

**AMOREPACIFIC Group, Inc.
(Formerly PACIFIC
Corporation)
and Subsidiaries**

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

**AMOREPACIFIC Group, Inc. (Formerly PACIFIC Corporation)
and Subsidiaries
Index
December 31, 2010 and 2009**

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Report of Independent Auditors

To the Shareholders and Board of Directors of
AMOREPACIFIC Group, Inc.(Formerly PACIFIC Corporation)

We have audited the accompanying consolidated statement of financial position of AMOREPACIFIC Group, Inc. (the "Company") (formerly PACIFIC Corporation) and its subsidiaries as of December 31, 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of AMOREPACIFIC EUROPE S.A.S and certain other consolidated subsidiaries, whose financial statements represent 9.7% of the Company's consolidated total assets (before eliminating intercompany transactions) as of December 31, 2010, and 9.7% of the Company's consolidated total sales (before eliminating intercompany transactions) for the year then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for AMOREPACIFIC EUROPE S.A.S and certain other consolidated subsidiaries, is based solely on the reports of the other auditors. The financial statements of the Company as of and for the year ended December 31, 2009, presented herein for comparative purposes, were audited by other auditors whose report dated March 16, 2010, expressed an unqualified opinion on those statements.

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

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

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

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

Seoul, Korea
April 18, 2011

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

AMOREPACIFIC Group, Inc. (Formerly PACIFIC Corporation) and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2010 and 2009

	Notes	<i>(in thousands of Korean won)</i>		<i>(in thousands of U.S. dollars) (Note 3)</i>	
		2010	2009	2010	2009
Assets					
Current assets					
Quick assets					
Cash and cash equivalents	4	₩ 275,139,510	₩ 282,639,103	US\$ 241,584	US\$ 248,168
Short-term investments	21, 22	441,726,865	393,200,252	387,854	345,246
Trade accounts and notes receivable		205,079,127	208,326,249	180,068	182,919
Allowance for doubtful accounts		(6,141,040)	(4,586,796)	(5,392)	(4,027)
Non-trade receivable		16,202,893	12,054,244	14,227	10,584
Allowance for doubtful accounts		(500,932)	(278,517)	(440)	(245)
Accrued revenues		2,299,023	1,759,692	2,019	1,545
Advance payments		16,965,416	11,398,821	14,896	10,009
Prepaid expenses		7,824,117	6,930,423	6,870	6,085
Deferred income tax assets	16	8,534,335	808,810	7,493	710
Others		422,285	93,739	369	83
Inventories	9				
Merchandise		43,426,868	27,128,252	38,131	23,820
Finished goods		103,996,987	70,217,810	91,314	61,654
Semi-finished goods		20,832,892	17,683,347	18,292	15,527
Work-in-process		4,179,816	2,966,933	3,670	2,605
Raw materials		37,896,753	35,702,644	33,275	31,348
Subsidiary materials		21,672,880	15,811,667	19,030	13,883
Supplies		2,778,589	2,398,884	2,440	2,106
Materials in transit		11,164,570	9,010,596	9,803	7,912
Total current assets		<u>1,213,500,954</u>	<u>1,093,266,152</u>	<u>1,065,503</u>	<u>959,932</u>
Non-current assets					
Investments					
Long-term investments	4	3,476,500	3,444,700	3,053	3,025
Equity-method investments	5	40,605,407	55,598,715	35,653	48,818
Available-for-sale securities	6	22,828,823	16,196,427	20,045	14,221
Long-term loans		14,572,670	12,399,154	12,795	10,887
Investment in properties	12	50,437,994	50,437,994	44,287	44,287
Property, plant and equipment	7, 9				
Land		799,175,983	602,690,637	701,709	529,187
Buildings		373,956,530	309,708,471	328,349	271,936
Accumulated depreciation		(94,913,888)	(81,944,763)	(83,338)	(71,951)
Structures		41,599,935	27,341,575	36,526	24,007
Accumulated depreciation		(15,323,842)	(12,817,360)	(13,455)	(11,254)
Machinery		206,389,205	166,601,471	181,218	146,283
Accumulated depreciation		(157,895,506)	(122,839,133)	(138,639)	(107,858)
Vehicles		3,100,701	2,653,881	2,723	2,330
Accumulated depreciation		(2,467,929)	(2,222,969)	(2,167)	(1,952)
Tools		125,095,140	114,591,815	109,839	100,616
Accumulated depreciation		(101,857,697)	(89,004,168)	(89,435)	(78,149)
Fixtures and furniture		412,196,712	362,660,324	361,925	318,430
Accumulated depreciation		(293,898,006)	(252,237,070)	(258,054)	(221,474)
Trees		5,091,468	4,502,269	4,471	3,953
Accumulated depreciation		(1,278,668)	(943,179)	(1,123)	(828)
Construction in progress		191,869,441	234,878,548	168,469	206,233
Machinery in transit		915,247	1,099,541	804	965
Intangible assets	8				
Industrial property rights		6,182,157	3,778,251	5,428	3,317
Software		23,042,731	19,859,645	20,232	17,438
Goodwill		473,569,043	503,192,705	415,813	441,823
Negative goodwill		(97,040,100)	(97,264,859)	(85,205)	- 85,402
Others		4,678,988	4,241,406	4,108	3,724
Other non-current assets					
Long-term prepaid expenses		170,570	625,775	150	549
Deposits provided		62,469,569	53,151,386	54,849	46,669
Total other non-current assets		<u>2,096,749,178</u>	<u>1,890,381,189</u>	<u>1,841,030</u>	<u>1,659,831</u>
Total assets		<u>₩ 3,310,250,133</u>	<u>₩ 2,983,647,341</u>	<u>US\$ 2,906,533</u>	<u>US\$ 2,619,763</u>

AMOREPACIFIC Group, Inc. (Formerly PACIFIC Corporation) and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2010 and 2009

	Notes	<i>(in thousands of Korean won)</i>		<i>(in thousands of U.S. dollars) (Note 3)</i>	
		2010	2009	2010	2009
Liabilities and Shareholders' Equity					
Current liabilities					
Trade accounts and notes payable	21, 22	₩ 108,843,905	₩ 86,029,520	US\$ 95,569	US\$ 75,537
Short-term borrowings	10	13,261,049	20,387,149	11,644	17,901
Non-trade payable		165,349,032	147,588,927	145,183	129,589
Value added tax withheld		17,869,824	21,318,133	15,690	18,718
Withholdings		11,223,516	9,564,588	9,855	8,398
Advances from customers		8,059,898	9,479,304	7,077	8,323
Accrued expenses		5,168,238	1,400,985	4,538	1,230
Income taxes payable	16	43,656,100	33,624,946	38,332	29,524
Dividends payable		210,549	174,396	185	153
Others		1,415,189	3,198,544	1,242	2,809
Total current liabilities		<u>375,057,300</u>	<u>332,766,492</u>	<u>329,315</u>	<u>292,182</u>
Non-current liabilities					
Accrued severance benefits	11	118,905,678	121,944,024	104,404	107,072
Deposits to the National Pension Service		(657,902)	(905,177)	(578)	(795)
Severance benefit insurance deposits		(83,779,276)	(87,231,175)	(73,562)	(76,592)
Provision for sales returns		19,424,599	23,915,991	17,056	20,999
Provision for mileage	2	11,334,719	8,676,822	9,952	7,619
Long-term advances from customers	12	107,048,989	107,048,989	93,993	93,993
Long-term non-trade payable		18,021,088	22,114,555	15,823	19,417
Long-term accrued expenses		-	1,261,021	-	1,107
Deferred income tax liabilities	16	102,030,031	78,345,933	89,586	68,791
Long-term deposits received		10,838,076	7,850,351	9,516	6,893
Others		1,942,201	197,630	1,707	175
Total non-current liabilities		<u>305,108,203</u>	<u>283,218,964</u>	<u>267,897</u>	<u>248,679</u>
Total liabilities		<u>680,165,503</u>	<u>615,985,456</u>	<u>597,212</u>	<u>540,861</u>
Commitments and contingencies	12				
Equity attributable to owners of the Company					
Capital stock					
Common stock	1	39,895,490	39,895,490	35,030	35,030
Preferred stock		4,555,485	4,555,485	4,000	4,000
Capital surplus					
Paid-in capital in excess of par value	13	673,095,966	673,095,966	591,005	591,005
Gain on sale of treasury stock		793,390	793,390	697	697
Other capital surplus		178,556,617	176,900,955	156,780	155,326
Capital adjustments					
Treasury stock	14	(133,329,625)	(133,329,625)	(117,069)	(117,069)
Others		(799,636)	(335,494)	(702)	(295)
Accumulated other comprehensive income and expense					
Gain on valuation of equity-method investments	5	6,033,539	6,080,172	5,298	5,339
Unrealized gain on available-for-sale securities		1,300,233	2,301,887	1,142	2,021
Unrealized loss on available-for-sale securities		(162,586)	(121,370)	(143)	(107)
Translation of foreign currency financial statements		4,061,283	5,222,689	3,566	4,586
Retained earnings	13	711,228,559	621,501,005	624,487	545,703
Minority interests		1,144,855,915	971,101,335	1,005,230	852,666
Total shareholders' equity		<u>2,630,084,630</u>	<u>2,367,661,885</u>	<u>2,309,321</u>	<u>2,078,902</u>
Total liabilities and shareholders' equity		<u>₩ 3,310,250,133</u>	<u>₩ 2,983,647,341</u>	<u>US\$ 2,906,533</u>	<u>US\$ 2,619,763</u>

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

AMOREPACIFIC Group, Inc. (Formerly PACIFIC Corporation) and Subsidiaries
Consolidated Statements of Income
Years ended December 31, 2010 and 2009

	Notes	<i>(in thousands of Korean won, except per share amounts)</i>		<i>(in thousands of U.S. dollars, except per share amounts) (Note 3)</i>	
		2010	2009	2010	2009
Sales	15, 21, 22	₩ 2,674,134,340	₩ 2,219,044,890	US\$ 2,347,997	US\$ 1,948,411
Cost of sales	15, 21, 22	730,979,022	651,012,646	641,829	571,615
Gross income		1,943,155,318	1,568,032,244	1,706,168	1,376,796
Selling and administrative expenses	18	1,573,072,335	1,257,935,843	1,381,221	1,104,518
Operating income		370,082,983	310,096,401	324,947	272,278
Non-operating income					
Interest income		23,484,372	24,106,418	20,620	21,166
Dividend income		104,741	69,728	92	61
Rental income		1,373,630	1,083,333	1,206	951
Gain on foreign currency transactions		3,102,592	5,087,637	2,724	4,467
Gain on foreign currency translation		1,031,528	226,150	906	199
Gain on valuation of equity-method investments	5	3,668,237	2,323,618	3,221	2,040
Gain on disposal of investment		3,562,669	1,093,480	3,128	960
Gain on disposal of property, plant and equipment		2,208,846	5,204,583	1,939	4,570
Gain on amortization of negative goodwill		224,760	240,866	197	211
Income from technology fee	12	106,615	2,492,459	94	2,188
Others		4,395,947	3,315,423	3,860	2,913
		43,263,937	45,243,695	37,987	39,726
Non-operating expenses					
Interest expenses		1,693,495	2,490,048	1,487	2,186
Loss on foreign currency transactions		4,048,870	5,025,417	3,555	4,413
Loss on foreign currency translation		850,958	473,345	747	416
Donations	23	5,318,500	10,371,979	4,670	9,107
Loss on valuation of equity-method investment	5	13,881,296	11,032,106	12,188	9,687
Loss on disposal of investments		121,364	127,645	107	112
Loss on disposal of property, plant and equipment		1,175,244	2,611,940	1,032	2,293
Others		6,314,313	6,739,613	5,544	5,917
		33,404,040	38,872,093	29,330	34,131
Income before income tax		379,942,880	316,468,003	333,604	277,873
Income taxes	16	91,809,401	78,334,205	80,612	68,781
Net income		₩ 288,133,479	₩ 238,133,798	US\$ 252,992	US\$ 209,092
Net income attributable to the Company		₩ 103,073,650	₩ 81,208,257	US\$ 90,503	US\$ 71,304
Net income attributable to minority interests		₩ 185,059,829	₩ 156,925,539	US\$ 162,489	US\$ 137,788
Basic consolidated earnings per share	17	₩ 13,662	₩ 10,736	US\$ 12	US\$ 9
Diluted consolidated earnings per share	17	₩ 13,249	₩ 10,420	US\$ 12	US\$ 9

The accompanying notes are an integral part of these consolidated financial statements.
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AMOREPACIFIC Group, Inc. (Formerly PACIFIC Corporation) and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2010 and 2009

(in thousands of Korean won)

	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income and loss	Retained earnings	Minority interests	Total
Balances as of January 1, 2009	₩ 44,450,975	₩ 851,427,591	₩ (135,303,505)	₩ 13,717,380	₩ 552,390,588	₩ 850,024,597	₩ 2,176,707,626
Dividends	-	-	-	-	(12,097,840)	(24,189,185)	(36,287,026)
Retained earnings after appropriation	-	-	-	-	540,292,748	825,835,412	2,140,420,600
Net income	-	-	-	-	81,208,257	156,925,541	238,133,798
Foreign currency translation adjustments	-	-	-	(2,491,464)	-	(7,463,020)	(9,954,484)
Others	-	(637,281)	1,638,388	2,257,461	-	(4,196,598)	(938,029)
Balances as of December 31, 2009	₩ 44,450,975	₩ 850,790,310	₩ (133,665,117)	₩ 13,483,377	₩ 621,501,005	₩ 971,101,335	₩ 2,367,661,885
Balances as of January 1, 2010	₩ 44,450,975	₩ 850,790,310	₩ (133,665,117)	₩ 13,483,377	₩ 621,501,005	₩ 971,101,335	₩ 2,367,661,885
Dividends	-	-	-	-	(13,346,096)	(26,425,619)	(39,771,715)
Retained earnings after appropriation	-	-	-	-	608,154,909	944,675,716	2,327,890,170
Net income	-	-	-	-	103,073,650	185,059,829	288,133,479
Foreign currency translation adjustments	-	-	-	(1,161,406)	-	(3,079,493)	(4,240,900)
Others	-	1,655,663	(464,145)	(1,089,501)	-	18,199,863	18,301,879
Balances as of December 31, 2010	₩ 44,450,975	₩ 852,445,973	₩ (134,129,262)	₩ 11,232,470	₩ 711,228,559	₩ 1,144,855,915	₩ 2,630,084,630
(in thousands U.S. dollars) (Note 3)	US\$ 39,030	US\$ 748,482	US\$ (117,771)	US\$ 9,863	US\$ 624,487	US\$ 1,005,230	US\$ 2,309,320

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AMOREPACIFIC Group, Inc. (Formerly PACIFIC Corporation) and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

	<i>(in thousands of Korean won)</i>		<i>'in thousands of U.S. dollars) (Note 3,</i>	
	2010	2009	2010	2009
Cash flows from operating activities				
Net income	₩ 288,133,479	₩ 238,133,798	US\$ 252,993	US\$ 209,091
Adjustments to reconcile net income				
to net cash provided by operating activities				
Provision for severance benefits	32,876,654	29,198,112	28,867	25,637
Other selling and administrative expenses	2,341,277	1,391,618	2,056	1,222
Depreciation	90,221,240	87,192,853	79,218	76,559
Amortization of intangible assets	41,400,164	40,222,607	36,351	35,317
Loss on foreign currency translation	850,958	473,345	747	416
Loss on valuation of equity-method investments	13,881,296	11,032,106	12,188	9,687
Loss on disposal of investments	121,364	127,645	107	112
Loss on disposal of property, plant and equipment	1,175,244	2,611,940	1,032	2,293
Other non-operating expenses	301,243	17,450	265	15
Gain on foreign currency translation	(1,031,528)	(226,150)	(906)	(199)
Gain on valuation of equity method investments	(3,668,237)	(2,323,618)	(3,221)	(2,040)
Gain on disposal of investments	(3,562,669)	(1,093,480)	(3,128)	(960)
Gain on disposal of property, plant and equipment	(2,208,846)	(5,204,583)	(1,939)	(4,570)
Gain on amortization of negative goodwill	(224,760)	(240,866)	(197)	(211)
Other non-operating income	(136,044)	(535,928)	(121)	(471)
	<u>172,337,356</u>	<u>162,643,051</u>	<u>151,319</u>	<u>142,807</u>
Changes in operating assets and liabilities				
Decrease (Increase) in trade accounts and notes receivable	9,136,976	(34,903,461)	8,023	(30,647)
Increase in non-trade receivable	(4,134,412)	(2,354,827)	(3,630)	(2,068)
Decrease (Increase) in accrued revenues	(539,331)	3,945,438	(474)	3,464
Increase in advance payments	463,729	(4,072,543)	407	(3,576)
Increase in prepaid expenses	(823,462)	(330,937)	(723)	(291)
Increase in current deferred income tax assets	(7,054,432)	(808,810)	(6,194)	(710)
Decrease (Increase) in inventories	(295,739)	3,707,653	(260)	3,255
Decrease (Increase) in other current assets	(60,794,036)	10,730,607	(53,380)	9,422
Decrease in long-term prepaid expenses	455,205	927,453	400	814
Increase in trade accounts and notes payable	14,780,344	24,304,035	12,978	21,340
Increase in non-trade payable	17,272,330	32,605,978	15,166	28,629
Increase (Decrease) in accrued expenses	3,504,632	(3,847,618)	3,077	(3,378)
Increase (Decrease) in value added tax withheld	(3,448,308)	332,818	(3,028)	292
Increase in withholdings	1,658,374	1,542,092	1,456	1,354
Increase (Decrease) in advances from customers	(1,422,484)	8,221,496	(1,249)	7,219
Increase (Decrease) in income taxes payable	10,031,153	(18,046,740)	8,808	(15,846)
Increase (Decrease) in current deferred income tax liabilities	(1,783,356)	2,059,435	(1,566)	1,808
Decrease in other current liabilities	(4,093,467)	-	(3,594)	-
Payment of severance benefits	(1,261,021)	-	(1,107)	-
Succession to provision for severance benefits	(36,607,108)	(21,716,045)	(32,143)	(19,068)
Increase (Decrease) in severance benefit deposits	3,950,889	(6,140,629)	3,469	(5,392)
Decrease in deposits to the National Pension Service	251,827	224,054	221	197
Increase (Decrease) in provision for sales returns	(4,491,391)	3,970,053	(3,944)	3,486
Decrease in provision for mileage	2,657,898	1,725,443	2,334	1,515
Increase in deposits received	22,909,968	6,585,626	20,116	5,782
Decrease (Increase) in long-term non-trade payable	2,987,725	(503,079)	2,623	(442)
Increase in other non-current liabilities	1,744,569	574,282	1,529	508
	<u>(34,942,928)</u>	<u>8,731,774</u>	<u>(30,681)</u>	<u>7,667</u>
Net cash provided by operating activities	<u>425,527,909</u>	<u>409,508,623</u>	<u>373,631</u>	<u>359,565</u>

AMOREPACIFIC Group, Inc. (Formerly PACIFIC Corporation) and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

	<i>(in thousands of Korean won)</i>		<i>'in thousands of U.S. dollars) (Note 3,</i>	
	2010	2009	2010	2009
Cash flows from investing activities				
Proceeds from short-term borrowings	₩ -	₩ 4,828,500	US\$ -	US\$ 4,240
Dividends received from investee company	1,341,524	2,576,830	1,178	2,263
Proceeds from disposal of equity method investments	4,096,624	-	3,597	-
Proceeds from disposal of available-for-sale securities	4,169,219	2,110,075	3,661	1,853
Collection of long-term loans	2,784,989	7,592,407	2,445	6,666
Proceeds from disposal of deposits provided	15,376,270	12,729,082	13,501	11,177
Proceeds from disposal of land	13,271,565	3,401,445	11,653	2,987
Proceeds from disposal of buildings	-	3,515,441	-	3,087
Proceeds from disposal of structures	2,015	-	2	-
Proceeds from disposal of machinery	420,101	53,688	369	47
Proceeds from disposal of vehicles	85,986	105,333	75	92
Proceeds from disposal of tools	423,881	684	372	1
Proceeds from disposal of fixtures and furniture	279,141	1,403,517	245	1,232
Proceeds from disposal of other property, plant and equipment	-	124,500	-	109
Proceeds from disposal of industrial property rights	120,035	-	105	-
Proceeds from disposal of other intangible assets	20,000	-	18	-
Acquisition of short-term investments	(47,349,665)	(40,800,011)	(41,575)	(35,824)
Acquisition of long-term investments	(3,000)	(3,422,435)	(3)	(3,005)
Acquisition of equity-method investments	(15,689,539)	(25,849,936)	(13,776)	(22,697)
Acquisition of available-for-sale securities	(9,681,001)	(329,115)	(8,500)	(289)
Long-term loans granted	(5,529,198)	(2,030,086)	(4,855)	(1,782)
Acquisition of deposits provided	(24,638,765)	(17,990,628)	(21,635)	(15,798)
Acquisition of land	(11,294,160)	(1,047,086)	(9,917)	(919)
Acquisition of buildings	(2,259,611)	(925,691)	(1,984)	(813)
Acquisition of structures	(324,802)	(282,620)	(285)	(248)
Acquisition of machinery	(9,222,045)	(4,832,521)	(8,097)	(4,243)
Acquisition of vehicles	(614,222)	(284,624)	(539)	(250)
Acquisition of tools	(10,856,423)	(10,339,520)	(9,532)	(9,079)
Acquisition of fixtures and furniture	(46,136,199)	(54,367,303)	(40,509)	(47,737)
Acquisition of construction in progress	(251,307,282)	(159,512,615)	(220,658)	(140,058)
Acquisition of machinery in transit	(4,212,691)	(1,851,037)	(3,699)	(1,625)
Acquisition of industrial property rights	(3,765,894)	(1,630,887)	(3,307)	(1,432)
Acquisition of software	(3,934,220)	(2,847,961)	(3,454)	(2,501)
Acquisition of other intangible assets	(934,994)	(1,382,259)	(821)	(1,214)
Acquisition of net assets from changes in consolidated subsidiaries	(12,346,124)	-	(10,840)	-
Net cash used in investing activities	(417,708,485)	(291,284,833)	(366,765)	(255,760)
Cash flows from financing activities				
Issuance of short-term borrowings	-	3,548,700	-	3,116
Increase in non-controlling interests	19,861,237	-	17,439	-
Payment of short-term borrowings	(5,235,607)	(8,660,923)	(4,597)	(7,605)
Payment of dividends	(39,768,370)	(36,298,674)	(34,918)	(31,872)
Decrease in long-term accrued expenses	(680,000)	(3,561,167)	(597)	(3,126)
Net cash used in financing activities	(25,822,740)	(44,972,064)	(22,673)	(39,487)
Net decrease in cash and cash equivalents				
from changes in consolidated subsidiaries	13,164,274	(508,722)	11,559	(447)
Effect of changes in exchange rate on cash and cash equivalents	(2,660,551)	(1,264,645)	(2,336)	(1,110)
Net increase (decrease) in cash and cash equivalents	(7,499,594)	71,478,359	(6,585)	62,761
Cash and cash equivalents				
Beginning of the year	282,639,103	211,160,745	248,168	185,408
End of the year	₩ 275,139,510	₩ 282,639,103	US\$ 241,584	US\$ 248,168

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

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

AMOREPACIFIC Group, Inc. (Formerly PACIFIC Corporation) and Subsidiaries

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1. Organization

General information on AMOREPACIFIC Group, Inc. (formerly PACIFIC Corporation) (the "Company") and its consolidated subsidiaries (collectively the "Group") is as follows.

The Company

The Company was incorporated on September 5, 1945, under the laws of the Republic of Korea to engage in manufacturing, marketing and trading of cosmetics, personal care goods and other related products. However, on January 1, 2007, the Company's legal form of business entity was changed to a holding company to provide management, administrative and financing services to its consolidated subsidiaries and unconsolidated subsidiaries. The Company listed its shares on the Korea Stock Exchange on April 30, 1973, and as approved by the shareholders on March 25, 2011, the Company changed its name from PACIFIC Corporation to AMOREPACIFIC Group, Inc.

As of December 31, 2010, the Company's paid-in capital is ₩44,551 million, including ₩4,555 million of preferred stock.

The Company is authorized to issue 36,000,000 shares of stock at a par value per share of ₩5,000. As of December 31, 2010, 7,979,098 common shares and 911,097 preferred shares are issued.

Classes of preferred stock are as follows:

Share	Dividend rate	Number of Shares	Description
Preferred shares	Common stock dividend+1%	644,377	Non-participating and non-cumulative
Convertible preferred shares	Max (Common stock dividend, 3%)	266,720	Participating and cumulative

Consolidated subsidiaries

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

(in millions of Korean won)

Subsidiaries	Primary Business	Capital Stock	Percentage of Ownership (%)	Number of Shares		Percentage of Ownership of Subsidiaries (%)	Closing Date	Location	
				Company	Subsidiaries				
AMOREPACIFIC Corporation ¹	Manufacturing and marketing of cosmetics	₩ 34,508	35.40	2,220,689	-	2,220,689	-	Dec.31	Korea
PACIFICPHARMA Corporation	Manufacturing and marketing of medicine	11,645	65.13	1,413,883	-	1,413,883	-	Dec.31	Korea
Etude Corporation	Manufacturing and marketing of cosmetics	4,650	80.48	748,420	-	748,420	-	Dec.31	Korea
AMOS Professional Corporation	Marketing of hair care products	3,500	100.00	700,000	-	700,000	-	Dec.31	Korea
Jangwon Co., Ltd.	Manufacturing and marketing of green tea	5,000	100.00	1,000,000	-	1,000,000	-	Dec.31	Korea
PACIFICGLAS, Inc.	Manufacturing and marketing of glass	5,000	100.00	1,000,000	-	1,000,000	-	Dec.31	Korea
Innisfree Corporation	Marketing of cosmetics	1,222	81.82	200,000	-	200,000	-	Dec.31	Korea
PACIFICPACKAGE Corporation	Printing, Manufacturing and marketing of paper containers	7,477	99.36	1,485,819	-	1,485,819	-	Dec.31	Korea
Amorepacific Global Operations Limited. ¹	Holding company	84,734	90.00	-	47,576,629	47,576,629	100.00	Dec.31	Hongkong
AMOREPACIFIC Cosmetics (Shanghai) Co., Ltd.	Manufacturing and marketing of cosmetics	14,274	100.00	-	Unissued shares	Unissued shares	100.00	Dec.31	China
AMOREPACIFIC Trading Co., Ltd.	Marketing of cosmetics	9,456	100.00	-	Unissued shares	Unissued shares	100.00	Dec.31	China
AMOREPACIFIC EUROPE S.A.S	Manufacturing and marketing of cosmetics	98,933	100.00	-	5,419,518	5,419,518	100.00	Dec.31	France

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¹ AMOREPACIFIC Corporation, a consolidated subsidiary, established a holding company, Amorepacific Global Operations Limited in Hong Kong for efficient management and control of foreign corporations. It then transferred its shares in subsidiaries, AMOREPACIFIC Trading Co.,Ltd. and one other, and equity method investments in AMOREPACIFIC US, Inc. and seven others as investments in kind to Amorepacific Global Operations Pte. Ltd.

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

(in millions of Korean won)

Subsidiaries	Total Assets	Total Liabilities	Sales	Net Income(Loss)
AMOREPACIFIC Corporation ¹	₩ 1,964,124	₩ 415,349	₩ 2,058,514	₩ 284,481
PACIFICPHARMA Corporation	123,989	40,720	167,105	7,654
Etude Corporation	71,697	24,201	161,661	11,230
AMOS Professional Corporation	33,531	4,770	27,625	4,243
Jangwon Co., Ltd. ¹	66,260	5,985	8,003	797
PACIFICGLAS, Inc.	54,647	7,055	58,927	3,435
Innisfree Corporation	44,578	17,599	83,688	6,503
PACIFICPACKAGE Corporation	25,181	6,332	30,874	1,527
Amorepacific Global Operations Limited. ¹	91,880	-	2,474	(1,578)
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	25,498	2,753	21,370	3,857
AMOREPACIFIC Trading Co.,Ltd.	48,182	29,723	135,751	5,220
AMOREPACIFIC EUROPE S.A.S	102,409	58,392	97,524	879
	<u>₩ 2,651,976</u>	<u>₩ 612,879</u>	<u>₩ 2,853,516</u>	<u>₩ 328,248</u>

¹ Amounts include the equity method valuation of these subsidiaries' equity method investments.

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

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

(in millions of Korean won)

Investees	Primary Business	Capital Stock	Percentage of Ownership (%)	Number of Shares		Percentage of Ownership of Subsidiaries (%)	Closing Date	Location	
				Company	Subsidiaries				
Pacific Metals Co., Ltd.	Manufacturing and marketing of magnet	₩ 15,000	33.05	991,392	-	991,392	Dec.31	Korea	
BBDO Korea Inc.	Advertising agency	3,000	30.00	180,000	-	180,000	Dec.31	Korea	
Anhui Pacific Tea Co., Ltd. ¹	Manufacturing and marketing of green tea	1,131	80.00	-	1,000,000	1,000,000	Dec.31	Chian	
AMOREPACIFIC US, Inc. ¹	Marketing of cosmetics	30,473	100.00	-	294	294	100.00	Dec.31	U.S.A
AMOREPACIFIC Japan CO.,LTD. ¹	Marketing of cosmetics	22,418	100.00	-	43,400	43,400	100.00	Dec.31	Japan
AMOREPACIFIC Taiwan Co.,Ltd. ¹	Marketing of cosmetics	9,514	100.00	-	29,050,000	29,050,000	100.00	Dec.31	Taiwan
Laneige Singapore Pte.,Ltd. ¹	Marketing of cosmetics	5,539	100.00	-	7,870,376	7,870,376	100.00	Dec.31	Singapore
LANEIGE MALAYSIA SDN BHD. ¹	Marketing of cosmetics	2,586	100.00	-	8,006,000	8,006,000	100.00	Dec.31	Malaysia
Taiwan AMORE Co.,Ltd.	Marketing of cosmetics	263	50.00	-	1,000	1,000	100.00	Dec.31	Taiwan
AMOREPACIFIC HongKong Co.,Limited.	Marketing of cosmetics	14	30.00	-	26,786	26,786	100.00	Dec.31	Hong Kong
Amorepacific Global Operations Pte.Ltd. ¹	Marketing of cosmetics	4,611	100.00	-	5,638,401	5,638,401	100.00	Dec.31	Singapore
De Laneige SA ¹	Marketing of cosmetics	5,513	70.00	-	6,475,000	6,475,000	100.00	Dec.31	Vietnam
PT. Laneige Indonesia Pacific	Marketing of cosmetics	630	30.00	-	210,000	210,000	100.00	Dec.31	Indonesia
AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics	781	49.00	-	134,510	134,510	100.00	Dec.31	Thailand

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

Changes in scope of consolidation in 2010

Subsidiaries which are newly consolidated in the 2010 are:

Subsidiaries	Reason
Innisfree Co., Ltd.	Total assets exceeded ₩ 10,000 million as of December 31, 2009.
PACIFICPACKAGE Corporation	The Company newly acquired this investment in 2010.
Amorepacific Global Operations Limited	The Company provided capital to establish this subsidiary.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Basis of consolidation

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

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

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Accounting for the excess of the cost of the investment

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

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

Elimination of unrealized inter-company gains and losses

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

Minority interests

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

Translation of foreign subsidiaries' financial statements

In translation of subsidiary's financial statements denominated in foreign currencies, the statement of financial position items are translated at the exchange rates in effect at the end of the reporting period (but, historical exchange rates should be used for the equity items) and the profit and loss items are translated at the current year's average exchange rates. Differences arising in

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translation should be treated as translation gain or loss from foreign operation and it is proportionately attributed to the company's equity interest, recorded in accumulated other comprehensive income (loss), and non-controlling interest by equity interest owned.

Revenue Recognition

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

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

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Inventories

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

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Investments in Securities

Costs of securities are determined using the moving-weighted average method.

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

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

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

Equity-Method Investments

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

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

Property, Plant and Equipment

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

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

	Estimated Useful Lives	Depreciation Method
Building	9 - 60 years	Straight-line method
Structures	3 - 40 years	Straight-line method
Machinery	2 - 10 years	Declining balance method
Vehicles	4 - 8 years	Declining balance method
Tools	3 - 8 years	Declining balance method
Furniture and Fixtures	3 - 20 years	Declining balance method
Trees	20 - 40 years	Declining balance method

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

Government Grants

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

Intangible Assets

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

	Estimated Useful Lives	Depreciation Method
Industrial property rights	5 - 10 years	Straight-line method
Softwares	5 years	Straight-line method
Goodwill	5 - 20 years	Straight-line method
Others	5 years	Straight-line method
Negative goodwill	29 years	Straight-line method

Impairment of Assets

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

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Accrued Severance Benefits

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

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

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

Provisions and Contingent Liabilities

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

Currency Translation for Foreign Operations

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

Provision for sales returns

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

Provision for mileage

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

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

		2010		2009
<i>(in millions of Korean won)</i>				
Balance at 1/1/2010	₩	8,677	₩	6,951
Increase		17,251		13,498
Decrease		(14,593)		(11,772)
Balance at 12/31/2010	₩	11,335	₩	8,677

Income Tax and Deferred Income Tax

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

Translation of Assets and Liabilities Denominated in Foreign Currencies

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

Discontinued Operations

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

3. US Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korea won. The U.S. dollar amounts, provided herein, represented supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US\$1:₩1,138.9, the exchange rate in effect on December 31, 2010. Such presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

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

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4. Restricted deposits

The short-term investments amounting to ₩8,000 million and ₩9,000 million and long-term financial instruments amounting to ₩27 million in total as of December 31, 2010 and 2009, respectively, are restricted for use for guarantees provided to associated companies and as guarantee deposits for the maintenance of checking accounts (Note 12).

5. Equity-Method Investments

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

Investee	Number of Shares	Percentage of Ownership(%)	2010			2009		
			Acquisition cost	Net asset value	Book value	Acquisition cost	Net asset value	Book value
<i>(in millions of Korean won)</i>								
Pacific Metals Co., Ltd.	991,392	33.05	₩ 5,233	₩ 20,353	₩ 20,352	₩ 5,233	₩ 18,488	₩ 18,488
BBDO Korea Inc.	180,000	30.00	949	3,475	3,475	949	3,254	3,254
Innisfree Co., Ltd. ¹	200,000	81.82	-	-	-	16,000	16,000	16,000
Anhui Pacific Tea Co., Ltd.	1,000,000	80.00	786	253	253	786	310	310
AMOREPACIFIC Cosmetics (Shenyang) Co.,Ltd. ²	-	0.00	-	-	-	2,218	4,060	4,060
AMOREPACIFIC US, INC.	294	100.00	30,497	2,748	2,447	28,159	5,068	4,747
AMOREPACIFIC JAPAN CO., LTD ²	43,400	100.00	22,722	1,064	770	16,050	-	-
Pacific Japan Co.,Ltd. ²	-	0.00	-	-	-	354	1,956	1,838
AMOREPACIFIC Taiwan Co.,Ltd.	29,050,000	100.00	9,514	2,145	2,021	8,424	1,825	1,715
Laneige Singapore Pte.,Ltd.	7,870,376	100.00	5,539	1,534	1,447	5,018	934	821
AMOREPACIFIC RUS CO.,LTD. ²	-	0.00	-	-	-	2,804	100	100
LANEIGE MALAYSIA SDN BHD.	8,006,000	100.00	2,586	1,386	1,333	2,106	735	701
Amorepacific Global Operations Pte.Ltd. ³	5,638,401	100.00	4,611	4,354	4,354	-	-	-
Taiwan AMORE Co.,Ltd.	1,000	50.00	131	1,570	1,571	131	1,392	1,392
AMOREPACIFIC HongKong Co.,Limited	26,786	30.00	1,220	2,800	2,255	1,220	2,471	2,102
PT. Laneige Indonesia Pacific ⁴	210,000	30.00	228	-	-	228	-	-
AMOREPACIFIC (Thailand) LIMITED	134,510	49.00	430	228	327	150	71	71
			₩ 84,446	₩ 41,910	₩ 40,605	₩ 89,830	₩ 56,664	₩ 55,599

¹ This subsidiary was newly consolidated as its prior year's total assets exceeded ₩10,000 million.

² Pacific Japan Co., Ltd. merged with AMOREPACIFIC JAPAN CO., LTD.
AMOREPACIFIC Cosmetics (Shenyang) Co., Ltd. and AMOREPACIFIC RUS CO., LTD. was liquidated.

³ Amorepacific Global Operations Pte. Ltd. was newly established this year, and it acquired 70% of shares of De Laniege SA, a Vietnamese subsidiary.

⁴ As of December 31, 2010, the net realizable value of investment in PT. Laneige Indonesia Pacific is below its net book value and is not expected to be recovered in the near future due to its continuous operating losses and accumulated deficit. Accordingly, an impairment loss of ₩188 million was recognized for the said investment.

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Changes in investments in equity-method investments are as follows:

2010 <i>(in millions of Korean won)</i>	2010						Change in capital adjustment	Ending
	Beginning	Changes in the scope of consolidation	Acquisition (Disposal)	Dividends	Valuation Gain(Loss)	Ending		
Pacific Metals Co., Ltd.	₩ 18,488	₩ -	₩ -	₩ (295)	₩ 2,159	₩ -	₩ 20,352	
BBDO Korea Inc.	3,254	-	-	(900)	1,121	-	3,475	
Innisfree Co., Ltd.	16,000	(16,000)	-	-	-	-	-	
Anhui Pacific Tea Co., Ltd.	310	-	-	-	(31)	(26)	253	
AMOREPACIFIC Cosmetics (Shenyang) Co.,Ltd.	4,060	-	(4,060)	-	-	-	-	
AMOREPACIFIC US, Inc.	4,747	-	2,339	-	(4,508)	(131)	2,447	
AMOREPACIFIC JAPAN CO.,LTD.	-	-	8,207	-	(7,613)	176	770	
Pacific Japan Co.,Ltd.	1,838	-	(1,838)	-	-	-	-	
AMOREPACIFIC Taiwan Co.,Ltd.	1,715	-	1,091	-	(947)	162	2,021	
Laneige Singapore Pte.,Ltd.	821	-	521	-	45	60	1,447	
AMOREPACIFIC RUS Co.,Ltd.	100	-	-	-	(100)	-	-	
LANEIGE MALAYSIA SDN ,BHD.	701	-	480	-	88	64	1,333	
Amorepacific Global Operations Pte.Ltd.	-	-	4,612	-	(606)	348	4,354	
Taiwan AMORE Co.,Ltd.	1,392	-	-	(147)	(47)	373	1,571	
AMOREPACIFIC HongKong Co.,Limited	2,102	-	-	-	255	(102)	2,255	
AMOREPACIFIC (Thailand) LIMITED	71	-	280	-	(30)	6	327	
	₩ 55,599	₩ (16,000)	₩ 11,632	₩ (1,342)	₩ (10,214)	₩ 930	₩ 40,605	

2009 <i>(in millions of Korean won)</i>	2009						Change in capital adjustment	Ending
	Beginning	Changes in the scope of consolidation	Acquisition (Disposal)	Dividends	Valuation Gain(Loss)	Ending		
Pacific Metals Co., Ltd.	₩ 18,195	₩ -	₩ -	₩ (635)	₩ 928	₩ -	₩ 18,488	
BBDO Korea Inc.	4,165	-	-	(1,800)	889	-	3,254	
Innisfree Co., Ltd.	-	-	16,000	-	-	-	16,000	
Anhui Pacific Tea Co., Ltd.	774	-	-	-	-	(464)	310	
AMOREPACIFIC Cosmetics (Shenyang) Co.,Ltd.	-	4,363	-	-	7	(310)	4,060	
AMOREPACIFIC US, Inc.	-	6,830	2,784	-	(4,332)	(535)	4,747	
AMOREPACIFIC JAPAN CO.,LTD	-	-	4,503	-	(3,697)	(806)	-	
Pacific Japan Co.,Ltd.	2,041	-	-	-	-	(203)	1,838	
AMOREPACIFIC Taiwan Co.,Ltd.	1,880	-	846	-	(860)	(151)	1,715	
Laneige Singapore Pte.,Ltd.	702	-	869	-	(697)	(53)	821	
AMOREPACIFIC RUS Co.,Ltd.	1,208	-	-	-	(1,026)	(82)	100	
LANEIGE MALAYSIA SDN ,BHD.	347	-	848	-	(416)	(78)	701	
Taiwan AMORE Co.,Ltd.	1,371	-	-	(142)	493	(330)	1,392	
AMOREPACIFIC HongKong Co.,Limited	2,283	-	-	-	(4)	(177)	2,102	
AMOREPACIFIC (Thailand) LIMITED	65	-	-	-	8	(2)	71	
	₩ 33,031	₩ 11,193	₩ 25,850	₩ (2,577)	₩ (8,707)	₩ (3,191)	₩ 55,599	

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

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

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

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

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Summary of financial information of major equity method investees follows:

2010 <i>(in millions of Korean won)</i>	Total Assets		Total Liabilities		Revenue		Net Income (Loss)	
Pacific Metals Co., Ltd.	₩	73,246	₩	11,658	₩	62,928	₩	7,116
BBDO Korea Inc.		52,775		41,192		28,696		3,737
Anhui Pacific Tea Co., Ltd.		316		-		-		-
AMOREPACIFIC US, Inc.		11,806		9,058		11,720		(4,424)
AMOREPACIFIC JAPAN CO.,LTD		7,556		6,492		28,103		(3,461)
AMOREPACIFIC Taiwan Co.,Ltd.		2,869		724		4,459		(636)
Laneige Singapore Pte.,Ltd.		1,993		459		4,163		8
LANEIGE MALAYSIA SDN BHD.		1,647		261		2,177		143
Amorepacific Global Operations Pte.Ltd. ¹		4,354		-		-		(605)
Taiwan AMORE Co.,Ltd.		4,696		1,557		7,066		648
AMOREPACIFIC HongKong Co.,Limited		18,891		9,557		40,040		1,352
PT. Laneige Indonesia Pacific		150		659		-		(111)
AMOREPACIFIC (Thailand) LIMITED		656		191		1,754		(67)
De Laneige SA		5,403		482		1,312		(518)
	₩	186,358	₩	82,290	₩	192,418	₩	3,182

¹ This financial information includes the equity method application on De Laniege SA.

6. Available-for-sale Securities

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

(in millions of Korean won)

	2010		2009	
Equity Securities				
Marketable equities	₩	5,392	₩	8,050
Non-marketable equities		11,401		5,147
Government-issued securities		6,034		2,998
Investments in partnership		2		1
	₩	22,829	₩	16,196

The fair values of non-marketable equity securities could not be reliably estimated due to the lack of financial information on the said companies. Accordingly, these equities were presented at their acquisition cost.

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

(in millions of Korean won)

		2010		2009	
	Percentage of Ownership (%)	Acquisition Cost	Book Value	Book Value	Book Value
Marketable equities¹					
ANTERIOS, INC.	3.15	₩ 4,067	₩ 4,067	₩ -	-
CAPSUM	6.67	549	549	-	-
Rigen Prime Co., Ltd.	5.88	500	500	-	-
Biogenics Co., Ltd.	10.98	1,000	1,000	1,000	1,000
Solomon Investment Bank Co., Ltd.	2.11	4,588	4,462	3,324	3,324
HVLS Co., Ltd.	1.75	500	500	500	500
GL Pharm Tech Co., Ltd.	12.27	176	191	191	191
The Korea Economic Daily	0.03	75	81	81	81
Welskin Co., Ltd.	8.33	100	48	48	48
EntoPharm Co., Ltd.	2.69	540	-	-	-
Biovigen Co., Ltd.	7.51	1,201	-	-	-
Virtual MD Co., Ltd.	5.52	500	-	-	-
ELANDRETAL.Ltd.	0.00	1	3	3	3
T.ON Telecom Co., Ltd.	0.05	70	-	-	-
The Institution for Social development and Policy Research	1.67	10	-	-	-
Non-marketable equities					
Crystal Genomics Co., Ltd.	0.57	901	431	595	595
Medy-tox Inc.	2.19	1,300	4,961	3,768	3,768
Hanall Pharmaceutical Co., Ltd.	0.00	-	-	3,687	3,687
		<u>₩ 16,078</u>	<u>₩ 16,793</u>	<u>₩ 13,197</u>	

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

7. Property, Plant and Equipment

As of December 31, 2010, the value of the Group's land, as determined by the local government in Korea for property tax assessment purposes, was ₩699,687 million (2009: ₩668,992 million).

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

2010 (in millions of Korean won)	Balance as of January 1, 2010	Acquisition	Disposal	Depreciation	Reclassification	Others ¹	Balance as of December 31, 2010	Accumulated depreciation
Land	₩ 602,691	₩ 11,294	₩ (11,625)	₩ -	₩ 196,799	₩ 17	₩ 799,176	₩ -
Buildings	227,764	2,260	(510)	(11,892)	61,668	(247)	279,043	(94,914)
Structures	14,524	325	(14)	(1,834)	12,770	505	26,276	(15,324)
Machinery	43,762	9,222	(60)	(18,921)	12,679	1,811	48,493	(157,896)
Vehicles	431	614	(28)	(409)	-	25	633	(2,468)
Tools	25,588	10,856	(425)	(12,725)	(10)	(47)	23,237	(101,858)
Furniture and fixtures	110,423	46,136	(788)	(44,105)	6,530	103	118,299	(293,898)
Trees	3,560	-	-	(335)	589	-	3,814	(1,279)
Construction in-progress	234,878	251,307	(49)	-	(294,284)	17	191,869	-
Machinery in-transit	1,099	4,213	(312)	-	(4,089)	4	915	-
	<u>₩ 1,264,720</u>	<u>₩ 336,227</u>	<u>₩ (13,811)</u>	<u>₩ (90,221)</u>	<u>₩ (7,348)</u>	<u>₩ 2,188</u>	<u>₩ 1,491,755</u>	<u>₩ (667,637)</u>

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<i>(in millions of Korean won)</i>	2009 Balance as of January 1, 2009	Acquisition	Disposal	Depreciation	Reclassification	Others ¹	Balance as of December 31, 2009	Accumulated depreciation
Land	₩ 565,452	₩ 1,047	₩ (1,667)	₩ -	₩ 39,433	₩ (1,574)	₩ 602,691	₩ -
Buildings	215,447	926	(2,444)	(9,862)	26,572	(2,875)	227,764	(81,945)
Structures	15,570	283	-	(1,641)	348	(36)	14,524	(12,817)
Machinery	46,161	4,833	(35)	(16,864)	10,479	(812)	43,762	(122,839)
Vehicles	552	285	(55)	(321)	-	(30)	431	(2,223)
Tools	28,090	10,340	(8)	(13,484)	697	(47)	25,588	(89,004)
Furniture and fixtures	99,552	54,367	(1,779)	(44,696)	3,790	(811)	110,423	(252,237)
Trees	3,909	-	(24)	(325)	-	-	3,560	(943)
Construction in-progress	163,202	159,512	-	-	(87,808)	(28)	234,878	-
Machinery in-transit	1,971	1,851	-	-	(2,717)	(6)	1,099	-
Other	1,249	-	-	-	-	(1,249)	-	-
	<u>₩ 1,141,155</u>	<u>₩ 233,444</u>	<u>₩ (6,012)</u>	<u>₩ (87,193)</u>	<u>₩ (9,206)</u>	<u>₩ (7,468)</u>	<u>₩ 1,264,720</u>	<u>₩ (562,008)</u>

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

Some of the land and buildings are pledged as collateral for the leasehold deposits received (Note 12).

8. Intangible assets

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

<i>(in millions of Korean won)</i>	Industrial property	Software	Goodwill	Others	Negative goodwill	Total
Balance as of January 1, 2010	₩ 3,778	₩ 19,860	₩ 503,193	₩ 4,241	₩ (97,265)	₩ 433,807
Acquisition	3,766	3,934	-	935	-	8,635
Disposal	(2)	-	-	(78)	-	(80)
Reclassification	-	6,209	-	1,058	-	7,267
Others ¹	-	5	1,987	(13)	-	1,979
Amortization	(1,360)	(6,965)	(31,611)	(1,464)	225	(41,175)
Balance as of December 31, 2010	<u>₩ 6,182</u>	<u>₩ 23,043</u>	<u>₩ 473,569</u>	<u>₩ 4,679</u>	<u>₩ (97,040)</u>	<u>₩ 410,433</u>
Acquisition cost	(3,806)	(31,929)	352,178	(2,110)	(95,443)	218,890
Accumulated amortization	(9,988)	(54,972)	(121,391)	(6,789)	1,597	(191,543)

<i>(in millions of Korean won)</i>	Industrial property	Software	Goodwill	Others	Negative goodwill	Total
Balance as of January 1, 2009	₩ 3,255	₩ 14,137	₩ 532,158	₩ 4,116	₩ (97,506)	₩ 456,160
Acquisition	1,631	2,848	-	1,382	-	5,861
Disposal	-	-	-	-	-	-
Reclassification	-	9,228	-	313	-	9,541
Others ¹	-	(30)	2,381	(124)	-	2,227
Amortization	(1,108)	(6,323)	(31,346)	(1,446)	241	(39,982)
Balance as of December 31, 2009	<u>₩ 3,778</u>	<u>₩ 19,860</u>	<u>₩ 503,193</u>	<u>₩ 4,241</u>	<u>₩ (97,265)</u>	<u>₩ 433,807</u>
Acquisition cost	(4,880)	(27,024)	413,413	1,605	(95,893)	287,221
Accumulated amortization	(8,658)	(46,884)	(89,780)	(2,636)	1,372	(146,586)

¹ Includes foreign currency translation adjustments and adjustments resulting from the effect of changes in the scope of consolidation.

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The amount of ₩85,394 million included in negative goodwill, which originated from the merger with Jangwon Co. Ltd. in 2005, is being amortized over a period of 29 years, which represents the average useful-life of depreciable assets, using the straight-line method, while the negative goodwill in connection with non-depreciable assets is reversed when the assets are disposed of. Amortization of intangible assets is charged to the following accounts:

<i>(in millions of Korean won)</i>	2010		2009	
Production costs ¹	₩	41,087	₩	40,052
Selling and administrative expenses		313		171
	₩	41,400	₩	40,223

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

9. Insured Assets

As of December 31, 2010, inventories and property, plant and equipment are insured against fire and other casualty losses for up to ₩1,179,094 million.

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

10. Short-term borrowings

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

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

¹ As of December 31, 2010 and 2009, the Company has provided AMOREPACIFIC EUROPE S.A.S, a consolidated subsidiary, with payment guarantees for above borrowings of EURO 28,601 thousand (equivalent to ₩43,290 million) and EURO 34,601 thousand (equivalent to ₩ 57,931 million) respectively (Notes 12 and 21).

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11. Accrued Severance Benefits

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

<i>(in millions of Korean won)</i>	2010	2009
Beginning balance	₩ 121,944	₩ 114,462
Changes in consolidation scope	692	-
Payment	(36,607)	(21,716)
Increase	32,877	29,198
	<u>118,906</u>	<u>121,944</u>
Less: Severance benefit insurance	(658)	(905)
Deposits to the National Pension Service	(83,779)	(87,231)
	<u>₩ 34,469</u>	<u>₩ 33,808</u>

As of December 31, 2010, the Company estimates severance payable to all employees to be ₩118,906 million (2009: ₩121,944 million) and records the corresponding amount as accrued severance benefits. Also, the Company funded 70% (2009: 72%) of severance payable through severance insurance deposits with Samsung Life Insurance Company.

12. Commitments and contingencies

AMOREPACIFIC Group, Inc.(Formerly PACIFIC Corporation)

As of December 31, 2010, Seoul Guarantee Insurance has provided the Parent Company with payment guarantees such as court bond guarantees, performance guarantees and others amounting to ₩ 37 million.

AMOREPACIFIC Corporation

The payment guarantee provided to AMOREPACIFIC EUROPE S.A.S, a subsidiary, amounts to ₩ 43,290 million. It has a bank guarantee agreement of up to EUR 4,000 thousand with Woori Bank for a local credit guarantee.

As of December 31, 2010, it also has a bank overdraft agreement of up to ₩ 8,000 million and a loan agreement secured by credit sales of up to ₩ 25,000 million with Woori Bank. As of December 31, 2010, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩ 15,868 million. And as of December 31, 2010, it has a letter of credit agreement of up to USD 4,000 thousand with Woori Bank and the amount of USD 1,381 thousand is outstanding.

As of December 31, 2010, Seoul Guarantee Insurance has provided the AMOREPACIFIC Corporation with payment guarantees such as court bond guarantees, performance guarantees and others amounting to ₩ 5,796 million.

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PACIFICPHARMA Corporation

As of December 31, 2010, PACIFICPHARMA Corporation has an operating fund loan agreement of up to ₩3,000 million with Hana Bank and a loan on credit sales agreement of up to ₩ 30,000 million with Woori Bank. As of December 31, 2010, the outstanding balance of the loan on credit sales that has not yet reached maturity is ₩2,700 million. And as of December 31, 2010, it has an agreement of up to USD 3,000 thousand with Woori Bank and the amount of USD 222 thousand is outstanding.

As of December 31, 2010, Seoul Guarantee Insurance has provided fidelity bond guarantees of ₩ 132 million.

Etude Corporation

As of December 31, 2010, Etude Corporation has a loan agreement secured by credit sales of up to ₩ 5,000 million and a bank overdraft agreement of up to ₩ 1,000 million with Woori Bank. As of December 31, 2010, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩ 1,511 million.

AMOS Professional Corporation

As of December 31, 2010, AMOS Professional has a loan agreement secured by credit sales of up to ₩ 4,000 million and a bank overdraft agreement of up to ₩ 1,000 million with Woori Bank. As of December 31, 2010, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩ 62 million.

Jangwon Co., Ltd.

As of December 31, 2010, Jangwon Co., Ltd. has a loan agreement of up to ₩ 4,000 million with Woori Bank but there is no balance of amount used.

As of December 31, 2010, Seoul Guarantee Insurance has provided the Company with payment guarantees such as court bond guarantees, performance guarantees and others amounting to ₩ 34 million.

PACIFICGLAS, Inc.

As of December 31, 2010, PACIFICGLAS, Inc. has a loan agreement secured by credit sales of up to ₩ 3,000 million and a bank overdraft agreement of up to ₩ 5,000 million with Woori Bank. As of December 31, 2010, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩ 31 million.

Innisfree Corporation

As of December 31, 2010, Innisfree Corporation has a loan agreement secured by credit sales of up to ₩ 3,000 million and a bank overdraft agreement of up to ₩ 1,000 million with Woori Bank. As of December 31, 2010, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩ 761 million.

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PACIFICPACKAGE Corporation

As of December 31, 2010, PACIFICPACKAGE Corporation has a loan agreement secured by credit sales of up to ₩ 5,000 million with Woori Bank. As of December 31, 2010, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩ 430 million. And as of December 31, 2010, it has a letter of credit agreement of up to USD 300 thousand with Woori Bank but there is no balance of outstanding amounts.

PACIFIC Corporation sold its land which was acquired from the merger with PACIFICPACKAGE Co., Ltd. and located in Yongin, for ₩23,078 million to PRUME HOUSING DEVELOPMENT Co., Ltd. The said amount is recorded as long-term advances received under non-current liabilities because the Group has not obtained the official approval of the above land transaction from the municipal authorities as of December 31, 2010. Consequently, the Group recorded the book value of the property amounting to ₩13,649 million as investments in land under non-current assets. The land was provided as collateral and assigned to Hana Bank for the borrowings of PRUME HOUSING DEVELOPMENT Co., Ltd. as of December 31, 2010.

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

Pledged Assets

Details of assets pledged as collateral for leasehold deposits received, as of December 31, 2010, is as follows:

<i>(in millions of Korean won)</i>	Beneficiaries	Amount
Land and building	Woori Bank	₩ 1,542

As of December 31, 2010, short-term investment of AMOREPACIFIC Corporation was provided as collateral for the repayment of loans of AMOREPACIFIC Japan Co., LTD. amounting to ₩ 8,000 million (2009: ₩ 9,000 million) (Note 4).

AMOREPACIFIC Corporation sold one of its operations, the Innisfree cosmetics division, to Innisfree Corporation, a consolidated subsidiary, for ₩ 13,259 million.

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The Group entered into a "COX-2 Inhibitor Development and License Agreement" with Crystal Genomics Co., Ltd. ("Crystal"). In accordance with the agreement, the Group received US\$2,000 thousand from Crystal in return for a technology transfer. Further, Crystal shall pay a fee to the Group for up to US\$29,750 thousand and royalties from sales of the related products subject to the success of the product development. Crystal also has the option to grant a sub-license the license to a third party and if Crystal chooses to exercise the option, the Group will be entitled to be paid by Crystal for up to 40% of all receipts from the sub-licensee and royalties from their sales of the related products.

The Group (PACIFICPHARMA Corporation) entered into an agreement to purchase Botolium products exclusively from Medy-tox Inc. which started from December 2003.

PACIFICPACKAGE Co., Ltd. is jointly liable for the obligations of the newly spun off company, Taeshin Inpack Corporation, including its contingent liabilities that existed prior to the spin-off.

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13. Retained Earnings

Asset revaluation surplus

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment, and increased the related amount of assets by ₩176,090 million on January 1, 1998, the latest revaluation date. The revaluation surplus amounting to ₩170,804 million, net of related tax and transfers to capital stock, was credited to capital surplus, a component of shareholders' equity. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

Losses on capital reduction

The Company incurred losses on capital reduction of ₩ 507,841 million due to a decrease in capital stock from a spin-off of AMOREPACIFIC Corporation on June 1, 2006.

Retained Earnings

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

<i>(in millions of Korean won)</i>	2010	2009
Appropriation		
Legal reserve	₩ 28,615	₩ 28,615
Reserve for business development	25,560	25,560
Reserve for financial structure improvement	9,966	9,966
Reserve for technology development	71,651	71,651
Others	456,159	389,159
	<u>591,951</u>	<u>524,951</u>
Unappropriated retained earnings to be carried forward to subsequent year	119,277	96,550
	<u>₩ 711,228</u>	<u>₩ 621,501</u>

Legal reserve

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

Reserve for technology development

The Company appropriates a certain portion of its retained earnings as a reserve for technology development under the Special Tax Treatment Control Law. This reserve may be transferred to discretionary reserve and distributed as dividends.

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14. Treasury Stock

The Company acquired 568,568 of its own shares, consisting of common 551,548 shares and 17,020 preferred shares. The total book value of its own shares is ₩133,330 million and the Company intends to dispose of the remaining treasury shares depending on the market conditions.

15. Sales and Cost of Sales

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

<i>(in millions of Korean won)</i>	2010	2009
Sales - sale of manufactured goods	₩ 2,411,335	₩ 2,058,455
Sales - trading	652,388	516,760
Sales - others	4,405	10,889
Total sales	<u>3,068,128</u>	<u>2,586,104</u>
Sales Incentives	(393,994)	(367,059)
Net sales	<u>₩ 2,674,134</u>	<u>₩ 2,219,045</u>
Cost of manufacture	₩ 521,081	₩ 468,850
Cost of goods sold	202,885	175,616
Cost of others	7,013	6,547
Cost of sales	<u>₩ 730,979</u>	<u>₩ 651,013</u>

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16. Income Taxes

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

<i>(in millions of Korean won)</i>	2010	2009
Current income taxes	₩ 75,480	₩ 88,621
Deferred income tax due to temporary differences	15,959	(8,466)
Deferred income tax charged to equity	370	(1,821)
Income tax expense	<u>₩ 91,809</u>	<u>₩ 78,334</u>

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

<i>(in millions of Korean won)</i>	2010	2009
Gain(loss) on valuation of available-for-sale securities	₩ 160	₩ (1,044)
Gain(loss) on valuation of equity-method investments	210	(777)
	<u>₩ 370</u>	<u>₩ (1,821)</u>

Reconciliation between net income before tax and income tax expense

<i>(in millions of Korean won)</i>	2010	2009
Net income before tax	<u>₩ 379,943</u>	<u>₩ 316,468</u>
Income tax based on statutory rate	₩ 91,935	₩ 76,561
Add (deduct):		
Non-taxable income	(6,709)	(2,888)
Non-deductible expense	7,157	3,453
Temporary differences not recognized as a deferred tax assets	(8,922)	2,974
Tax credits	(5,202)	(1,992)
Others	<u>13,550</u>	<u>226</u>
Income tax expense	<u>₩ 91,809</u>	<u>₩ 78,334</u>
Effective tax rate (Income tax over net income before tax)	24.16%	24.75%

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

2010 <i>(in millions of Korean won)</i>	Temporary differences ¹				Deferred tax	Deferred tax
	Beginning	Increase	Decrease	Ending	assets(liabilities) Current	assets(liabilities) Non-current
Allowance for doubtful accounts	₩ 1,309	₩ 2,624	₩ 1,059	₩ 2,874	₩ 695	₩ -
Warranty reserve	23,916	15,700	21,451	18,165	-	3,997
Accrued severance benefits	77	4,325	1,344	3,058	-	672
Investments in securities	(2,253)	(1,030)	(1,658)	(1,625)	-	(357)
Equity-method investments	(199,024)	(64,473)	97,480	(360,977)	-	(58,981)
Treasury stock	(107,355)	-	-	(107,355)	-	(23,618)
Others	(77,455)	(11,100)	15,166	(103,721)	7,839	(23,743)
	₩ (360,785)	₩ (53,954)	₩ 134,842	₩ (549,581)	₩ 8,534	₩ (102,030)

2009 <i>(in millions of Korean won)</i>	Temporary differences ¹				Deferred tax	Deferred tax
	Beginning	Increase	Decrease	Ending	assets(liabilities) Current	assets(liabilities) Non-current
Allowance for doubtful accounts	₩ 1,310	₩ 1,251	₩ 1,252	₩ 1,309	₩ 316	₩ -
Warranty reserve	19,946	22,252	18,282	23,916	-	5,334
Accrued severance benefits	21	392	336	77	-	17
Investments in securities	691	(1,106)	1,838	(2,253)	-	(518)
Equity-method investments	(162,793)	(59,885)	(23,654)	(199,024)	3,122	(51,911)
Treasury stock	(107,355)	-	-	(107,355)	-	(23,618)
Others	(44,272)	(42,652)	(9,469)	(77,455)	(2,629)	(7,651)
	₩ (292,452)	₩ (79,748)	₩ (11,415)	₩ (360,785)	₩ 809	₩ (78,347)

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

Effective Tax Rate

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

Partial Recognition

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

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17. Earnings Per Share

Basic Earnings Per Share

	2010		2009
Net income attributable to common stock ¹	₩ 101,478 million	₩	79,746 million
Weighted average number of common stock outstanding ²	7,427,584		7,427,596
Basic earnings per share	₩ 13,662	₩	10,736

Diluted Earnings Per Share

	2010		2009
Diluted net income attributable to common stock ¹	₩ 101,945 million	₩	80,173 million
Weighted average number of common stock for diluted earnings per share ²	7,694,304		7,694,316
Diluted earnings per share	₩ 13,249	₩	10,420

¹ Net income attributable to common stock follows:

(in millions of Korean won)

	2010		2009
Net income	₩ 103,074	₩	81,208
Adjustment	(1,596)		(1,462)
Net income attributable to common stock	<u>101,478</u>		<u>79,746</u>
Dividends of convertible preferred shares	467		427
Net income used to determine diluted earnings per share	<u>₩ 101,945</u>	<u>₩</u>	<u>80,173</u>

² Weighted average number of common stock is as follows:

	2010		2009
January 1 balance	7,427,596		7,427,596
Acquisition of treasury shares	(12)		-
Weighted average number of common stock outstanding	<u>7,427,584</u>		<u>7,427,596</u>
Convertible preferred shares	266,720		266,720
Weighted average number of common stock for diluted earnings per share	<u>7,694,304</u>		<u>7,694,316</u>

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18. Selling and Administrative Expenses

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

<i>(in millions of Korean won)</i>	2010	2009
Salaries and wages	₩ 226,958	₩ 207,586
Severance benefits	24,629	21,854
Advertising	297,957	247,551
Sales promotional expenses	158,688	131,787
Overseas market development expenses	4,921	4,030
Beauty activity expenses	715	515
Entertainment	3,304	2,967
Travel and transportation expenses	16,596	13,151
Employee fringe benefits	39,575	33,301
Conference expenses	2,225	2,208
Training expenses	11,427	8,821
Packing expenses	3,415	2,266
Transportation	49,775	39,819
Vehicle expenses	1,413	1,438
Export expenses	2,744	1,919
Research expenses	5,861	6,710
Communication expenses	3,474	3,358
Utilities	3,942	3,456
Taxes and dues	20,882	14,174
Rent	21,153	22,215
Depreciation	48,534	49,801
Amortization	40,938	39,907
Repairs and maintenance expenses	2,626	2,510
Supplies	3,155	2,946
Publication expenses	13,853	13,106
Commission	498,424	323,750
General development expenses	58,932	50,817
Environmental protection costs	385	338
Insurance	1,790	2,094
Others expenses	4,781	3,541
	<u>₩ 1,573,072</u>	<u>₩ 1,257,936</u>

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19. Comprehensive Income

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

<i>(in millions of Korean won)</i>	2010		2009	
Net income	₩	288,133	₩	238,134
Other comprehensive income and expense				
Loss on valuation of equity-method investments net of tax of ₩ 270 million (2009: ₩ 1,011 million)		(101)		(877)
Foreign currency translation adjustments net of tax of ₩ (60) million (2009: ₩ 500 million)		(4,241)		(9,954)
Gain on valuation of available-for-sale securities, net of tax of ₩160 million (2009: ₩ 816 million)		(585)		3,212
Comprehensive income	₩	<u>283,206</u>	₩	<u>230,515</u>
Parent Company	₩	100,823	₩	80,975
Minority interests		182,383		149,540

20. Dividends

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

		2010	2009
Number of shares eligible for dividends	Common stock	7,427,550	7,427,596
	Preferred stock 1	627,357	627,388
	Preferred stock 2	<u>266,720</u>	<u>266,720</u>
Dividend rate	Common stock	<u>35%</u>	<u>32%</u>
	Preferred stock 1	36%	33%
	Preferred stock 2	<u>35%</u>	<u>32%</u>
Dividend amount	Common stock	12,998 million	11,884 million
	Preferred stock 1	1,129 million	1,035 million
	Preferred stock 2	<u>467 million</u>	<u>427 million</u>
Dividend payout ratio (Dividends/Net income)		<u>14.16%</u>	<u>16.43%</u>
Dividend yield ratio (Dividend per share/Market price)	Common stock	<u>0.80%</u>	<u>1.01%</u>
	Preferred stock 1	1.82%	2.70%
	Preferred stock 2	<u>2.09%</u>	<u>2.19%</u>

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21. Intercompany Transactions

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

		2010		Sales	Purchases	Receivable	Payables		
<i>(in millions of Korean won)</i>									
Selling company	Purchasing company								
AMOREPACIFIC Group	AMOREPACIFIC Corporation	₩	1,799	₩	48	₩	408	₩	61
	PACIFICPHARMA Corporation		1,390		-		450		309
	AMOS Professional Corporation		302		-		27		147
	PACIFICGLAS, Inc.		1		-		1		-
	Jangwon Co., Ltd.		1		-		1		-
AMOREPACIFIC Corporation	PACIFICPHARMA Corporation		2,371		32,433		1,141		3,770
	AMOS Professional Corporation		10,546		197		958		106
	Etude Corporation		4,577		1,617		356		686
	PACIFICPACKAGE Corporation		-		25,069		-		4,774
	Innisfree Corporation		3,338		2,256		995		1,254
	PACIFICGLAS, Inc.		217		30,262		11		3,534
	Jangwon Co., Ltd.		28		6,674		2		-
	AMOREPACIFIC Cosmetics(Shanghai)Co.,Ltd.		6,852		-		1,058		-
	AMOREPACIFIC Trading Co.,Ltd.		20,538		-		6,125		-
	AMOREPACIFIC EUROPE S.A.S		1,445		16,080		605		5,114
PACIFICPHARMA Corporation	AMOS Professional Corporation		-		-		315		-
PACIFICPACKAGE Corporation	PACIFICPHARMA Corporation		450		-		343		-
	Etude Corporation		51		-		30		-
	AMOS Professional Corporation		8		-		5		-
	Innisfree Corporation		2		-		2		-
AMOREPACIFIC Cosmetics(Shanghai)Co.,Ltd.	AMOREPACIFIC Trading Co.,Ltd.		21,161		-		10,613		-
		₩	75,077	₩	114,636	₩	23,446	₩	19,755
 <i>(in millions of Korean won)</i>									
Selling company	Purchasing company			Sales	Purchases	Receivable	Payables		
AMOREPACIFIC Group	AMOREPACIFIC Corporation	₩	1,581	₩	57	₩	397	₩	66
	PACIFICPHARMA Corporation		1,313		-		533		296
	AMOS Professional Corporation		298		-		29		133
	PACIFICGLAS, Inc.		7		-		8		-
	Jangwon Co., Ltd.		1		-		1		-
AMOREPACIFIC Corporation	PACIFICPHARMA Corporation		1,358		26,197		664		2,340
	AMOS Professional Corporation		7,498		100		1,493		95
	Etude Corporation		7,052		1,076		882		174
	Innisfree Corporation		-		-		-		6,030
	PACIFICGLAS, Inc.		180		27,126		8		3,161
	Jangwon Co., Ltd.		22		7,609		2		5
	AMOREPACIFIC Cosmetics(Shanghai)Co.,Ltd.		3,987		6		974		-
	AMOREPACIFIC Trading Co.,Ltd.		20,125		-		2,854		3
AMOREPACIFIC EUROPE S.A.S		1,311		15,520		1,515		1,531	
PACIFICPHARMA Corporation	AMOS Professional Corporation		17		-		315		-
AMOREPACIFIC Cosmetics(Shanghai)Co.,Ltd.	AMOREPACIFIC Trading Co.,Ltd.		13,585		-		10,834		-
		₩	58,335	₩	77,691	₩	20,509	₩	13,834

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

22. Related Party Transactions

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

2010	Sales	Purchases	Receivables	Payables
<i>(in millions of Korean won)</i>				
Equity-method investees				
BBDO Korea Inc.	₩ 438	₩ 9,847	₩ 1	₩ 3,794
AMOREPACIFIC US, Inc. and others	21,939	21,227	13,422	4,168
Others				
Taeshin Inpack Corporation	-	27,592	-	3,373
	<u>₩ 22,377</u>	<u>₩ 58,666</u>	<u>₩ 13,423</u>	<u>₩ 11,335</u>

2009	Sales	Purchases	Receivables	Payables
<i>(in millions of Korean won)</i>				
Equity-method investees				
BBDO Korea Inc.	₩ 433	₩ 12,622	₩ 2	₩ 1,946
AMOREPACIFIC US, Inc. and others	17,602	15,951	6,908	1,229
Others				
Taeshin Inpack Corporation	-	39,868	-	2,910
	<u>₩ 18,035</u>	<u>₩ 68,441</u>	<u>₩ 6,910</u>	<u>₩ 6,085</u>

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Compensation for key management consists of:

(in millions of Korean won)

	2010			
	PACIFIC Coporation	AMOREPACIFIC Coporation	PACIFIC-PHARMA Coporation	Total
Short-term salaries	₩ 1,052	₩ 4,894	₩ 1,063	₩ 7,009
Severance pay	196	1,099	205	1,500
	<u>₩ 1,248</u>	<u>₩ 5,993</u>	<u>₩ 1,268</u>	<u>₩ 8,509</u>

(in millions of Korean won)

	2009			
	PACIFIC Coporation	AMOREPACIFIC Coporation	PACIFIC-PHARMA Coporation	Total
Short-term salaries	₩ 817	₩ 6,777	₩ 964	₩ 8,558
Severance pay	148	906	196	1,250
	<u>₩ 965</u>	<u>₩ 7,683</u>	<u>₩ 1,160</u>	<u>₩ 9,808</u>

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

23. Contributions to Society

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

	2010		2009	
	(in millions of Korean won)			
Donation to nursing homes and facilities	₩	851	₩	1,077
Others		4,467		9,295
	<u>₩</u>	<u>5,318</u>	<u>₩</u>	<u>10,372</u>

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

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24. Environmental Policy

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

Expenditures incurred related to environmental improvement of the Company amounted to ₩3,690 million and ₩3,175 million for the years ended December 31, 2010 and 2009, respectively.

25. Training and recruiting expenses

The Company's employee training and recruiting expenses amounted to ₩12,206 million and ₩9,824 million for the years ended December 31, 2010 and 2009, respectively.

26. Segment Information

Financial information by segments follows:

2010			Consolidation	
<i>(in millions of Korean won)</i>	Cosmetics	Others	adjustment	Consolidated
Total segment revenue	₩ 2,261,095	₩ 619,855	₩ (206,816)	₩ 2,674,134
Internal-segment revenue	(109,367)	(97,449)	206,816	-
External revenue	2,151,728	522,406	-	2,674,134
Operating income	284,293	114,890	(29,100)	370,083
Total assets	2,099,118	2,071,210	(860,078)	3,310,250

2009			Consolidation	
<i>(in millions of Korean won)</i>	Cosmetics	Others	adjustment	Consolidated
Total segment revenue	₩ 1,838,228	₩ 516,053	₩ (135,236)	₩ 2,219,045
Internal-segment revenue	(71,556)	(63,680)	135,236	-
External revenue	1,766,672	452,373	-	2,219,045
Operating income	255,521	88,003	(33,428)	310,096
Total assets	1,651,800	2,005,994	(674,147)	2,983,647

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27. Geographical Segment Information

Financial information by geographical segments follows:

2010 <i>(in millions of Korean won)</i>	Korea			Overseas	Consolidation adjustment	Consolidated
	Domestic	Export				
Total revenue	₩ 2,505,427	₩ 96,504	₩ 279,019	₩ (206,816)	₩ 2,674,134	
Internal revenue	(190,748)		(16,068)	206,816	-	
External revenue	2,411,183		262,951	-	2,674,134	
Operating income	384,090		15,093	(29,100)	370,083	
Total assets	3,990,713		179,615	(860,078)	3,310,250	

2009 <i>(in millions of Korean won)</i>	Korea			Overseas	Consolidation adjustment	Consolidated
	Domestic	Export				
Total revenue	₩ 2,050,003	₩ 77,877	₩ 226,401	₩ (135,236)	₩ 2,219,045	
Internal revenue	(105,938)		(29,298)	135,236	-	
External revenue	2,021,942		197,103	-	2,219,045	
Operating income	331,757		11,767	(33,428)	310,096	
Total assets	3,477,442		180,352	(674,147)	2,983,647	

28. Supplemental Cash Flow Information

Significant transactions not affecting cash flows are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Reclassification of construction in-progress to specific property, plant and equipment	₩ 294,284	₩ 87,808

29. Impact of adoption of Korean International Financial Reporting Standards

The Group plans to prepare its financial statements under the Korean International Financial Reporting Standards (K-IFRS) from 2011. Key details of the adoption of K-IFRS are as follows:

The plan and status of the adoption

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

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

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

Key differences in accounting policies

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

	<u>Current accounting policy</u>	<u>Accounting policy under K-IFRS</u>
First-time Adoption of K-IFRS		
Business combinations	-	K-IFRS 3(R) Business Combination would not be retroactively applied regarding business combinations before the date of transition.
Cumulative effect of translation	-	The cumulative effect of translation from foreign operations is deemed to be zero on the date of transition.
Investments in subsidiaries, joint controlled entities and associates	-	The deemed cost is the book value of its investments in subsidiaries under the current GAAP at the date of transition.
Deemed cost as fair value	-	Property, plant and equipment such as land may be revalued to fair value on the date of transition.
Investments in subsidiaries, joint controlled entities and associates presented by separate financial statements	Accounted for with the equity method	Accounted for with the cost method
Change in the scope in subsidiaries for consolidation	Subsidiaries to be consolidated are determined as per the Act on External Audit of Corporation, but corporations with total assets less than ₩10,000 million as of the end of the prior year cannot be consolidated as per Section 1, Paragraph 3, Number 2 of the Act.	As per K-IFRS, all subsidiaries over which the Company exercises control are consolidated.
Allowance for doubtful accounts	Under rational and objective standards	On incurred losses at the end of the reporting period
Financial assets and liabilities	Long-term transactions will be discounted to present values if the difference between the nominal and present values are significant.	Loans and receivables classified as financial assets are measured at fair values and the difference with nominal values are amortized using the effective interest method. Other financial liabilities are valued at cost after being amortized using the effective interest method.

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

Significant Changes in Scope of Consolidation

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

Anhui Pacific Tea Co., Ltd. is considered to be a subsidiary over which the parent has significant influence under K-IFRS but was not included as a consolidated subsidiary due to its immateriality.

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

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