274)
Exchange differences on transaction of foreign operations		(24,857)	5,028	-	(449)	(20,278)
Share of other comprehensive income of associates		145	142	-	(14)	273
	₩	(24,679)	₩ 4,863	₩ -	₩ (463)	₩ (20,279)

		2019				
<i>(in millions of Korean won)</i>		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)	16,611	-	235	(24,856)
Share of other comprehensive income of associates		128	19	-	(2)	145
	₩	(41,312)	₩ 16,204	₩ 196	₩ 233	₩ (24,679)

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

22. Retained Earnings

Retained earnings as at December 31, 2020 and 2019 consists of:

<i>(in millions of Korean won)</i>	2020	2019
Legal reserves ¹	₩ 18,306	₩ 18,306
Discretionary reserves	2,109,000	2,109,000
Retained earnings before appropriation	1,720,441	1,746,484
	₩ 3,847,747	₩ 3,873,790

¹ 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).

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23. Dividends

The dividends paid in 2020 and 2019 are as follows:

	2020				2019			
	Ordinary shares		Preferred shares		Ordinary shares		Preferred shares	
Dividends paid	₩	57,949 million	₩	10,604 million	₩	68,942 million	₩	12,504 million
Dividends per share (in Korean won)		1,000		1,005		1,180		1,185

Dividends in respect of the year ended December 31, 2020, of ₩ 800 per ordinary share and ₩ 805 per preferred share, amounting to a total dividend of ₩ 46,360 million on ordinary shares and ₩ 8,494 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 19, 2021. The financial statements for the year ended December 31, 2020 do not reflect the dividend payable.

24. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2020 and 2019 consists of:

<i>(in millions of Korean won)</i>	2020	2019
Current tax	₩ 27,794	₩ 135,463
Deferred tax	(24,370)	11,378
Income tax expense	₩ 3,424	₩ 146,841

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:

<i>(in millions of Korean won)</i>	2020	2019
Profit before income tax expense	₩ 25,293	₩ 370,602
Tax at domestic tax rates applicable to profits in the respective countries	5,883	91,913
Tax effects of:		
Income not subject to tax	(1,731)	(8,035)
Expenses not deductible for tax purposes	9,084	25,319
Changes in previously unrecognized deferred tax	10,599	32,096
Tax credits	(516)	(378)
Adjustments in respect of prior years	(14,723)	(2,017)
Others	(5,172)	7,943
Income tax expense	₩ 3,424	₩ 146,841

The weighted average applicable tax rate of the Group was 13.54% (2019: 39.62%).

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The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2020 and 2019 is as follows:

<i>(in millions of Korean won)</i>	2020			2019		
	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	₩ (408)	₩ 101	₩ (307)	₩ (506)	₩ 80	₩ (426)
Remeasurements	9,809	(2,430)	7,379	(11,880)	2,963	(8,917)
Share of other comprehensive income of associates	142	-	142	19	-	19
Exchange differences on transaction of foreign operations	5,028	-	5,028	16,611	-	16,611
	₩ 14,571	₩ (2,329)	₩ 12,242	₩ 4,244	₩ 3,043	₩ 7,287

The period analysis of deferred tax assets and liabilities as at December 31, 2020 and 2019 is as follows:

<i>(in millions of Korean won)</i>	2020	2019
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 142,996	₩ 187,989
Deferred tax asset to be recovered within 12 months	64,113	59,194
Deferred tax liabilities		
Deferred tax liability to be settled after more than 12 months	(212,994)	(274,487)
Deferred tax liability to be settled within 12 months	(1,300)	(1,722)
Deferred tax liabilities, net	₩ (7,185)	₩ (29,026)

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:

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(in millions of Korean won)	2020				
	Beginning balance	Statement of profit or loss	Other comprehensive income or loss	Exchange differences	Ending balance
Deferred tax assets(liabilities)					
Trade receivables	₩ 1,901	₩ 1,277	₩ -	₩ (33)	₩ 3,145
Inventories	13,864	(2,335)	-	(2)	11,527
Lease liabilities	51,188	(47,829)	-	1,174	4,533
Property, plant and equipment	(71,803)	13,028	-	(24)	(58,799)
Intangible assets	(4,470)	1,000	-	(62)	(3,532)
Financial assets at fair value through other comprehensive income	606	(9)	101	-	698
Investments in subsidiaries	516	2,779	-	48	3,343
Contracts liabilities	7,577	(877)	-	(5)	6,695
Retirement benefit obligations	69,966	(3,432)	(3,663)	17	62,888
Accrued expenses	32,993	2,987	-	170	36,150
Tax loss carryforwards	12,910	8,312	-	(194)	21,028
Plan assets	(107,567)	6,087	1,233	-	(100,247)
Right-of-use assets	(50,065)	46,832	-	(1,134)	(4,367)
Others	13,358	(3,450)	-	(155)	9,753
	₩ (29,026)	₩ 24,370	₩ (2,329)	₩ (200)	₩ (7,185)

(in millions of Korean won)	2019				
	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
	₩ (21,242)	₩ (11,378)	₩ 3,043	₩ 551	₩ (29,026)

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 ₩ 289,761 million in respect of losses that can be carried forward against future taxable income.

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The maturity of unused tax losses is as follows:

<i>(in millions of Korean won)</i>	2020
2021 ~ 2022	₩ 85
2023 ~ 2038	66,959
No limit	222,717
	₩ 289,761

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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Taxable temporary profits	₩ -	₩ (69,329)
Taxable temporary losses	30,400	-
	₩ 30,400	₩ (69,329)

25. Revenue

Revenue of the Group for the years ended December 31, 2020 and 2019 consists of the following:

<i>(in millions of Korean won)</i>	2020	2019
Sales of goods	₩ 4,352,316	₩ 5,493,134
Rendering of services	41,497	46,419
Others		
Rental income	35,830	37,583
Royalty income	5	154
Others	2,531	2,852
	38,366	40,589
	₩ 4,432,179	₩ 5,580,142

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26. Classification based on the nature of expenses

Classification based on the nature of expenses for the years ended December 31, 2020 and 2019 is as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Changes in inventories	₩	38,106	₩	(49,284)
Purchase of raw materials and merchandise		995,767		1,267,079
Employee benefits expenses		790,732		779,003
Depreciation and amortization ¹		458,352		485,320
Advertising expense, promotional expense		510,936		652,241
Commission expense		460,475		511,969
Distribution commission		697,754		1,018,217
Other expenses		337,047		487,763
Total ²	₩	4,289,170	₩	5,152,308

¹ Depreciation of investment properties and right-of-use assets is included.

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

27. Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Salaries and retirement benefits	₩	560,963	₩	527,668
Employee benefits		95,635		107,184
Advertising expense, promotional expense		510,936		652,241
Depreciation and amortization ¹		384,061		407,793
Commission expense		403,341		446,045
Distribution commission		697,754		1,018,217
Freight expense		94,277		102,327
Taxes and dues		31,185		34,319
Research and development		89,073		96,391
Other		156,547		259,607
	₩	3,023,772	₩	3,651,792

¹ Depreciation of investment properties and right-of-use assets is included.

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28. Finance Income and Costs

Details of financial income and costs for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Finance income				
Interest income	₩	5,855	₩	12,757
Interest income of others		611		157
Gain of valuation of financial assets at fair value through profit or loss		5,417		1,825
	₩	<u>11,883</u>	₩	<u>14,739</u>
Finance costs				
Interest expense of financial assets at amortized costs	₩	(2,048)	₩	(2,739)
Interest expense of others		(14,979)		(17,238)
	₩	<u>(17,027)</u>	₩	<u>(19,977)</u>

29. Other Non-operating Gain (Loss)

Details of other non-operating gain (loss) for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Other non-operating income				
Gain on foreign currency transactions	₩	48,110	₩	23,281
Gain on foreign currency translation		8,285		3,783
Gain on disposal of property, plant and equipment		5,853		414
Gain on disposal of intangible assets		253		1,432
Gain on disposal of right-of-use assets		16,010		340
Dividend income		-		39
Others		4,531		49,399
		<u>83,042</u>		<u>78,688</u>
Other non-operating expenses				
Loss on foreign currency transactions		(53,226)		(17,536)
Loss on foreign currency translation		(15,341)		(6,743)
Loss on disposal of property, plant and equipment		(16,986)		(10,355)
Loss on disposal of intangible assets		(2,329)		(2,799)
Loss on disposal of right-of-use assets		(5,016)		(5,348)
Impairment losses of property, plant and equipment		(5,749)		(17,857)
Impairment losses of intangible assets		(9,758)		(13,487)
Impairment losses of right-of-use assets		(40,341)		(25,252)
Impairment losses of investment properties		(3,716)		(5,572)
Donations		(12,396)		(13,542)
Others		(31,416)		(11,890)
		<u>(196,274)</u>		<u>(130,381)</u>
	₩	<u>(113,232)</u>	₩	<u>(51,693)</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, 2020 and 2019 is as follows:

<i>(in millions of Korean won)</i>		2020	2019
Profit attributable to owners of the Parent Company	₩	35,132	238,804
Profit attributable to ordinary shares		29,676	201,975
Weighted average number of ordinary shares outstanding (unit: shares)		57,949,402	58,082,955
Basic earnings per ordinary share (in Korean won)	₩	512	3,477

Basic earnings per preferred share¹ for the years ended December 31, 2020 and 2019 is as follows:

<i>(in millions of Korean won)</i>		2020		2019
Profit attributable to owners of the Parent Company	₩	35,132	₩	238,804
Profit attributable to preferred shares		5,456		36,829
Weighted average number of preferred shares outstanding (unit: shares)		10,551,613		10,551,614
Basic earnings per preferred share (in Korean won)	₩	517	₩	3,490

¹Although 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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Profit for the period	₩ 21,869	₩ 223,761
Adjustments for:	608,834	795,172
Finance costs, net	10,561	7,063
Loss on foreign currency translation, net	7,057	2,960
Gain on foreign currency transactions, net	-	(913)
Depreciation and amortization ¹	458,525	485,492
Loss on disposal of property, plant and equipment and intangible assets	13,209	11,308
Loss (gain) on disposal of right-of-use assets	(10,994)	5,008
Impairment loss of property, plant and equipment and intangible assets	15,507	31,344
Impairment loss of Investment properties	3,716	5,572
Impairment loss of right-of-use assets	40,341	25,252
Gain on valuation of financial assets at fair value through profit or loss	(5,417)	(1,825)
Income tax expense	3,424	146,841
Share of profit or loss of associates	(660)	301
Retirement benefits	30,660	31,105
Loss on disposal and valuation of inventories	38,418	44,647
Others	4,487	1,017
Changes in assets and liabilities from operating activities	39,754	(161,409)
Decrease (increase) in trade receivables	69,811	(83,039)
Decrease in other receivables	11,882	14,895
Increase in inventories	(312)	(93,931)
Decrease (increase) in other assets	6,104	(19,216)
Increase (decrease) in trade payables	(47,868)	62,148
Increase in other payables	17,455	35,364
Decrease in Contract liabilities	(7,783)	(6,119)
Increase (decrease) in provisions	(5,298)	7,140
Increase in other liabilities	20,812	11,751
Retirement benefits payment	(11,572)	(21,956)
Net transfer-in (transfer-out) of post-employment benefits of associates	576	(1,679)
Increase in plan assets, net	(14,053)	(66,767)
Cash generated from operations	₩ 670,457	₩ 857,524

¹ 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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Reclassification of construction in-progress to property, plant and equipment	₩	33,215	₩	119,928
Reclassification of construction in-progress to Intangible assets		15,347		46,349
Reclassification of intangible assets to right-of-use assets		-		10,812
Reclassification of investment property to property, plant and equipment		-		24,839
Reclassification of property, plant and equipment to investment property		9,328		28,882
Reclassification of right-of-use assets to investment property		(695)		3,363
Reclassification of right-of-use assets to property, plant and equipment		3,198		-
Increase in right-of-use as recognition of lease liabilities		26,935		238,234
Non-trade payables related to the acquisition of property, plant and equipment and intangible assets		20,827		30,298

Changes in liabilities arising from financing activities for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	Short-term borrowings		Current portion of long-term borrowings¹		Long-term borrowings		Lease liabilities		Total
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
At January 1, 2020	₩	52,816	₩	46,531	₩	-	465,514	₩	564,861
Current portion transfer		-		-		-	24,159		24,159
Cash flows (interest expenses)		-		-		-	(14,970)		(14,970)
Cash flows		110,470		(49,003)		-	(206,758)		(145,291)
Exchange differences		(9,126)		2,472		-	(1,329)		(7,983)
At December 31, 2020	₩	154,160	₩	-	₩	-	266,616	₩	420,776

¹ 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, 2020 and 2019 are as follows:

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

Financial institution	Commitment	2020		2019	
		Limit	Outstanding balance	Limit	Outstanding balance
WOORI BANK	Electronic loan agreement	₩ 4,300	₩ 83	₩ 5,400	₩ 222
	Letter of credit	USD 4,000	₩ 277	USD 4,000	-

At the end of reporting period, Seoul Guarantee Insurance has provided the Group with payment guarantees such as performance guarantees and others amounting to ₩ 50,526 million (2019: ₩ 83,146 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, 2020 and 2019 are as follows:

(in millions of Korean won and thousands of USD, EUR, HKD, JPY, CAD, AED, INR, PHP and AUD)

Financial institution	Commitment	2020		2019	
		Limit	Outstanding balance	Limit	Outstanding balance
Amorepacific Global Operations Limited.	CITI N.A	Long-term	-	-	HKD 313,000
	HONG KONG	borrowings	-	-	HKD 313,000
	CITI N.A	Short-term	HKD 313,000	HKD 313,000	-
	HONG KONG	borrowings	-	-	-
	DBS BANK LTD., HONG KONG BRANCH	Short-term borrowings	HKD 220,000	HKD 130,000	HKD 220,000
AMOREPACIFIC Hong Hang Seng Bank Kong Co., Limited	CITY N.A HONG KONG	Overdraft	USD 10,000	-	USD 10,000
	Overdraft and others	HKD 15,000	-	HKD 15,000	-
	Bank of East Asia	Overdraft and others	HKD 10,000	-	HKD 10,000
AMOREPACIFIC Japan CO., LTD	Bank of Tokyo-				
	Mitsubishi UFJ, Ltd. Azabu Branch	Short-term borrowings	JPY 2,000,000	JPY1,700,000	JPY 2,000,000
AMOREPACIFIC EUROPE S.A.S	Citibank N.A	Short-term	EUR 8,500	EUR 7,000	EUR 7,000
	France	borrowings	-	-	-
	KEB Hana Bank	Overdraft	EUR 2,000	EUR 1,901	EUR 500
					EUR 477

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	Paris Branch						
	KEB Hana Bank	Overdraft	EUR 6,000	EUR 3,920	EUR 6,000	EUR 5,858	
	Paris Branch						
Annick Goutal S.A.S	KEB Hana Bank	Short-term	EUR 3,000	EUR 3,000	--	-	
	Paris Branch	borrowings					
	Citibank N.A.	Short-term	EUR 3,000	EUR 3,000	EUR 6,000	EUR 6,000	
	France	borrowings					
Amorepacific Australia	Citibank N.A.	Short-term	AUD 8,500	AUD 7,000	--	-	
PTY Ltd	Sydney Branch	borrowings					
Amorepacific US Inc	Citibank N.A.	Short-term	USD 45,200	USD 33,500	--	-	
		borrowings					
Amorepacific Canada	Citibank N.A.	Short-term	CAD 4,000	-	--	-	
Inc	Canadian Branch	borrowings					
Amorepacific ME FZ-	Citibank N.A.	Short-term	AED 1,500	AED 1,500	--	-	
LLC	United Arab	borrowings					
	Emirates						
Innisfree Cosmetics	Citibank N.A. India	Short-term	INR 70,000	INR 70,000	--	-	
India PVT LTD		borrowings					
PT. LANEIGE	Citibank N.A.	Short-term	USD 4,000	USD 4,000	--	-	
INDONESIA PACIFIC	Indonesia	borrowings					
AMOREPACIFIC	Citibank N.A.	Short-term	PHP 23,000	-	--	-	
Philippines Co.,LTD	Manila	borrowings					
Core Technology	WOORI BANK	Overdraft	₩ 500	₩ 209	₩ 500	₩ 266	
Corporation.							

Restricted financial instruments in use as at December 31, 2020 and 2019 are as follows:

(in millions of Korean won, thousands of RMB, HKD and USD)		Remark	2020	2019
Current financial deposits	Agreement of shared growth and cooperation		₩ 16,500	₩ 18,100
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 5,054	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, 2020 are as follows:

(in millions of Korean won)	Number of cases	Litigation value	Remark
The Group as defendant	12	₩ 9,071	Compensation for damages, injunction against patent infringement and others

The Group is involved in a number of litigation cases arising from the normal course of business, and there are cases in which the Group is a plaintiff and defendant. The outcome of each litigation 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, 2020. The Group expects that these cases would not have

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any material impact on its financial statements.

As at December 31, 2020, 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.

The Group acquired 28,600,435 shares (49% of ownership) of Rationale Group Pty Ltd held by Richard John Parker, a shareholder of Rationale Group Pty Ltd, from Richard John Parker and others for 65,810,810 AUD.

In addition, the Group entered into a shareholders' agreement in relation to the acquisition of Rationale Group Pty Ltd, under which the two companies are unable to sell the shares for 18 months, if there is no agreement between the two companies after the contract is completed.

33. Related Party Transactions

Details of the Company and subsidiaries as at December 31, 2020, 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. Rationale Group Pty Ltd ¹
Subsidiaries of the Parent Company	Innisfree Corporation Etude Corporation AMOS Professional Corporation Espoir Corporation Osulloc Corporation. AESTURA Corporation PACIFICGLAS, Inc. PACIFICPACKAGE Corporation Osulloc Farm Co., Ltd. COSVISION CO., LTD. Green Partners Corporation
Associate of the Parent Company	BBDO Korea Inc. AP&M Beauty Fashion Joint Venture ² Smart AP-WE Untact Fund No. 1 ³
Other related party	Taeshin Inpack Corporation

¹ In 2020, the Group acquired an 49% of shares.

² In 2020, the Parent Company acquired an 49% of shares.

³ In 2020, the Parent Company acquired an 44.8% of shares.

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Sales and purchases with related parties for the years ended December 31, 2020 and 2019 are as follows:

2020										
(in millions of Korean won)										
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost	Lease interest income	Lease interest expenses	Dividends paid	
Parent Company										
AMOREPACIFIC Group, Inc.	₩ 1,950	₩ -	₩ -	₩ -	₩ 13	₩ 10,787	₩ -	₩ 133	₩ 22,350	
Subsidiaries of the Parent Company										
Innisfree Corporation	24,337	80,858	-	-	63	1,841	8	-	-	
Etude Corporation	9,839	19,245	-	-	62	152	-	-	-	
AMOS Professional Corporation	20,112	2,269	-	-	17	-	-	-	-	
Espoir Corporation	2,167	7,310	-	-	3	-	-	-	-	
Osulloc Corporation	12,717	536	-	-	38	-	-	-	-	
AESTURA Corporation	2,970	66,884	-	-	-	-	-	-	-	
PACIFICGLAS, Inc.	484	48,720	332	-	-	-	-	-	-	
PACIFICPACKAGE Corporation	263	38,276	-	-	-	-	-	-	-	
Osulloc Farm Co., Ltd.	137	2,010	3,034	-	6	271	-	-	-	
COSVISION CO., LTD.	1,759	23,398	-	186	-	19	-	123	-	
Green Partners Corporation	67	-	-	-	-	1,135	-	-	-	
Associate of the Parent Company										
BBDO Korea Inc.	908	-	-	-	-	23,611	-	-	-	
Other related party										
Taeshin Inpack Corporation	-	10,531	-	-	-	-	-	-	-	
	₩ 77,710	₩ 300,037	₩ 3,366	₩ 186	₩ 202	₩ 37,816	₩ 8	₩ 256	₩ 22,350	

2019										
(in millions of Korean won)										
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment ¹	Other revenue	Other cost	Lease interest income	Lease interest expenses	Dividends paid	
Parent Company										
AMOREPACIFIC Group, Inc.	₩ 1,889	₩ -	₩ -	₩ -	₩ 267	₩ 19,801	₩ -	₩ 170	₩ 26,212	
Subsidiaries of the Parent Company										
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	21,467	893	-	-	31	-	-	-	-	
Espoir Corporation	1,898	6,819	-	-	29	4	-	-	-	
Osulloc Corporation	3,270	6	-	31,536	20	41	-	-	-	
AESTURA Corporation	2,773	81,714	-	-	12	-	-	-	-	
PACIFICGLAS, Inc.	436	52,616	334	-	-	36	-	-	-	
PACIFICPACKAGE Corporation	205	43,243	-	-	-	1	-	-	-	
Osulloc Farm Co., Ltd.	152	2,431	-	-	-	365	-	1	-	
COSVISION CO., LTD.	2,091	26,942	49	80	267	8	-	4	-	
Green Partners Corporation	25	-	-	-	2	4,690	-	-	-	
Associate of the Parent Company										
BBDO Korea Inc.	888	-	-	-	-	31,758	-	-	-	
Other related party										
Taeshin Inpack Corporation	-	15,012	-	-	-	-	-	-	-	
	₩ 63,499	₩ 408,464	₩ 500	₩ 31,616	₩ 13,085	₩ 59,013	₩ 8	₩ 175	₩ 26,212	

¹ The amount of disposal of property, plant and equipment and Intangible assets transferred to O'sulloc Corporation is included.

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Outstanding balances arising from sales/purchases of goods and services as at December 31, 2020 and 2019 are as follows:

	2020					
	Receivables			Payables		
	Trade receivables	Other receivables	Lease receivables	Trade payables	Other payables	Lease liabilities
<i>(in millions of Korean won)</i>						
Parent Company						
AMOREPACIFIC Group, Inc.	₩ 424	₩ 1,994	₩ -	₩ -	₩ 530	₩ 3,961
Subsidiaries of the Parent Company						
Innisfree Corporation	2,432	3,637	59	46,319	3,387	-
Etude Corporation	639	1,772	-	8,245	2,216	-
AMOS Professional Corporation	1,830	1	-	72	4,075	-
Espoir Corporation	113	2	-	139	791	-
Osulloc Corporation	1,188	89	-	59	1,263	-
AESTURA Corporation	910	-	-	4,043	1,056	-
PACIFICGLAS, Inc.	37	-	-	6,951	466	-
PACIFICPACKAGE Corporation	24	-	-	4,931	-	-
Osulloc Farm Co., Ltd.	13	2	-	5	453	-
COSVISION CO., LTD.	164	586	-	2,729	36	4,630
Green Partners Corporation	6	-	-	103	-	-
Associate of the Parent Company						
BBDO Korea Inc.	-	-	-	-	3,419	-
Other related party						
Taeshin Inpack Corporation	-	-	-	634	-	-
	₩ 7,780	₩ 8,083	₩ 59	₩ 74,230	₩ 17,692	₩ 8,591

	2019							
	Receivables				Payables			
	Trade receivables	Other receivables	Lease receivables	Trade payables	Borrowings	Other payables	Lease liabilities	
Parent Company								
AMOREPACIFIC Group, Inc.	₩ 90	₩ 2,183	₩ -	₩ -	₩ -	₩ 1,554	₩ 5,078	
Subsidiaries of the Parent Company								
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	887	-	2,394	-	93	4,182	
Green Partners Corporation	-	-	-	-	-	92	-	
Associate of the Parent Company								
BBDO Korea Inc.	-	-	-	-	-	7,559	-	
Other related party								
Taeshin Inpack Corporation	-	-	-	723	-	-	-	
	₩ 7,343	₩ 14,148	₩ 41	₩ 110,835	₩ 5,210	₩ 22,962	₩ 9,260	

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.

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Fund transactions with related parties for the year ended December 31, 2020, are as follows:

Lease fund transactions provided by related parties:

<i>(In millions of Korean won)</i>		Beginning Balance		Acquisition of lease liabilities		Disposal of lease liabilities		Payments		Lease interest expenses		Ending Balance
The Parent Company												
AMOREPACIFIC Group, Inc.	₩	5,078	₩	802	₩	-	₩	(2,052)	₩	133	₩	3,961
Subsidiaries of the Parent Company												
COSVISION CO., LTD.		4,182		532		-		(207)		123		4,630
	₩	9,260	₩	1,334	₩	-	₩	(2,259)	₩	256	₩	8,591

Lease fund transactions providing to related parties:

<i>(In millions of Korean won)</i>		Beginning Balance		Acquisition of lease liabilities		Cash inflow		Lease interest income		Ending Balance
Subsidiaries of the Parent Company										
Innisfree Corporation	₩	41	₩	506	₩	(496)	₩	8	₩	59

Fund transactions arising from acquisition of associates:

<i>(In millions of Korean won)</i>		Equity contributions in cash
Associate		
Rationale Group Pty Ltd	₩	10,912

Borrowing transactions with related parties:

<i>(In millions of Korean won)</i>		Beginning Balance		Repayments		Exchange differences		Ending Balance
Subsidiaries of the Parent Company								
Innisfree Corporation	₩	5,210	₩	(5,203)	₩	(7)	₩	-

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

Lease fund transactions provided by related parties:

<i>(In millions of Korean won)</i>	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:

<i>(In millions of Korean won)</i>	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:

<i>(In millions of Korean won)</i>	Liquidation Dividend
Subsidiaries of the Parent Company	
O'sulloc Corporation ¹	₩ 1,304

¹ In 2019, the Group sold the shares of Green Partners Corporation to O'sulloc Corporation.

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

<i>(thousands of AUD)</i>	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

As at December 31, 2020, 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.

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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, 2020 and 2019 consists of:

<i>(In millions of Korean won)</i>	2020		2019	
Short-term employee benefits	₩	6,006	₩	8,374
Post-employment benefits		950		742
	₩	6,955	₩	9,116

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.

(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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 205,770	₩ 186,275	₩ 245,894	₩ 250,264
EUR	333	2,298	244	411
JPY	49	843	135	2,080

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As at December 31, 2020 and 2019, 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:

(in millions of Korean won)	2020		2019	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ 1,950	₩ (1,950)	₩ (437)	₩ 437
EUR	(197)	197	(17)	17
JPY	(79)	79	(195)	195
	₩ 1,674	₩ (1,674)	₩ (649)	₩ 649

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 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 ₩ 651 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.

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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.

(in millions of Korean won)	2020					Carrying amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 117,618	₩ -	₩ -	₩ 117,618	₩	117,618
Borrowings	155,168	-	-	155,168		154,160
Other payables	275,763	-	-	275,763		275,763
Other liabilities	180,950	16,040	11,933	208,923		206,196
Lease liabilities	136,775	127,452	21,846	286,073		266,616

(in millions of Korean won)	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

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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, 2020 and 2019 are as follows:

<i>(in millions of Korean won, except for ratios)</i>	2020		2019	
Liabilities (A)	₩	1,237,520	₩	1,490,167
Equity (B)		4,464,398		4,498,841
Cash and cash equivalents and current financial deposits (C)		869,167		760,606
Borrowings (D)		154,160		99,347
Debt-to-equity ratio (A/B)		27.7%		33.1%
Net Borrowings ratio (D-C)/B		(-)16.0%		(-)14.7%

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.

- 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>	2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 1,129	₩ 443,035	₩ -	₩ 444,164
Financial assets at fair value through other comprehensive income	510	-	195	705
Disclosed fair value				
Investment property	-	-	575,977	575,977

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(in millions of Korean won)	2019				
	Level 1		Level 2		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		-	1,114
Disclosed fair value					
Investment property		-		-	527,180

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.

(b) Financial assets at fair value through other comprehensive income and Financial assets at fair value through profit or loss

Valuation techniques and inputs used in the financial assets categorized within Level 2 and Level 3 of the fair value hierarchy as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)				2020	
				Valuation techniques	Inputs
				Fair value	Level
Financial assets at fair value through other comprehensive income					
Unlisted equity securities	₩	195	3	Present value technique	Perpetual earning growth rate and others
Financial assets at fair value through profit or loss					
Beneficiary certificates		429,535	2	Present value technique	Credit risk adjusted discount rate
Variable annuities insurance		13,500	2	Present value technique	Credit risk adjusted discount rate

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35.3 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as at December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Debt securities		
Government-issued securities	₩ 2,125	₩ 2,131
	<u>₩ 2,125</u>	<u>₩ 2,131</u>

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.