

**AMOREPACIFIC Group, Inc.
and Subsidiaries**

**Consolidated Financial Statements
December 31, 2019 and 2018**

AMOREPACIFIC Group, Inc. and Subsidiaries
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December 31, 2019 and 2018

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
AMOREPACIFIC Group, Inc.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

(1) Initial application of Korean IFRS 1116 Leases

Why this matter was determined to be a key audit matter

As the Group applied Korean IFRS 1116 *Leases* from January 1, 2019, we focused on the impacts of the application on the consolidated financial statements. Management of the Group identified a contract is, or contracts a lease, that are or contain leases and analysed the impacts of the application of Korean IFRS 1116 *Leases* and established the accounting policies. In accordance with the transitional provisions in Korean IFRS 1116, the cumulative effect of retrospective application of the amendments is reflected on the beginning balance as at January 1, 2019. See Note 38 for further details on the impact of the application of Korean IFRS 1116.

How our audit addressed the Key Audit Matter

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

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

(2) Valuation of merchandise and finished goods

Why this matter was determined to be a key audit matter

As described in Note 8 to the consolidated financial statements, the Company's inventories comprise of merchandise and finished goods amount to ₩ 373,012 million as at December 31, 2019. The inventories are initially measured at cost and write-down should be recognized if the inventories are damaged, become wholly or partially obsolete, or if expected net realisable value is below the cost. We considered the valuation of merchandise and finished goods as a significant matter in our audit because significant judgements of management are involved in determining obsolescence of the merchandise and finished goods.

How our audit addressed the Key Audit Matter

We performed the following audit procedures for inventory valuation.

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

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

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

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

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

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

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

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

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

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

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

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

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

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

Seoul, Korea
March 12, 2020

This report is effective as of March 12, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

AMOREPACIFIC Group, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2019 and 2018

(in thousands of Korean won)	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents	5,6,7,37	₩ 1,417,441,261	₩ 1,297,453,211
Financial deposits		245,100,000	225,100,000
Financial assets at fair value through profit or loss	5,7,37	157,610,206	20,174,153
Available-for-sale financial assets		-	-
Financial assets at amortized cost	5,37	-	30,000,000
Trade receivables	5,7,34	394,716,736	308,917,133
Other receivables	5,7,34	25,818,061	29,150,068
Current tax assets		4,159,737	4,466,891
Other current assets	5,7,15	80,295,603	76,078,859
Inventories	8	524,543,689	498,285,953
Non-current assets held-for-sale	14	56,220,960	-
		<u>2,905,906,252</u>	<u>2,489,626,269</u>
Non-current assets			
Financial deposits		19,654,082	17,656,558
Other receivables	5,7,34	194,890,634	223,090,550
Financial assets at fair value through profit or loss	5,7,37	36,773,920	9,466,477
Financial assets at amortized cost	5,7,37	3,285,865	4,246,910
Financial assets at fair value through other comprehensive income	5,7,37	4,945,410	10,676,421
Property, plant and equipment	10	3,200,096,754	3,321,645,433
Investment properties	12,37	364,765,119	367,138,100
Right-of-use assets	13,38	571,432,350	-
Intangible assets	11,38	739,425,539	773,736,725
Investments in associates	9	4,640,918	4,771,092
Deferred tax assets	25	83,656,667	69,815,993
Net defined benefit assets	20	129,043,976	68,935,285
Other non-current assets	15,38	22,875,649	26,568,631
		<u>5,375,486,882</u>	<u>4,897,748,175</u>
Total assets		<u>₩ 8,281,393,134</u>	<u>₩ 7,387,374,444</u>
Liabilities			
Current liabilities			
Trade payables	5,34,36	₩ 104,780,079	₩ 88,803,032
Borrowings	5,16,36	204,136,453	169,421,823
Other payables	5,34,36	304,810,620	276,585,288
Current tax liabilities		79,366,341	75,914,361
Deferred revenue		-	-
Contract liabilities	18	57,381,810	66,837,686
Provisions	17	14,543,265	12,130,997
Other current liabilities	5,19,36	215,012,052	207,944,970
Current lease liabilities	13,36,38	245,844,916	-
		<u>1,225,875,538</u>	<u>897,638,156</u>
Non-current liabilities			
Borrowings	5,16	-	44,687,010
Net defined benefit liabilities	20	3,436,819	3,251,666
Deferred tax liabilities	25	167,130,230	167,998,040
Provisions	17	21,409,242	15,381,742
Other non-current liabilities	5,19,36,38	19,409,736	15,947,755
Non-current lease liabilities	13,36,38	363,984,738	-
		<u>575,370,766</u>	<u>247,266,212</u>
Total liabilities		<u>1,801,246,304</u>	<u>1,144,904,368</u>
Equity			
Share capital	1,21	47,997,075	44,450,975
Share premium	21	903,711,141	672,986,708
Capital surplus		(21,656,351)	22,623,589
Other components of equity	22	(196,032,004)	(145,997,365)
Accumulated other comprehensive income	22	(14,983,036)	(21,029,899)
Retained earnings	23	2,648,285,673	2,545,799,306
Equity attributable to owners of the Parent Company		<u>3,367,322,498</u>	<u>3,118,833,314</u>
Non-controlling interest	35	<u>3,112,824,332</u>	<u>3,123,636,762</u>
Total equity		<u>6,480,146,831</u>	<u>6,242,470,075</u>
Total liabilities and equity		<u>₩ 8,281,393,134</u>	<u>₩ 7,387,374,444</u>

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

AMOREPACIFIC Group, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

<i>(in thousands of Korean won, except per share amounts)</i>	Notes	2019		2018	
Revenue	4,25,33,37	₩	6,284,255,176	₩	6,078,179,209
Cost of sales	26		<u>1,641,834,346</u>		<u>1,618,694,573</u>
Gross profit			4,642,420,830		4,459,484,636
Selling and administrative expenses	26,27		<u>4,144,171,013</u>		<u>3,910,011,120</u>
Operating profit			498,249,818		549,473,516
Finance income	5,28		31,767,398		33,079,074
Finance costs	5,28		26,987,022		7,332,161
Other non-operating losses, net	29		(72,313,109)		(41,319,356)
Share of net profit of associates	9		653,890		935,225
			<u>(66,878,844)</u>		<u>(14,637,218)</u>
Profit before income tax			431,370,974		534,836,298
Income tax expense	24		<u>148,966,023</u>		<u>158,565,086</u>
Profit for the period		₩	<u>282,404,952</u>	₩	<u>376,271,212</u>
Profit is attributable to:					
Owners of the Parent Company		₩	133,732,557	₩	142,286,121
Non-controlling interests	34		148,672,394		233,985,092
					0
Other comprehensive income (loss)					0
Items that will not be reclassified to profit or loss					0
Remeasurements of net defined benefit liabilities	19,24		(10,917,561)		25,810,724
Loss on valuation of financial assets at fair value through other comprehensive income	21,24		(791,580)	-	923,387
Items that may be subsequently reclassified to profit or loss					0
Changes in the fair value of available-for-sale financial assets	21,24		-		0
Share of other comprehensive income (loss) of associates	9,21,24		18,658		(55,194)
Exchange differences on transaction of foreign operations	21,24		16,683,736		469,148
					0
Other comprehensive income (loss) for the period, net of tax			<u>4,993,253</u>		<u>25,301,291</u>
Total comprehensive income for the period			<u>287,398,204</u>		<u>401,572,504</u>
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company			134,384,962		151,117,723
Non-controlling interests			<u>153,013,243</u>		<u>250,454,780</u>
					0
		₩	<u>287,398,204</u>	₩	<u>401,572,504</u>
					401,572,504
Earnings per share attributable to owners of the Parent Company	30				
Basic earnings per ordinary share		₩	1,444	₩	1,708
Basic earnings per preferred share			1,453		1,713

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

AMOREPACIFIC Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2019 and 2018

(in thousands of Korean won)

	Attributable to owners of the Parent Company								
	Share capital	Share premium	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2018	₩ 44,450,975	₩ 672,986,708	₩ 22,623,589	₩ (145,978,602)	₩ (19,392,447)	₩ 2,422,584,498	₩ 2,997,274,722	₩ 2,934,698,875	₩ 5,931,973,597
Changes in accounting policy	-	-	-	-	-	475,853	475,853	705,534	1,181,387
	<u>44,450,975</u>	<u>672,986,708</u>	<u>22,623,589</u>	<u>(145,978,602)</u>	<u>(19,392,447)</u>	<u>2,423,060,351</u>	<u>2,997,750,575</u>	<u>2,935,404,409</u>	<u>5,933,154,984</u>
Comprehensive income									
Profit for the period	-	-	-	-	-	142,286,121	142,286,121	233,985,092	376,271,212
Remeasurements of net defined benefit liabilities	-	-	-	-	-	10,732,341	10,732,341	15,078,384	25,810,724
Gain on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	(1,997,490)	-	(1,997,490)	1,074,103	(923,387)
Gain (loss) on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	263,286	(263,286)	-	-	-
Share of other comprehensive income of associates	-	-	-	-	(15,983)	-	(15,983)	(39,210)	(55,194)
Exchange differences on transaction of foreign operations	-	-	-	-	112,734	-	112,734	356,413	469,147
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,637,453)</u>	<u>152,755,176</u>	<u>151,117,723</u>	<u>250,454,782</u>	<u>401,572,502</u>
Transactions with owners									
Dividends paid	-	-	-	-	-	(30,016,220)	(30,016,220)	(62,222,428)	(92,238,647)
Change in non-controlling interests due to capital increase	-	-	-	(18,765)	-	-	(18,765)	1	(18,764)
Total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,765)</u>	<u>-</u>	<u>(30,016,220)</u>	<u>(30,034,985)</u>	<u>(62,222,427)</u>	<u>(92,257,411)</u>
Balance at December 31, 2018	<u>₩ 44,450,975</u>	<u>₩ 672,986,708</u>	<u>₩ 22,623,589</u>	<u>₩ (145,997,365)</u>	<u>₩ (21,029,899)</u>	<u>₩ 2,545,799,306</u>	<u>₩ 3,118,833,313</u>	<u>₩ 3,123,636,763</u>	<u>₩ 6,242,470,075</u>
Balance at January 1, 2019	₩ 44,450,975	₩ 672,986,708	₩ 22,623,589	₩ (145,997,365)	₩ (21,029,899)	₩ 2,545,799,306	₩ 3,118,833,313	₩ 3,123,636,763	₩ 6,242,470,075
Changes in accounting policy	-	-	-	-	-	-	-	-	-
	<u>44,450,975</u>	<u>672,986,708</u>	<u>22,623,589</u>	<u>(145,997,365)</u>	<u>(21,029,899)</u>	<u>2,545,799,306</u>	<u>3,118,833,313</u>	<u>3,123,636,763</u>	<u>6,242,470,075</u>
Comprehensive income									
Profit for the period	-	-	-	-	-	133,732,557	133,732,557	148,672,394	282,404,952
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(4,142,602)	(4,142,602)	(6,774,959)	(10,917,561)
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	-	-	-	-	(602,818)	-	(602,818)	(188,762)	(791,580)
Gain (loss) on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	1,251,856	(1,251,856)	-	-	-
Share of other comprehensive income of associates	-	-	-	-	5,707	-	5,707	12,950	18,658
Exchange differences on transaction of foreign operations	-	-	-	-	5,392,117	-	5,392,117	11,291,619	16,683,736
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,046,862</u>	<u>128,338,099</u>	<u>134,384,961</u>	<u>153,013,242</u>	<u>287,398,205</u>
Transactions with owners									
Acquisition of treasury shares	-	-	-	(50,034,637)	-	-	(50,034,637)	-	(50,034,638)
Dividends paid	-	-	-	1	-	(25,851,732)	(25,851,731)	(75,280,959)	(101,132,692)
Acquisition of additional interests in a subsidiary	-	-	(44,279,940)	1	-	-	(44,279,939)	(88,794,712)	(133,074,653)
Issuance of preferred shares	3,546,100	230,724,432	-	1	-	-	234,270,533	-	234,270,532
Change in non-controlling interests due to acquisition	-	-	-	1	-	-	1	250,000	250,001
Total transactions with owners	<u>3,546,100</u>	<u>230,724,432</u>	<u>(44,279,940)</u>	<u>(50,034,633)</u>	<u>-</u>	<u>(25,851,732)</u>	<u>114,104,227</u>	<u>(163,825,671)</u>	<u>(49,721,450)</u>
Balance at December 31, 2019	<u>₩ 47,997,075</u>	<u>₩ 903,711,141</u>	<u>₩ (21,656,351)</u>	<u>₩ (196,032,004)</u>	<u>₩ (14,983,036)</u>	<u>₩ 2,648,285,673</u>	<u>₩ 3,367,322,498</u>	<u>₩ 3,112,824,332</u>	<u>₩ 6,480,146,831</u>

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

AMOREPACIFIC Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

<i>(in thousands of Korean won)</i>	Notes	2019	2018
Cash flows from operating activities			
Cash generated from operations	31	W 989,402,434	W 898,080,777
Interest received		25,078,086	24,554,209
Interest paid		(26,451,231)	(4,786,086)
Income tax paid		(157,781,627)	(187,197,596)
Net cash inflow from operating activities		<u>830,247,661</u>	<u>730,651,304</u>
Cash flows from investing activities			
Net decrease in current financial deposits		70,000,000	-
Net decrease in current available-for-sale financial assets		22,408,874	26,059,081
Decrease in financial assets at fair value through profit or loss		30,511,000	-
Decrease in other receivables		8,191,318	8,168,871
Decrease in non-current financial deposits		-	579,033
Proceeds from disposal of non-current available-for-sale financial assets		-	-
Proceeds from disposal of financial assets at amortized cost		973,000	1,435,365
Proceeds from disposal of financial assets at fair value through other comprehensive income		5,812,967	3,198,768
Proceeds from disposal of property, plant and equipment		15,722,548	2,341,057
Proceeds from disposal of intangible assets		2,115,334	1,339,604
Proceeds from disposal of investment properties		-	2,016,000
Proceeds from disposal of non-current assets held-for-sale	13	-	504,000
Dividend income from associates		900,000	1,186,537
Other cash inflows		5,110,503	22,740,855
Net increase in current financial deposits		(89,939,000)	(56,431,000)
Payments for financial assets at fair value through profit or loss		(182,413,478)	(43,141,575)
Increase in other receivables		(4,674,114)	(15,820,680)
Increase in non-current financial deposits		(1,900,010)	(1,900,010)
Payments for non-current available-for-sale financial assets		-	-
Payments for financial assets at amortized cost		(11,955)	(337,180)
Payments for financial assets at fair value through other comprehensive income		(1,000,002)	(401,849)
Payments for property, plant and equipment	10	(274,205,655)	(436,897,962)
Payments for intangible assets	11	(38,149,618)	(55,055,450)
Payments for investment properties	11	(2,714,131)	-
Increase in right-of-use assets	11	(29,400)	-
Net cash outflow from investing activities		<u>(430,548,288)</u>	<u>(540,416,535)</u>
Cash flows from financing activities			
Proceeds from short-term borrowings		25,048,075	98,463,772
Increase in non-controlling interests		250,000	-
Issuance of preferred shares		234,270,532	-
Repayments of short-term borrowings		(38,682,147)	(108,628,289)
Dividends paid		(101,098,577)	(92,202,965)
Payments for lease liabilities	23	(230,612,975)	-
Acquisition of treasury shares	23	(50,034,638)	-
Acquisition of non-controlling interest	23	(126,506,443)	-
Net cash outflow from financing activities		<u>(110,825,092)</u>	<u>(102,367,482)</u>
Effects of exchange rate changes on cash and cash equivalents		<u>10,398,382</u>	<u>1,918,102</u>
Net increase(decrease) in cash and cash equivalents		<u>119,988,050</u>	<u>89,785,391</u>
Cash and cash equivalents at the beginning of the year		<u>1,297,453,211</u>	<u>1,207,667,820</u>
Cash and cash equivalents at the end of the year		<u>W 1,417,441,261</u>	<u>W 1,297,453,211</u>

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

AMOREPACIFIC Group, Inc. and Subsidiaries

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1. General Information

General information of AMOREPACIFIC Group, Inc.(the Company) which is the Parent Company in accordance with Korean IFRS 1110 *Consolidated Financial Statements* and its 37 subsidiaries (collectively referred to as the "Group") is as follows.

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 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 at December 31, 2019, the Company's share capital is ₩47,997 million, including ₩6,768 million of preferred shares. The Company is authorized to issue 360,000,000 shares at a par value per share of ₩500. On December 12, 2019, the company has issued 7,092,200 convertible preferred shares. As at December 31, 2019, the number of ordinary shares and preferred shares issued by the company are 82,458,180 and 13,535,970, respectively.

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

Shareholders	2019	
	Number of ordinary shares	Percentage of ownership (%)
Kyung- Bae Suh	44,443,620	54.0
Others ¹	38,014,560	46.0
	<u>82,458,180</u>	<u>100.0</u>

¹ Including 6,208,913(2018: 5,549,735) treasury shares (the Company acquired ₩ 50,035 million treasury shares for the purpose of improving shareholder value through stable stock prices during the current period)

AMOREPACIFIC Group, Inc. and Subsidiaries

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

Shareholder	Name of subsidiary	Primary Business	Share capital (in millions of Korean won)	Percentage of ownership (%)	Year end	Location
AMOREPACIFIC Group, Inc.	AMOREPACIFIC Corporation ^{1,2}	Manufacturing and marketing of cosmetics	₩ 34,508	36.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Innisfree Corporation	Marketing of cosmetics	1,222	81.82	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Etude Corporation	Manufacturing and marketing of cosmetics	3,631	80.48	Dec.31	Korea
AMOREPACIFIC Group, Inc.	AMOS Professional Corporation	Marketing of hair care products	3,500	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Espoir Corporation	Marketing of cosmetics	1,019	80.48	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Osulloc	Marketing of tea products	2,250	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	AESTURA Corporation	Manufacturing and marketing of medicine	11,645	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	PACIFICGLAS, Inc.	Manufacturing and marketing of glass	5,000	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	PACIFICPACKAGE Corporation	Printing, manufacturing and marketing of paper containers	11,505	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Osulloc Farm Co.,Ltd.	Manufacturing and marketing of green tea	5,083	98.38	Dec.31	Korea
AMOREPACIFIC Group, Inc.	COSVISION CO.,LTD.	Manufacturing and marketing of cosmetics, detergents and organic compounds	13,875	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited.	Holding company and marketing of cosmetics	201,910	90.00	Dec.31	Hong Kong
AMOREPACIFIC Corporation	AMORE Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	64,299	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Manufacturing and R&D of cosmetics	41,690	100.00	Dec.31	Malaysia
AMOREPACIFIC Corporation	We-Dream Co.,Ltd.	Packaging of products and managing of facilities	406	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	Core Technology Corporation.	Manufacturing of industrial machinery	1,250	80.00	Dec.31	Korea
Osulloc	Green Partners Corporation	Packaging of products and managing of facilities	800	100.00	Dec.31	Korea
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Trading Co., Ltd.	Marketing of cosmetics	9,456	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Hong Kong Co.,Limited	Marketing of cosmetics	12	100.00	Dec.31	Hong Kong
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Taiwan Co.,Ltd.	Marketing of cosmetics	13,414	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC SINGAPORE PTE Co Ltd.	Marketing of cosmetics	25,861	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC MALAYSIA SDN. BHD.	Marketing of cosmetics	9,415	100.00	Dec.31	Malaysia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics	23,021	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Marketing of cosmetics	8,584	2.29 97.71	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Vietnam LTD.	Marketing of cosmetics	10,367	100.00	Dec.31	Vietnam
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC PHILIPPINES, INC.	Marketing of cosmetics	3,633	100.00	Dec.31	Philippines
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC US, INC.	Marketing of cosmetics	61,262	100.00	Dec.31	United States
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC CANADA INC.	Marketing of cosmetics	2,497	100.00	Dec.31	Canada
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC EUROPE S.A.S	Manufacturing and marketing of cosmetics	105,509	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	Annick Goutal S.A.S	Marketing of cosmetics	28,617	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Japan Co.,Ltd.	Marketing of cosmetics	33,105	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited.	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	9,351	100.00	Mar. 31	India
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC ME FZ-LLC	Marketing of cosmetics	2,767	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC AUSTRALIA PTY LTD	Marketing of cosmetics	7,542	100.00	Dec.31	Australia
AMOREPACIFIC Global Operations Limited.	Amorepacific Russia LLC	Marketing of cosmetics	202	100.00	Dec.31	Russia
AMOREPACIFIC Trading Co.,Ltd.	AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	Marketing of cosmetics	170	100.00	Dec.31	China

¹ Although the Parent Company has less than 50% of voting power, it is included as a subsidiary as the related parties, including the Ultimate parent, have 48.3% of the voting power and the rest are

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widely distributed among shareholders and institution investors owning less than 1%. Taking into consideration the participatory and approval ratios of the past general meetings, the Company has de facto control to decide the financial and operating policies.

² Percentage of ownership has been increased due to acquisition of non-controlling interest by the parent company and acquisition of treasury shares by subsidiary.

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

<i>(in millions of Korean won)</i>	2019				
	Total assets	Total liabilities	Revenue	Profit (loss) for the year	Total comprehensive income(loss)
AMOREPACIFIC Corporation	4,950,234	574,800	3,913,830	329,297	320,076
Innisfree Corporation	542,463	130,228	551,862	48,874	48,237
Etude Corporation	76,951	60,317	179,961	(35,435)	(35,826)
AMOS Professional Corporation	84,784	12,843	83,436	14,001	13,890
Espoir Corporation	23,505	12,760	46,721	(1,592)	(1,739)
Osulloc	52,219	15,781	12,962	(913)	(693)
AESTURA Corporation ¹	127,358	26,724	111,139	5,512	5,456
PACIFICGLAS, Inc.	61,835	19,405	72,487	4,221	4,178
PACIFICPACKAGE Corporation	70,870	22,028	54,620	(260)	(146)
Osulloc Farm Co.,Ltd	100,783	9,244	19,420	3,437	3,474
COSVISION CO.,LTD.	153,580	79,342	175,878	(2,766)	(2,803)
Amorepacific Global Operations Limited. ¹	211,335	92,233	48,817	(29,704)	(23,791)
AMOREPACIFIC (Shanghai) Co.,Ltd.	298,533	40,856	176,982	40,129	43,374
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	4,743	423	5,785	433	496
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	33,260	24	-	(9,206)	(7,318)
We-Dream Co.,Ltd.	1,038	213	2,528	263	141
Core technology	1,505	814	1,061	(560)	(560)
Green Partners Corporation	1,766	724	6,115	293	261
AMOREPACIFIC Trading Co.,Ltd.	670,199	573,933	1,322,681	(61,746)	(57,729)
AMOREPACIFIC Hong Kong Co.,Limited	116,133	86,899	142,582	937	2,666
AMOREPACIFIC Taiwan Co.,Ltd.	51,414	35,603	64,542	854	1,609
AMOREPACIFIC SINGAPORE PTE Co Ltd.	60,118	38,231	72,579	(2,117)	(1,002)
AMOREPACIFIC MALAYSIA SDN. BHD.	41,688	29,246	57,750	(243)	327
AMOREPACIFIC (Thailand) LIMITED	35,889	9,492	50,870	669	3,341
PT. LANEIGE INDONESIA PACIFIC	19,623	13,601	32,027	685	1,095
AMOREPACIFIC Vietnam LTD.	22,119	14,521	27,213	1,770	2,469
AMOREPACIFIC PHILIPPINES, INC.	7,221	1,975	5,221	1,225	1,387
AMOREPACIFIC US, INC.	95,496	123,738	80,074	(41,524)	(40,805)
AMOREPACIFIC CANADA INC.	15,957	13,388	12,883	(114)	86
AMOREPACIFIC EUROPE S.A.S	12,126	17,706	8,910	(3,552)	(3,827)
Annick Goutal S.A.S	12,263	20,319	13,027	(11,288)	(11,392)
AMOREPACIFIC Japan Co.,Ltd.	73,202	59,304	78,893	5,122	5,295
Innisfree Cosmetics India Private Limited	16,492	9,275	7,760	(19)	(97)
AMOREPACIFIC ME FZ-LLC	2,047	1,681	2,151	(796)	(766)
AMOREPACIFIC AUSTRALIA PTY LTD	29,052	25,928	11,237	(3,161)	(3,149)

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Amorepacific Russia LLC	940	128	274	(244)	(236)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	2,867	2,667	5,371	38	40

2018

(in millions of Korean won)

	Total assets	Total liabilities	Revenue	Profit (loss) for the year	Total comprehensive income(loss)
AMOREPACIFIC Corporation	4,678,941	442,130	3,670,705	274,661	297,661
Innisfree Corporation	534,203	59,959	598,915	61,974	62,987
Etude Corporation	85,980	33,519	218,282	(28,281)	(27,112)
AMOS Professional Corporation	75,501	8,559	84,455	14,069	14,251
Espoir Corporation	20,861	8,377	42,141	(3,918)	(3,741)
AESTURA Corporation ¹	113,746	18,568	100,137	3,542	4,254
PACIFICGLAS, Inc.	59,244	20,992	63,300	576	608
PACIFICPACKAGE Corporation	70,310	21,323	55,141	(2,258)	(1,996)
Osulloc Farm Co.,Ltd	96,523	8,457	21,267	1,333	1,502
COSVISION CO.,LTD.	149,766	72,726	170,272	(5,953)	(5,658)
Amorepacific Global Operation Limited. ¹	212,197	69,304	65,749	(13,701)	(7,673)
AMORE Cosmetics (Shanghai) Co.,Ltd.	288,379	74,076	182,452	38,442	36,617
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	4,003	179	5,131	392	364
MOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	40,630	76	-	121	989
We-Dream Co.,Ltd.	853	168	1,560	118	137
Green Partners Corporation	785	5	-	(20)	(20)
AESTURA (Shanghai) TRADING Co.,Ltd.	57	-	-	-	-
AMOREPACIFIC Trading Co.,Ltd.	529,399	355,155	1,280,564	34,274	32,555
AMOREPACIFIC Hong Kong Co.,Limited	81,702	44,987	163,602	9,028	11,043
AMOREPACIFIC Taiwan Co.,Ltd.	32,570	18,368	57,454	992	1,232
AMOREPACIFIC SINGAPORE PTE Co Ltd.	45,233	22,344	70,814	(279)	220
AMOREPACIFIC MALAYSIA SDN. BHD.	29,534	17,419	49,232	(52)	210
AMOREPACIFIC (Thailand) LIMITED	27,870	8,452	47,215	1,508	2,360
PT. LANEIGE INDONESIA PACIFIC	15,217	10,291	22,813	225	88
AMOREPACIFIC Vietnam LTD.	10,207	5,079	17,075	1,534	1,620
AMOREPACIFIC PHILIPPINES, INC.	2,285	961	750	211	226
AMOREPACIFIC US, INC.	45,486	32,923	58,582	(6,819)	(7,027)
AMOREPACIFIC CANADA INC.	5,238	2,755	8,951	(153)	(251)
AMOREPACIFIC EUROPE S.A.S	27,560	35,890	14,406	(6,744)	(6,984)
Annick Goutal S.A.S.	19,371	23,979	14,559	(2,692)	(2,529)
AMOREPACIFIC Japan Co.,Ltd.	34,050	25,447	79,245	4,428	4,689
Innisfree Cosmetics India Private Limited	6,250	3,479	6,541	686	594
AMOREPACIFIC ME FZ-LLC	1,146	827	4,457	(917)	(898)
AMOREPACIFIC AUSTRALIA PTY LTD	3,780	2,051	2,793	(1,103)	(1,268)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	277	127	145	(13)	(20)

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

Changes in Scope for Consolidation

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

Subsidiary	Reason
Core technology	Newly established by AMOREPACIFIC Corporation, a subsidiary, with the contribution of 80%
Amorepacific Russia LLC	Newly established by AMOREPACIFIC Global Operations Limited., a subsidiary, with the contribution of 100%
Osulloc	Newly established by the Group with the contribution of 100%

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

Subsidiary	Reason
AESTURA (Shanghai) TRADING Co.,Ltd.	AESTURA (Shanghai) TRADING Co.,Ltd., a subsidiary, was excluded from the consolidation due to liquidation

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

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

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

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

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

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

- Enactment of Korean IFRS 1116 *Leases*

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

With implementation of Korean IFRS 1116 *Lease*, the Group has changed accounting policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard, and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The Group has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 38.

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

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

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

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

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

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

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

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

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

- Amendments to Korean IFRS 1103 *Business Combination*

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

- Amendments to Korean IFRS 1111 *Joint Agreements*

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

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

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

- Korean IFRS 1023 *Borrowing Costs*

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

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

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

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

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

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

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

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2.3 Consolidation

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

(a) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

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

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

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

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

(b) Associates

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

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objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Translation to presentation currency

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

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

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

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

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2.5 Financial Assets

(a) Classification

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

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

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

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

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

(b) Measurement

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

A. Debt instruments

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value

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through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or costs' in the year in which it arises.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Changes in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

B. Equity instruments

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

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

(c) Impairment

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

(d) Recognition and Derecognition

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

If a transfer does not result in derecognition because the Group has retained substantially all the

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risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as “borrowings” in the statement of financial position.

(e) Offsetting of financial instruments

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

2.6 Trade Receivables

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

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of merchandise, raw materials, subsidiary materials and supplies are determined using the moving-weighted average method, while the cost of finished goods, semi-finished goods and work-in-progress are determined using gross average method. The cost of materials in transit is determined using specific identification method.

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

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

2.9 Property, Plant and Equipment

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

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

	Useful life
Buildings	10 - 60 years
Structures	10 - 40 years
Machinery	3 - 30 years
Vehicles	6 - 10 years
Tools	1 - 10 years

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	Useful life
Fixtures and furniture	2 - 15 years
Others	10 years

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

2.10 Borrowing Costs

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

2.11 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.12 Intangible Assets

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

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

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

	Useful life
Industrial property	5 - 20 years
Software	5 - 10 years
Others	2 - 45 years

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2.13 Investment Property

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

2.14 Impairment of Non-financial Assets

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

2.15 Trade and Other Payables

These amounts represent unpaid liabilities for goods and services provided to the Group prior to the end of reporting period. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Financial Liabilities

(a) Classification and measurement

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

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

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

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(b) Derecognition

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

2.17 Provisions

Provisions for service warranties, make good obligation, and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

2.18 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

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

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

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future and taxable profit will be available against which the temporary difference can be utilized.

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

2.19 Employee Benefits

(a) Post-employment benefits

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

Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

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

(b) Other long-term employee benefits

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

2.20 Revenue Recognition

(a) Identifying performance obligations

The Group manufactures and sells cosmetics and personal care of goods. As the Group separates contracts to recognize revenue from service rendered, apart from sales of goods or products,

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identifying performance obligation does not have a material impact on the consolidated financial statements.

(b) Variable consideration

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

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

(c) Allocating consideration received

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

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

2.21 Lease

The Group leases various retail stores, offices and cars. Lease contracts are typically made for fixed periods of 1 to 60 years, but may have extension options as described in (b) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease

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liabilities include the net present value of the following lease payments:

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

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

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

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

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

(a) Variable lease payments

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

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(b) Extension and termination options

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

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

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

(c) Residual value guarantees

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

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

2.22 Segment Reporting

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

2.23 Approval of Issuance of the Financial Statements

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

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3. Critical Accounting Estimates and Assumptions

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

(a) Estimated goodwill impairment

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

(b) Income taxes

The Group's taxable income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions; hence, there is uncertainty in calculating the final tax effect (Note 25).

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

(c) Provisions

As described in Note 17 the Group recognizes provisions for estimated returns, profit-sharing and bonuses, estimated short-term payroll expenses related with accumulated paid leave and estimated other long-term payroll expenses at the end of the reporting period. The amounts are estimated based on past experience.

(d) Customer loyalty programs

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

(e) Fair value of financial instruments

The fair value of financial instruments that are not traded in active market is determined principally by using valuation techniques. The Group uses its judgment in selecting a variety of methods and making assumptions based on important market conditions existing at the end of each reporting period (Note 37).

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(f) Impairment of financial assets

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

(g) Net defined benefit liability (asset)

The present value of net defined benefit liability (asset) depends on a number of factors that are determined on an actuarial basis using a number of assumptions, especially the change in discount rate (Note 20).

(h) Lease

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

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

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

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

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

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4. Segment Information

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

The main products of each business division are as follows:

Divisions	Products
Cosmetics	Cosmetics and household products
Others	Cosmetics containers and hair products

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

<i>(in millions of Korean won)</i>	2019		2018	
	Revenue	Operating profit	Revenue	Operating profit
Cosmetics	₩ 6,123,581	₩ 468,216	₩ 5,966,193	₩ 533,138
Others	386,753	30,801	345,695	16,561
	<u>₩ 6,510,334</u>	<u>₩ 499,017</u>	<u>₩ 6,311,888</u>	<u>₩ 549,699</u>

Adjustments from total segment revenue to the Group's revenue for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Total segment revenue	₩ 6,510,334	₩ 6,311,888
Elimination of intercompany transactions and others	(226,079)	(233,709)
Group revenue	<u>₩ 6,284,255</u>	<u>₩ 6,078,179</u>

Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Total segment operating profit	₩ 499,017	₩ 549,699
Intersegment revenue (expense)	(767)	(225)
Operating profit	<u>₩ 498,250</u>	<u>₩ 549,474</u>

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

<i>(in millions of Korean won)</i>	Revenue			
		2019		2018
Korea	₩	4,064,512	₩	3,967,645
Asia		2,092,001		2,003,680
North America		93,570		71,930
Others		<u>34,172</u>		<u>34,924</u>
	₩	<u>6,284,255</u>	₩	<u>6,078,179</u>

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

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5. Financial Instruments by Category

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

<i>(in millions of Korean won)</i>		2019	2018
Financial assets at amortized cost	Cash and cash equivalents	₩ 910,417	₩ 879,994
	Current financial deposits	207,000	225,100
	Non-current financial deposits	4,454	17,657
	Current debt securities ¹	-	30,000
	Non-current debt securities ²	3,286	4,247
	Trade receivables	394,717	308,917
	Current other receivables	25,818	29,150
	Non-current other receivables	194,891	223,091
	Other current assets ³	1,776	3,705
Financial assets at fair value through profit or loss	Cash and cash equivalents ⁵	507,024	417,459
	Current financial deposits ⁵	38,100	-
	Current financial assets at fair value through profit or loss ⁵	157,610	20,174
	Non-Current financial deposits ⁷	15,200	-
	Non-Current financial assets at fair value through profit or loss ⁶	36,774	9,466
Financial assets at fair value through other comprehensive income	Non-current financial assets at fair value through other comprehensive income ⁴	4,945	10,676
		₩ 2,502,012	₩ 2,179,636

¹ Asset backed securities (Note 7).

² Government bonds (Note 7).

³ Other current assets represent accrued revenues (Note 15).

⁴ Equity instruments such as listed shares (Note 7).

⁵ Beneficiary certificates (Note 7).

⁶ Beneficiary certificates, redeemable convertible preferred shares, convertible preferred shares, private equity investment trust (Note 7).

⁷ Variable annuities insurance (Note 7).

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

<i>(in millions of Korean won)</i>		2019	2018
Financial liabilities	Trade payables	₩ 104,780	₩ 88,803
at amortized cost	Short-term borrowings	204,136	169,422
	Long-term borrowings	-	44,687
	Other payables	304,811	276,585
	Other current liabilities ¹	150,933	143,106
	Other non-current liabilities ²	19,028	12,693
		₩ 783,688	₩ 735,296

¹ Other current liabilities consist of dividend payables, accrued expenses and refund liabilities (Note 19).

² Other non-current liabilities consist of deposits received and accrued expenses (Note 19).

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

<i>(in millions of Korean won)</i>		2019	2018
Financial assets at fair value through profit or loss			
	Gain on disposal (profit or loss)	₩ 695	₩ 101
	Gain on valuation (profit or loss)	6,834	2,289
	Interest income	18,128	20,980
Financial assets at fair value through other comprehensive income			
	Loss on valuation (other comprehensive income)	(1,036)	(784)
	Reclassified loss on valuation to equity (other comprehensive income)	244	(139)
	Dividend income	293	292
Financial assets at amortized cost			
	Interest income	5,347	6,935
	Gain on foreign currency translation	7,964	10,474
	Impairment loss	179	(7,459)
Financial liabilities at amortized cost			
	Interest expense	(4,984)	(4,558)
	Gain (loss) on foreign currency translation	(2,447)	(4,125)

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6. Cash and Cash Equivalents

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

<i>(in millions of Korean won)</i>	2019	2018
Cash on hand	₩ 323	₩ 315
Ordinary deposits	235,626	195,921
Checking accounts	65,828	58,613
Other accounts	1,115,664	1,042,604
	<u>₩ 1,417,441</u>	<u>₩ 1,297,453</u>

Cash and cash equivalents include bank deposits that have a maturity of three months or less from the date of acquisition.

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7. Financial assets

7.1 Financial assets at fair value through profit or loss

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

<i>(in millions of Korean won)</i>	2019		2018	
	Current	Non-current	Current	Non-current
Cash and cash equivalents :				
Beneficiary certificates	₩ 507,024	₩ -	₩ 417,459	₩ -
Financial deposits:				
Beneficiary certificates	38,100	-	-	-
Variable annuities insurance	-	15,200	-	-
Financial assets at fair value through profit or loss:				
Beneficiary certificates	157,610	4,119	20,174	3,956
Debt securities	-	4,813	-	4,491
Equity securities	-	13,497	-	1,019
Private equity investment trust	-	14,345	-	-
	₩ 702,734	₩ 51,974	₩ 437,633	₩ 9,466

7.2 Financial Assets at Fair Value through Other Comprehensive Income

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

<i>(in millions of Korean won)</i>	2019	2018
Equity instruments:		
Marketable equity securities		
Humedix Co., Ltd.	₩ 502	₩ 559
Meritz Securities Co., Ltd.	1,026	6,005
Evoform Biosciences, Inc.	279	183
Obalon Therapeutics Inc	135	1,141
GL Pharm Tech Corporation	387	1,275
Non-marketable equity securities	2,616	1,513
	₩ 4,945	₩ 10,676

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

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reclassified to profit or loss.

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

<i>(in millions of Korean won)</i>	2019		2018	
Beginning balance	₩	10,676	₩	15,760
Acquisitions		1,000		402
Evaluation and Disposals ¹		(6,731)		(5,486)
Ending balance	₩	<u>4,945</u>	₩	<u>10,676</u>

¹ Upon disposal transaction, loss on valuation recognized in other comprehensive income of ₩ 1,252 million were reclassified into retained earnings.

7.3 Trade and other receivables

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

<i>(in millions of Korean won)</i>	2019		2018	
Trade receivables	₩	397,573	₩	312,571
Less: provision for impairment		<u>(2,856)</u>		<u>(3,654)</u>
Trade receivables, net	₩	<u>394,717</u>	₩	<u>308,917</u>

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

<i>(in millions of Korean won)</i>	2019				2018			
	Current		Non-current		Current		Non-current	
Non-trade receivables	₩	12,256	₩	-	₩	29,722	₩	-
Financial lease receivables		4,047		4,093		-		-
Loans		3		25,452		3		30,393
Deposits provided		10,200		165,346		113		192,698
Less: provision for impairment		<u>(688)</u>		-		<u>(688)</u>		-
	₩	<u>25,818</u>	₩	<u>194,891</u>	₩	<u>29,150</u>	₩	<u>223,091</u>

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

<i>(in millions of Korean won)</i>	2019		2018	
Beginning balance	₩	3,654	₩	4,216
Impairment loss		(155)		3,659
Receivables written off during the year as uncollectible		(692)		(3,940)
Exchange differences		49		(281)
Ending balance	₩	<u>2,856</u>	₩	<u>3,654</u>

Provision for impaired receivables and unused amounts reversed have been included in the statement of profit or loss within 'selling and administrative expenses' in (Note 28). Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

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

<i>(in millions of Korean won)</i>	2019		2018	
	Current	Non-current	Current	Non-current
Current financial deposits	₩ 207,000	₩ -	₩ 225,100	₩ -
Non-current financial deposits	-	4,454	-	17,657
Asset backed securities	-	-	30,000	-
Government bonds	-	3,286	-	4,247
Accrued income	1,776	-	3,705	-
Less: provision for impairment	-	-	-	-
	<u>₩ 208,776</u>	<u>₩ 7,740</u>	<u>₩ 258,805</u>	<u>₩ 21,904</u>

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

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8. Inventories

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

<i>(in millions of Korean won)</i>	2019		2018	
Merchandise and Finished goods	₩	373,012	₩	336,178
Raw materials		57,475		47,918
Subsidiary materials		29,163		27,710
Others		64,894		86,480
	₩	<u>524,544</u>	₩	<u>498,286</u>

Inventories recognized as an expense during the year ended December 31, 2019 amounted to ₩ 1,218,515 million (2018: ₩ 1,254,086 million).

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

<i>(in millions of Korean won)</i>	2019		2018	
Loss on valuation/disposal of inventories	₩	<u>55,080</u>	₩	<u>59,393</u>

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9. Associates

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

<i>(in millions of Korean won)</i>	2019			
	Percentage of ownership (%)	Acquisition cost	Book amount	Net asset amount
Taiwan AMORE Co.,Ltd.	50.00	₩ 131	₩ 2,160	₩ 2,160
BBDO Korea Inc.	30.00	949	2,481	2,481
Anhui Pacific Tea Co., Ltd. ¹	80.00	786	-	-
		₩ 1,866	₩ 4,641	₩ 4,641

<i>(in millions of Korean won)</i>	2018			
	Percentage of ownership (%)	Acquisition cost	Book amount	Net asset amount
Taiwan AMORE Co.,Ltd.	50.00	₩ 131	₩ 2,346	₩ 2,346
BBDO Korea Inc.	30.00	949	2,425	2,425
Anhui Pacific Tea Co., Ltd. ¹	80.00	786	-	-
		₩ 1,866	₩ 4,771	₩ 4,771

¹ A subsidiary for consolidation but not included in the scope of consolidation due to its immateriality.

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

<i>(in millions of Korean won)</i>	2019		
	Taiwan AMORE Co., Ltd.	BBDO Korea Inc.	Total
Beginning balance	₩ 2,346	₩ 2,425	₩ 4,771
Share of profit or loss of associates	(302)	956	654
Share of other comprehensive income of associates	19	-	19
Dividends	-	(900)	(900)
Exchange differences	97	-	97
Ending balance	₩ 2,160	₩ 2,481	₩ 4,641

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<i>(in millions of Korean won)</i>	2019		2018		Total
	Taiwan AMORE Co., Ltd.		BBDO Korea Inc.		
Beginning balance	₩	2,381	₩	2,601	₩ 4,982
Share of profit or loss of associates		31		904	935
Share of other comprehensive income of associates		(55)		-	(55)
Dividends		(107)		(1,080)	(1,187)
Exchange differences		96		-	96
Ending balance	₩	2,346	₩	2,425	₩ 4,771

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

<i>(in millions of Korean won)</i>	2019									
	Total assets		Total liabilities		Revenue	Profit for the year	Comprehensive income			
Taiwan AMORE Co., Ltd.	₩	4,940	₩	619	₩	4,663	₩	(603)	₩	(372)
BBDO Korea Inc.		26,785		18,516		36,840		3,185		3,185

<i>(in millions of Korean won)</i>	2018									
	Total assets		Total liabilities		Revenue	Profit for the year	Comprehensive income			
Taiwan AMORE Co., Ltd.	₩	5,592	₩	900	₩	5,149	₩	62	₩	(48)
BBDO Korea Inc.		29,932		21,849		37,676		3,015		3,015

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10. Property, Plant and Equipment

Property, plant and equipment as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019			2018		
	Acquisition cost	Accumulated depreciation	Book amount	Acquisition cost	Accumulated depreciation	Book amount
Land	₩ 1,020,187	₩ -	₩ 1,020,187	₩ 1,014,618	₩ -	₩ 1,014,618
Buildings	1,635,520	(253,359)	1,382,161	1,602,471	(212,363)	1,390,108
Structures	87,819	(33,102)	54,717	73,156	(28,449)	44,707
Machinery	727,021	(357,424)	369,597	725,789	(309,854)	415,935
Vehicles	3,611	(2,847)	764	3,677	(2,759)	918
Tools	162,001	(134,612)	27,389	183,693	(152,706)	30,987
Fixtures and furniture	980,035	(675,779)	304,256	1,006,278	(685,117)	321,161
Others	6,714	(2,947)	3,767	7,312	(3,345)	3,967
Construction in progress	37,259	-	37,259	99,244	-	99,244
	<u>₩ 4,660,167</u>	<u>₩ (1,460,070)</u>	<u>₩ 3,200,097</u>	<u>₩ 4,716,238</u>	<u>₩ (1,394,593)</u>	<u>₩ 3,321,645</u>

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

<i>(in millions of Korean won)</i>	2019				
	Land	Buildings	Structures	Machinery	Vehicles
Opening net book amount	₩ 1,014,618	₩ 1,390,108	₩ 44,707	₩ 415,935	₩ 918
Acquisition	1,651	5,065	7,247	14,561	180
Reclassification	5,533	33,961	8,614	(3,757)	26
Disposal	(2,779)	(33)	(168)	(245)	(13)
Depreciation	-	(45,502)	(5,864)	(55,862)	(346)
Impairment loss	-	-	-	(1,593)	-
Others	-	(3,815)	-	-	-
Exchange differences	1,164	2,377	181	558	(1)
Closing net book amount	<u>₩ 1,020,187</u>	<u>₩ 1,382,161</u>	<u>₩ 54,717</u>	<u>₩ 369,597</u>	<u>₩ 764</u>

<i>(in millions of Korean won)</i>	2019				
	Tools	Fixtures and furniture	Others	Construction in progress	Total
Opening net book amount	₩ 30,987	₩ 321,160	₩ 3,968	₩ 99,244	₩ 3,321,645
Acquisition	15,607	133,558	24	77,924	255,817
Reclassification	340	27,189	-	(135,350)	(63,444)
Disposal	(103)	(7,726)	(43)	(4,722)	(15,832)
Depreciation	(18,094)	(152,709)	(506)	-	(278,883)
Impairment loss	(1,444)	(20,931)	-	-	(23,968)
Others	-	-	-	-	(3,815)

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Exchange differences	96	3,715	324	163	8,577
Closing net book amount	₩ 27,389	₩ 304,256	₩ 3,767	₩ 37,259	₩ 3,200,097

¹ Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩3,814 million on buildings.

2018					
<i>(in millions of Korean won)</i>					
	Land	Buildings	Structures	Machinery	Vehicles
Opening net book amount	₩ 956,092	₩ 1,367,618	₩ 41,730	₩ 354,075	₩ 1,376
Acquisition	-	9,715	2,208	34,912	11
Reclassification	68,263	71,294	5,219	80,117	16
Disposal	(1,584)	(11,317)	(131)	(3,882)	(85)
Depreciation	-	(42,860)	(4,413)	(48,965)	(400)
Impairment loss	-	-	-	-	-
Others	(8,737)	(3,195)	-	-	-
Exchange differences	584	(1,147)	94	(322)	-
Closing net book amount	₩ 1,014,618	₩ 1,390,108	₩ 44,707	₩ 415,935	₩ 918

2018					
<i>(in millions of Korean won)</i>					
	Tools	Fixtures and furniture	Others	Construction in progress	Total
Opening net book amount	₩ 30,843	₩ 333,165	₩ 3,899	₩ 158,205	₩ 3,247,003
Acquisition	16,981	128,313	643	150,579	343,362
Reclassification	2,193	17,136	-	(206,250)	37,988
Disposal	-	(4,552)	-	(3,391)	(24,942)
Depreciation	(18,991)	(154,067)	(570)	-	(270,266)
Impairment loss	-	(211)	-	-	(211)
Others	-	-	-	-	(11,932)
Exchange differences	(39)	1,377	(5)	101	643
Closing net book amount	₩ 30,987	₩ 321,161	₩ 3,967	₩ 99,244	₩ 3,321,645

¹Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 8,737 million on land and to ₩ 3,195 million on buildings.

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

<i>(in millions of Korean won)</i>	2019		2018	
Selling and administrative expenses ¹	₩	186,106	₩	177,885
Cost of sales		92,777		92,381
	₩	278,883	₩	270,266

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

In the segments of Etude, North America, Hong Kong and others among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 23,970 million on property, plant and equipment, ₩ 18,004 million on intangible assets, and ₩ 31,486 million on in-right-of use assets. The amount of loss is allocated to property, plant and equipment and intangible assets recognized in statement as there is no goodwill allocated to Group's Cash Generating Units (CGUs). The recoverable amount is calculated based on its value in use and impairment loss is recognized as other non-operating losses. The discount rate used in calculating an asset's value in use is 15.1%, 9.7% and 11.7%, respectively. (Note 11, 13)

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

2019					
<i>(in millions of Korean won)</i>	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land and buildings	₩ 19,730	₩ 1,249	Deposits received	₩ 961	National Pension Service
Land and buildings		303	Deposits received	253	Lotte Card Co., Ltd.
Land and buildings		151	Deposits received	116	National Human Rights Commission of Korea.
Buildings	16,262	3,594	Deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings		718	Deposits received	718	Korea Workers' Compensation & Welfare Service
2018					
<i>(in millions of Korean won)</i>	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land and buildings		₩ 1,249	Deposits received	₩ 961	National Pension Service
Land and buildings		303	Deposits received	253	Lotte Card Co., Ltd.
Land and buildings	₩ 20,233	74	Deposits received	57	Samsung Life Insurance Co., Ltd.
Land and buildings		151	Deposits received	116	National Human Rights Commission of Korea
Buildings	16,814	3,594	Deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings		718	Deposits received	718	Korea Workers' Compensation & Welfare Service

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11. Intangible Assets

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

<i>(in millions of Korean won)</i>	2019				
	Goodwill	Industrial property	Software	Others	Total
Beginning balance	₩ 523,263	₩ 28,106	₩ 129,154	₩ 93,214	₩ 773,737
Acquisition	401	108	15,697	22,225	38,431
Reclassification	-	7,545	42,469	(60,208)	(10,194)
Disposal	-	(1)	(35)	(3,898)	(3,934)
Amortization	-	(3,630)	(34,673)	(3,592)	(41,895)
Impairment loss	(6,271)	(1,316)	(8,425)	(1,992)	(18,004)
Exchange differences	825	37	280	143	1,285
Ending balance	<u>₩ 518,218</u>	<u>₩ 30,849</u>	<u>₩ 144,467</u>	<u>₩ 45,892</u>	<u>₩ 739,426</u>

<i>(in millions of Korean won)</i>	2018				
	Goodwill	Industrial property	Software	Others	Total
Beginning balance	₩ 525,873	₩ 23,809	₩ 130,016	₩ 80,826	₩ 760,524
Acquisition	-	61	11,936	43,734	55,731
Reclassification	-	7,437	18,416	(26,711)	(858)
Disposal	-	(85)	(530)	(1,957)	(2,572)
Amortization	-	(3,109)	(30,719)	(693)	(34,521)
Impairment loss	(3,113)	-	-	(1,927)	(5,040)
Exchange differences	503	(7)	35	(58)	473
Ending balance	<u>₩ 523,263</u>	<u>₩ 28,106</u>	<u>₩ 129,154</u>	<u>₩ 93,214</u>	<u>₩ 773,737</u>

Amortization of intangible assets is charged to the following accounts:

<i>(in millions of Korean won)</i>	2019	2018
Selling and administrative expenses ¹	₩ 39,287	₩ 32,592
Cost of sales	2,607	1,929
	<u>₩ 41,894</u>	<u>₩ 34,521</u>

¹ Amortization expense is included in research and development expenses.

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

<i>(in millions of Korean won)</i>	2019		2018	
Cosmetics CGU	₩	500,279	₩	500,279
Annick Goutal CGU		-		2,723
AMOREPACIFIC Hong Kong CGU		8,263		7,935
China CGU		4,030		3,957
Others' CGU		5,646		8,369
	₩	<u>518,218</u>	₩	<u>523,263</u>

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

<i>(in percentage, %)</i>	Cosmetics CGU	AMOREPACIFIC Hong Kong CGU	China CGU
Gross margin rate	70.8	85.7	58.8
Growth rate ¹	4.9	6.6	7.5
Pre-tax discount rate	14.7	10.0	13.7

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

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

12. Investment Property

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

<i>(in millions of Korean won)</i>	2019			2018		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 168,546	₩ -	₩ 168,546	₩ 200,564	₩ -	₩ 200,564
Buildings	210,797	(17,322)	193,475	177,416	(10,842)	166,574
Right-of-use assets	3,468	(724)	2,744	-	-	-
	₩ <u>383,194</u>	₩ <u>(18,429)</u>	₩ <u>364,765</u>	₩ <u>377,980</u>	₩ <u>(10,842)</u>	₩ <u>367,138</u>

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

<i>(in millions of Korean won)</i>	2019			
	Land	Buildings	Right-of-use assets	Total
Beginning balance	₩ 200,564	₩ 166,574	₩ -	₩ 367,138
Acquisition	-	2,714	-	2,714
Reclassification ¹	(24,201)	30,864	3,469	10,132
Depreciation	-	(5,381)	(725)	(6,106)
Impairment loss	(5,572)	-	-	(5,572)
Disposal	(2,299)	-	-	(2,299)
Others ²	-	(1,296)	-	(1,296)
Exchange differences	54	-	-	54
Ending balance	₩ 168,546	₩ 193,475	₩ 2,744	₩ 364,765

¹ The investment property to be sold within one year from the year ended December 31, 2019 was reclassified to non-current assets held-for-sale. In addition, the related book value was replaced with property, plant and equipment due to the decrease in the rental area of the new building.

² Some of acquisition tax in relation to the construction of the new buildings were refunded (1,296 million on buildings).

<i>(in millions of Korean won)</i>	2018			
	Land	Buildings	Structures	Total
Beginning balance	₩ 206,150	₩ 211,668	₩ 35	₩ 417,853
Acquisition	-	-	-	-
Reclassification	(1)	(37,129)	-	(37,130)
Depreciation	-	(6,190)	(2)	(6,192)
Disposal	(2,617)	(689)	(33)	(3,339)
Others ³	(2,968)	(1,086)	-	(4,054)
Ending balance	₩ 200,564	₩ 166,574	₩ -	₩ 367,138

³ Some of acquisition tax in relation to the construction of the new buildings were refunded (2,968 million on land, 1,086 million on buildings).

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

<i>(in millions of Korean won)</i>	2019		2018	
Cost	₩	3,468	₩	-
Accumulated depreciation		(724)		-
Carrying amount	₩	2,744	₩	-

The fair value of investment property as at December 31, 2019, is ₩ 366,322 million (2018: ₩ 422,185 million).

The amount recognized as income and expenses in relation to investment property are ₩ 23,435 million, (2018: ₩ 12,305 million) and ₩ 5,209 million (2018: ₩ 7,299 million) million respectively, for the year ended December 31, 2019.

13. Leases

The Group has irrevocable lease contracts for some property, plant and equipment and the lease term is 1 to 60 years. Changes in right-of-use assets for the year ended December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>	2019				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance ¹	₩ 10,995	₩ 460,850	₩ 2,876	₩ 93,597	₩ 568,318
Acquisition	-	318,209	-	2,665	320,874
Disposal	-	(45,667)	-	(83)	(45,750)
Amortization	(304)	(226,224)	(780)	(23,925)	(251,233)
Impairment loss	-	(31,480)	-	-	(31,480)
Exchange differences	203	10,483	16	1	10,703
Ending balance	₩ 10,894	₩ 486,171	₩ 2,112	₩ 72,255	₩ 571,432

¹ The beginning balance is the amount recognized by applying Korean IFRS 1116 *Leases* (Note 38).

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

<i>(in millions of Korean won)</i>	2019	
Selling and administrative expenses	₩	250,288
Cost of sales		945
	₩	251,233

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

<i>(in millions of Korean won)</i>	2019	
Total minimum lease payments		
Within one year	₩	254,416
Later than one year but not later than five years		342,413
Later than five years		61,109
		<u>657,938</u>
Unearned finance income		<u>(48,108)</u>
Net minimum lease payments		
Within one year		245,845
Later than one year but not later than five years		319,155
Later than five years		44,830
	₩	<u>609,830</u>

As of December 31, 2019, the sum of the total minimum lease payments that is expected to be received by sub-lease is ₩ 5,108million. The lease contracts have no options of lease renewal and buyout. There are no other restrictions on lease contracts related to dividends, additional debts and additional leases.

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

<i>(in millions of Korean won)</i>	2019	
Depreciation of right-of-use assets	₩	251,233
Interest expense relating to lease liabilities		21,424
Expense relating to short-term leases		66,681
Expense relating to leases of low-value assets that are not short-term leases		5,276
Expense relating to variable lease payments not included in lease liabilities		1,075,739

The total cash outflow of leases in 2019 is ₩ 1,399,733 million.

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

<i>(in millions of Korean won)</i>	2019	
Financial lease receivables:		
Principal of the receivables:	₩	8,687
Deferred loan costs(gain)		(548)
Less: provision for impairment		-
Carrying amount		8,139
Terminated		-
	₩	8,139

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

<i>(in millions of Korean won)</i>	2019			
	Total lease investment		Present value of minimum lease payments	
Within one year	₩	3,441	₩	3,381
Later than one year but not later than five years		5,130		4,608
Later than five year		116		92
	₩	8,687	₩	8,081

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

<i>(in millions of Korean won)</i>	2019	
Total lease investment	₩	8,687
Net lease investment		
Present value of minimum lease payments		8,081
Present value of unguaranteed residual value		58
	₩	8,139
Unearned interest income		548

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14. Non-current Assets Held-for-sale

Details of non-current assets held-for-sale as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019			2018		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 47,166	₩ -	₩ 47,166	₩ -	₩ -	₩ -
Buildings	11,575	(2,520)	9,055	-	-	-
	₩ 58,741	₩ (2,520)	₩ 56,221	₩ -	₩ -	₩ -

Changes in non-current assets held-for-sale for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019			
	Land	Buildings	Structures	Total
Beginning balance	₩ -	₩ -	₩ -	₩ -
Acquisition	-	-	-	-
Reclassification ¹	47,166	9,055	-	56,221
Depreciation	-	-	-	-
Disposal ¹	-	-	-	-
Ending balance	₩ 47,166	₩ 9,055	₩ -	₩ 56,221

<i>(in millions of Korean won)</i>	2018			
	Land	Buildings	Structures	Total
Beginning balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155
Acquisition	-	-	-	-
Reclassification ¹	-	-	-	-
Depreciation	-	-	-	-
Disposal ¹	(190,286)	(9,566)	(1,303)	(201,155)
Ending balance	₩ -	₩ -	₩ -	₩ -

¹ The Group has decided to sell land, buildings of investment property located in Gangnam-gu, Seoul during the current period and replaced their carrying amount of assets with non-current assets held-for-sale based on management's expectation that disposal is expected to be completed within one year.

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Details of assets provided as collateral as of the end of the reporting period are as follows:

(in millions of Korean won)

Assets provided as collateral	Book value	Amount set as collateral	Related account	Amount	Financial institution
Land	₩ 47,166.	₩ 2,842	Lease deposit	₩ 1,968	Woori bank
Buildings	8,971				

15. Other Assets

Other assets as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 1,776	₩ -	₩ 3,705	₩ -
Advance payments	26,229	-	21,611	-
Prepaid expenses	40,041	22,876	41,810	26,569
Prepaid value added tax	9,759	-	8,326	-
Others	2,490	-	627	-
	₩ 80,296	₩ 22,876	₩ 76,079	₩ 26,569

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16. Borrowings

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

<i>(in millions of Korean won, in EUR, USD, JPY, HKD)</i>	Creditor	Interest rate(%), December 31, 2019	2019	2018
Short-term borrowings				
Bank overdrafts of EUR 477,277 (2018: EUR 485,629)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.50%	₩ 619	₩ 621
Bank overdrafts of EUR 5,857,564 (2018: EUR 5,742,476)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.50%	7,600	7,346
Bank overdrafts of JPY 1,100,000,000 (2018: JPY 1,000,000,000)	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Tibor + 0.2%	11,697	10,131
Loans for working capital of EUR 7,000,000 (2018: EUR 7,000,000)	Citibank N.A France	EURIBOR 1M + 1.05%	9,082	8,954
Loans for working capital (2018: HKD 110,000,000)	CITI N.A HONG KONG	-	-	15,705
Loans for working capital of HKD70,000,000	DBS HONG KONG	HIBOR 3M + 0.45	10,406	-
Loans for working capital (2018: EUR 12,500,000)	KEB Hana Bank Paris Branch	0.95 + MAX(EURIBOR 3M,0)	-	15,990
Bank overdrafts of EUR 6,000,000 (2018: EUR 6,000,000)	KEB Hana Bank Paris Branch	EURIBOR + 0.65%	7,785	7,675
Facility loans	Kookmin Bank	-	-	7,000
Facility loans	Korea Development Bank	2.08	7,000	-
Loans for working capital	Korea Development Bank	2.36	9,000	9,000
Facility loans	Kookmin Bank	-	-	9,000
Facility loans	Korea Development Bank	2.07	7,000	-
Loans for working capital	Kookmin Bank	-	-	2,000
Loans for working capital	Korea Development Bank	2.88	1,000	-
Loans for working capital	Korea Development Bank	2.44	3,000	3,000
Loans for working capital	Woori Bank	2.13	6,000	-
Facility loans	Korea Development Bank	1.76	54,000	60,000
Loans for working capital	Korea Development Bank	2.25	15,000	8,000
Loans for working capital	Woori Bank	2.32	5,000	-
Loans for working capital	Woori Bank	3.04	2,000	5,000
Loans for working capital	Korea Development Bank	2.49	1,000	-
Bank overdrafts	Woori Bank	3.09	266	-
Other Loans	Nara Technology Corporation	4.60	150	-
			<u>₩ 157,605</u>	<u>₩ 169,422</u>
Current portion Long-term borrowings				
Loans for working capital of HKD 313,000,000 (2018: HKD 313,000,000)	CITI N.A HONG KONG	1.65	46,531	-
			<u>₩ 46,531</u>	<u>₩ -</u>
Long-term borrowings				
Loans for working capital of HKD 313,000,000 (2018: HKD 313,000,000)	CITI N.A HONG KONG	1.65	-	44,687
			<u>-</u>	<u>44,687</u>
			<u>₩ 204,136</u>	<u>₩ 214,109</u>

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17. Provisions

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

<i>(in millions of Korean won)</i>	2019										
	Current								Non-current		
	Profit-sharing and bonuses	Provision for restoration	Levies	Others	Total	Long-term employee benefits	Provision for restoration	Total			
Beginning balance	₩ 3,772	₩ 6,831	₩ -	₩ -	₩ 1,528	₩ 12,131	₩ 7,622	₩ 7,760	₩ 15,382		
Increase	3,538	937	2,112	-	441	7,028	1,609	5,527	7,136		
Decrease	(4,687)	(42)	-	-	-	(4,729)	-	(1,111)	(1,111)		
Exchange differences	163	11	-	-	(61)	113	-	2	2		
Ending balance	₩ 2,786	₩ 7,737	₩ 2,112	₩ -	₩ 1,908	₩ 14,543	₩ 9,213	₩ 12,178	₩ 21,409		

<i>(in millions of Korean won)</i>	2018										
	Current							Non-current			
	Refund liabilities ¹	Profit-sharing and bonuses	Accrual for accumulated paid leave	Provision for restoration	Levies	Others	Total	Long-term employee benefits	Provision for restoration	Total	
Beginning balance	₩ 6,541	₩ 2,879	₩ 5,093	₩ 3,264	₩ -	₩ 1,664	₩ 19,441	₩ 4,105	₩ 901	₩ 5,006	
Increase	-	9,877	1,740	-	213	194	12,024	3,517	6,842	10,359	
Decrease	-	(9,091)	-	(3,264)	(213)	(320)	(12,888)	-	-	-	
Reclassification	(6,541)	-	-	-	-	-	(6,541)	-	-	-	
Exchange differences	-	107	(2)	-	-	(10)	95	-	17	17	
Ending balance	₩ -	₩ 3,772	₩ 6,831	₩ -	₩ -	₩ 1,528	₩ 12,131	₩ 7,622	₩ 7,760	₩ 15,382	

¹ Refund liabilities were classified to other liabilities.

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18. Contract liabilities

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

(in millions of Korean won)

	2019		
	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 47,703	₩ 19,135	₩ 66,838
Increase (decrease)	(9,580)	124	(9,456)
Ending balance	₩ 38,123	₩ 19,259	₩ 57,382

(in millions of Korean won)

	2018		
	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 65,726	₩ 16,577	₩ 82,303
Increase (decrease)	(18,023)	2,558	(15,465)
Ending balance	₩ 47,703	₩ 19,135	₩ 66,838

19. Other Liabilities

Other liabilities as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
	Current	Non-current	Current	Non-current
Withholdings	₩ 26,119	₩ -	₩ 13,752	₩ -
Value added tax withheld	26,898	-	42,451	-
Advances from customers	3,523	-	3,176	3,002
Deposits received	-	18,224	-	10,948
Accrued expenses	141,204	804	134,501	1,745
Finance lease liabilities	-	-	-	-
Dividends payable	482	-	448	-
Refund liabilities ¹	9,247	-	8,157	-
Others	7,539	382	5,460	253
	₩ 215,012	₩ 19,410	₩ 207,945	₩ 15,948

¹ The refund liabilities were reclassified from other liabilities.

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20. Post-employment Benefits

20.1 Defined Benefit Plan

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

<i>(in millions of Korean won)</i>	2019	2018
Present value of funded defined benefit obligations	₩ 393,940	₩ 360,598
Present value of unfunded defined benefit obligations	3,425	3,211
Total	<u>397,365</u>	<u>363,809</u>
Fair value of plan assets ¹	<u>(522,972)</u>	<u>(429,493)</u>
Net defined benefit liabilities	<u>₩ (125,607)</u>	<u>₩ (65,684)</u>

¹ The contributions to the National Pension Fund of ₩ 147 million (2018: ₩ 176 million) are included in the fair value of plan assets as at December 31, 2019.

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

<i>(in millions of Korean won)</i>	2019	2018
Beginning balance	₩ 363,809	₩ 354,621
Past service cost ¹	1,182	23,963
Current service cost	41,291	40,552
Interest expense	11,036	12,834
Remeasurements:		
Actuarial gain from change in demographic assumptions	108	(3,161)
Actuarial gain from change in financial assumptions	(169)	(59,849)
Actuarial loss from experience adjustments	8,503	20,319
Exchange differences	61	2
Payments from plans:		
Benefit payments	<u>(28,456)</u>	<u>(25,472)</u>
Ending balance	<u>₩ 397,365</u>	<u>₩ 363,809</u>

¹ The Group changed benefit plan for the year ended December 31, 2018 and recognized ₩ 23,963 million of past service cost as profit of loss.

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

<i>(in millions of Korean won)</i>	2019		2018	
Beginning balance	₩	429,493	₩	380,751
Interest income		12,702		14,789
Remeasurements:				
Return on plan assets		(5,360)		(8,507)
Contributions:				
Employers		114,500		67,920
Payments from plans:				
Benefit payments		(28,363)		(25,460)
Ending balance	₩	522,972	₩	429,493

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

	2019	2018
Discount rate	2.89~3.36%	2.60~3.50%
Salary growth rate	3.00%	3.00%

The sensitivity of the defined benefit obligations to changes in the principal assumptions is

	Impact on defined benefit obligation		
	Changes in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%P	7.18% decrease	8.18% increase
Salary growth rate	1.00%P	8.17% increase	7.28% decrease

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

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant; however, in practice, multiple assumptions fluctuate in conjunction with each other. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

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

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

(in millions of Korean won)

	2019		2018	
	Unquoted price	Composition (%)	Unquoted price	Composition (%)
Deposits	₩ 522,825	99.9	₩ 429,317	99.9
National Pension Fund	147	0.1	176	0.1
	₩ 522,972	100.0	₩ 429,493	100.0

The weighted average maturity of the defined benefit obligation is 8.63 years and expected maturity analysis of undiscounted pension benefits for the next 10 years as at December 31, 2019, is as follows:

(in millions of Korean won)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
Pension benefits	₩ 28,735	₩ 72,286	₩ 104,012	₩ 224,497	₩ 429,530

The Group reviews the funding level on an annual basis and has a policy to contribute in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2020 are ₩ 56,715million (2019: ₩ 44,707 million).

20. 2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 682 million (2018: ₩ 474 million).

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21. Share Capital and Share Premium

Share capital and share premium as at December 31, 2019 and 2018, consist of:

<i>(in millions of Korean won)</i>	2019		2018	
Ordinary shares	₩	41,229	₩	41,229
Preferred shares ¹		<u>6,768</u>		<u>3,222</u>
	₩	<u>47,997</u>	₩	<u>44,451</u>

The types and contents of preferred shares issued by the Group as at December 31, 2019 are as follows:

Type	Dividend rate	number of shares	Remarks
Preferred shares	Ordinary share dividend rate +1%	6,443,770	Non-participating, Non-cumulative
Convertible preferred shares	Preferred share dividend rate ¹	7,092,200	Participating, cumulative

¹ The preferential dividend of the newly issued convertible preferred shares for the current term shall be calculated by multiplying the par value by the preferential dividend rate, and the preferential dividend rate shall be as follows:

2019.01.01 ~ 12.31 : (issue price per share / par value per share) X 2.50%
 2020.01.01 ~ 12.31 : (issue price per share / par value per share) X 2.25%
 2021.01.01 ~ : (issue price per share / par value per share) X 2.00%

However, if the dividend calculated according to the above preferential dividend rate after January 1st 2019 is less than the dividend of ₩ 15 added to the dividend per share of ordinary shares, the dividend of ₩ 15 added to the dividend per share of ordinary shares shall be the preferred dividend per share of new shares.

Changes in share capital and share premium for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	Ordinary shares		Preferred shares		Share premium		Total	
At January 1, 2018	₩	41,229	₩	3,222	₩	672,987	₩	717,438
At December 31, 2018		41,229		3,222		672,987		717,438
At January 1, 2019		41,229		3,222		672,987		717,438
Issuance of preferred shares ¹		-		3,546		230,724		234,270
At December 31, 2019	₩	<u>41,229</u>	₩	<u>6,768</u>	₩	<u>903,711</u>	₩	<u>951,708</u>

¹ The Group has issued 7,092,200 convertible preferred shares during the year ended December 31, 2019.

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22. Other Components of Equity and Accumulated Other Comprehensive Income

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

<i>(in millions of Korean won)</i>	2019		2018	
Treasury shares ¹	₩	(189,699)	₩	(139,664)
Capital adjustments		<u>(6,333)</u>		<u>(6,333)</u>
	₩	<u>(196,032)</u>	₩	<u>(145,997)</u>

¹ Represents 6,208,913 ordinary shares and 62,458 preferred shares of treasury shares. The Group intends to dispose of the remaining treasury shares depending on the market conditions within the range of not incurring or minimizing loss on disposal of treasury shares as possible.

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

<i>(in millions of Korean won)</i>	2019		2018	
Loss on valuation of financial assets at fair value through other comprehensive income	₩	(5,719)	₩	(6,368)
Exchange differences on transaction of foreign operations		(8,521)		(13,913)
Share of other comprehensive income of associates		<u>(743)</u>		<u>(749)</u>
	₩	<u>(14,983)</u>	₩	<u>(21,030)</u>

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

<i>(in millions of Korean won)</i>	2019				
	Beginning balance	Increase (decrease)	Reclassification to retained earnings	Transfer to non-controlling interest	Ending balance
Loss on valuation of financial assets at fair value through other comprehensive income	₩ (6,368)	₩ (792)	₩ 1,252	₩ 189	₩ (5,719)
Exchange differences on transaction of foreign operations	(13,913)	16,684	-	(11,292)	(8,521)
Share of other comprehensive income of associates	(749)	19	-	(13)	(743)
	<u>₩ (21,030)</u>	<u>₩ 15,911</u>	<u>₩ 1,252</u>	<u>₩ (11,116)</u>	<u>₩ (14,983)</u>

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<i>(in millions of Korean won)</i>	2018				
	Beginning balance	Increase (decrease)	Reclassification to profit or loss	Transfer to non-controlling interest	Ending balance
Changes in the value of available-for-sale financial assets	₩ (4,633)	₩ (924)	₩ 263	₩ (1,074)	₩ (6,368)
Exchange differences on transaction of foreign operations	(14,026)	469	-	(356)	(13,913)
Share of other comprehensive income of associates	(733)	(55)	-	39	(749)
	<u>₩ (19,392)</u>	<u>₩ (510)</u>	<u>₩ 263</u>	<u>₩ (1,391)</u>	<u>₩ (21,030)</u>

23. Retained Earnings

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

<i>(in millions of Korean won)</i>	2019	2018
Legal reserves ¹	₩ 28,615	₩ 28,615
Discretionary reserves	739,337	739,337
Retained earnings before appropriation	<u>1,880,334</u>	<u>1,777,847</u>
	<u>₩ 2,648,286</u>	<u>₩ 2,545,799</u>

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

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24. Dividends

The dividends paid in 2019 and 2018, are as follows:

	2019		2018	
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares
Dividends paid	₩ 23,842 million	₩ 2,010 million	₩ 27,687million	₩ 2,329 million
Dividends per share (in Korea won)	310	315	360	365

Dividends in respect of the year ended December 31, 2019, of ₩ 300 per ordinary share and ₩ 305 per preferred share, ₩ 834 per convertible preferred shares amounting to a total dividend of ₩ 22,875 million on ordinary shares, ₩ 1,946 million on preferred shares and ₩ 5,915 million on convertible preferred shares are to be proposed at the annual general shareholders' meeting on March 20, 2020. These financial statements do not reflect these dividend payables.

25. Tax Expense and Deferred Tax

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

<i>(in millions of Korean won)</i>	2019	2018
Current tax	₩ 159,867	₩ 176,867
Deferred tax	(10,901)	(18,302)
Income tax expense	<u>₩ 148,966</u>	<u>₩ 158,565</u>

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

<i>(in millions of Korean won)</i>	2019	2018
Profit before income tax expense	₩ 431,371	₩ 534,836
Tax at domestic tax rates applicable to profits in the respective countries	105,523	139,670
Tax effects of:		
Income not subject to tax	(8,621)	(1,208)
Expenses not deductible for tax purposes	28,092	9,946
Changes in previously unrecognized deferred tax	18,490	13,391
Tax credits	(1,056)	(2,138)
Others	6,538	(1,096)
Income tax expense	<u>₩ 148,966</u>	<u>₩ 158,565</u>

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

<i>(in millions of Korean won)</i>	2019			2018		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Loss on valuation of available-for-sale assets	₩ (872)	₩ 80	₩ (792)	₩ (2,163)	₩ 1,240	₩ (923)
Remeasurements	(13,815)	2,897	(10,918)	34,184	(8,373)	25,811
Share of other comprehensive income of associates	19	-	19	(55)	-	(55)
Exchange differences on transaction of foreign operations	16,684	-	16,684	469	-	469
	<u>₩ 2,016</u>	<u>₩ 2,977</u>	<u>₩ 4,993</u>	<u>₩ 32,435</u>	<u>₩ (7,133)</u>	<u>₩ 25,302</u>

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

<i>(in millions of Korean won)</i>	2019	2018
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 202,254	₩ 129,838
Deferred tax asset to be recovered within 12 months	78,021	74,409
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(361,684)	(298,025)
Deferred tax liability to be recovered within 12 months	(2,065)	(4,404)
Deferred tax liabilities, net	<u>₩ (83,474)</u>	<u>₩ (98,182)</u>

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

(in millions of Korean won)

	2019				
	Beginning balance	Statement of profit or loss	Other comprehensive income	Exchange differences	Ending balance
Deferred tax assets(liabilities)					
Trade receivables	₩ 19,079	₩ (17,012)	₩ -	₩ 22	₩ 2,089
Inventories	16,527	4,901	-	-	21,428
Lease liabilities	-	58,604	-	(644)	57,960
Property, plant and equipment	(82,541)	3,962	-	116	(78,463)
Intangible assets	(4,293)	(49)	-	(66)	(4,408)
Financial assets at fair value through other comprehensive income	2,503	297	80	-	2,880
Investments in subsidiaries	(46,040)	23,267	-	2	(22,771)
Contract liabilities	11,410	(2,857)	-	(7)	8,546
Retirement benefit obligations	75,888	(1,866)	1,702	8	75,732
Accrued expenses	33,527	(1,171)	-	637	32,993
Tax loss carryforwards	-	13,051	-	(141)	12,910
Plain assets	(105,866)	(13,559)	1,195	-	(118,230)
Right-of-use assets	-	(57,411)	-	622	(56,789)
Others	(18,376)	744	-	281	(17,351)
	₩ (98,182)	₩ 10,901	₩ 2,977	₩ 830	₩ (83,474)

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(in millions of Korean won)

	2018				
	Beginning balance	Statement of profit or loss	Other comprehensive income	Exchange differences	Ending balance
Deferred tax assets(liabilities)					
Trade receivables	₩ 14,394	₩ 4,686	₩ -	₩ (1)	₩ 19,079
Inventories	21,102	(4,584)	-	9	16,527
Property, plant and equipment	(89,645)	7,131	-	(27)	(82,541)
Intangible assets	(4,423)	112	-	18	(4,293)
Financial assets at fair value through other comprehensive income	1,561	(298)	1,240	-	2,503
Investments in subsidiaries	(49,537)	3,497	-	-	(46,040)
Contract liabilities	16,570	(5,160)	-	-	11,410
Retirement benefit obligations	75,411	10,925	(10,448)	-	75,888
Accrued expenses	23,972	9,896	-	(341)	33,527
Plain assets	(94,554)	(13,387)	2,075	-	(105,866)
Others	(23,871)	5,484	-	11	(18,376)
	<u>₩ (109,020)</u>	<u>₩ 18,302</u>	<u>₩ (7,133)</u>	<u>₩ (331)</u>	<u>₩ (98,182)</u>

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Deferred income tax assets are recognized for tax loss and credit carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred tax assets of ₩ 316,319 million in respect of losses that can be carried forward against future taxable income.

The maturity of unused tax losses are as follows:

<i>(in millions of Korean won)</i>	Tax losses	
2020 ~ 2021	₩	5,689
2022 ~ 2038		167,304
No maturity		143,326
	₩	<u>316,319</u>

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

<i>(in millions of Korean won)</i>	2019		2018	
Taxable temporary differences	₩	(214,052)	₩	(256,268)
Deductible temporary differences		65,591		65,591
	₩	<u>(148,461)</u>	₩	<u>(190,677)</u>

26. Revenue

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

<i>(in millions of Korean won)</i>	2019		2018	
Sales of goods	₩	6,222,562	₩	6,032,508
Rendering of services		35,273		29,453
Others				
Rental income		23,434		12,306
Royalty income		154		216
Others		2,832		3,696
		<u>26,420</u>		<u>16,218</u>
	₩	<u>6,284,255</u>	₩	<u>6,078,179</u>

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27. Breakdown of Expenses by Nature

Breakdown of expenses by nature for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Changes in inventories	₩ (26,258)	₩ (40,705)
Purchase of raw materials and merchandise	1,244,773	1,294,791
Employee benefit expense	904,616	872,892
Depreciation and amortization ¹	577,944	310,979
Advertising expense	736,415	692,427
Service fees	599,026	687,307
Distribution commission	1,143,510	991,097
Other expenses	605,979	719,918
Total ²	<u>₩ 5,786,005</u>	<u>₩ 5,528,706</u>

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

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

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28. Selling and Administrative Expenses

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

<i>(in millions of Korean won)</i>	2019		2018	
Salaries and post-employment benefits	₩	607,884	₩	574,437
Employee benefits		122,366		109,293
Advertising expense		736,415		692,427
Depreciation		472,167		207,906
Service fees		499,594		584,128
Distribution commission		1,143,510		991,097
Freight expense		131,123		132,817
Taxes and dues		36,987		43,669
Research and development		98,613		97,514
Other		295,512		476,723
	₩	4,144,171	₩	3,910,011

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

29. Finance Income and Costs

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

<i>(in millions of Korean won)</i>	2019		2018	
Finance income				
Interest income	₩	23,475	₩	27,915
Lease interest income		176		-
Gain on disposal of financial assets at fair value through profit or loss		695		101
Gain on valuation of financial assets at fair value through profit or loss		7,421		5,063
	₩	31,767	₩	33,079
Finance costs				
Interest expense	₩	(4,984)	₩	(4,558)
Lease interest expense		(21,416)		-
Loss on valuation of financial assets at fair value through profit or loss		(587)		(2,774)
	₩	(26,987)	₩	(7,332)

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30. Other Non-operating Gains / (Losses)

Other non-operating gains / (losses) for the years ended December 31, 2019 and 2018, consist of:

<i>(in millions of Korean won)</i>	2019	2018
Other non-operating income		
Gain on foreign currency transactions	₩ 30,119	₩ 22,400
Gain on foreign currency translation	4,786	3,836
Gain on disposal of property, plant and equipment	306	1,401
Gain on disposal of intangible assets	130	4,225
Gain on disposal of investment property	1,020	58
Gain on disposal of right-of-use assets	507	-
Gain on disposal of non-current assets held-for-sale	-	4,912
Dividend income	293	292
Others	53,622	11,224
	<u>90,783</u>	<u>48,348</u>
Other non-operating expenses		
Loss on foreign currency transactions	(19,800)	(15,818)
Loss on foreign currency translation	(9,588)	(4,069)
Loss on disposal of property, plant and equipment	(12,392)	(10,069)
Impairment loss on property, plant and equipment	(24,902)	(211)
Loss on disposal of intangible assets	(3,552)	(1,400)
Impairment loss on intangible assets	(18,004)	(5,040)
Loss on disposal of investment property	(317)	(877)
Impairment loss on investment property	(5,572)	-
Loss on disposal of right-of-use assets	(6,136)	-
Impairment loss on right-of-use assets	(31,486)	-
Donations	(16,170)	(13,698)
Others	(15,177)	(38,485)
	<u>(163,096)</u>	<u>(89,667)</u>
	<u>₩ (72,313)</u>	<u>₩ (41,319)</u>

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31. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares (Note 22).

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

<i>(in millions of Korean won)</i>	2019		2018	
Profit attributable to owners of the Parent Company	₩	133,733	₩	142,286
Profit attributable to ordinary shares		110,405		131,355
Weighted average number of ordinary shares outstanding (unit: shares)		76,448,053		76,908,445
Basic earnings per ordinary share (in Korean won)		1,444		1,708

Basic earnings per preferred share¹ for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019		2018	
Profit attributable to owners of the Parent Company	₩	133,733	₩	142,286
Profit attributable to preferred shares		9,272		10,931
Weighted average number of preferred shares outstanding (unit: shares)		6,381,315		6,381,315
Basic earnings per preferred share (in Korean won)		1,453		1,713

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

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has a dilutive potential ordinary share: convertible preferred shares. The convertible preferred shares is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the dividend and the net profit belong to the convertible preferred shares. Since there is no dilutive potential ordinary shares in 2019, diluted earnings per share is identical to the earnings per share.

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32. Cash Generated from Operations

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

<i>(in millions of Korean won)</i>	2019	2018
Profit for the year	₩ 282,405	₩ 376,271
Adjustments for:	921,708	582,970
Finance cost(income), net	2,749	(23,357)
Loss on foreign currency translation, net	4,802	233
Depreciation and amortization	578,499	310,979
Loss on disposal of property, plant and equipment and intangible assets	15,508	5,842
Impairment loss on property, plant and equipment and intangible assets	42,906	5,251
Gains and losses on disposal of licensed assets	5,629	-
Impairment loss on licensed assets	31,486	-
Loss(gain) on disposal of investment property	(702)	819
Impairment loss on investment property	5,572	-
Gain on disposal of available-for-sale financial assets	-	(4,912)
Gain on disposal of financial assets at fair value through profit or loss	(695)	(101)
Gain on valuation of financial assets at fair value through profit or loss	(6,834)	(2,289)
Income tax expense	148,966	158,565
Share of profit of associates	(654)	(935)
Post-employment benefits	40,808	62,562
Gain on foreign currency transaction	(918)	(6,582)
Loss on valuation and disposal of inventories	55,080	59,393
Others	(494)	17,502
Changes in assets and liabilities from operating activities	(214,711)	(61,160)
Decrease(increase) in trade receivables	(91,483)	53,837
Decrease(increase) in other receivables	20,311	(760)
Increase in inventories	(81,186)	(95,485)
Increase in other assets	(17,669)	(4,109)
Increase(decrease) in trade payables	17,500	(15,063)
Increase in other payables	43,194	50,898
Increase in provisions	7,925	3,960
Increase in other liabilities	10,746	28,959
Decrease in contract liabilities	(9,456)	(15,465)
Benefits payment	(28,456)	(25,472)
Increase in plan assets	(86,137)	(42,460)
Cash generated from operations	<u>₩ 989,402</u>	<u>₩ 898,081</u>

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Significant transactions not affecting cash flows for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Reclassification of construction in-progress to property, plant and equipment	₩ 135,350	₩ 206,249
Reclassification of licensed assets to investment property	60,207	26,712
Reclassification of intangible assets to licensed assets	3,468	-
Reclassification of construction in-progress to intangible assets	10,812	-
Reclassification of property, plant and equipment to investment property	30,865	6,410
Reclassification of investment property to property, plant and equipment	-	39,445
Reclassification of investment property to available-for-sale financial assets	56,221	-
Reclassification of lease liability to licensed assets	320,874	-
Changes in non-trade payables related to the acquisition of property, plant and equipment and intangible assets	33,008	51,254
Changes in non-trade receivables related to the acquisition of property, plant and equipment and intangible assets	-	13,619
Changes in non-trade payables related to the acquisition of subsidiary shares	6,568	-

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

<i>(in millions of Korean won)</i>	Short-term borrowings		Current portion of long-term borrowings¹		Long-term borrowings		Lease liabilities		Total	
At January 1, 2018	₩	178,052	₩	-	₩	42,903	₩	-	₩	220,955
Cash flows		(10,165)		-		-		-		(10,165)
Exchange differences		1,535		-		1,784		-		3,319
At December 31, 2018	₩	169,422	₩	-	₩	44,687		-	₩	214,109
At January 1, 2019	₩	169,422	₩	-	₩	44,687		-	₩	214,109
Changes in accounting policy		-		-		-		547,633		547,633
Lease agreements		-		-		-		303,938		303,938
Current portion transfer		-		46,559		(46,559)		-		-
Cash flows (interest expenses)		-		-		-		(21,424)		(21,424)
Cash flows		(13,634)		-		-		(230,613)		(244,247)
Exchange differences		1,817		(28)		1,872		10,296		13,957
At December 31, 2019	₩	157,605	₩	46,531	₩	-	₩	609,830	₩	813,966

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

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33. Commitments and Contingencies

Significant commitments entered into with financial institutions at the end of reporting period are as follows:

<i>(in millions of Korean won and thousands of USD, EUR, HKD and JPY)</i>	Financial institution	Commitment	2019		2018	
			Limit	Outstanding balance	Limit	Outstanding balance
AMOREPACIFIC CORPORATION	Woori Bank	Electronic loan agreement	₩ 5,400	₩ 222	₩ 15,000	₩ 160
		Letter of credit	USD 4,000	-	USD 4,000	USD 131
Innisfree Corporation	Woori Bank	Electronic loan agreement	-	-	1,000	25
Etude Corporation	Korea Development Bank	Operating fund loan agreement	15,000	15,000	10,000	8,000
	Woori Bank	Operating fund loan agreement	10,000	5,000	-	-
AMOS Professional Corporation	Woori Bank	Electronic loan agreement	600	-	1,000	-
	Woori Bank	Corporate working capital loan agreement	5,000	2,000	5,000	5,000
Espoir Corporation	Korea Development Bank	Operating fund loan agreement	5,000	1,000	-	-
		Electronic loan agreement	4,300	164	7,200	433
AESTURA Corporation	Woori Bank	Operating fund loan agreement	-	-	4,000	-
		Overdraft	3,000	-	3,000	-
PACIFICGLAS Inc.	Kookmin Bank	Operating fund loan agreement	-	-	2,000	2,000
		Facility loan agreement	-	-	9,000	9,000
	Korea Development Bank	Operating fund loan agreement	5,000	4,000	3,000	3,000
		Facility loan agreement	7,000	7,000	-	-
PACIFIC PACKAGE Corporation	Woori Bank	Electronic loan agreement	-	-	600	-
		Overdraft	1,000	-	1,000	-
	Korea Development Bank	Letter of credit	USD 1,000	-	USD 2,000	-
		Operating fund loan agreement	9,000	9,000	9,000	9,000
COSVISION CO., LTD.	Kookmin Bank	Facility loan agreement	7,000	7,000	-	-
		Facility loan agreement	-	-	7,000	7,000
COSVISION CO., LTD.	Korea Development Bank	Facility loan agreement	54,000	54,000	60,000	60,000

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	Bank						
	Woori Bank	Corporate working capital loan agreement	10,000	6,000	10,000		-
Core Technology Corporation.	Woori Bank	Overdraft	266	266	-		-
	Nara Technology Corporation	Other borrowings	150	150	-		-
	CITI N.A HONG KONG	Long-term borrowings	HKD 313,000	HKD 313,000	HKD 313,000		HKD 313,000
Amorepacific Global Operations Limited.	DBS HONG KONG	Short-term borrowings	HKD 220,000	HKD 70,000	-		-
	CITI N.A HONG KONG	Short-term borrowings	-	-	HKD 220,000		HKD 110,000
	CITY N.A HONG KONG	Overdraft	USD 10,000	-	USD 10,000		-
AMOREPACIFIC Hong Kong Co., Limited	Hang Seng Bank	Overdraft and others	HKD 15,000	-	HKD 15,000		-
	Bank of East Asia	Overdraft	HKD 10,000	-	HKD 10,000		-
AMOREPACIFIC Japan CO., LTD	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Overdraft	JPY 2,000,000	JPY 1,100,000	JPY 1,000,000		JPY 1,000,000
	Citibank N.A France	Short-term borrowings	EUR 7,000	EUR 7,000	EUR 7,000		EUR 7,000
AMOREPACIFIC EUROPE S.A.S	KEB Hana Bank Paris Branch	Overdraft	EUR 500	EUR 477	EUR 500		EUR 485
	KEB Hana Bank Paris Branch	Short-term borrowings	-	-	EUR 12,500		EUR 12,500
	KEB Hana Bank Paris Branch	Overdraft	EUR 6,000	EUR 5,858	EUR 6,000		EUR 5,742
Annick Goutal S.A.S	Citibank N.A France	Short-term borrowings	EUR 6,000	EUR 6,000	EUR 6,000		EUR 6,000

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Details of payment guarantees provided to the Company at the end of reporting period are as follows:

<i>(in millions of Korean won)</i>	Guaranteed by	Remark	2019		2018	
AMOREPACIFIC Corporation	Seoul Guarantee Insurance	Performance guarantees	₩	83,146	₩	131,889
Innisfree Corporation	Seoul Guarantee Insurance	Performance guarantees		118		139
Etude Corporation	Seoul Guarantee Insurance	Performance guarantees		120		146
Espoir Corporation	Seoul Guarantee Insurance	Performance guarantees		27		17
AESTURA Corporation	Seoul Guarantee Insurance	Performance guarantees		-		10
PACIFICGLAS Inc.	Seoul Guarantee Insurance	Performance guarantees		10		10
Osulloc Fam Co., Ltd.	Seoul Guarantee Insurance	Performance guarantees		104		135
COSVISION CO., LTD.	Seoul Guarantee Insurance	Performance guarantees		165		165
Osulloc	Seoul Guarantee Insurance	Performance guarantees		851		-

Details of payment guarantees provided by the Company at the end of reporting period are as follows:

<i>(in millions of Korean won)</i>	Beneficiary	2019	Financial institution	Guarantee period
	Employee stock ownership association	₩ 43,619	Korea Securities Finance Corp.	2019.12.5 ~ 2022.12.5

Restricted financial instruments in use at the end of the reporting period are as follows:

<i>(in millions of Korean won, thousands of RMB and HKD)</i>	Remark	2019		2018	
Current financial deposits	Collateral provided for borrowings of subsidiaries	₩	148,716	₩	131,463
Current financial deposits	Agreement of shared growth and cooperation		18,100		15,100
Non-current financial deposits	Deposit for checking account		34		34
Non-current financial deposits	Permission of door-to-door sales in China	RMB	20,000	RMB	20,000
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores	HKD	5,000	HKD	5,000
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores	USD	194	USD	194

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PACIFIC PACKAGE Corporation and Taeshin Inpack Corporation, the surviving company, have joint and several guarantee obligation for outstanding payables (including contingent liabilities incurred before the spin-off date).

Innisfree Corporation, a subsidiary, planned to donate ₩ 10,000 million to Innisfreemoeum foundation over 5 years in accordance with a resolution of Board of Directors. Accumulated contribution amounts to ₩ 10,000 million as at December 31, 2019.

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

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

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

As at December 31, 2019, the Group has entered into a long-term lease agreements with external customers in relation to a new building located in Yongsan until March 2028.

During previous year, the Group has entered into the contract for to sell shares of Elastagen Pty Ltd. to Allergan Australia Pty Ltd.(Acquirer) which includes contingent consideration depends on launching new products(contingent consideration: for the United stated market USD 7,080 million, for the European market USD 3,540 million, Other market USD 1,062 million). Acquirer has a control to manage the business procedures and retains ability to complete conditions related to contingent consideration to be fulfilled, which means the Group has no substantial right to make an agreement to be accomplished. The fair value of the above contingent consideration cannot be reasonably estimated, and the Group will recognise above consideration as income when its requirements are met.

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34. Related Party Transactions

Details of the parents and subsidiaries as at December 31, 2019 and 2018, are as follows:

Classification	Name
Ultimate parent	Kyung- Bae Suh
Ultimate parent company in the preparation of consolidated financial statements for disclosure	AMOREPACIFIC Group, Inc.
Associates	BBDO Korea Inc. Taiwan AMORE Co.,Ltd.
Other related parties	Taeshin Inpack Corporation

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

<i>(in millions of Korean won)</i>	2019			
	Sales	Purchases	Dividend income	Other cost
Associates				
BBDO Korea Inc.	₩ 888	₩ -	₩ 900	₩ 35,442
Other related party				
Taeshin Inpack Corporation	-	16,757	-	-
	<u>₩ 888</u>	<u>₩ 16,357</u>	<u>₩ 900</u>	<u>₩ 35,442</u>
	2018			
<i>(in millions of Korean won)</i>	Sales	Purchases	Dividend income	Other cost
Associates				
BBDO Korea Inc.	₩ 749	₩ -	₩ 1,080	₩ 30,491
Taiwan AMORE Co.,Ltd.	-	-	107	-
Other related party				
Taeshin Inpack Corporation	-	17,389	-	-
	<u>₩ 749</u>	<u>₩ 17,389</u>	<u>₩ 1,187</u>	<u>₩ 30,491</u>

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

<i>(in millions of Korean won)</i>	2019							
	Receivables		Payables					
	Trade receivables	Other receivables	Trade payables	Other payables				
Associates								
BBDO Korea Inc.	₩	-	₩	-	₩	-	₩	7,817
Taiwan AMORE Co.,Ltd.		-		-		-		-
Other related party								
Taeshin Inpack Corporation		-		-		936		-
	₩	-	₩	-	₩	936	₩	7,817

<i>(in millions of Korean won)</i>	2018							
	Receivables		Payables					
	Trade receivables	Other receivables	Trade payables	Other payables				
Associates								
BBDO Korea Inc.	₩	-	₩	48	₩	-	₩	9,011
Taiwan AMORE Co.,Ltd.		-		-		-		-
Other related party								
Taeshin Inpack Corporation		-		-		1,363		-
	₩	-	₩	48	₩	1,363	₩	9,011

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

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

Cash investment by related parties:

(in millions of Korean won)

Classification	Name	Amount
Individual shareholders, such as Ultimate parent and others	Participation in issuance of convertible preferred shares	₩ 108,261

There are no fund transactions with related parties for the year ended December 31, 2018.

As at December 31, 2019, there are no collaterals and payment guarantees provided to or provided by related parties other than the Group.

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The compensation paid or payable to key management for employee services for the years ended December 31, 2019 and 2018, consists of:

<i>(in millions of Korean won)</i>	2019		2018	
Short-term employee benefits	₩	15,397	₩	13,351
Post-employment benefits		3,376		2,506
	₩	<u>18,773</u>	₩	<u>15,857</u>

35. Information About Non-controlling Interests

35.1 Changes in Accumulated Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	2019						
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Changes in non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
AMOREPACIFIC Corporation	64.00	₩ 3,026,524	₩ 145,417	₩ (55,234)	₩ (88,795)	₩ 7,968	₩ 3,035,880
Innisfree Corporation	18.18	84,380	6,923	(20,047)	-	(143)	71,113
Etude Corporation	19.52	9,824	(6,989)	-	-	(76)	2,759
Others		2,909	3,321	-	-	(3,158)	3,072
		<u>₩ 3,123,637</u>	<u>₩ 148,672</u>	<u>₩ (75,281)</u>	<u>₩ (88,795)</u>	<u>₩ 4,591</u>	<u>₩ 3,112,824</u>

<i>(in millions of Korean won)</i>	2018						
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Changes in non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
AMOREPACIFIC Corporation	64.60	₩ 2,841,159	₩ 228,587	₩ (59,911)	-	₩ 16,689	₩ 3,026,524
Innisfree Corporation	18.18	75,022	11,459	(2,311)	-	210	84,380
Etude Corporation	19.52	15,293	(5,078)	-	-	239	9,824
Others		3,225	(353)	-	-	37	2,909
		<u>₩ 2,934,699</u>	<u>₩ 233,985</u>	<u>₩ (62,222)</u>	<u>₩ -</u>	<u>₩ 17,175</u>	<u>₩ 3,123,637</u>

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35.2 Summarized Financial Information of Subsidiaries

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarized consolidated statements of financial position as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Current assets	₩	1,803,064	₩	399,822	₩	44,242
Non-current assets		4,185,944		142,641		32,709
Current liabilities		1,066,567		68,216		49,000
Non-current liabilities		423,600		62,012		11,317
Equity		4,498,841		412,235		16,634

<i>(in millions of Korean won)</i>	2018					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Current assets	₩	1,567,236	₩	462,421	₩	44,626
Non-current assets		3,803,901		71,783		41,353
Current liabilities		763,212		57,733		32,949
Non-current liabilities		161,508		2,227		569
Equity		4,446,417		474,244		52,461

Summarized consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Revenue	₩	5,580,142	₩	551,862	₩	179,961
Profit (loss) for the year		223,761		48,874		(35,435)
Other comprehensive income		7,287		(637)		(391)
Total comprehensive income (loss)		231,048		48,237		(35,826)

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<i>(in millions of Korean won)</i>	2018					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Revenue	₩	5,277,845	₩	598,915	₩	218,282
Profit for the year		334,845		61,974		(28,281)
Other comprehensive income (loss)		23,557		1,013		1,169
Total comprehensive income		358,402		62,987		(27,112)

Summarized consolidated statements of cash flows for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Cash flows from operating activities	₩	718,301	₩	61,503	₩	114
Cash flows from investing activities		(403,233)		37,258		(390)
Cash flows from financing activities		(387,437)		(128,389)		1,965
Effects of exchange rate changes on cash and cash equivalents		10,438		(42)		-
Net increase (decrease) in cash and cash equivalents		(61,931)		(29,670)		1,689
Cash and cash equivalents at the beginning of the year		735,511		290,738		3,804
Cash and cash equivalents at the end of the year	₩	673,580	₩	261,068	₩	5,493

<i>(in millions of Korean won)</i>	2018					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Cash flows from operating activities	₩	646,677	₩	81,101	₩	(14,499)
Cash flows from investing activities		(413,918)		(87,890)		(6,948)
Cash flows from financing activities		(103,445)		(12,711)		8,000
Effects of exchange rate changes on cash and cash equivalents		2,009		(90)		-
Net increase (decrease) in cash and cash equivalents		131,323		(19,590)		(13,447)
Cash and cash equivalents at the beginning of the year		604,188		310,328		17,251
Cash and cash equivalents at the end of the year	₩	735,511	₩	290,738	₩	3,804

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36. Risk Management

36.1 Financial Risk Management

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

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

(a) Market risk

i) Foreign exchange risk

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

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

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

<i>(in millions of Korean won)</i>	2019		2018	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 406,752	₩ 258,107	₩ 261,369	₩ 128,109
EUR	244	431	1,423	331
JPY	143	2,080	7	3,417
CNY	1,983	46	1,959	158
	<u>₩ 409,122</u>	<u>₩ 260,664</u>	<u>₩ 264,758</u>	<u>₩ 132,015</u>

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

<i>(in millions of Korean won)</i>	2019		2018	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ 14,865	₩ (14,865)	₩ 13,326	₩ (13,326)
EUR	(19)	19	109	(109)
JPY	(194)	194	(341)	341
CNY	194	(194)	180	(180)

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

ii) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises on floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty in interest rates fluctuations and net interest expense.

At the end of the reporting period, the Group has more floating rate deposits than floating rate borrowings, and because of this, net interest expenses decrease when interest rates increase. However, the Group adequately minimizes risks from interest rate fluctuations through various policies, such as sharing excess cash within the Group (internal cash sharing) to minimize external borrowings, avoiding high rate borrowings, reforming capital structure, managing an appropriate ratio of fixed rate borrowings and floating rate borrowings, monitoring a fluctuation of domestic and foreign interest rates daily, weekly and monthly, establishing alternatives, and balancing floating rate short-term borrowings with floating rate deposits.

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

At the end of the reporting period, if interest rates on floating rate borrowings had been 1% higher/lower with all other variables held constant, profit before income tax for the year would have been ₩ 1,511 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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iii) Price risk

The Group is exposed to equity securities price risk arises from investments held by the Group that are classified as available-for-sale in the consolidated statement of financial position.

The Group's equity investments are publicly traded and are included in the NASDAQ index.

The table below summarizes the impact of increases/decreases of this index on the Group's equity and before-tax profit for the period. The analysis is based on the assumption that the equity indexes has increased/decreased by 10% with all other variables held constant, and that all the Group's equity instruments moved in line with the indexes.

<i>(in millions of Korean won)</i>	2019		2018	
	10% Increase	10% Decrease	10% Increase	10% Decrease
NASDAQ	₩ 41	₩ (41)	₩ 132	₩ (132)

(b) Credit Risk

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

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. If customers have no independent rating and their credit risk needs to be reduced, their credit is enhanced through pledged property and deposit and guarantee insurance. For customers without insurance and collateral, the Group strictly manages credit risk in accordance with the internal credit-rating standard. Sales to retail customers are settled in cash or using major credit cards.

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

(c) Liquidity Risk

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

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

<i>(in millions of Korean won)</i>	2019					Book amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 104,780	₩ -	₩ -	₩ 104,780	₩ 104,780	₩ 104,780
Borrowings	206,306	-	-	206,306	204,136	204,136
Other payables	304,811	-	-	304,811	304,811	304,811
Other liabilities	150,933	10,574	11,933	173,440	169,961	169,961
Lease liability	254,416	342,413	61,109	657,938	609,830	609,830
Financial guarantee contract	43,619	-	-	43,619	293	293

<i>(in millions of Korean won)</i>	2018					Book amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 88,803	₩ -	₩ -	₩ 88,803	₩ 88,803	₩ 88,803
Borrowings	172,406	45,095	-	217,501	214,109	214,109
Other payables	276,585	-	-	276,585	276,585	276,585
Other liabilities	143,106	14,136	-	157,242	155,799	155,799

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36.2 Capital Risk Management

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

Debt-to-equity ratio and net borrowing ratio are as follows:

<i>(in millions of Korean won)</i>		2019		2018
Liabilities (A)	₩	1,801,246	₩	1,144,904
Equity (B)		6,480,147		6,242,470
Cash and cash equivalents, and current financial deposits (C)		1,682,195		1,540,210
Borrowings (D)		204,136		214,109
Debt-to-equity ratio (A/B)		27.80%		18.34%
Net borrowings ratio (D-C)/B		(-)22.81%		(-)21.24%

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37. Fair Value Estimation

37.1 Fair Value Hierarchy

There are no significant changes in business and economic circumstances which affect the fair value of financial assets and liabilities of the Group for the year ended December 31, 2019.

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

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

(in millions of Korean won)

	2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 4,119	₩ 717,934	₩ 32,655	₩ 754,708
Financial assets at fair value through other comprehensive income	2,329	-	2,616	4,945
Disclosed fair value				
Investment property	-	-	366,322	366,322

(in millions of Korean won)

	2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 3,956	₩ 437,633	₩ 5,510	₩ 447,099
Financial assets at fair value through other comprehensive income	9,163	-	1,513	10,676
Disclosed fair value				
Investment property	-	-	422,185	422,185

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37.2 Valuation Technique

Valuation techniques used in the recurring fair value measurements categorized as Level 2 and Level 3 of the fair value hierarchy as at December 31, 2019, are as follows:

(a) Investment property

The fair value of investment property is measured on a basis of a valuation by an independent appraiser who holds a recognized and relevant professional qualification or a value of land determined by the local government in Korea for property tax assessment purposes and a valuation by reflecting the similar recent transaction price which is available to use.

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

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

	2019			
	Fair value	Level	Valuation techniques	Inputs
<i>(in millions of Korean won)</i>				
Financial assets at fair value through other comprehensive income				
Unlisted equity securities	₩ 2,616	3	Present value technique	Perpetual earning growth rate and others
Financial assets at fair value through profit or loss				
Debt securities such as redeemable convertible preferred shares	4,813	3	Option pricing model	Stock price of underlying assets and others
Equity instruments such as unlisted shares	13,497	3	Option pricing model	Stock price of underlying assets and others
Private equity investment trust	14,345	3	Valuation Multiples	Stock price of peer companies and others
Beneficiary certificates	702,734	2	Present value technique	Credit risk adjusted discount rate
Variable annuities insurance	15,200	2	Present value technique	Credit risk adjusted discount rate

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37.3 Financial Instruments Measured at Cost

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

<i>(in millions of Korean won)</i>	2019	2018
Debt instruments at amortized cost		
Asset backed securities	₩ -	₩ 30,000
Government-issued securities	3,286	4,247
	<u>₩ 3,286</u>	<u>₩ 34,247</u>

Debt instruments at amortized cost are measured at fair values, because the difference between their fair values and the acquisition costs is immaterial.

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

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38. Changes in Accounting Policies

As explained in Note 2.1.1, the Group has adopted Korean IFRS 1116, retrospectively, from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognized in the consolidated statement of financial position on January 1, 2019.

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

On adoption of Korean IFRS 1116, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of Korean IFRS 1017. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.59%.

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

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

Measurement of lease liabilities

(in thousands of Korean won)

2019.1.1

Operating lease commitments disclosed as at December 31, 2018	₩	587,920
Discounted using the lessee's incremental borrowing rate of at the date of initial application		(40,395)
Less: Short-terms leases not recognized as a liability and others		(6,294)
Add: adjustments as a result of a different treatment of extension and termination options		6,756
Add: adjustments as a result of variable lease payments not included in lease liabilities		(354)
Lease liability recognized as at January 1, 2019		547,633
Of which are:		
Current lease liabilities		199,856
Non-current lease liabilities		347,777
	₩	547,633

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

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

<i>(in millions of Korean won)</i>	2019.12.31	2019.01.01
Right-of-use assets		
Land	₩ 10,894	₩ 10,995
Buildings	486,170	460,850
Fixtures and furniture	2,112	2,876
Others	72,256	93,597
	<u>₩ 571,432</u>	<u>₩ 568,318</u>

<i>(in millions of Korean won)</i>	2019.12.31	2019.01.01
Right-of-use assets		
Current	₩ 245,845	₩ 199,856
Non-current	363,985	347,777
	<u>₩ 609,830</u>	<u>₩ 547,633</u>

The increase of right-of-use assets is ₩ 320,874 million in 2019.

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

<i>(in thousands of Korean won)</i>	2019
Increase of right-of-use assets	₩ 568,318
Increase of lease liabilities	547,633
Decrease of other non-current assets	(12,651)
Decrease of other non-current liabilities	(2,778)
Decrease of intangible assets	(10,812)

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② *Practical expedients applied*

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

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

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