

AMOREPACIFIC Group, Inc. and Subsidiaries

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

AMOREPACIFIC Group, Inc. and Subsidiaries
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December 31, 2020 and 2019

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

**To the Board of Directors and Shareholders of
AMOREPACIFIC 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, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

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

Key Audit Matters

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

(1) Valuation of merchandise and finished goods

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 ₩ 341,556 million as at December 31, 2020. The inventories are initially measured at cost and write-down should be recognized if the inventories are

damaged, become wholly or partially obsolete, or if expected net realisable value is below the cost. We considered the valuation of merchandise and finished goods 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 the Group's inventory valuation.

- Obtained and understood the accounting policy on inventory valuation of the Group and tested its appropriateness.
- Obtained an understanding of the management's process and controls on estimation of inventory valuation and confirmed whether it is in compliance with the accounting policies.
- Recalculated the valuation provision on merchandise and finished goods provided by the Group.
- Tested selected samples for the accuracy and completeness of merchandise and finished goods' aging reports.
- Confirmed the accuracy of historical experience rate calculation used by the Group to estimate the provision for valuation due to obsolescence of the merchandise and finished goods.
- 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.

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

Why this matter was determined to be a key audit matter

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

How our audit addressed the Key Audit Matter

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

- Evaluated the competency and independence of external experts engaged by management.
- Understands the future cash flows of the cash-generating units and reviewed whether the future cash flow estimate is based on the business plan approved by management.
- Assessed the reasonableness of the key assumptions used in estimating recoverable amount.
- Compared the discount rates that are independently calculated using an observable information with the discount rates applied by management
- Evaluated the results of a sensitivity analysis on the discount rates performed by management to assess the impact of changes in key assumptions on the impairment tests

- Reviewed the accuracy of the recoverable amount calculation and the appropriateness of the allocation of the impairment loss.
- Assessed the completeness of disclosures related to asset impairment of the Group, including the criteria for determining recoverable amount and the key assumptions used by the Group.

Emphasis of Matter

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

Other Matter

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

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

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

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

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

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

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

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

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

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

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

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

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

Seoul, Korea
March 11, 2021

This report is effective as of March 11, 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

AMOREPACIFIC Group, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2020 and 2019

<i>(in thousands of Korean won)</i>	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	5,6,7,37	₩ 1,190,926,311	₩ 1,417,441,261
Financial deposits	5,7,33	221,282,300	245,100,000
Financial assets at fair value through profit or loss	5,7,37	411,153,895	157,610,206
Trade receivables	5,7,34	306,675,983	394,716,736
Other receivables	5,7,34	32,584,357	25,818,061
Current tax assets		22,045,414	4,159,737
Other current assets	5,7,15	74,271,435	80,295,603
Inventories	8	478,448,079	524,543,689
Non-current assets held-for-sale	14	115,668,982	56,220,960
		<u>2,853,056,756</u>	<u>2,905,906,252</u>
Non-current assets			
Financial deposits	5,7,33	21,682,434	19,654,082
Other receivables	5,7,34	136,561,073	194,890,634
Financial assets at fair value through profit or loss	5,7,37	49,547,538	36,773,920
Financial assets at amortized cost	5,7,37	3,279,605	3,285,865
Financial assets at fair value through other comprehensive income	5,7,37	4,389,672	4,945,410
Property, plant and equipment	10	3,081,089,223	3,200,096,754
Investment properties	12,37	323,292,885	364,765,119
Right-of-use assets	13	288,382,524	571,432,350
Intangible assets	11	719,633,123	739,425,539
Investments in associates	9	60,621,320	4,640,918
Deferred tax assets	25	93,253,806	83,656,667
Net defined benefit assets	20	134,877,910	129,043,976
Other non-current assets	15	19,075,732	22,875,649
		<u>4,935,686,844</u>	<u>5,375,486,882</u>
Total assets		<u>₩ 7,788,743,600</u>	<u>₩ 8,281,393,134</u>
Liabilities			
Current liabilities			
Trade payables	5,34,36	₩ 74,306,111	₩ 104,780,079
Borrowings	5,16,36	257,460,189	204,136,453
Other payables	5,34,36	316,938,708	304,810,620
Current tax liabilities		8,460,282	79,366,342
Contract liabilities	18	47,030,644	57,381,810
Provisions	17	10,293,406	14,543,265
Other current liabilities	5,19,36	253,597,390	215,012,052
Current lease liabilities	13,36	183,112,413	245,844,916
Non-current liabilities held-for-sale	14	18,956,826	-
		<u>1,170,155,969</u>	<u>1,225,875,538</u>
Non-current liabilities			
Net defined benefit liabilities	20	3,831,674	3,436,819
Deferred tax liabilities	25	155,106,511	167,130,230
Provisions	17	20,560,537	21,409,242
Other non-current liabilities	5,19,36	13,475,913	19,409,736
Non-current lease liabilities	13,36	153,570,218	363,984,738
		<u>346,544,852</u>	<u>575,370,766</u>
Total liabilities		<u>1,516,700,822</u>	<u>1,801,246,304</u>
Equity			
Share capital	1,21	47,997,075	47,997,075
Share premium	21	903,711,141	903,711,141
Capital surplus		(124,392,315)	(21,656,351)
Other components of equity	22	(196,032,004)	(196,032,004)
Accumulated other comprehensive income	22	(13,646,567)	(14,983,036)
Retained earnings	23	2,631,906,543	2,648,285,673
Equity attributable to owners of the Parent Company		<u>3,249,543,873</u>	<u>3,367,322,498</u>
Non-controlling interest	35	<u>3,022,498,905</u>	<u>3,112,824,332</u>
Total equity		<u>6,272,042,778</u>	<u>6,480,146,831</u>
Total liabilities and equity		<u>₩ 7,788,743,600</u>	<u>₩ 8,281,393,134</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, 2020 and 2019

<i>(in thousands of Korean won, except per share amounts)</i>	Notes	2020		2019	
Revenue	4,26,34	₩	4,930,083,150	₩	6,284,255,176
Cost of sales	27,34		<u>1,371,125,561</u>		<u>1,641,834,346</u>
Gross profit			3,558,957,589		4,642,420,830
Selling and administrative expenses	27,28		<u>3,408,296,541</u>		<u>4,144,171,013</u>
Operating profit			150,661,048		498,249,818
Finance income	5,29		23,224,982		31,767,398
Finance costs	5,29		22,912,945		26,987,022
Other non-operating losses, net	30		(121,065,326)		(72,313,109)
Share of net profit of associates	9		<u>1,376,674</u>		<u>653,890</u>
			<u>(119,376,615)</u>		<u>(66,878,844)</u>
Profit before income tax			31,284,433		431,370,974
Income tax expense	25		<u>9,236,751</u>		<u>148,966,023</u>
Profit for the period		₩	<u>22,047,682</u>	₩	<u>282,404,952</u>
Profit is attributable to:					
Owners of the Parent Company		₩	10,381,314	₩	133,732,557
Non-controlling interests			11,666,368		148,672,394
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss					
Remeasurements of net defined benefit liabilities	20,25		10,075,519		(10,917,561)
Loss on valuation of financial assets at fair value through other comprehensive income	22,25		(429,428)		(791,580)
Items that may be subsequently reclassified to profit or loss					
Share of other comprehensive income (loss) of associates	9,22,25		141,746		18,658
Exchange differences on transaction of foreign operations	22,25		5,355,905		16,683,736
Other comprehensive income (loss) for the period, net of tax			<u>15,143,742</u>		<u>4,993,253</u>
Total comprehensive income for the period			<u>37,191,425</u>		<u>287,398,204</u>
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company			16,686,864		134,384,962
Non-controlling interests			<u>20,504,561</u>		<u>153,013,243</u>
		₩	<u>37,191,425</u>	₩	<u>287,398,204</u>
Earnings per share attributable to owners of the Parent Company	31				
Basic earnings per ordinary share		₩	74	₩	1,444
Basic earnings per preferred share			79		1,453

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, 2020 and 2019

(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, 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
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 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	-	-	-	-	6,046,862	128,338,099	134,384,961	153,013,242	287,398,205
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	3,546,100	230,724,432	(44,279,940)	(50,034,633)	-	(25,851,732)	114,104,227	(163,825,671)	(49,721,450)
Balance at December 31, 2019	₩ 47,997,075	₩ 903,711,141	₩ (21,656,351)	₩ (196,032,004)	₩ (14,983,036)	₩ 2,648,285,673	₩ 3,367,322,498	₩ 3,112,824,332	₩ 6,480,146,831
Balance at January 1, 2020	₩ 47,997,075	₩ 903,711,141	₩ (21,656,351)	₩ (196,032,004)	₩ (14,983,036)	₩ 2,648,285,673	₩ 3,367,322,498	₩ 3,112,824,332	₩ 6,480,146,831
Comprehensive income									
Profit for the period	-	-	-	-	-	10,381,314	10,381,314	11,666,368	22,047,682
Remeasurements of net defined benefit liabilities through other comprehensive income	-	-	-	-	(219,391)	-	(219,391)	(210,036)	(429,427)
Share of other comprehensive income of associates	-	-	-	-	43,268	-	43,268	98,478	141,746
Exchange differences on transaction of foreign operations	-	-	-	-	1,512,592	-	1,512,592	3,843,313	5,355,905
Total comprehensive income for the period	-	-	-	-	1,336,469	15,350,395	16,686,864	20,504,561	37,191,425
Transactions with owners									
Dividends paid	-	-	-	-	-	(30,735,975)	(30,735,975)	(47,626,586)	(78,362,561)
Acquisition of additional interests in a subsidiary	-	-	(102,735,964)	-	-	-	(102,735,964)	(64,196,952)	(166,932,916)
Others	-	-	-	-	-	(993,550)	(993,550)	993,550	-
Total transactions with owners	-	-	(102,735,964)	-	-	(31,729,525)	(134,465,489)	(110,829,988)	(245,295,477)
Balance at December 31, 2020	₩ 47,997,075	₩ 903,711,141	₩ (124,392,315)	₩ (196,032,004)	₩ (13,646,567)	₩ 2,631,906,543	₩ 3,249,543,873	₩ 3,022,498,905	₩ 6,272,042,778

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, 2020 and 2019

<i>(in thousands of Korean won)</i>	Notes	2020	2019
Cash flows from operating activities			
Cash generated from operations	32	₩ 802,027,461	₩ 989,402,434
Interest received		14,017,179	25,078,086
Interest paid		(24,563,136)	(26,451,231)
Income tax paid		<u>(125,441,635)</u>	<u>(157,781,627)</u>
Net cash inflow from operating activities		<u>666,039,869</u>	<u>830,247,661</u>
Cash flows from investing activities			
Net decrease in current financial deposits		32,162,100	70,000,000
Net decrease in current available-for-sale financial assets		4,377,021	22,408,874
Decrease in financial assets at fair value through profit or loss		-	30,511,000
Decrease in other receivables		55,851,844	8,191,318
Decrease in non-current financial deposits		353,988	-
Proceeds from disposal of financial assets at amortized cost		6,260	973,000
Proceeds from disposal of financial assets at fair value through other comprehensive income	7	-	5,812,967
Proceeds from disposal of property, plant and equipment	10	24,851,590	15,722,548
Proceeds from disposal of intangible assets	11	509,270	2,115,334
Increase in advances for disposal of non-current assets held-for-sale	14	15,344,000	-
Dividend income from associates	9	993,750	900,000
Other cash inflows		-	5,110,503
Net increase in current financial deposits		(8,900,000)	(89,939,000)
Payments for financial assets at fair value through profit or loss		(264,579,537)	(182,413,478)
Increase in other receivables		(4,884,539)	(4,674,114)
Increase in non-current financial deposits		(2,400,010)	(1,900,010)
Payments for financial assets at amortized cost		-	(11,955)
Payments for financial assets at fair value through other comprehensive income	7	-	(1,000,002)
Payments for property, plant and equipment	10	(194,994,201)	(274,205,655)
Payments for intangible assets	11	(33,933,301)	(38,149,618)
Payments for investment properties	12	-	(2,714,131)
Increase in right-of-use assets		(2,270)	(29,400)
Payments for investments in associates		<u>(54,903,272)</u>	<u>-</u>
Net cash outflow from investing activities		<u>(430,147,307)</u>	<u>(433,291,819)</u>
Cash flows from financing activities			
Proceeds from short-term borrowings	32	131,605,478	25,048,075
Increase in leasehold deposits		1,140,240	-
Increase in non-controlling interests		-	250,000
Issuance of preferred shares	21	-	234,270,532
Repayments of short-term borrowings	32	(61,328,268)	(38,682,147)
Dividends paid	24	(78,333,153)	(101,098,577)
Payments for lease liabilities	13,32	(250,381,265)	(230,612,975)
Redemption of leasehold deposits		(6,061,222)	-
Acquisition of treasury shares	1	-	(50,034,638)
Acquisition of non-controlling interest	35	<u>(173,501,126)</u>	<u>(126,506,443)</u>
Net cash inflow (outflow) from financing activities		<u>(436,859,316)</u>	<u>(287,366,173)</u>
Effects of exchange rate changes on cash and cash equivalents		<u>(13,449,719)</u>	<u>10,398,382</u>
Net increase(decrease) in cash and cash equivalents		(214,416,472)	119,988,050
Cash and cash equivalents at the beginning of the year		<u>1,417,441,261</u>	<u>1,297,453,211</u>
Cash and cash equivalents at the end of the year		₩ 1,203,024,789	₩ 1,417,441,261
Cash and cash equivalents classified as held for sale	14	(12,098,479)	-
Cash and cash equivalents in the statements of financial position		1,190,926,311	1,417,441,261

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

AMOREPACIFIC Group, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

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 39 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, 2020, 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 26, 2019, the company has issued 7,092,200 convertible preferred shares. As at December 31, 2020, 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, 2020, are as follows:

Shareholders	2020	
	Number of ordinary shares	Percentage of ownership (%)
Kyung- Bae Suh	44,443,620	53.9
Others ¹	38,014,560	46.1
	<u>82,458,180</u>	<u>100.0</u>

¹ Includes 6,208,913 treasury

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The Company's consolidated subsidiaries as at December 31, 2020, 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	37.46	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 ³	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 49.7% 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.

³ Includes financial information of Billion-Wide Enterprise Limited, Info-Billion Enterprise Limited.

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

(in millions of Korean won)	2020				
	Total assets	Total liabilities	Revenue	Profit (loss) for the year	Total comprehensive income(loss)
AMOREPACIFIC Corporation	4,897,611	479,193	3,016,951	104,437	111,539
Innisfree Corporation	482,566	66,984	348,596	10,218	11,170
Etude Corporation	50,557	57,130	111,295	(23,352)	(23,207)
AMOS Professional Corporation	84,477	9,773	67,907	11,537	11,652
Espoir Corporation	20,169	11,764	42,470	(2,320)	(2,340)
Osulloc	54,303	18,167	47,709	(371)	(302)
AESTURA Corporation	133,231	32,743	98,954	(263)	(146)
PACIFICGLAS, Inc.	67,286	19,101	67,713	5,270	5,754
PACIFICPACKAGE Corporation	68,142	20,442	49,041	(1,290)	(1,142)
Osulloc Farm Co.,Ltd	107,391	10,602	19,126	5,204	5,250
COSVISION CO.,LTD.	104,515	70,896	128,854	(41,155)	(40,618)
Amorepacific Global Operations Limited.	161,476	82,018	27,731	(35,755)	(39,644)
AMORE Cosmetics (Shanghai) Co.,Ltd.	318,704	33,733	146,307	25,990	27,292
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	5,315	533	5,726	440	462
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	28,748	23	-	(3,172)	(4,510)
We-Dream Co.,Ltd.	1,435	279	3,510	360	331
Core technology	1,486	1,367	3,660	(572)	(572)
Green Partners Corporation	1,739	595	5,389	88	103
AMOREPACIFIC Trading Co.,Ltd.	574,341	532,623	1,142,572	(56,547)	(54,548)
AMOREPACIFIC Hong Kong Co.,Limited	62,453	45,535	76,296	(11,579)	(12,318)
AMOREPACIFIC Taiwan Co.,Ltd.	38,159	21,864	66,196	420	484
AMOREPACIFIC SINGAPORE PTE Co Ltd.	46,361	30,113	50,823	(5,055)	(5,638)
AMOREPACIFIC MALAYSIA SDN. BHD.	27,176	18,827	43,736	(3,693)	(4,094)
AMOREPACIFIC (Thailand) LIMITED	32,659	6,397	45,429	1,504	(135)
PT. LANEIGE INDONESIA PACIFIC	17,563	11,396	25,201	587	145
AMOREPACIFIC Vietnam LTD.	23,470	13,904	34,090	2,598	1,968
AMOREPACIFIC PHILIPPINES, INC.	4,991	2,318	2,834	(2,667)	(2,572)
AMOREPACIFIC US, INC.	65,038	118,565	63,989	(29,267)	(25,284)
AMOREPACIFIC CANADA INC.	12,273	10,903	12,629	(1,137)	(1,199)
AMOREPACIFIC EUROPE S.A.S	14,979	19,637	8,186	1,104	922
Annick Goutal S.A.S	12,281	23,421	10,811	(2,847)	(3,084)
AMOREPACIFIC Japan Co.,Ltd.	72,558	55,212	80,281	3,740	3,449
Innisfree Cosmetics India Private Limited	18,892	12,409	9,183	(135)	(735)

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AMOREPACIFIC ME FZ-LLC	743	1,138	2,322	(802)	(762)
AMOREPACIFIC AUSTRALIA PTY LTD	29,945	31,312	11,482	(4,465)	(4,490)
Amorepacific Russia LLC	752	463	663	(390)	(524)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	2,474	2,139	5,055	146	144

During 2020, in Etude Corporation, AMOREPACIFIC Hong Kong Co., Limited, and AMOREPACIFIC Global Operations among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test. The recoverable amount is calculated based on its value in use and impairment loss is recognized as other non-operating losses.

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

<i>(in millions of Korean won)</i>	Etude Corporation	AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Hong Kong Co., Limited
Gross margin rate	52.90%	79.82%	76.60%
Growth rate ¹	9.01%	0.71%	4.69%
Weight average cost of capital	13.30%	10.63%	10.63%
Perpetual growth rate	-	-	-
Value-in-use	₩ 14,109	₩ 2,328	₩ 26,234
Impairment loss recognized ²	2,174	11,319	9,874

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

² See Notes 10, 11 and 13 for details.

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

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

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

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

(in millions of Korean won)	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	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.	211,335	92,233	48,817	(29,704)	(23,791)
AMORE Cosmetics (Shanghai) Co.,Ltd.	298,533	40,856	176,982	40,129	43,374
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	4,743	423	5,785	433	496
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	33,260	24	-	(9,206)	(7,318)
We-Dream Co.,Ltd.	1,038	213	2,528	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)
Amorepacific Russia LLC	940	128	274	(244)	(236)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	2,867	2,667	5,371	38	40

During 2019, in Etude Corporation, AMOREPACIFIC US, INC, AMOREPACIFIC Global Operations Limited. and others among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the

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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. (Notes 10, 11, 13)

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

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

2. Significant Accounting Policies

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

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying 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.

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.

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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, 2020.

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

The amendments clarify the definition of material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments do not have a significant impact on the financial statements.

- *Amendments to Korean IFRS 1103 Business Combination – Definition of 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 the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments do not have a significant impact on the financial statements.

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

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

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

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. A lessee that makes this

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election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. With implementation of Korean IFRS 1116 *Lease*, the Group has changed accounting policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard. There was no cumulative impact on the beginning balance of retained earnings as at January 1, 2020 by retrospectively applying this standard, and the Group did not restate comparatives for the 2019 reporting period. The impact of the adoption of the leasing standard are disclosed in Note 13.

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

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2020 and have not been early adopted by the Group are set out below.

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

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- *Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework*

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

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

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods

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beginning on or after January 1, 2022, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

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

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

- *Annual improvements to Korean IFRS 2018-2020*

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

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

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

2.5 Financial Assets

(a) Classification

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

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- 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 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

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

B. Equity instruments

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

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

(c) Impairment

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

(d) Recognition and Derecognition

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

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

(e) Offsetting of financial instruments

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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
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

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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

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

2.12 Intangible Assets

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

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

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

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

2.13 Investment Property

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

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2.14 Impairment of Non-financial Assets

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

2.15 Trade and Other Payables

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

2.16 Financial Liabilities

(a) Classification and measurement

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

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

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

(b) Derecognition

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

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2.17 Provisions

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

2.18 Current and Deferred Tax

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

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

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

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

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

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

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

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2.19 Employee Benefits

(a) Post-employment benefits

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

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

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

(b) Other long-term employee benefits

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

2.20 Revenue Recognition

(a) Identifying performance obligations

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

(b) Variable consideration

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

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

(c) Allocating consideration received

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

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

2.21 Lease

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

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

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

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

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lessee) exercising that option

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

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

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

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

(a) Variable lease payments

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

(b) Extension and termination options

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

(c) Residual value guarantees

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

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

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decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the representative director that makes strategic decisions.

2.23 Approval of Issuance of the Financial Statements

The consolidated financial statements 2020 were approved for issue by the Board of Directors on February, 3 2021 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

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

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

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Estimated goodwill impairment

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

(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

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in calculating the final tax effect (Note 25).

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

(c) Refund liabilities

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

(d) Customer loyalty programs

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

(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).

(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

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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.

(i) Measurement of the net realizable value of inventory

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

(j) Impairment of Non-financial Assets

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

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

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

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

4. Segment Information

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

The main products of each business division are as follows:

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

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

<i>(in millions of Korean won)</i>	2020		2019	
	Revenue	Operating profit	Revenue	Operating profit
Cosmetics	₩ 4,793,616	₩ 138,678	₩ 6,123,581	₩ 468,216
Others	369,621	13,164	386,753	30,801
	<u>₩ 5,163,238</u>	<u>₩ 151,842</u>	<u>₩ 6,510,334</u>	<u>₩ 499,017</u>

Adjustments from total segment revenue to the Group's revenue for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Total segment revenue	₩ 5,163,238	₩ 6,510,334
Elimination of intercompany transactions and others	<u>(233,155)</u>	<u>(226,079)</u>
Group revenue	<u>₩ 4,930,083</u>	<u>₩ 6,284,255</u>

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Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Total segment operating profit	₩	151,842	₩	499,017
Intersegment revenue (expense)		<u>(1,181)</u>		<u>(767)</u>
Operating profit	₩	<u>150,661</u>	₩	<u>498,250</u>

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

<i>(in millions of Korean won)</i>	Revenue			
	2020		2019	
Korea	₩	2,992,079	₩	4,064,512
Asia		1,831,757		2,092,001
North America		76,038		93,570
Others		<u>30,209</u>		<u>34,172</u>
	₩	<u>4,930,083</u>	₩	<u>6,284,255</u>

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

5. Financial Instruments by Category

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

<i>(in millions of Korean won)</i>		2020		2019	
Financial assets at amortized cost	Cash and cash equivalents	₩	850,381	₩	910,417
	Current financial deposits		206,782		207,000
	Non-current financial deposits		4,582		4,454
	Non-current debt securities ¹		3,280		3,286
	Trade receivables		306,676		394,717
	Current other receivables		32,584		25,818
	Non-current other receivables		136,561		194,891
	Other current assets ²		940		1,776
Financial assets at fair value through other comprehensive income	Non-current financial assets at fair value through other comprehensive income ³		4,390		4,945
Financial assets at	Cash and cash equivalents ⁴		340,546		507,024

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fair value through profit or loss	Current financial deposits ⁴	14,500	38,100
	Current financial assets at fair value through profit or loss ⁴	411,154	157,610
	Non-Current financial deposits ⁶	17,100	15,200
	Non-Current financial assets at fair value through profit or loss ⁵	49,548	36,774
		₩ 2,379,023	₩ 2,502,012

¹ Government bonds (Note 7).

² Other current assets represent accrued revenues (Note 15).

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

⁴ Beneficiary certificates (Note 7).

⁵ Beneficiary certificates, redeemable convertible preferred shares, convertible preferred shares, private equity investment trust (Note 7).

⁶ Variable annuities insurance (Note 7).

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

<i>(in millions of Korean won)</i>		2020	2019
Financial liabilities at amortized cost	Trade payables	₩ 74,306	₩ 104,780
	Short-term borrowings	257,460	204,136
	Other payables	316,939	304,811
	Other current liabilities ⁷	183,917	150,933
	Other non-current liabilities ⁸	13,422	19,028
	₩ 846,044	₩ 783,688	

⁷ Other current liabilities consist of deposits received, dividend payables, accrued expenses and refund liabilities (Note 19).

⁸ Other non-current liabilities consist of deposits received and accrued expenses (Note 19).

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Net gains or losses on each category of financial instruments for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Financial assets at fair value through profit or loss		
Gain on disposal (profit or loss)	₩ -	₩ 695
Gain on valuation (profit or loss)	11,243	6,834
Interest income	195	18,128
Financial assets at fair value through other comprehensive income		
Loss on valuation (other comprehensive income)	(429)	(1,036)
Reclassified loss on valuation to equity (other comprehensive income)	-	244
Dividend income	196	293
Financial assets at amortized cost		
Interest income	10,532	5,347
Gain (loss) on foreign currency translation	(29,812)	7,964
Reversal of (impairment loss)	(1,730)	179
Financial liabilities at amortized cost		
Interest expense	(4,057)	(4,984)
Gain (loss) on foreign currency translation	10,138	(2,447)

6. Cash and Cash Equivalents

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

<i>(in millions of Korean won)</i>	2020	2019
Cash on hand	₩ 221	₩ 323
Ordinary deposits	196,033	235,626
Checking accounts	71,927	65,828
Other accounts	922,745	1,115,664
	<u>₩ 1,190,926</u>	<u>₩ 1,417,441</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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Current	Non-current	Current	Non-current
Cash and cash equivalents :				
Beneficiary certificates	₩ 340,546	₩ -	₩ 507,024	₩ -
Financial deposits:				
Beneficiary certificates	14,500	-	-	-
Variable annuities insurance	-	17,100	38,100	15,200
Financial assets at fair value through profit or loss:				
Beneficiary certificates	411,154	1,129	157,610	4,119
Debt securities	-	8,724	-	4,813
Equity securities	-	25,258	-	13,497
Private equity investment trust	-	14,437	-	14,345
	<u>₩ 766,199</u>	<u>₩ 66,648</u>	<u>₩ 702,734</u>	<u>₩ 51,974</u>

7.2 Financial Assets at Fair Value through Other Comprehensive Income

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

<i>(in millions of Korean won)</i>	2020		2019	
Equity instruments:				
Marketable equity securities				
Humedix Co., Ltd.	₩	515	₩	502
Meritz Securities Co., Ltd.		992		1,026
Evoform Biosciences, Inc.		102		279
Obalon Therapeutics Inc		108		135
GL Pharm Tech Corporation		510		387
Brickell Biotech Inc		92		-
Non-marketable equity securities		2,070		2,616
	<u>₩</u>	<u>4,389</u>	<u>₩</u>	<u>4,945</u>

Upon disposal of these equity investments, any balance within the accumulated other

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comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

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

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	4,945	₩	10,676
Acquisitions		-		1,000
Evaluation and Disposals ¹		(556)		(6,731)
Ending balance	₩	<u>4,389</u>	₩	<u>4,945</u>

¹ In 2019, upon disposal transaction, loss on valuation recognized in other comprehensive income of ₩ 1,252 million were reclassified into retained earnings.

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

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

7.3 Trade and other receivables, and other financial assets at amortized cost

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

<i>(in millions of Korean won)</i>	2020		2019	
Trade receivables	₩	310,021	₩	397,573
Less: provision for impairment		(3,345)		(2,856)
Trade receivables, net	₩	<u>306,676</u>	₩	<u>394,717</u>

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

<i>(in millions of Korean won)</i>	2020		2019	
	Current	Non-current	Current	Non-current
Non-trade receivables	₩ 8,870	₩ -	₩ 12,256	₩ -
Financial lease receivables	2,352	4,342	4,047	4,093
Loans	1,099	21,258	3	25,452
Deposits provided	20,677	111,057	10,200	165,346
Less: provision for impairment	(414)	(96)	(688)	-
	₩ <u>32,584</u>	₩ <u>136,561</u>	₩ <u>25,818</u>	₩ <u>194,891</u>

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

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	2,856	₩	3,654
Impairment loss (reversal)		1,635		(155)
Receivables written off during the year as uncollectible		(736)		(692)
Exchange differences		(411)		49
Ending balance	₩	<u>3,345</u>	₩	<u>2,856</u>

Provision for impaired receivables and unused amounts reversed have been included in the statement of profit or loss within 'selling and administrative expenses'. 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, 2020 and 2019 are as follows

<i>(in millions of Korean won)</i>	2020		2019	
	Current	Non-current	Current	Non-current
Current financial deposits	₩ 206,782	₩ -	₩ 207,000	₩ -
Non-current financial deposits	-	4,582	-	4,454
Asset backed securities	-	-	-	-
Government bonds	-	3,280	-	3,286
Accrued income	940	-	1,776	-
Less: provision for impairment	-	-	-	-
	<u>₩ 207,722</u>	<u>₩ 7,862</u>	<u>₩ 208,776</u>	<u>₩ 7,740</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.

8. Inventories

Inventories as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Merchandise and Finished goods	₩	341,556	₩	373,012

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Raw materials	53,499	57,475
Subsidiary materials	27,473	29,163
Others	55,921	64,894
	₩ 478,448	₩ 524,544

Inventories recognized as an expense during the year ended December 31, 2020 amounted to ₩ 1,027,870 million (2019: ₩ 1,218,515 million).

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

<i>(in millions of Korean won)</i>	2020	2019
Loss on valuation/disposal of inventories	₩ 45,167	₩ 55,080

9. Associates

Associates as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	Country	Main operating activities	2020		2019	
			Percentage of ownership (%)	Book amount	Percentage of ownership (%)	Book amount
Taiwan AMORE Co.,Ltd.	Taiwan	Sales of cosmetics	50.00	₩ 2,152	50.00	₩ 2,160
Rationale Group Pty Ltd ¹	Australia	Manufacturing and sales of cosmetics	49.00	50,362	-	-
BBDO Korea Inc.	Korea	Advertising agency and production of advertisement	30.00	2,331	30.00	2,481
AP&M Beauty Fashion Joint Venture ²	Korea	Domestic and foreign corporate investment	49.00	4,776	-	-
Smart AP-WE Untact Fund No. 1 ³	Korea	Domestic and foreign corporate investment	44.80	1,000	-	-
Anhui Pacific Tea Co., Ltd. ⁴	China	Tea processing	80.00	-	80.00	-
				₩ 60,621		₩ 4,641

¹ In 2020, the Group acquired 49% shares of Rationale Group Pty Ltd.

² In 2020, the Group acquired 49% shares of the AP&M Beauty Fashion Joint Venture.

³ In 2020, the Group acquired 44.8% shares of Smart AP-WE Untact Fund No. 13.

⁴ The entity is a consolidated subsidiary but excluded from the consolidation because it is not significant.

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

<i>(in millions of Korean won)</i>	2020											
	Taiwan AMORE Co., Ltd.		Rationale Group Pty Ltd		BBDO Korea Inc.		AP&M Beauty Fashion Joint Venture		Smart AP-WE Untact Fund No. 1		Total	
Beginning balance	₩	2,160	₩	-	₩	2,481	₩	-	₩	-	₩	4,641
Acquisition		-		49,003		-		4,900		1,000		54,903
Share of profit or loss of associates		(15)		675		840		(124)		-		1,376
Share of other comprehensive income of associates		142		-		-		-		-		142
Dividends		(4)		-		(990)		-		-		(994)
Exchange differences		(131)		684		-		-		-		553
Ending balance	₩	2,152	₩	50,362	₩	2,331	₩	4,776	₩	1,000	₩	60,621

<i>(in millions of Korean won)</i>	2019					
	Taiwan AMORE Co., Ltd.	BBDO Korea Inc.	Total			
Beginning balance	₩	2,346	₩	2,425	₩	4,771
Acquisition		-		-		-
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

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

<i>(in millions of Korean won)</i>	Taiwan AMORE Co., Ltd.	Rationale Group Pty Ltd	BBDO Korea Inc.	AP&M Beauty Fashion Joint Venture	Smart AP-WE Untact Fund No. 1					
December 31, 2020										
Current assets	₩	4,460	₩	21,199	₩	17,743	₩	9,746	₩	4,030
Non-current assets		519		10,328		1,437		-		-
Current liabilities		567		4,544		11,300		-		1,800
Non-current liabilities		107		6,143		108		-		-
2020										
Revenue	₩	4,568	₩	12,577	₩	28,651	₩	-	₩	-
Operating profit (loss)		(74)		4,613		3,322		(253)		-
Profit (loss) for the period		(31)		2,213		2,803		(254)		-
<i>(in millions of Korean won)</i>										
December 31, 2019										
Current assets		₩		4,448	₩			25,185		
Non-current assets				492				1,600		
Current liabilities				389				18,416		

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Non-current liabilities		231		100
2019				
Revenue	₩	4,663	₩	36,840
Operating profit		20		3,643
Profit (loss) for the period		(603)		3,185

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

2020					
<i>(in millions of Korean won)</i>	Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Goodwill and others	Book amount
Taiwan AMORE Co., Ltd.	₩ 4,305	50.00%	₩ 2,152	₩ -	₩ 2,152
Rationale Group Pty Ltd	20,840	49.00%	10,212	40,150	50,362
BBDO Korea Inc.	7,772	30.00%	2,331	-	2,331
AP&M Beauty Fashion Joint Venture	9,746	49.00%	4,776	-	4,776
Smart AP-WE Untact Fund No. 1	2,230	44.80%	1,000	-	1,000

2019					
<i>(in millions of Korean won)</i>	Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Goodwill and others	Book amount
Taiwan AMORE Co., Ltd.	₩ 4,320	50.00%	₩ 2,160	₩ -	₩ 2,160
BBDO Korea Inc.	8,269	30.00%	2,481	-	2,481

10. Property, Plant and Equipment

Property, plant and equipment as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			2019		
	Acquisition cost	Accumulated depreciation ¹	Book amount	Acquisition cost	Accumulated depreciation	Book amount
Land	₩ 999,254	₩ (288)	₩ 998,966	₩ 1,020,187	₩ -	₩ 1,020,187
Buildings	1,708,433	(292,683)	1,415,750	1,635,520	(253,359)	1,382,161
Structures	85,465	(38,295)	47,170	87,819	(33,102)	54,717
Machinery	690,496	(356,550)	333,946	727,021	(357,424)	369,597
Vehicles	3,585	(2,989)	596	3,611	(2,847)	764
Tools	169,924	(144,386)	25,538	162,001	(134,612)	27,389
Fixtures and furniture	918,873	(680,634)	238,239	980,035	(675,779)	304,256
Others	10,373	(5,440)	4,933	6,714	(2,947)	3,767
Construction in progress	15,951	-	15,951	37,259	-	37,259
	<u>₩ 4,602,354</u>	<u>₩ (1,521,265)</u>	<u>₩ 3,081,089</u>	<u>₩ 4,660,167</u>	<u>₩ (1,460,070)</u>	<u>₩ 3,200,097</u>

¹Accumulated impairment losses are included.

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

	2020				
<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles
Opening net book amount	₩ 1,020,187	₩ 1,382,161	₩ 54,717	₩ 369,597	₩ 764
Acquisition	3,239	44,850	2,680	24,174	72
Reclassification ¹	(5,271)	34,576	(3,651)	(1,386)	57
Disposal	(18,901)	(9)	(250)	(1,657)	(4)
Depreciation	-	(47,122)	(5,291)	(56,209)	(293)
Impairment loss ²	(288)	-	(562)	(875)	-
Exchange differences	-	1,294	(473)	302	-
Closing net book amount	<u>₩ 998,966</u>	<u>₩ 1,415,750</u>	<u>₩ 47,170</u>	<u>₩ 333,946</u>	<u>₩ 596</u>

	2020				
<i>(in millions of Korean won)</i>	Tools	Fixtures and furniture	Others	Construction in progress	Total
Opening net book amount	₩ 27,389	₩ 304,256	₩ 3,767	₩ 37,259	₩ 3,200,097
Acquisition	15,110	70,949	176	22,405	183,655
Reclassification	(535)	13,438	3,011	(41,601)	(1,362)
Disposal	(108)	(17,471)	(587)	(538)	(39,525)
Depreciation	(16,260)	(128,968)	(1,393)	-	(255,536)
Impairment loss	(128)	(3,808)	-	(1,707)	(7,368)
Exchange differences	70	(157)	(41)	133	1,128
Closing net book amount	<u>₩ 25,538</u>	<u>₩ 238,239</u>	<u>₩ 4,933</u>	<u>₩ 15,951</u>	<u>₩ 3,081,089</u>

¹ In 2020, the amount of ₩34,596 million classified as a group of assets held for sale is included (Note 14).

² During 2020, in Etude Corporation, AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩2,156 million on Property, Plant and Equipment (Note 1.3), and ₩5,212 million is recognized as impairment on individual assets.

	2019				
<i>(in millions of Korean won)</i>	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)

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Depreciation	-	(45,502)	(5,864)	(55,862)	(346)
Impairment loss ¹	-	-	-	(1,593)	-
Others ²	-	(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>

2019

(in millions of Korean won)

	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	(1,444)	(20,931)	-	-	(23,968)
Others ²	-	-	-	-	(3,815)
Exchange differences	96	3,715	324	163	8,577
Closing net book amount	<u>₩ 27,389</u>	<u>₩ 304,256</u>	<u>₩ 3,767</u>	<u>₩ 37,259</u>	<u>₩ 3,200,097</u>

¹ During 2019, in Etude Corporation, AMOREPACIFIC US, INC, AMOREPACIFIC Global Operations Limited among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩23,970 million on Property, Plant and Equipment (Note 1.3).

² 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.

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

(in millions of Korean won)	2020	2019
Selling and administrative expenses ¹	₩ 170,331	₩ 186,106
Cost of sales	85,205	92,777
	<u>₩ 255,536</u>	<u>₩ 278,883</u>

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

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

(in millions of Korean won)	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land and buildings	19,229	1,249	Deposits received	961	National Pension Service

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Land and buildings	151	Deposits received	116	National Human Rights Commission of Korea.	
Buildings	50	Deposits received	50	Korea Fire Facility Association	
Buildings	15,720	3,594	Deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings	719	Deposits received	719	Korea Workers' Compensation & Welfare Service	
Buildings	3,040	102	Deposits received	102	Hanwha General Insurance

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

11. Intangible Assets

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

<i>(in millions of Korean won)</i>	2020				
	Goodwill	Industrial property	Software	Others	Total
Beginning balance	₩ 518,218	₩ 30,849	₩ 144,467	₩ 45,892	₩ 739,426
Acquisition	-	116	17,407	16,410	33,933
Reclassification ¹	-	5,056	12,051	(17,054)	53
Disposal	-	(52)	(385)	(2,434)	(2,871)
Amortization	-	(3,663)	(36,148)	(652)	(40,463)
Impairment loss ²	(8,456)	(123)	(192)	(1,718)	(10,489)
Exchange differences	(46)	84	(216)	222	44
Ending balance	₩ 509,716	₩ 32,267	₩ 136,984	₩ 40,666	₩ 719,633

¹ In 2020, the amount of ₩67 million classified as a group of assets held for sale is included (Note 14).

² During 2020, in Etude Corporation, AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited. among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 9,231 million on Intangible assets (Note 1.3) and ₩ 1,258 million is recognized as impairment on individual assets.

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<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 ¹	(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>

¹During 2019, in Etude Corporation, AMOREPACIFIC US, INC, AMOREPACIFIC Global Operations Limited and others among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩ 18,004 million on Intangible assets (Note 1.3).

Amortization of intangible assets is charged to the following accounts:

<i>(in millions of Korean won)</i>	2020	2019
Selling and administrative expenses ¹	₩ 37,428	₩ 39,287
Cost of sales	3,035	2,607
	<u>₩ 40,463</u>	<u>₩ 41,894</u>

¹ Amortization expense is included in research and development expenses.

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>	2020	2019
Cosmetics CGU	₩ 500,279	₩ 500,279
AMOREPACIFIC Hong Kong Co., Limited ¹	-	8,263
AMOREPACIFIC Trading Co., Ltd.	4,059	4,030
Others' CGU	5,378	5,545
	<u>₩ 509,716</u>	<u>₩ 528,218</u>

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

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

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<i>(in percentage, %)</i>	Cosmetics CGU	AMOREPACIFIC TradingCo.,Ltd.	AMOREPACIFIC Hong Kong Co.,Limited
Gross margin rate	69.70	55.01	76.60
Growth rate ¹	8.40	11.63	4.69
Weighted average cost of capital	9.70	15.11	10.63
Perpetual growth rate	1.00	-	-

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.

12. Investment Property

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

<i>(in millions of Korean won)</i>	2020			2019		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 161,905	₩ -	₩ 161,905	₩ 168,546	₩ -	₩ 168,546
Buildings	182,773	(22,653)	160,120	210,797	(17,322)	193,475
Right-of-use assets	1,993	(725)	1,268	3,468	(724)	2,744
	<u>₩ 346,671</u>	<u>₩ (23,378)</u>	<u>₩ 323,293</u>	<u>₩ 383,194</u>	<u>₩ (18,429)</u>	<u>₩ 364,765</u>

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

<i>(in millions of Korean won)</i>	2020			
	Land	Buildings	Right-of-use assets	Total
Beginning balance	₩ 168,546	₩ 193,475	₩ 2,744	₩ 364,765
Reclassification	(2,043)	(28,085)	(783)	(30,911)
Depreciation	-	(5,270)	(693)	(5,963)
Impairment loss ¹	(3,716)	-	-	(3,716)
Exchange differences	(882)	-	-	(882)
Ending balance	<u>₩ 161,905</u>	<u>₩ 160,120</u>	<u>₩ 1,268</u>	<u>₩ 323,293</u>

¹ During 2020, ₩ 3,716 million is recognized as impairment on individual assets.

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<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	3,468	10,132
Depreciation	-	(5,381)	(724)	(6,106)
Impairment loss ²	(5,572)	-	-	(5,572)
Disposal	(2,299)	-	-	(2,299)
Others ³	-	(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 During 2019, ₩5,572 million was recognized as impairment on individual assets.

³ In relation to the construction of new building, some of the acquisition tax paid on building of ₩1,296 million, were refunded for the year ended December 31, 2019.

The Group has contracts to provide operating leases for some of investment property and the carrying amount of the operating leases for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Cost	₩ 1,992	₩ 3,468
Accumulated depreciation	(725)	(724)
Carrying amount	₩ 1,267	₩ 2,744

Meanwhile, as at December 31, 2020, the future minimum lease payments expected to be received from the operating lease contracts for the above investment property are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Within one year	₩ 21,712	₩ 22,373
Later than one year but not later than five years	71,950	74,682
Later than five year	36,226	53,221
	₩ 129,888	₩ 150,276

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The fair value of investment property as at December 31, 2020, is ₩ 386,424 million (2019: ₩ 366,322 million).

The amount recognized as income and expenses in relation to investment property are ₩ 19,979 million, (2019: ₩ 23,435 million) and ₩ 5,081 million (2019: ₩ 5,209 million) million respectively, for the year ended December 31, 2020.

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, 2020 are as follows:

<i>(in millions of Korean won)</i>	2020				
	Land	Building	Fixtures and furniture	Others	Total
Beginning balance ¹	₩ 10,894	₩ 486,171	₩ 2,112	₩ 72,255	₩ 571,432
Acquisition	370	86,134	48	495	87,047
Remeasurement	-	(25,902)	(63)	722	(25,243)
Disposal	-	(67,324)	(21)	(62)	(67,407)
Reclassification	-	(3,993)	-	-	(3,993)
Amortization	(619)	(206,300)	(784)	(24,494)	(232,197)
Impairment loss ¹	-	(42,742)	(45)	-	(42,787)
Exchange differences	86	1,440	(8)	13	1,531
Ending balance	<u>₩ 10,731</u>	<u>₩ 227,484</u>	<u>₩ 1,240</u>	<u>₩ 48,928</u>	<u>₩ 288,383</u>

¹ During 2020, in Etude Corporation, AMOREPACIFIC Hong Kong Co., Limited, AMOREPACIFIC Global Operations Limited. among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩11,980 million on in-right-of-use assets (Note 1.3) and ₩30,807 million is recognized as impairment on individual assets.

<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 ²	-	(31,480)	-	-	(31,480)
Exchange differences	203	10,483	16	1	10,703
Ending balance	<u>₩ 10,894</u>	<u>₩ 486,171</u>	<u>₩ 2,112</u>	<u>₩ 72,255</u>	<u>₩ 571,432</u>

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

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² During 2019, in Etude Corporation, AMOREPACIFIC US, INC, AMOREPACIFIC Global Operations Limited and others among the Group's cash-generating units, indication that an asset may be impaired is identified so performed impairment test, resulting in recognizing an impairment loss; the amount of loss is ₩31,486 million on in-right-of-use assets (Note 1.3).

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

<i>(in millions of Korean won)</i>	2020		2019	
Selling and administrative expenses	₩	231,669	₩	250,288
Cost of sales		528		945
	₩	<u>232,197</u>	₩	<u>251,233</u>

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

<i>(in millions of Korean won)</i>	2020		2019	
Total minimum lease payments				
Within one year	₩	187,435	₩	254,416
Later than one year but not later than five years		133,745		342,413
Later than five years		51,313		61,109
		<u>372,492</u>		<u>657,938</u>
Unearned finance income		<u>(35,810)</u>		<u>(48,108)</u>
Net minimum lease payments				
Within one year		183,112		245,845
Later than one year but not later than five years		123,512		319,155
Later than five years		30,059		44,830
	₩	<u>336,683</u>	₩	<u>609,830</u>

As at December 31, 2020, the sum of the total minimum lease payments that are expected to be received by sub-lease is ₩ 7,244 million (2019: ₩ 5,108 million). The lease contracts have no options of lease renewal and buyout. There are no other restrictions on lease contracts related to dividends, additional debts and additional leases.

The consolidated statement of profit or loss shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	2020		2019	
Interest expense relating to lease liabilities	₩	18,828	₩	21,424
Expense relating to short-term leases		6,051		66,681
Expense relating to leases of low-value assets that are not short-term leases		5,515		5,276
Expense relating to variable lease payments not included in lease liabilities		684,858		1,075,739

The total cash outflow of leases in 2020 and 2019 are ₩ 965,633 million and ₩ 1,399,733 million respectively.

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

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

The Group uses a practical expedient that does not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Accordingly, the Group recognized ₩ 21,234 million in profit or loss during the year ended December 31, 2020, to reflect changes in lease payments that arise from a rent concession to which the lessee has applied the practical expedient.

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

<i>(in millions of Korean won)</i>	2020		2019	
Financial lease receivables:				
Principal of the receivables:	₩	7,206	₩	8,687
Deferred loan costs(gain)		(513)		(548)
Less: provision for impairment		(96)		-
Carrying amount		6,598		8,139
Terminated		-		-
		<u>6,598</u>		<u>8,139</u>

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

<i>(in millions of Korean won)</i>	2020			
	Total lease investment		Present value of minimum lease payments	
Within one year	₩	2,177	₩	2,352
Later than one year but not later than five years		5,029		4,342
Later than five year		-		-
	₩	<u>7,206</u>	₩	<u>6,693</u>
<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
	₩	<u>8,687</u>	₩	<u>8,081</u>

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

<i>(in millions of Korean won)</i>	2020		2019	
Total lease investment	₩	7,206	₩	8,687

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Net lease investment	-	
Present value of minimum lease payments	6,693	8,081
Present value of unguaranteed residual value	-	58
	<u>6,693</u>	<u>8,139</u>
Unearned interest income	<u>513</u>	<u>548</u>

14. Non-current Assets Held-for-sale

Details of non-current assets held-for-sale as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			2019		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 47,166	₩ -	₩ 47,166	₩ 47,166	₩ -	₩ 47,166
Buildings	11,456	(2,485)	8,971	11,575	(2,520)	9,055
Assets of disposal group	<u>59,532</u>	<u>-</u>	<u>59,532</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>₩ 118,154</u>	<u>₩ (2,485)</u>	<u>₩ 115,669</u>	<u>₩ 58,741</u>	<u>₩ (2,520)</u>	<u>₩ 56,221</u>
Liabilities of disposal group	<u>(18,957)</u>	<u>-</u>	<u>(18,957)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>₩ 99,197</u>	<u>₩ (2,485)</u>	<u>₩ 96,712</u>	<u>₩ 58,741</u>	<u>₩ (2,520)</u>	<u>₩ 56,221</u>

Changes in non-current assets held-for-sale for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020				
	Land	Buildings	Assets of disposal group ²	Liabilities of disposal group	Total
Beginning balance ¹	₩ 47,166	₩ 9,055	₩ -	₩ -	₩ 56,221
Reclassification ²	-	-	59,532	(18,957)	40,575
Disposal	-	(84)	-	-	(84)
Ending balance	<u>₩ 47,166</u>	<u>₩ 8,971</u>	<u>₩ 59,532</u>	<u>₩ (18,957)</u>	<u>₩ 96,712</u>

<i>(in millions of Korean won)</i>	2019		
	Land	Buildings	Total
Beginning balance ¹	₩ -	₩ -	₩ -
Reclassification ²	47,166	9,055	56,221
Disposal	-	-	-
Ending balance	<u>₩ 47,166</u>	<u>₩ 9,055</u>	<u>₩ 56,221</u>

¹ The sale of land and buildings of investment property located in Gangnam-gu, Seoul is expected to be completed in April 2021.

² The Group decided to sell 60% of shares of Pacific Glass, Inc., a subsidiary by an approval of

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management, accordingly, related assets and liabilities are reclassified as held-for-sale. The sales transaction was completed February 26, 2021.

Details of assets and liabilities of disposal group classified as held-for-sale are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Assets of disposal group				
Property, plant and equipment and intangible assets	₩	34,663	₩	-
Cash and cash equivalents		12,098		-
Inventory		6,419		-
Trade and other receivables		2,299		-
Other assets		4,053		-
	₩	<u>59,532</u>	₩	<u>-</u>
Liabilities of disposal group				
Borrowings		10,300		-
Trade payables and other payables		6,862		-
Provisions and contract liabilities		546		-
Other payables		1,249		-
	₩	<u>18,957</u>	₩	<u>-</u>

The assets and liabilities classified as held-for-sale are measured in accordance with K-IFRS 1105.

15. Other Assets

Other assets as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 940	₩ -	₩ 1,776	₩ -
Advance payments	29,078	-	26,229	-
Prepaid expenses	32,993	19,076	40,041	22,876
Prepaid value added tax	5,217	-	9,759	-
Others	6,043	-	2,490	-
	₩ <u>74,271</u>	₩ <u>19,076</u>	₩ <u>80,296</u>	₩ <u>22,876</u>

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16. Borrowings

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

<i>(in millions of Korean won, in EUR, USD, JPY, HKD)</i>	Creditor	Interest rate(%), December 31, 2020	2020	2019
Short-term borrowings				
Bank overdrafts of EUR 1,900,594 (2019: EUR 477,277)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.70%	₩ 2,543	₩ 619
Bank overdrafts of EUR 3,919,826 (2019: EUR 5,857,564)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.50%	5,246	7,600
Loans for working capital of USD 33,500,000 (2019: USD -)	Citibank N.A	LIBOR 3M + 1.80	36,449	-
Loans for working capital of JPY 1,700,000,000 (2019: JPY 1,100,000,000)	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Tibor1M + 0.2	17,922	11,697
Loans for working capital of EUR 7,000,000 (2019: EUR 7,000,000)	Citibank N.A France	MAX(EURIBOR 3M, 0) + 1.05	9,368	9,082
Loans for working capital of HKD 130,000,000 (2019: HKD 70,000,000)	DBS BANK LTD., HONG KONG BRANCH	HIBOR 3M + 0.45	18,245	10,406
Loans for working capital of EUR 3,000,000 (2019: EUR 6,000,000)	Citibank N.A France	MAX(EURIBOR 3M, 0) + 1.05	4,015	7,785
Loans for working capital of HKD 313,000,000 (2019: HKD -)	CITI N.A HONG KONG	1.5	43,929	-
Loans for working capital of EUR 3,000,000 (2019: EUR -)	KEB Hana Bank Paris Branch	MAX(EURIBOR 3M, 0) + 0.88	4,015	-
Loans for working capital of AUD 7,000,000 (2019: AUD -)	Citibank N.A. Sydney Branch	BBSY 3M+ 0.80	5,856	-
Loans for working capital of AED 1,500,000 (2019: AED -)	Citibank N.A. United Arab Emirates	EIBOR 3M + 1.90	444	-
Loans for working capital of INR 70,000,000 (2019: INR -)	Citibank India	1M T Bill + 2.81	1,040	-
Loans for working capital of USD 4,000,000 (2019: USD -)	Citibank N.A. Indonesia	LIBOR 3M + 1.25	4,379	-
Facility loans	Korea Development Bank	1.77	6,300	7,000
Loans for working capital	Korea Development Bank	1.33	8,000	9,000
Facility loans	Korea Development Bank	1.57	6,300	7,000
Loans for working capital	Korea Development Bank	2.29	1,000	1,000
Loans for working capital	Korea Development Bank	1.78	3,000	3,000
Loans for working capital	Woori Bank	1.50	6,000	6,000
Facility loans	Korea Development Bank	1.57	48,000	54,000
Loans for working capital	Korea Development Bank	1.56	22,000	15,000
Loans for working capital	Woori Bank	2.21	10,000	5,000
Loans for working capital	Woori Bank	1.63	2,000	2,000
Loans for working capital	Korea Development Bank	1.66	1,000	1,000
Bank overdrafts	Woori Bank	4.62	209	266
Other Loans	Nara Technology Corporation	4.60	500	150
			₩ 267,760	₩ 157,605
Current portion Long-term borrowings				
Loans for working capital	CITI N.A HONG KONG	-	-	46,531

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(2019: HKD 313,000,000)

	₩	-	₩	46,531
Liabilities of disposal group		(10,300)		-
	₩	257,460	₩	204,136

17. Provisions

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

(in millions of Korean won)

	2020															
	Current					Non-current										
	Profit-sharing and bonuses	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total								
Beginning balance	₩	2,786	₩	7,737	₩	2,112	₩	1,908	₩	14,543	₩	9,231	₩	12,178	₩	21,409
Increase		-		199		98		1,534		1,831		661		165		826
Decrease		(2,866)		(718)		(1,240)		(1,225)		(6,049)		(56)		(2,393)		(2,449)
Reclassification		-		(269)		199		-		(70)		(227)		(199)		(426)
Exchange differences		80		13		-		(55)		38		-		1,201		1,201
Ending balance	₩	-	₩	6,962	₩	1,169	₩	2,162	₩	10,293	₩	9,609	₩	10,952	₩	20,561

(in millions of Korean won)

	2019															
	Current					Non-current										
	Profit-sharing and bonuses	Accumulating compensated absences	Provision for restoration	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

18. Contract liabilities

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

(in millions of Korean won)

	2020					
	Customer loyalty program	Advances from customers	Total			
Beginning balance	₩	38,123	₩	19,259	₩	57,382
Increase (decrease)		(6,661)		(3,691)		(10,352)
Ending balance	₩	31,462	₩	15,568	₩	47,030

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(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

19. Other Liabilities

Other liabilities as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	2020		2019	
	Current	Non-current	Current	Non-current
Withholdings	₩ 28,393	₩ -	₩ 26,119	₩ -
Value added tax withheld	17,482	-	26,898	-
Advances from customers	18,325	-	3,523	-
Deposits received	4,761	12,835	-	18,224
Accrued expenses	170,390	587	141,204	804
Dividends payable	511	-	482	-
Refund liabilities	8,255	-	9,247	-
Others	5,480	54	7,539	382
	₩ 253,597	₩ 13,476	₩ 215,012	₩ 19,410

20. Post-employment Benefits

20.1 Defined Benefit Plan

Details of net defined benefit liabilities (assets) recognized in the statements of financial position as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	2020		2019	
Present value of funded defined benefit obligations	₩	406,944	₩	393,940
Present value of unfunded defined benefit obligations		3,832		3,425
Total		410,775		397,365
Fair value of plan assets ¹		(541,822)		(522,972)
Net defined benefit liabilities (assets)	₩	(131,046)	₩	(125,607)

¹ The contributions to the National Pension Fund of ₩ 62 million (2019: ₩ 147 million) are included in the fair value of plan assets as at December 31, 2020.

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

<i>(in millions of Korean won)</i>	2020	2019
Beginning balance	₩ 397,365	₩ 363,809
Past service cost ¹	-	1,182
Current service cost	43,156	41,291
Interest expense	12,083	11,036
Remeasurements:		
Actuarial gain from change in demographic assumptions	-	108
Actuarial gain from change in financial assumptions	(23,524)	(169)
Actuarial loss from experience adjustments	4,736	8,503
Exchange differences	72	61
Payments from plans:		
Benefit payments	(15,689)	(28,456)
Others ²	(7,423)	-
Ending balance	<u>₩ 410,776</u>	<u>₩ 397,365</u>

¹ The Group changed benefit plan for the year ended December 31, 2019 and recognized past service cost as profit of loss.

² In 2020, the Group classified ₩ 7,423 million as assets held-for-sale (Note 14).

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

<i>(in millions of Korean won)</i>	2020	2019
Beginning balance	₩ 522,972	₩ 429,493
Interest income	16,218	12,702
Remeasurements:		
Return on plan assets	(5,989)	(5,360)
Contributions:		
Employers	33,420	114,500
Payments from plans:		
Benefit payments	(15,733)	(28,363)
Others ¹	(9,066)	-
Ending balance	<u>₩ 541,822</u>	<u>₩ 522,972</u>

¹ In 2020, the Group classified ₩ 9,066 million as assets held-for-sale (Note 14).

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

	2020	2019
Discount rate	2.73~3.58%	2.89~3.36%
Salary growth rate	2.10%	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	6.95% decrease	9.44% increase
Salary growth rate	1.00%P	7.94% increase	5.70% 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.

Plan assets as at December 31, 2020 and 2019, consist of as:

(in millions of Korean won)

	2020		2019	
	Unquoted price	Composition (%)	Unquoted price	Composition (%)
Deposits	₩ 541,760	99.9	₩ 522,825	99.9
National Pension Fund	62	0.1	147	0.1
	₩ 541,822	100.0	₩ 522,972	100.0

The weighted average maturity of the defined benefit obligation is 7.73 years and expected maturity analysis of undiscounted pension benefits for the next 10 years as at December 31, 2020, is as follows:

(in millions of Korean won)

	Less than 1 year¹	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
Pension benefits	₩ 38,748	₩ 37,455	₩ 114,782	₩ 213,763	₩ 404,748

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

The Group reviews the funding level on an annual basis and has a policy to contribute in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2021 are ₩ 46,642 million (2020: ₩ 56,715 million).

20. 2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 584 million (2019: ₩ 682 million).

21. Share Capital and Share Premium

Share capital and share premium as at December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Ordinary shares	₩	41,229	₩	41,229
Preferred shares ¹		6,768		6,768
	₩	47,997	₩	47,997

The types and contents of preferred shares issued by the Group as at December 31, 2020 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.

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Changes in share capital and share premium for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	Ordinary shares	Preferred shares	Share premium	Total
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	41,229	6,768	903,711	951,708
At January 1, 2020	41,229	6,768	903,711	951,708
At December 31, 2020	₩ 41,229	₩ 6,768	₩ 903,711	₩ 951,708

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

22. Other Components of Equity and Accumulated Other Comprehensive Income

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

<i>(in millions of Korean won)</i>	2020	2019
Treasury shares ¹	₩ (189,699)	₩ (189,699)
Capital adjustments	(6,333)	(6,333)
	₩ (196,032)	₩ (196,032)

¹ Represents 6,208,913 ordinary shares and 62,462 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, 2020 and 2019, consists of the following:

<i>(in millions of Korean won)</i>	2020	2019
Loss on valuation of financial assets at fair value through other comprehensive income	₩ (5,938)	₩ (5,719)
Exchange differences on transaction of foreign operations	(7,009)	(8,521)
Share of other comprehensive income of associates	(700)	(743)
	₩ (13,647)	₩ (14,983)

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

<i>(in millions of Korean won)</i>	2020				
	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	₩ (5,719)	₩ (429)	₩ -	₩ 210	₩ (5,938)
Exchange differences on transaction of foreign operations	(8,521)	5,356	-	(3,843)	(7,009)
Share of other comprehensive income of associates	(743)	142	-	(98)	(700)
	<u>₩ (14,983)</u>	<u>₩ 5,068</u>	<u>₩ -</u>	<u>₩ (3,732)</u>	<u>₩ (13,647)</u>

<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>

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

23. Retained Earnings

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

<i>(in millions of Korean won)</i>	2020	2019
Legal reserves ¹	₩ 26,826	₩ 28,615
Discretionary reserves	824,507	739,337
Retained earnings before appropriation	<u>1,780,574</u>	<u>1,880,334</u>
	<u>₩ 2,631,907</u>	<u>₩ 2,648,286</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

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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).

24. Dividends

The dividends paid in 2020 and 2019, are as follows:

	2020			2019	
	Ordinary shares	Preferred shares	Convertible preferred shares	Ordinary shares	Preferred shares
Dividends paid	₩ 22,875 million	₩ 1,946 million	₩ 5,915million	₩ 23,842million	₩ 2,010 million
Dividends per share (in Korea won)	300	305	834	310	315

Dividends in respect of the year ended December 31, 2020, of ₩ 230 per ordinary share and ₩ 235 per preferred share, ₩ 751 per convertible preferred shares amounting to a total dividend of ₩ 17,537 million on ordinary shares, ₩ 1,500 million on preferred shares and ₩ 5,326 million on convertible preferred shares are to be proposed at the annual general shareholders' meeting on March 19, 2021. These financial statements do not reflect these dividend payables.

25. Tax Expense and Deferred Tax

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

<i>(in millions of Korean won)</i>	2020	2019
Current tax	₩ 36,026	₩ 159,867
Deferred tax	(26,789)	(10,901)
Income tax expense	<u>₩ 9,237</u>	<u>₩ 148,966</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>	2020	2019
Profit before income tax expense	₩ 31,284	₩ 431,371
Tax at domestic tax rates applicable to profits in the respective countries	₩ 6,370	₩ 105,523
Tax effects of:		

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Income not subject to tax	(1,808)	(8,621)
Expenses not deductible for tax purposes	10,193	28,092
Changes in previously unrecognized deferred tax	17,093	18,490
Tax credits	(1,394)	(1,056)
Adjustments in respect of prior years	(17,186)	(2,017)
Others	(4,031)	8,555
Income tax expense	<u>₩ 9,237</u>	<u>₩ 148,966</u>

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

(in millions of Korean won)

	2020			2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Loss on valuation of available-for-sale assets	₩ (555)	₩ 126	₩ (429)	₩ (872)	₩ 80	₩ (792)
Remeasurements	12,799	(2,723)	10,076	(13,815)	2,897	(10,918)
Share of other comprehensive income of associates	142	-	142	19	-	19
Exchange differences on transaction of foreign operations	5,356	-	5,356	16,684	-	16,684
	<u>₩ 17,742</u>	<u>₩ (2,597)</u>	<u>₩ 15,145</u>	<u>₩ 2,016</u>	<u>₩ 2,977</u>	<u>₩ 4,993</u>

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

(in millions of Korean won)

	2020	2019
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 155,049	₩ 202,254
Deferred tax asset to be recovered within 12 months	71,400	78,021
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(284,552)	(361,684)
Deferred tax liability to be recovered within 12 months	(3,750)	(2,065)
Deferred tax liabilities, net	<u>₩ (61,853)</u>	<u>₩ (83,474)</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)

	2020					Ending balance
	Beginning balance	Statement of profit or loss	Other comprehensive income	Exchange differences	Others ¹	
Deferred tax assets(liabilities)						
Trade receivables	₩ 2,089	₩ 1,354	₩ -	₩ (33)	₩ (87)	₩ 3,323
Inventories	21,428	(3,577)	-	(2)	-	17,849
Lease liabilities	57,960	(58,469)	-	1,174	(19)	646
Property, plant and equipment	(78,463)	16,535	-	(24)	(2,533)	(64,485)
Intangible assets	(4,408)	978	-	(62)	-	(3,492)
Financial assets at fair value through other comprehensive income	2,880	(780)	126	-	-	2,226
Investments in subsidiaries	(22,771)	2,455	-	48	-	(20,268)
Contract liabilities	8,546	(1,221)	-	(5)	-	7,320
Retirement benefit obligations	75,732	(2,040)	(4,172)	17	(1,360)	68,177
Accrued expenses	32,993	2,998	-	170	-	36,161
Tax loss carryforwards	12,910	8,312	-	(194)	-	21,028
Plain assets	(118,230)	4,858	1,449	-	1,785	(110,138)
Right-of-use assets	(56,789)	57,729	-	(1,134)	23	(171)
Others	(17,351)	(2,343)	-	(155)	(181)	(20,029)
	<u>(83,474)</u>	<u>26,789</u>	<u>(2,597)</u>	<u>(200)</u>	<u>(2,372)</u>	<u>(61,853)</u>

¹ During 2020, the Group classified ₩ 2,372 million as assets held-for-sale (Note 14).

(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)
	<u>(98,182)</u>	<u>10,901</u>	<u>2,977</u>	<u>830</u>	<u>(83,474)</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 ₩ 391,683 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	
2021 ~ 2022	₩	85
2023 ~ 2038		168,881
No maturity		222,717
	₩	<u>391,683</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, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Taxable temporary differences	₩	(190,931)	₩	(214,052)
Deductible temporary differences		104,454		65,591
	₩	<u>(86,477)</u>	₩	<u>(148,461)</u>

26. Revenue

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

<i>(in millions of Korean won)</i>	2020		2019	
Sales of goods	₩	4,884,626	₩	6,222,562
Rendering of services		22,943		35,273
Others				
Rental income		19,979		23,434
Royalty income		5		154
Others		2,530		2,832
		<u>22,514</u>		<u>26,420</u>
	₩	<u>4,930,083</u>	₩	<u>6,284,255</u>

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27. Breakdown of Expenses by Nature

Breakdown of expenses by nature for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Changes in inventories	₩ 46,096	₩ (26,258)
Purchase of raw materials and merchandise	976,001	1,244,773
Employee benefit expense	915,635	904,616
Depreciation and amortization ¹	533,971	577,944
Advertising expense	567,555	736,415
Service fees	537,087	599,026
Distribution commission	778,242	1,143,510
Other expenses	424,834	605,979
Total ²	<u>₩ 4,779,422</u>	<u>₩ 5,786,005</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.

28. Selling and Administrative Expenses

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

<i>(in millions of Korean won)</i>	2020	2019
Salaries and post-employment benefits	₩ 644,639	₩ 607,884
Employee benefits	108,049	122,366
Advertising expense	567,555	736,415
Depreciation	436,549	472,167
Service fees	447,572	499,594
Distribution commission	778,242	1,143,510
Freight expense	121,298	131,123
Taxes and dues	33,509	36,987
Research and development	91,006	98,613
Other	179,878	295,512
	<u>₩ 3,408,297</u>	<u>₩ 4,144,171</u>

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

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29. Finance Income and Costs

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

<i>(in millions of Korean won)</i>	2020		2019	
Finance income				
Interest income	₩	10,726	₩	23,475
Interest income - others		1,255		176
Gain on disposal of financial assets at fair value through profit or loss		-		695
Gain on valuation of financial assets at fair value through profit or loss		11,243		7,421
	₩	23,224	₩	31,767
Finance costs				
Interest expense	₩	(4,057)	₩	(4,984)
Interest expense - others		(18,856)		(21,416)
Loss on valuation of financial assets at fair value through profit or loss		-		(587)
	₩	(22,913)	₩	(26,987)

30. Other Non-operating Gains / (Losses)

Other non-operating gains / (losses) for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Other non-operating income				
Gain on foreign currency transactions	₩	53,050	₩	30,119
Gain on foreign currency translation		9,122		4,786
Gain on disposal of property, plant and equipment		5,947		306
Gain on disposal of intangible assets		348		130
Gain on disposal of investment property		-		1,020
Gain on disposal of right-of-use assets		15,828		507
Gain on disposal of non-current assets held-for-sale		76		-
Dividend income		196		293
Others		27,930		53,622
		112,498		90,783
Other non-operating expenses				
Loss on foreign currency transactions		(62,283)		(19,800)
Loss on foreign currency translation		(19,562)		(9,588)
Loss on disposal of property, plant and equipment		(20,286)		(12,392)

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Impairment loss on property, plant and equipment	(7,368)	(24,902)
Loss on disposal of intangible assets	(2,710)	(3,552)
Impairment loss on intangible assets	(10,489)	(18,004)
Loss on disposal of investment property	-	(317)
Impairment loss on investment property	(3,716)	(5,572)
Loss on disposal of right-of-use assets	(6,261)	(6,136)
Impairment loss on right-of-use assets	(42,787)	(31,486)
Donations	(14,416)	(16,170)
Others	(43,685)	(15,177)
	<u>(233,564)</u>	<u>(163,096)</u>
	<u>₩ (121,065)</u>	<u>₩ (72,313)</u>

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, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Profit attributable to owners of the Parent Company	₩	10,381	₩	133,733
Profit attributable to ordinary shares		5,655		110,405
Weighted average number of ordinary shares outstanding (unit: shares)		76,249,267		76,448,053
Basic earnings per ordinary share (in Korean won)		74		1,444

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

<i>(in millions of Korean won)</i>	2020		2019	
Profit attributable to owners of the Parent Company	₩	10,381	₩	133,733
Profit attributable to preferred shares		505		9,272
Weighted average number of preferred shares outstanding (unit: shares)		6,381,309		6,381,315
Basic earnings per preferred share (in Korean won)		79		1,453

¹ The preferred share 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.

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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 2020, diluted earnings per share is identical to the earnings per share.

32. Cash Generated from Operations

Details of cash generated from operations for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Profit for the year	₩ 22,048	₩ 282,405
Adjustments for:	716,953	921,708
Finance cost, net	10,932	2,749
Loss on foreign currency translation, net	10,441	4,802
Depreciation and amortization	534,159	578,499
Loss on disposal of property, plant and equipment and intangible assets	16,700	15,508
Impairment loss on property, plant and equipment and intangible assets	17,857	42,906
Gains and losses on disposal of licensed assets	(9,567)	5,629
Impairment loss on licensed assets	42,787	31,486
Gain on disposal of investment property	-	(702)
Impairment loss on investment property	3,716	5,572
Gain on disposal of available-for-sale financial assets	(76)	-
Gain on disposal of financial assets at fair value through profit or loss	-	(695)
Gain on valuation of financial assets at fair value through profit or loss	(11,243)	(6,834)
Income tax expense	9,237	148,966
Share of profit of associates	(1,376)	(654)
Post-employment benefits	39,021	40,808
Gain on foreign currency transaction	-	(918)
Loss on valuation and disposal of inventories	45,167	55,080
Others	9,198	(494)
Changes in assets and liabilities from operating activities	63,026	(214,711)
Decrease(increase) in trade receivables	73,796	(91,483)
Decrease in other receivables	6,666	20,311
Decrease(increase) in inventories	928	(81,186)
Decrease(increase) in other assets	8,416	(17,669)

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Increase(decrease) in trade payables	(23,500)	17,500
Increase in other payables	25,893	43,194
Increase(decrease) in provisions	(5,934)	7,925
Increase in other liabilities	20,488	10,746
Decrease in contract liabilities	(10,351)	(9,456)
Benefits payment	(15,689)	(28,456)
Increase in plan assets	(17,687)	(86,137)
Cash generated from operations	<u>₩ 802,027</u>	<u>₩ 989,402</u>

Significant transactions not affecting cash flows for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Reclassification of construction in-progress to property, plant and equipment	₩	39,921	₩	135,350
Reclassification of licensed assets to investment property		17,054		60,207
Reclassification of intangible assets to licensed assets		(783)		3,468
Reclassification of construction in-progress to intangible assets		-		10,812
Reclassification of property, plant and equipment to investment property		(30,128)		30,865
Reclassification of investment property to available-for-sale financial assets		40,575		56,221
Reclassification of lease liability to licensed assets		(5,603)		275,124
Changes in non-trade payables related to the acquisition of property, plant and equipment and intangible assets		21,669		33,008
Changes in non-trade payables related to the acquisition of subsidiary shares		-		6,568

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

<i>(in millions of Korean won)</i>	Short-term borrowings		Current portion of long-term borrowings¹		Long-term borrowings		Lease liabilities		Total
At January 1, 2019	₩	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)

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Exchange differences		1,817		(28)		1,872		10,296		13,957
At December 31, 2019	₩	157,605	₩	46,531	₩	-	₩	609,830	₩	813,966
At January 1, 2020	₩	157,605	₩	46,531	₩	-	₩	609,830	₩	813,966
Lease agreements		-		-		-		(2,609)		(2,609)
Cash flows (interest expenses)		-		-		-		(18,828)		(18,828)
Cash flows		119,281		(49,003)		-		(250,381)		(180,103)
Exchange differences		(9,126)		2,472		-		(1,329)		(7,983)
Others		(10,300)		-		-		-		(10,300)
At December 31, 2020	₩	257,460	₩	-	₩	-	₩	336,683	₩	594,143

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

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, JPY, AUD, CAD, AED, INR and PHP)</i>	Financial institution	Commitment	2020		2019	
			Limit	Outstanding balance	Limit	Outstanding balance
AMOREPACIFIC CORPORATION	Woori Bank	Electronic loan agreement	₩ 4,300	₩ 83	₩ 5,400	₩ 222
		Letter of credit	USD 4,000	USD 277	USD 4,000	-
Etude Corporation	Korea Development Bank	Operating fund loan agreement	35,000	22,000	15,000	15,000
		Operating fund loan agreement	10,000	10,000	10,000	5,000
AMOS Professional Corporation	Woori Bank	Electronic loan agreement	-	-	600	-
		Corporate working capital loan agreement	2,000	2,000	5,000	2,000
Espoir Corporation	Korea Development Bank	Operating fund loan agreement	5,000	1,000	5,000	1,000
		Electronic loan agreement	3,000	33	4,300	164
AESTURA Corporation	Woori Bank	Overdraft	3,000	-	3,000	-
		Operating fund loan agreement	4,000	4,000	5,000	4,000
PACIFICGLAS Inc.	Korea Development Bank	Facility	6,300	6,300	7,000	7,000

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		loan agreement				
	Woori Bank	Overdraft	1,000	-	1,000	-
PACIFIC PACKAGE Corporation		Letter of credit	USD 1,000	-	USD 1,000	-
	Korea Development Bank	Operating fund loan agreement	9,000	8,000	9,000	9,000
		Facility loan agreement	6,300	6,300	7,000	7,000
	Korea Development Bank	Facility loan agreement	48,000	48,000	54,000	54,000
COSVISION CO., LTD.	Woori Bank	Corporate working capital loan agreement	10,000	6,000	10,000	6,000
Core Technology Corporation.	Woori Bank	Overdraft	500	209	500	266
	CITI N.A HONG KONG	Long-term borrowings	-	-	HKD 313,000	HKD 313,000
	CITI N.A HONG KONG	Short-term borrowings	HKD 313,000	HKD 313,000	-	-
Amorepacific Global Operations Limited.	DBS BANK LTD., HONG KONG BRANCH	Short-term borrowings	HKD 220,000	HKD 130,000	HKD 220,000	HKD 70,000
	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	Short-term borrowings	JPY 2,000,000	JPY 1,700,000	JPY 2,000,000	JPY 1,100,000
AMOREPACIFIC EUROPE S.A.S	Citibank N.A France	Short-term borrowings	EUR 8,500	EUR 7,000	EUR 7,000	EUR 7,000
	KEB Hana Bank Paris Branch	Overdraft	EUR 2,000	EUR 1,901	EUR 500	EUR 477
	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
	KEB Hana Bank Paris Branch	Short-term borrowings	EUR 3,000	EUR 3,000	-	-
Amorepacific Australia PTY Ltd	Citibank N.A. Sydney Branch	Short-term borrowings	AUD 8,500	AUD 7,000	-	-
Amorepacific US Inc	Citibank N.A	Short-term borrowings	USD 45,200	USD 33,500	-	-
Amorepacific Canada Inc	Citibank N.A. Canadian Branch	Short-term borrowings	CAD 4,000	-	-	-
Amorepacific ME FZ-LLC	Citibank N.A. United Arab Emirates	Short-term borrowings	AED 1,500	AED 1,500	-	-

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Innisfree Cosmetics India PVT LTD	Citibank N.A. India	Short-term borrowings	INR 70,000	INR 70,000	-	-
PT. LANEIGE INDONESIA PACIFIC	Citibank N.A. Indonesia	Short-term borrowings	USD 4,000	USD 4,000	-	-
AMOREPACIFIC Philippines Co.,LTD	Citibank N.A. Manila	Short-term borrowings	PHP 23,000	-	-	-

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	2020		2019	
AMOREPACIFIC Corporation	Seoul Guarantee Insurance	Performance guarantees	₩	50,526	₩	83,146
Innisfree Corporation	Seoul Guarantee Insurance	Performance guarantees		94		118
Etude Corporation	Seoul Guarantee Insurance	Performance guarantees		40		120
Espoir Corporation	Seoul Guarantee Insurance	Performance guarantees		30		27
PACIFICGLAS Inc.	Seoul Guarantee Insurance	Performance guarantees		150		150
PACIFIC PACKAGE Corporation	Seoul Guarantee Insurance	Performance guarantees		26		19
Osulloc Fam Co., Ltd.	Seoul Guarantee Insurance	Performance guarantees		99		104
COSVISION CO., LTD.	Seoul Guarantee Insurance	Performance guarantees		-		165
Osulloc	Seoul Guarantee Insurance	Performance guarantees		88		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	2020	Financial institution	Guarantee period
	Employee stock ownership association	₩ 37,807	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 HKD and USD)</i>	Remark	2020		2019	
Current financial deposits	Collateral provided for borrowings of subsidiaries	₩	159,478	₩	148,716
Current financial deposits	Agreement of shared growth and cooperation		16,500		18,100
Non-current financial deposits	Deposit for checking account		34		34
Non-current financial deposits	Pledge as a collateral		500		-
Non-current financial deposits	Permission of door-to-door sales in China		RMB 20,000		RMB 20,000

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Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores	HKD 5,054	HKD 5,000
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores	USD 194	USD 194

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).

Details of pending cases of the Group as at December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>	Number of cases	Litigation value		Remark
The Group as a defendant	15	₩	9,298	Compensation for damages, injunction against patent infringement and others

The Group is involved in a number of litigation cases arising from the normal course of business, and there are cases in which the Group is a plaintiff and defendant. The outcome of 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, 2020.

Major commitments

As at December 31, 2020, 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 thousand, for the European market USD 3,540 thousand, Other market USD 1,062 thousand). 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.

Sale of shares of subsidiaries:

The Group sold 60% of PACIFICGLAS Inc.'s shares to Verescence Luxembourg Perfumery Holdings SaRL (hereinafter referred to as 'Verescence') on February 26, 2021 and classified the related disposal groups of assets and liabilities as held-for-sale (Note 14).

The Group has entered into a shareholder's agreement with Verescence and the details are as follows:

- Both companies are restricted for the shares for 10 years and prohibited for the transfer of shares to competitors.
- Verescence has a Right of First Refusal.

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- AMOREPACIFIC Group Co., Ltd. has a Tag-Along Right.
- In certain cases, Verescence has a Drag-Along Right.

Acquisition of other company's shares

The Group acquired 28,600,435 shares (49% of ownership) of Rationale Group Pty Ltd held by Richard John Parker, a shareholder of Rationale Group Pty Ltd, from Richard John Parker and others for 65,810,810 AUD. In addition, the Group entered into a shareholders' agreement in relation to the acquisition of Rationale Group Pty Ltd, under which the two companies are unable to sell the shares for 18 months, if there is no agreement between the two companies after the contract is completed.

34. Related Party Transactions

Details of the parents and subsidiaries as at December 31, 2020 and 2019, 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. AP&M Beauty Fashion Joint Venture ¹ Smart AP-WE Untact Fund No. 1 ² Taiwan AMORE Co.,Ltd. Rationale Group Pty Ltd ³
Other related parties	Taeshin Inpack Corporation

¹ During 2020, the Group acquired 49.0% shares of AP&M Beauty Fashion Joint Venture.

² During 2020, the Group acquired 44.8% shares of Smart AP-WE Untact Fund No. 1.

³ During 2020, the Group acquired 49.0% shares of Rationale Group Pty Ltd.

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

<i>(in millions of Korean won)</i>	2020			
	Sales	Purchases	Dividend income	Other cost
Associates				
BBDO Korea Inc.	₩ 908	₩ -	₩ 990	₩ 27,356
Other related party				
Taeshin Inpack Corporation	-	11,976	-	-
	<u>₩ 908</u>	<u>₩ 11,976</u>	<u>₩ 990</u>	<u>₩ 27,356</u>

<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>₩ 16,757</u>	<u>₩ 900</u>	<u>₩ 35,442</u>

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

<i>(in millions of Korean won)</i>	2020			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
Associates				
BBDO Korea Inc.	₩ -	₩ -	₩ -	₩ 3,525
Taiwan AMORE Co.,Ltd.	-	-	-	-
Other related party				
Taeshin Inpack Corporation	-	-	745	-
	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 745</u>	<u>₩ 3,525</u>

<i>(in millions of Korean won)</i>	2019			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables

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Associates

BBDO Korea Inc.	₩	-	₩	-	₩	-	₩	7,817
Taiwan AMORE Co.,Ltd.		-		-		-		-

Other related party

Taeshin Inpack Corporation		-		-		936		-
	₩	-	₩	-	₩	936	₩	7,817

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, 2020, are as follows:

Details of fund transactions arising from acquisition of associates:

(in millions of Korean won)

Classification	Name	Contributions in cash
Associates	Rationale Group Pty Ltd	₩ 10,912
	AP&M Beauty Fashion Joint Venture	4,900
	Smart AP-WE Untact Fund No. 1	1,000

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

As at December 31, 2020, there are no collaterals and payment guarantees provided to or provided by related parties other than the Group.

The compensation paid or payable to key management for employee services for the years ended December 31, 2020 and 2019, consists of:

<i>(in millions of Korean won)</i>	2020		2019	
Short-term employee benefits	₩	11,212	₩	15,397
Post-employment benefits		2,079		1,724
	₩	13,291	₩	17,121

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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, 2020 and 2019, is as follows:

		2020						Accumulated non-controlling interests at the end of the year
		Non-controlling interest rate (%) ¹	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	
(in millions of Korean won)								
AMOREPACIFIC Corporation	66.10	₩ 3,035,880	₩ 10,055	₩ (46,204)	₩ (64,197)	₩ 16,921	₩ 2,952,455	
Innisfree Corporation	18.18	71,113	3,656	(1,422)	-	200	73,547	
Etude Corporation	19.52	2,759	(4,445)	-	-	28	(1,658)	
Others		3,072	2,401	-	-	(7,317)	(1,844)	
		₩ 3,112,824	₩ 11,666	₩ (47,627)	₩ (64,197)	₩ 9,832	₩ 3,022,499	

¹ Non-controlling interest rate considering the preferred shares.

		2019						Accumulated non-controlling interests at the end of the year
		Non-controlling interest rate (%) ¹	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	
(in millions of Korean won)								
AMOREPACIFIC Corporation	67.34	₩ 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	
		₩ 3,123,637	₩ 148,672	₩ (75,281)	₩ (88,795)	₩ 4,591	₩ 3,112,824	

¹ Non-controlling interest rate considering the preferred shares.

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.

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Summarized consolidated statements of financial position as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Current assets	₩	1,825,732	₩	403,545	₩	34,799
Non-current assets		3,876,186		79,021		15,758
Current liabilities		965,947		49,052		52,060
Non-current liabilities		271,574		17,932		5,070
Equity		4,464,398		415,582		(6,573)

<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

Summarized consolidated statements of comprehensive income for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Revenue	₩	4,432,179	₩	348,596	₩	111,295
Profit (loss) for the year		21,869		10,218		(23,352)
Other comprehensive income		12,242		952		144
Total comprehensive income (loss)		34,111		11,170		(23,207)

<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 (loss)		7,287		(637)		(391)
Total comprehensive income (loss)		231,048		48,237		(35,826)

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Summarized consolidated statements of cash flows for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020					
	AMOREPACIFIC Corporation		Innisfree Corporation		Etude Corporation	
Cash flows from operating activities	₩	554,359	₩	64,950	₩	(5,106)
Cash flows from investing activities		(206,409)		(122,677)		133
Cash flows from financing activities		(215,987)		(23,880)		2,853
Effects of exchange rate changes on cash and cash equivalents		(11,815)		(1,635)		-
Net increase (decrease) in cash and cash equivalents		120,148		(83,242)		(2,119)
Cash and cash equivalents at the beginning of the year		673,580		261,068		5,493
Cash and cash equivalents at the end of the year	₩	793,728	₩	177,826	₩	3,373

<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

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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, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 280,421	₩ 187,985	₩ 406,752	₩ 258,107
EUR	49	843	244	431
JPY	348	2,298	143	2,080
CNY	1,618	20	1,983	46
	<u>₩ 282,436</u>	<u>₩ 191,146</u>	<u>₩ 409,122</u>	<u>₩ 260,664</u>

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As at December 31, 2020 and 2019, 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:

(in millions of Korean won)	2020		2019	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ 9,244	₩ (9,244)	₩ 14,865	₩ (14,865)
EUR	(79)	79	(19)	19
JPY	(195)	195	(194)	194
CNY	160	(160)	194	(194)

The above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not the Group'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 ₩ 1,154 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>	2020		2019	
	10% Increase	10% Decrease	10% Increase	10% Decrease
NASDAQ	₩ 30	₩ (30)	₩ 41	₩ (41)

(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>	2020					Book amount
	Up to 1 year	1 to 5 years	Over 5 years	Total		
Trade payables	₩ 74,306	₩ -	₩ -	₩ 74,306	₩ 74,306	₩ 74,306
Borrowings	259,367	-	-	259,367	257,460	257,460
Other payables	316,939	-	-	316,939	316,939	316,939
Other liabilities	183,917	4,344	11,933	200,194	197,339	197,339
Lease liability	187,435	133,745	51,313	372,492	336,683	336,683
Financial guarantee contract	37,807	-	-	37,807	163	163

<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

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>	2020	2019
Liabilities (A)	₩ 1,516,701	₩ 1,801,246
Equity (B)	6,272,043	6,480,147
Cash and cash equivalents, and current financial deposits (C)	1,433,891	1,682,195
Borrowings (D)	257,460	204,136
Debt-to-equity ratio (A/B)	24.18%	27.80%
Net borrowings ratio (D-C)/B	(-)18.76%	(-)22.81%

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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, 2020.

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)

	2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 1,129	₩ 783,300	₩ 48,419	₩ 832,847
Financial assets at fair value through other comprehensive income	2,320	-	2,070	4,389
Disclosed fair value				
Investment property	-	-	386,424	386,424

(in millions of Korean won)

	2020			
	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

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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, 2020, 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, 2020, are as follows:

(in millions of Korean won)

	2020			
	Fair value	Level	Valuation techniques	Inputs
Financial assets at fair value through other comprehensive income				
Unlisted equity securities	₩ 2,070	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	8,724	3	Option pricing model	Stock price of underlying assets and others
Equity instruments such as unlisted shares	25,258	3	Option pricing model	Stock price of underlying assets and others
Private equity investment trust	14,437	3	Valuation Multiples	Stock price of peer companies and others
Beneficiary certificates	766,199	2	Present value technique	Credit risk adjusted discount rate
Variable annuities insurance	17,100	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, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Debt instruments at amortized cost				
Government-issued securities	₩	3,280	₩	3,286
	₩	3,280	₩	3,286

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.